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THE EUROPEAN TAXONOMY

The European Commission has established a specific classification system to identify environmentally sustainable economic activities, acting as an important enabler to support sustainable investment and to implement the European Green Deal.

By providing appropriate definitions of the economic activities that can be considered environmentally sustainable, it is intended to create security and transparency for investors, protect private investors from greenwashing, help companies plan the transition, mitigate market fragmentation and, ultimately, bridge the sustainable investment gap.

The European taxonomy established six environmental objectives to identify environmentally sustainable economic activities: climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control and the protection and restoration of biodiversity and ecosystems. An economic activity is defined as environmentally sustainable if:

- > it makes a substantive contribution to at least one of the six environmental objectives;
- > it does no significant harm (DNSH) to the other five environmental objectives;
- > it meets minimum safeguards.

In July 2018, the European Commission established a Technical Expert Group (TEG) on sustainable finance to develop recommendations for technical screening criteria for economic activities that can make a substantial contribution to climate change mitigation or adaptation while avoiding significant harm to the four other environmental objectives.

Based on the contribution of the TEG and a wide range of stakeholders and institutions, the taxonomy regulation was published in the Official Journal of the European Union on June 22, 2020 and entered into force on July 12, 2020.

Starting from January 2022, companies which are subject to the obligation to publish a Non-Financial Declaration (NFD) must make public the share of their turnover, capital expenditure and ordinary operating expenditure that qualify as environmentally sustainable.

The taxonomy regulation further grants the European Commission the power to adopt delegated acts and acts targeted at specifying the manner in which the competent authorities and the market operators must comply with obligations pursuant to the regulations. At the time of the publication of the Sustainability Report 2020 and the Integrated Annual Report 2020, the European Commission has not yet published the final version of the first delegated act containing the technical screening criteria for the environmental objectives concerning climate mitigation and adaptation. For the other four environmental objectives, the Commission has undertaken to issue the respective delegated acts by the end of 2021, so that they can enter into force before the end of 2022. Furthermore, by June 2021 the European Commission will issue a delegated act to indicate to companies subject to the directive on Non-Financial Disclosure how to report and in what measure their activities are in line with those considered sustainable from an environmental perspective.



Enel's position

We welcome the development of the taxonomy of the European Union, in as much as it will provide a common language to all stakeholders, with a particular focus on the decarbonization of the European economy by 2050; we participate actively in the various consultation processes, supply input both directly, through official channels of the European Commission, and indirectly, through the different sector associations in which the Group participates.

Although the European taxonomy regulation establishes an obligation for companies to declare compliance with the taxonomy starting from January 2022, Enel has decided to highlight this in the 2020 Sustainability Report and in the 2020 Integrated Annual Report. Further, during Capital Markets Day 2020, held last November, we presented our consolidated Capex, included in the 2021-2023 Strategic Plan, aligned with the taxonomy for a value between 80% and 90%, thanks to our substantial contribution to mitigation of climate changes.

In particular, the main comments we provided in the process of consultation, launched in December 2020, on the draft of the delegated acts concerning mitigation of and adaptation to climate changes, are as follows:

- > **support for the threshold of greenhouse gas emissions in the generation of energy:** we welcome the specific emissions limit of 100 gCO_{2eq}/kWh (considering the entire life cycle) as a substantial contribution to the ob-

jective of mitigating climate changes, recommended by the TEG and based on a robust scientific base. The inclusion of the generation of energy with a carbon intensity over this limit could make it difficult for the European Union to achieve its ambition of "net zero" in 2050;

- > **hydroelectric technology contribution to climate change mitigation objective:** we believe that this technology, which ranks amongst the best performing electricity generation technologies with respect to life-cycle emissions, should be treated in the same way as the other renewable electricity generation technologies, such as wind and solar power, for which a verification of the threshold is not requested, because they are well below the specific emissions threshold of 100 gCO_{2eq}/kWh;
- > **geothermal technology contribution to climate change mitigation objective:** we believe that this technology should be exempt from life cycle analysis, in as much as there is sufficient scientific proof to show how it has a specific emissions value well below the threshold value of 100 gCO_{2eq}/kWh. The CO₂ emitted by this technology is of natural origin, it is mainly a substitute for natural emissions and does not imply the combustion of fossil fuels;
- > **integrated business value chain non fully represented:** currently, the draft of the delegated acts does not include specific criteria for the segment for the sale of energy which, on the contrary, constitutes an important

element of the entire value chain, and which plays a vital role in the decarbonization pathway by supporting the electrification of consumption. We suggest to also consider the retail power activity among those with eligibility criteria by requesting retailers to apply either the criteria for the electricity generation activity or the criteria for the electricity distribution activities.

How Enel adopted the European taxonomy

Following the TEG recommendations, we developed a five-phase process through which we analyzed the applicability of the taxonomy along the entire value chain in all the countries in which we operate.

The process exclusively concerned the objectives of climate change mitigation and adaptation since they are the only two for which the European Commission has published the draft of criteria. The final evaluation may even undergo substantial changes on the part of the European Commission downstream of the finalization of the criteria envisaged for 2021 and 2022.

The economic activities along the entire value chain were divided into the following three categories.

- **Eligible:** economic activity that meets both of the following two conditions:
 - > it was explicitly included in the European taxonomy regulation because it contributes substantially to climate change mitigation or adaptation;
 - > it satisfies the criteria set out in the European taxonomy regulation for the two environmental objectives.



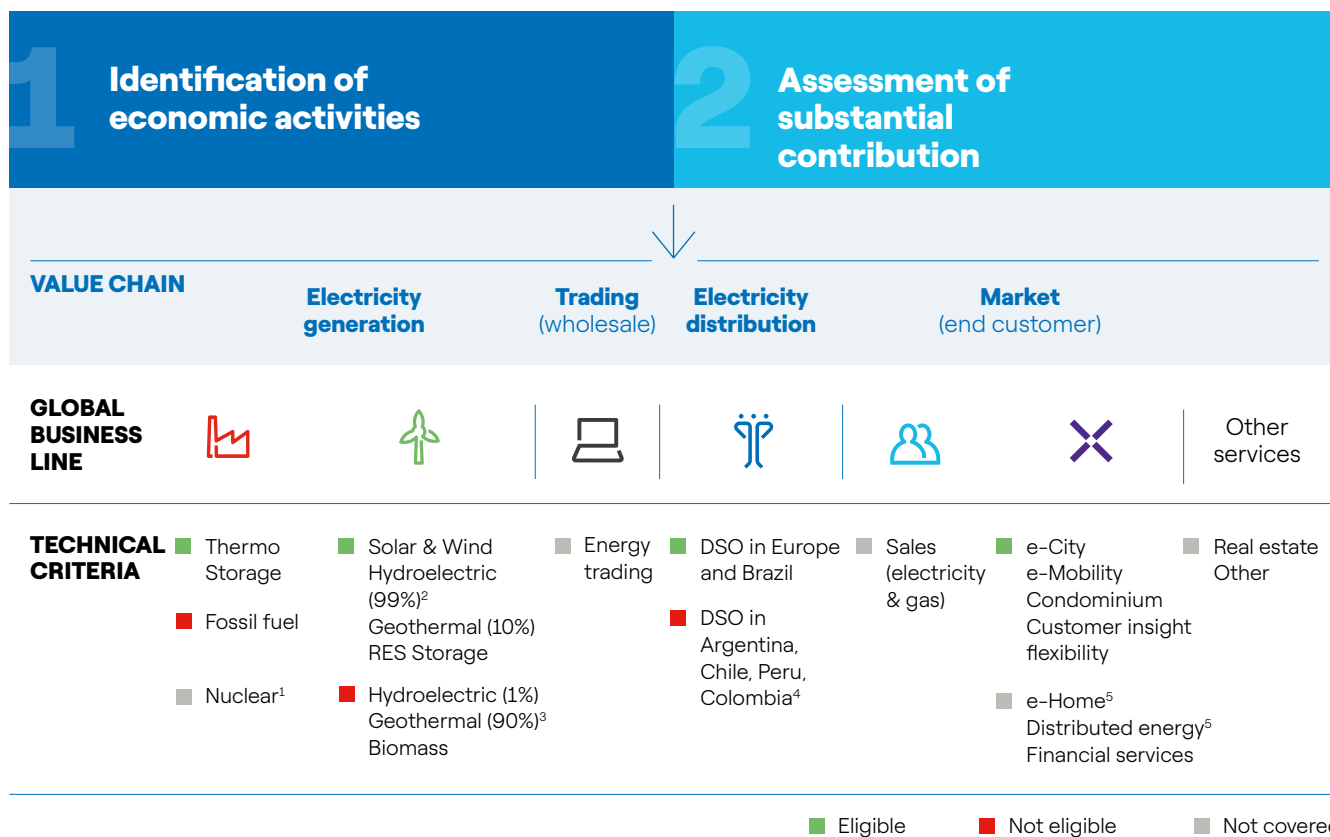
- **Not eligible:** economic activity that meets both of the following two conditions:
 - > it was explicitly included in the European taxonomy regulation because it contributes substantially to climate change mitigation or adaptation;
 - > it does not satisfy the criteria set out in the European taxonomy regulation for the two environmental objectives.
- **Not covered:** economic activity that:
 - > was not included in the European taxonomy regulation because it does not contribute substantially to climate change mitigation or adaptation and therefore no specific technical criteria have been developed. The European Commission believes that this type of activity may not have a significant impact on climate change mitigation/adaptation or could be integrated into the European taxonomy regulation at a later stage.

The existence of this third category makes it impossible to achieve a business model that is fully compliant with the European taxonomy criteria, since currently some activities within the electric utilities value chain are not considered to substantially contribute to climate change mitigation.

At the time of the drafting of the present report, the activities not covered by the taxonomy fall under the following business types: nuclear power (the European Commission has not yet made a statement regarding its admissibility), wholesale trading, sale of energy to final customers and several business activities developed by Enel X.

Enel's process for adopting European taxonomy

EU environmental objective: climate change mitigation



(1) The European Commission has not yet made a decision as to the eligibility of nuclear power.
 (2) % referring to net installed capacity.
 (3) Currently considered ineligible as a precautionary measure. Further assessments will be carried out in the course of 2021.
 (4) Currently considered ineligible as a precautionary measure. Further analysis will be carried out in 2021.
 (5) As a precautionary measure, only Business Lines and product clusters that fully meet the criteria have been selected as eligible, while the others have been excluded (e.g. "e-home" and "distributed energy").

Statement on the alignment of Enel's business to taxonomy in 2019 and 2020

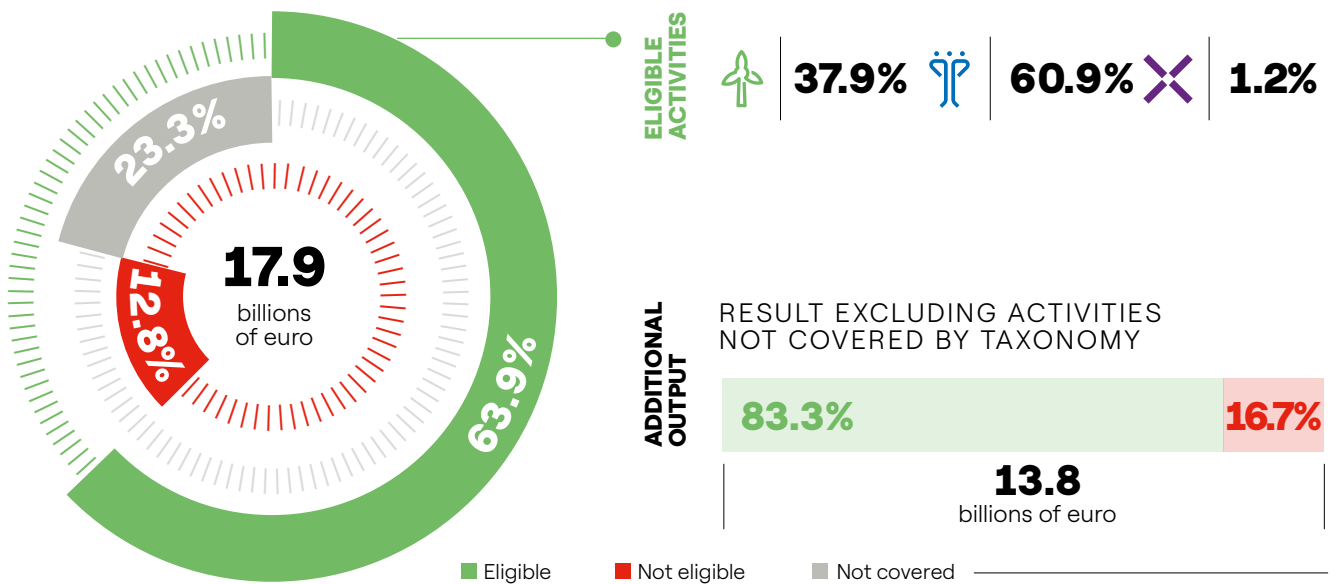
For the purposes of processing the following declaration it is appropriate to highlight that:

- > the statement was prepared exclusively following the criteria established in the draft version of the delegated act of the European taxonomy concerning the **climate change** mitigation goal because at the time of the preparation of the 2020 annual reports the final version had not yet been published. Final publication could introduce important changes that might significantly affect the result presented in this statement;
- > one change that could significantly affect the final result concerns the manner in which the **retail business segment** will finally be represented in the European taxonomy. Enel, together with other utilities, has asked the European Commission to include this business activity because, similarly to electricity distribution, it contributes substantially to climate change mitigation as an enabler of the decarbonization of other industries by promoting the electrification of energy consumption;
- > Enel performed a detailed mapping of all its **hydroelectric assets** on the basis of the "power density" metric required in the draft delegated acts. For plants with a power density lower than 5 W/m², a further analysis was conducted to verify that the emissions (calculated over the entire life cycle) were below the specific emission limit of 100 gCO_{2eq}/kWh. The findings indicated that 99% of the installed hydroelectric capacity is eligible in accordance with the European taxonomy criteria for climate change mitigation only, while only 1% – for which it was not possible to conduct a timely assessment due to the lack of robust data – was ruled out on a conservative basis;
- > in order to maintain this conservative approach, the business activity relating to the generation of electricity from **geothermal** sources was considered almost entirely ineligible pending certification by an independent third party of compliance with the threshold for geothermal plants of 100 gCO_{2eq}/kWh for the entirety of Group's geothermal assets;
- > activities relating to the **infrastructure and networks** business in Chile, Colombia, Peru and Argentina were considered ineligible, again adopting a conservative approach. However, during 2021 an in-depth analysis will be performed for the distribution and transmission system, which could lead to a change in eligibility status;
- > the **Enel X** portfolio was analyzed at the Business Line and product cluster level, as it was not possible to associate all the financial metrics required by the European taxonomy with each individual product. However, as a precaution, only the Business Lines and product clusters that fully meet the criteria were designated as eligible, excluding the others (for example "e-Home" and "distributed energy");
- > the statement was prepared without performing an exhaustive review of the **DNSH** criteria, which will be carried out once the delegated acts are approved in the second quarter of 2021. Nonetheless, Enel is confident that it can demonstrate a high level of performance, as over the years it has implemented complete and comprehensive environmental management systems that go beyond legal requirements and are applied throughout the value chain. Additional information on Enel's environmental performance is available in the "[Environmental Sustainability](#)" chapter of the 2020 Sustainability Report;
- > the European Commission has not yet finished drafting the delegated acts for the **other four environmental objectives**. The latter could strengthen the compliance of Enel's business model with the European taxonomy, considering that the current statement only covers the climate change mitigation objective;
- > the aggregates being analyzed refer to the "sector" level and only include items in respect of third parties. Accordingly, they do not include inter-sectoral exchange between sectors;
- > although not explicitly required, Enel has also performed an assessment in terms of the ordinary gross operating profit (EBITDA), as it believes that this metric represents the effective financial performance of integrated utilities such as Enel. A metric that only considers revenue is strongly influenced by business activities with a high volume of revenue (such as the wholesale market) that do not contribute proportionately to the growth of the gross operating profit like other business activities;
- > the statement also gives a view that excludes "not covered" activities to underscore the compliance of the Group for only the economic activities for which the European taxonomy has developed criteria and therefore the most significant from the point of view of the climate change mitigation objectives.

Main results of our statement concerning alignment of economic activities with the taxonomy

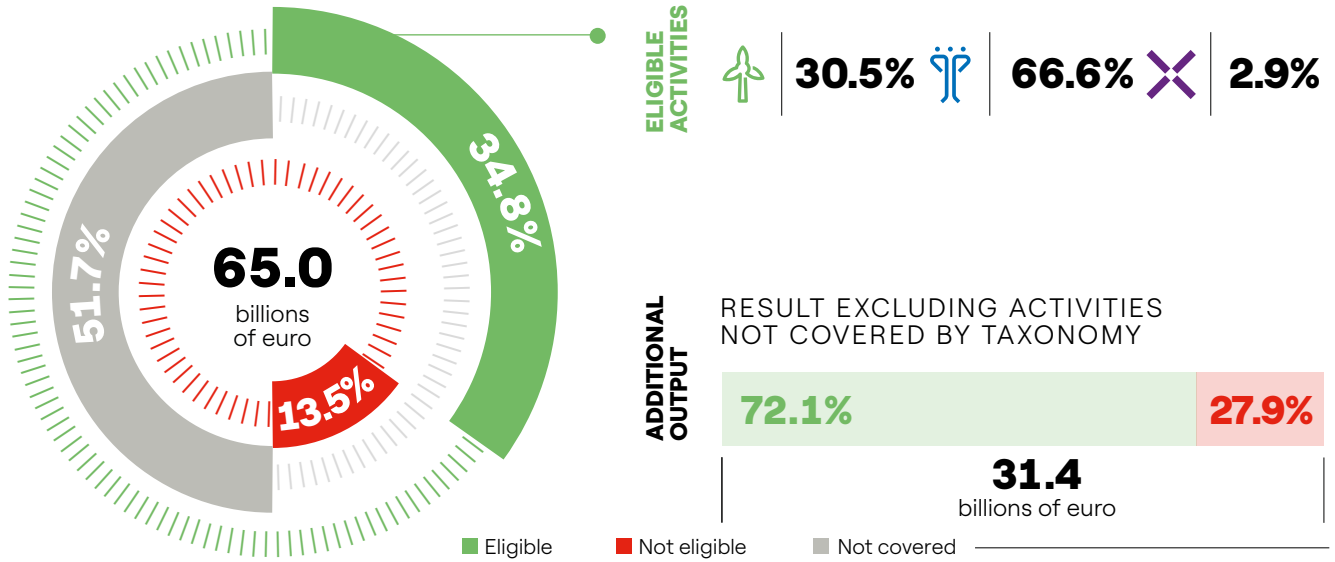
> In 2020, 63.9% of the ordinary gross operating profit was generated by business activities that meet climate change mitigation criteria, compared with 64.4% in

2019. Excluding activities that are currently not covered by the European taxonomy regulation, 83.3% of the ordinary gross operating profit was eligible.



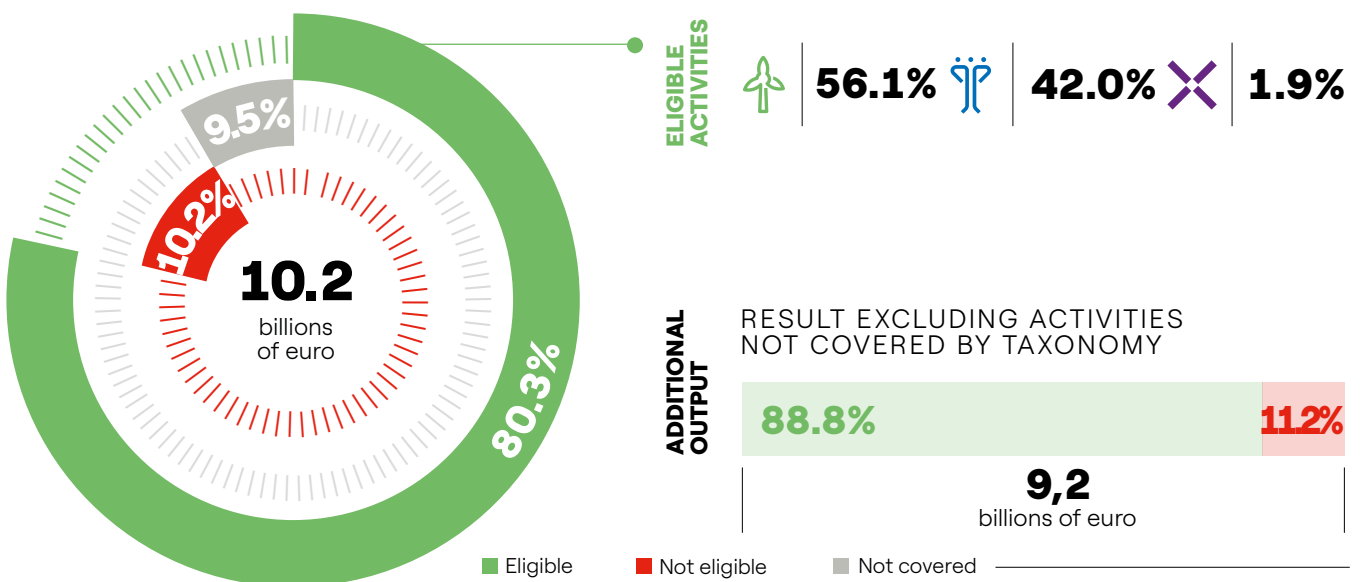
> In 2020, 34.8% of revenue was generated by business activities that meet climate change mitigation criteria, compared with 30.2% in 2019. Excluding activities that

are currently not covered by the European taxonomy regulation, 72.1% of revenue was eligible.



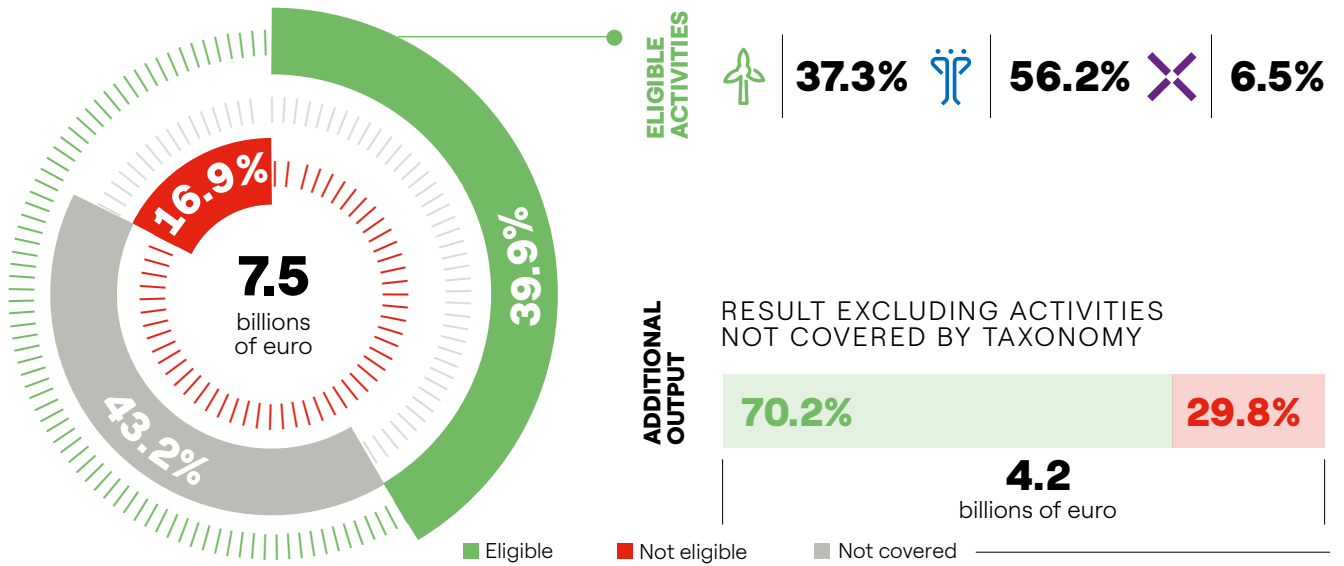
> In 2020, 80.3% of capital expenditure was generated by business activities that meet climate change mitigation criteria, compared with 76.8% in 2019. Excluding activities that































are currently not covered by the European taxonomy regulation, 88.8% of capital expenditure was eligible.



> In 2020, 39.9% of ordinary operating expenditure was generated by business activities that meet climate change mitigation criteria, compared with 39.6% in

2019. Excluding activities that are currently not covered by the European taxonomy regulation, 70.2% of ordinary operating expenditure was eligible.



VALUE CHAIN	Eligible activities (substantial contribution to mitigation of climate changes)	Revenue from third parties ⁽¹⁾				Ordinary gross operating profit (ordinary EBITDA)				
		2020		2019		2020		2019		
		mil euros	%	mil euros	%	mil euros	%	mil euros	%	
Power generation	Generation from thermal and nuclear sources	7,409	11.4	7,344	9.1	4,721	26.3	4,618	25.8	
	 	6,914	10.6	6,921	8.6	4,346	24.2	4,296	24.0	
		495	0.8	423	0.5	375	2.1	322	1.8	
		-	-	-	-	-	-	-	-	
	Generation from thermal and nuclear sources	6,890	10.6	8,863	11.1	1,633	9.1	1,622	9.0	
	 	3	-	3	-	-	-	2	-	
		5,545	8.5	7,591	9.5	1,194	6.7	1,150	6.4	
		1,342	2.1	1,269	1.6	439	2.4	470	2.6	
	Energy sales (wholesale)	Trading	12,460	19.2	21,617	26.9	597	3.3	-37	-0.2
		 	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	
		12,460	19.2	21,617	26.9	597	3.3	-37	-0.2	
Energy distribution	Infrastructures and Networks	17,824	27.4	20,092	25.0	7,714	43.0	8,228	46.0	
	 	15,103	23.2	16,618	20.7	6,989	39.0	7,132	39.9	
		2,720	4.2	3,474	4.3	726	4.0	1,096	6.1	
		1	-	-	-	-1	-	-	-	
Sales (end customers)	Market	17,647	27.2	19,537	24.3	3,197	17.8	3,334	18.6	
	 	-	-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	-	
		17,647	27.2	19,537	24.3	3,197	17.8	3,334	18.6	
	Enel X	970	1.5	967	1.2	161	0.9	158	0.9	
	 	658	1.0	713	0.9	134	0.7	94	0.5	
		-	-	-	-	-	-	-	-	
	312	0.5	254	0.3	27	0.2	64	0.4		
Other	Other	1,785	2.7	1,907	2.4	-83	-0.4	-18	-0.1	
		-	-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	-	
		1,785	2.7	1,907	2.4	-83	-0.4	-18	-0.1	
TOTAL	TOTAL	64,985	100.0	80,327	100.0	17,940	100.0	17,905	100.0	
		22,678	34.8	24,255	30.2	11,469	63.9	11,524	64.4	
		8,760	13.5	11,488	14.3	2,295	12.8	2,568	14.3	
		33,547	51.7	44,584	55.5	4,176	23.3	3,813	21.3	

(1) Revenue from third parties is "segment" revenue from non-Group counterparties only. It therefore does not include transactions between the various segments.

(2) The figure for 2019 capital expenditure does not include 4 million euros regarding units classified as "held for sale".

Capital expenditure – CAPEX ⁽²⁾				Ordinary operating expenditure (Opex)			
2020		2019		2020		2019	
mil euros	%	mil euros	%	mil euros	%	mil euros	%
4,629	45.4	4,293	43.2	1,227	16.3	1,277	15.0
4,591	45.0	4,247	42.7	1,119	14.9	1,177	13.8
38	0.4	46	0.5	108	1.4	100	1.2
-	-	-	-	-	-	-	-
640	6.3	794	8.0	1,067	14.2	1,432	16.8
1	-	-	-	-	-	-	-
493	4.9	663	6.7	783	10.4	1,150	13.5
146	1.4	131	1.3	284	3.8	282	3.3
54	0.5	57	0.6	125	1.7	129	1.5
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
54	0.5	57	0.6	125	1.7	129	1.5
3,937	38.6	3,905	39.2	2,065	27.5	2,388	28.1
3,435	33.7	3,269	32.8	1,683	22.4	1,989	23.4
502	4.9	636	6.4	381	5.1	398	4.7
-	-	-	-	1	-	1	-
460	4.5	449	4.5	897	11.9	1,009	11.9
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
460	4.5	449	4.5	897	11.9	1,009	11.9
303	3.0	270	2.7	296	3.9	347	4.1
158	1.6	133	1.3	195	2.6	203	2.4
-	-	-	-	-	-	-	-
145	1.4	137	1.4	101	1.3	144	1.7
174	1.7	179	1.8	1,844	24.5	1,924	22.6
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
174	1.7	179	1.8	1,844	24.5	1,924	22.6
10,197	100.0	9,947	100.0	7,521	100.0	8,506	100.0
8,185	80.3	7,649	76.8	2,997	39.9	3,369	39.6
1,033	10.2	1,345	13.6	1,272	16.9	1,648	19.4
979	9.5	953	9.6	3,252	43.2	3,489	41.0

■ Eligible
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