



General Risk Management and Control Policy

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Update of the policy approved by the Board of Directors on 15 June 2015

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ENDESA, S.A. AND SUBSIDIARIES. GENERAL RISK MANAGEMENT AND CONTROL POLICY

It is the responsibility of the Board of Directors of ENDESA to determine (approve and modify) the Risk Management and Control Policy, identifying the different types of financial and non-financial risks faced by the Company, and supervising internal information and control systems.

1. Purpose

The activity of ENDESA, S.A. and its subsidiary companies (ENDESA) is performed in an environment with various external factors that could affect its transactions and financial performance, thus requiring that exposure to such factors be managed and controlled.

The Risk Management and Control Policy seeks to guide and direct all strategic, organisational and operational actions taken that enable the Board of Directors to accurately establish risk tolerance levels in order to ensure that the managers of each business line can maximise the Company's profitability, preserve or increase its assets and equity and maximise certainty of performance above set thresholds, preventing uncertain future events from negatively impacting the attainment of profitability objectives set by the Company. The General Risk Control and Management Policy identifies the different types of financial and non-financial risks (including but not limited to operating, technological, legal, social, environmental, political, reputational or corruption-related) faced by the Company, considering as financial and economic risks any contingent liabilities and other off-balance sheet risks.

The General Risk Control and Management Policy seeks to guide and steer the set of strategic, organisational and operational actions that allow the Board of Directors to precisely delineate the acceptable level of risk, so that the managers, staff and service functions of the different business lines can maximise the profitability of the company, preservation or increase of its equity and treasury and certainty of level of success, preventing uncertain and future events from having a negative influence on its ability to achievement the company's profitability objectives, its operations, sustainability, resilience or reputation in a sustained manner over time, providing an adequate level of guarantees to shareholders and safeguarding their interests, as well as those of customers and other stakeholders.

The general guidelines of the Risk Management and Control Policy are implemented and supplemented by other specific corporate risk policies for each business line, as well as by limits established for optimal risk management.

2. Scope

This document is applicable in ENDESA and to the greatest possible extent in companies where ENDESA has a majority holding, exercises control and is responsible for its management, whenever possible and always in accordance with the applicable laws and regulations and corporate governance regulations applicable in each company, including any provision related to the stock market or separation of activities and respecting decisions where there may be a conflict between the provisions of this document and any of those regulations, the latter taking priority over all others.

3. Approval and amendment

Based on a report from the Audit and Compliance Committee the Board of Directors will be responsible for approving and amending this Policy.

This Policy is an update of the policy originally approved by the Board of Directors on 15 June 2015.

4. Risk factors

Risk means uncertainty about future events that may or may not have an effect on the financial statements or expectations of future performance over time, sustainability, resilience or image and, consequently, on reaching the objectives set by the Company.

The risk factors faced by ENDESA in performing its activity are grouped as follows:

- **Strategic risk:** risk of potential losses in value or earnings due to strategic or other uncertainties related to the competitive or macroeconomic environment, society or politics and amendments to the regulatory framework (regulatory risk), including those linked to climate change, which ensure the sustainability of ENDESA and its stakeholder appeal.
- **Financial risk:** risk of changes in prices, market variables -including access to financing-, exchange rates, interest rates, commodities, fuels, energy, goods and services, as well as credit and counterparty risk that may affect both the results and the value of the assets and liabilities of the Company.
- **Digital technology risk:** risk related to the promotion of digitalisation in all areas of our activity as a key driver for improving efficiency, including, among others, cybersecurity, digitalisation, automation, data-based decision making and system availability.

- **Operational risk:** risk of incurring losses due to the absence or insufficiency of procedures, human resources and systems, human error and unforeseen external events, including labour risk related to the protection of people who work for ENDESA, talent management, diversity, and the difficulty in maintaining a suitable work environment and protection of Human Rights.
- **Compliance risk:** risk arising from breach of mandatory regulations, legal risk or risk of uncertainty related to legal actions or third-party actions, particularly public authorities, in relation to compliance and interpretation of obligations, agreements or regulations. This risk is associated with both compliance with regulations in force as well as with changes in interpretation of such regulations (civil, commercial, criminal, tax, etc.).
- **Corporate governance and culture risk:** risk arising from potential breaches as regards transparency in public reporting to the markets, damage to social interests and lack of business ethics in all decision making processes of the Company's governing bodies. Additionally, as relates to reputation, risk arising from a significant impairment in the perception, valuation or opinion about the Company by its key stakeholders due to actions taken by the Company, information that is falsely or unfairly attributed to the Company or similar events that affect the industry as a whole and that have a more acute or harmful impact on the Company or, in general terms, the breach of non-mandatory regulations issued by third parties or the Company itself.

5. Internal Risk Control and Management System

The General Risk Control and Management Policy is implemented through an Internal Risk Control and Management System (Spanish acronym: SCIGR), which comprises an organisation, principles, a regulatory system and a risk control and management process.

The risk control and management system is based on a model based, on the one hand, on an ongoing study of the risk profile, applying current best practices in the energy and benchmark sectors as regards risk management and control, based on consistent measurement criteria within the same risk typology, separation of risk managers and controllers, and finally, on ensuring a link between acceptable risk levels, effective risk assumed and the necessary resources to operate the business, optimising the risk-reward trade off of the business as defined by the Board of Directors.

5.1. Organisation of the Internal Risk Control and Management System

The organisation of the Internal Control and Risk Management System is implemented through independent risk management and risk control functions that ensure adequate segregation of duties.

The **Board of Directors** is responsible for determining the General Risk Management and Control Policy, including tax policies, and setting the level of risk that the Company considers acceptable in the Risk Appetite Framework, as well as the supervision of internal information and control systems.

The **Audit and Compliance Committee** has, *inter alia*, the following powers:

- Report on the General Risk Control and Management Policy to the Board of Directors, including tax policies, and their amendments.
- Supervise the effectiveness of internal control and risk management systems, including tax risk management systems and in this regard:
 - Submit an annual evaluation of the financial and non-financial risks to the Board of directors, including emerging risks and determining the level of risk that the Company considers acceptable.
 - Report on exposure levels, and on the effectiveness and operation of the Risk Management and Control Policy in accordance with the provisions of this policy.
 - Promote a culture where risk is considered as a factor in all decisions and at all levels of the organization.
 - Select an external independent expert to regularly assess performance of the internal control and risk management function.

The company's risk control and management model is aligned with international standards following a **three lines model**. The main roles and responsibilities of the governing bodies and areas involved in the risk control and management process are:

The **first line** is the responsibility of the heads of the business lines, staff and service functions (including the Fiscal Affairs unit regarding risks of a fiscal nature, and the Legal unit for legal risks). Businesses, staff and service functions manage the risks and establish the necessary controls to ensure that transactions in the markets are carried out in compliance with ENDESA's policies, standards and procedures.

The **second line** is carried out by a set of organisational areas and Committees that cover the different types of risk and report on them independently in coordination with the Audit and Compliance Committee. The areas and Committees involved are presented below, grouped in three categories according to the type of risk: risks related to internal control of financial and non-financial information, criminal risks and other risks.

A) Risks related to internal control of financial and non-financial information

Transparency Committee. The Transparency Committee is chaired by the CEO and comprised of the key executives of ENDESA, including all members of the Executive Management Committee and those members of ENDESA management who are directly involved in the preparation, verification and disclosure of financial and non-financial information. Its main objective is to ensure compliance with and proper application of the general principles governing financial and non-financial reporting (confidentiality, transparency, consistency and responsibility); to assess events, transactions, reports or other relevant matters reported externally; and to determine the manner and deadlines for presenting public information. Furthermore, the Transparency Committee is the Endesa management body that evaluates the conclusions on compliance and effectiveness of the controls of the Internal Information Control System and internal controls and procedures for dissemination of information abroad, formulating corrective and/or preventive actions in this regard. The conclusions of the Transparency Committee are then forwarded to the Audit and Compliance Committee (Spanish acronym: CAC).

Internal Information Control. The Internal Information Control System is a component of the company's internal control system and consists of a complete set of processes that ensure reasonable certainty regarding the reliability of both internal and external information. The Endesa Internal Control Unit is the area responsible for identifying the most relevant processes, activities, risks and controls of the Internal Information Control System that estimates materials to reasonably ensure that the information disclosed abroad by Endesa is reliable and adequate.

Compliance. The Corporate Affairs and Compliance area is primarily responsible for ensuring best practices as relate to Regulatory Compliance, including but not limited to: Corporate Governance, Data Protection and Competition.

B) Crime risk

Supervisory Committee of the Crime Risk Prevention and Anti-Bribery Model. This is a collegiate body with autonomous powers of initiative and control in regard to criminal risks, which is directly supervised by the Audit and Compliance Committee. It supervises compliance and updating of the model to prevent risks of crime for which Endesa may be held liable.

Compliance. The Corporate Affairs and Compliance area is primarily responsible for overseeing crime risk prevention and ensuring regulatory compliance.

C) Other risks

Risk Committee. The Risk Committee supervises the management and monitoring of all risks, including tax risks in particular, other than those of a criminal nature and those related to internal control and financial information, referring the results of its deliberations and conclusions to the Audit and Compliance Committee of the ENDESA Board of Directors. The Risk Committee must be composed of at least the CEO and his first reporting line and shall be based on the internal procedures of the different business lines, staff and service functions.

Risk control. This is the area delegated by the Risk Committee to define the procedures and rules of the Internal Control and Risk Management System, to ensure that all the risks are homogeneously and periodically identified, characterised, quantified and properly managed in the area of responsibility that affects the entity, including off-balance sheet, monitoring risk exposure and the control activities implemented.

The function of reporting to the governing bodies on the effectiveness of the internal control and risk management (**3rd line**) lies with **Internal Audit**, which validates the Model and continuously monitors the structure and operation of the Internal Risk Control Management System (SCIGR).

The three lines report to the Audit and Compliance Committee and the Board of Directors to fulfil their responsibilities.

5.2. Risk management and control principles

The general principles of ENDESA's Risk Management and Control Policy, aimed at controlling and mitigating the possible risks identified, are as follows:

- Existence of a regulatory system, people, means and systems to develop a continual process of identification, quantification and reporting of all relevant risks that may affect the Company.
- Ensure adequate segregation of duties, and coordination mechanisms between different areas and risk control systems.
- The risks must be consistent with the strategy, objectives and core values of ENDESA, ensuring the appropriateness of the risk levels to the objectives and limits set by the Board of Directors.
- Optimisation of risk management and control from a consolidated perspective, prioritising in this regard individual management of each risk.
- Continual assessment of hedging, transfer and mitigation mechanisms to ensure their suitability; adoption of best market practices.

- Ongoing study of the laws, rules and regulations in force, including on taxes, to ensure transactions are carried out in accordance with the rules governing the activity.
- Respect and comply with internal regulations, with a particular focus on Compliance, Corporate Governance and the general provisions for the Prevention of Criminal Risks and Anti-Bribery, namely, the Code of Ethics and the Zero Tolerance Corruption Plan.
- Safety is the number one value at ENDESA. The health and safety of the people working in and for ENDESA are a consideration in all its activities.
- Commitment to sustainable development, efficiency and respect for the environment and Human Rights.
- Responsible optimisation of the use of available resources with a view to providing profits to our shareholders in the context of relationships based on the principles of loyalty and transparency.

5.3. Regulatory Risk System

The Risk Management and Control Policy defines the Risk Control System for ENDESA as an interwoven system of rules, processes, controls and reporting systems in which overall risk is defined as the total consolidated amount of all risks to which it is exposed, taking into account the mitigating effects for the different exposures and risk classes, allowing for consolidation and appraisal of risk exposure, from the Company's different business units and areas, as well as the development of management information relevant to making decisions on risk and the proper use of capital.

The General Risk Control and Management Policy, established and approved by ENDESA's Board of Directors is the core of the system from which the following documents are derived:

- **Specific** risk control and management **policies**, for example, the "Tax Risk Management and Control Policy" and the "Criminal Compliance and Anti-Bribery Policy", which are approved by the ENDESA Board of Directors and which define risk catalogues and specific controls.
- **Organisational documents**, which complement and specify relevant aspects of the control and risk management processes.
- The **ENDESA Risk Appetite Framework**, which determines the main risk indicators, the risk levels considered acceptable, and management and mitigation mechanisms.
- The **ENDESA Risk Map**, which give a prioritised view of all relevant risks.

5.4. Risk control and management process

The risk control and management process consists of the identification, evaluation, monitoring and management in time of the different risks, and contemplates the main risks to which the company is exposed, both endogenous (for internal factors) and exogenous (for external factors).

- **Identification.** The purpose of the risk identification process is to generate the risk inventory based on events that could prevent, degrade or delay the achievement of the objectives. The identification must include risks whose origin is under the control of the organisation and those due to non-manageable external causes.
- **Evaluation.** The objective is to obtain the parameters that allow the measurement of the economic and reputational impact of all risks for their subsequent prioritisation. Evaluation includes different methodologies according to the characteristics of the risk, such as the assessment of scenarios and the estimation of the potential loss from the impact and likelihood evaluation distributions.
- **Follow up.** The objective is to monitor the risks and establish management mechanisms that keeping the risks within the established limits, as well as taking the appropriate management actions.
- **Management:** The objective is the performance of the actions aimed at keeping risk levels at optimum levels and respecting and always within the established limits.

This process is intended to ensure that all risks are properly managed within the levels set by the ENDESA Board of Directors.