

OPEN POWER FOR A BRIGHTER FUTURE.

WE EMPOWER SUSTAINABLE PROGRESS.



SYNTHESIS REPORT ON THE DIRECTOR REMUNERATION
POLICY FOR 2020-2022. DELOITTE.



Report on the Director Remuneration Policy for 2020-2022

February 2020

Translation of a report originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

Synthesis Report on the Director Remuneration Policy for 2020-2022

Contents

1.	Background.....	1
2.	ENDESA Director Remuneration Policy for 2020-2022.....	2
3.	Conclusions.....	11

1. Background

Article 529r of Royal Legislative Decree 1/2010, of July 2, which approves the consolidated text of the Capital Companies Law (hereinafter, the "**Capital Companies Law**") establishes that the policy of Directors' remuneration must be adjusted in accordance with the statutory remuneration system and must be approved by the general shareholders' meeting at least every three years and as a separate item on the agenda.

The proposal for the remuneration policy of the Board of Directors must be motivated and accompanied by a specific report from the Appointments and Remuneration Committee. Both will be made available to the shareholders on the website of the company from the call of the General Meeting and the shareholders are empowered to request the free delivery or dispatch thereof.

In this way, any remuneration received by the Directors for the exercise or termination of their position and for the performance of executive functions must be in accordance with the Directors' remuneration policy in force at any time, with the exception of the remuneration that has been expressly approved by the General Meeting of Shareholders.

Taking into account the regulatory framework set out above, this Report has been commissioned by the Appointments and Remuneration Committee of Endesa from Deloitte Legal, with the purpose of examining, from the point of view of an independent external advisor, the Remuneration Policy of the Directors of Endesa 2020-2022 (hereinafter, the "**Remuneration Policy 2020-2022**") that the Appointments and Remuneration Committee of Endesa will propose to the Board of Directors together with the supporting report required by the Capital Companies Law.

In this Report, firstly, the main changes included in the Remuneration Policy 2020-2022 will be explained. Then, the main implications of this policy will be shown, as well as its adequacy for Endesa's Bylaws, the legal framework, and the recommendations of the Good Governance Code for Listed Companies (hereinafter, the "**Good Governance Code**") and the Technical Guide 1/2019 on Appointments and Remuneration Committees (hereinafter, the "**Technical Guide**"). Lastly, a comparative study will be carried out with comparable entities by sector and size and, finally, some conclusions will be presented.

The Remuneration Policy 2020-2022 is drawn up one year after the Endesa Directors' Remuneration Policy 2019-2021 in order to adapt it to the changes experienced in the governance of the Company during the last period, namely: the replacement of the figure of the Chairman as top executive, as already mentioned in the aforementioned Policy and, in parallel, the reinforcement of the responsibilities of the CEO, who has gone on to become the top executive of the Company.

Additionally, in response to the foreseeable increase in the number of members of the Board of Directors at the next Ordinary General Shareholders' Meeting, the maximum amount of annual remuneration of all the directors of the Company as such has been increased from three to four million euros. This increase in the maximum amount does not imply an increase in the individual remuneration of the members of the Board as such.

2. ENDESA Director Remuneration Policy for 2020-2022

The Remuneration Policy 2020-2022 sets out the regulatory and statutory framework, and the general principles which form the basis of and set the remuneration systems applicable to executive Directors, Directors in their capacity as such, and, finally, the overall amount of the annual remuneration of the group of Directors.

The Remuneration Policy 2020-2022 is inspired by the Capital Companies Law (specifically, in its article 529r), the Good Governance Code and the Technical Guide, which are the main references regarding the remuneration of Board members.

The Policy 2020-2022 encourages the promotion of transparency in remuneration and the quality of information related to Directors' remuneration. In this way, market and shareholder confidence is improved and the perception of proxy advisors.

The temporary scope of the Remuneration Policy 2020-2022 is that for the years 2020 to 2022, without prejudice to the fact that in a shorter period of time the General Shareholders' Meeting may agree on such pertinent modifications or the approval of a new Policy.

Regarding its content, the Remuneration Policy 2020-2022 distinguishes between the remuneration system applicable to executive Directors and that applicable to Directors in their capacity as such.

2.1 Remuneration of executive Directors

(i) Remuneration structure

For **Directors with executive functions**¹, the Remuneration Policy 2020-2022 foresees a more complex remuneration system, made up of different payments, each of them regulated in a particular way and all of them customary in the practice of listed companies.

Firstly, these Directors will receive a **fixed remuneration payment**, which should be in line with market practice in comparable companies for similar levels of responsibility, and should represent a proportion with respect to adequate total remuneration so that there is adequate flexibility in managing the variable components. Specifically, the CEO's fixed remuneration will consist of 960,000 euros per year for the years 2020 to 2022.

Currently, the remuneration of the CEO of Endesa is 740,000 euros and is below the average for CEOs by size and sector (42.68%) and in the 75th percentile of listed companies, which is closer to Endesa's reference scale, taking into account its size and importance in the market. This percentile is estimated at 903,000 euros and the mentioned remuneration is 22.03% lower.

The proposed remuneration for the period 2020-2022 continues to be below the average perceived by CEOs of comparable companies by size and sector (9.98%

¹ Currently, only the CEO.

less), and exceeds the remuneration of Directors belonging to the 75th percentile of listed companies² by 6.31%.

The remuneration currently envisaged at Endesa for the top executive is 1,132,000 euros and is above the average for executive Chairpersons by size and sector (2.06%). However, since the Company has gone to having a non-executive Chairman, the top executive is the CEO. Therefore, the proposed remuneration for the period 2020-2022 will be 20.4% below the average perceived by the top executives of comparable companies by size and sector.

If the fixed remuneration of the CEO is compared with the average of some similar entities in the international sphere (*i.e.* E.ON, EDP, EDF, Fortum, Suez and Verbund Ag³), of 856,733 euros per year, it is concluded that the CEO of Endesa receives a fixed remuneration which is 10.75% higher than the average⁴.

It is noteworthy that the CEO, Endesa's top executive, does not receive any remuneration from Endesa group companies, which does occur in other comparable entities.

Another significant component of executive Directors' remuneration is **variable remuneration**, which is linked to the achievement of objectives linked to figures related to particular performance and to certain financial and non-financial factors. Such objectives will be predetermined, quantifiable, aligned with Endesa's strategy, measurable and objective. They will promote Endesa's sustainability and profitability in the long term, and will be established annually by the Board of Directors at the proposal of the Appointments and Remuneration Committee.

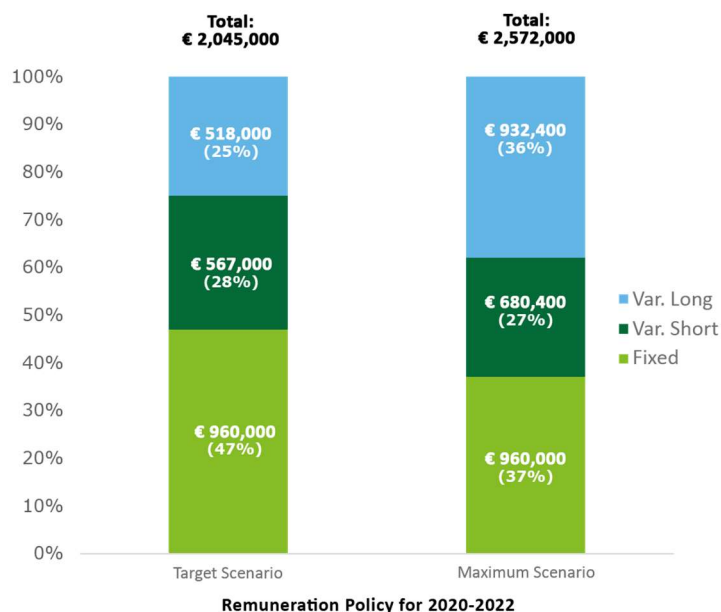
This variable remuneration is broken down into two elements: short-term remuneration and long-term remuneration, as detailed in section (ii) below. While such short-term variable remuneration is linked to the Company's specific results in each particular year, the long-term variable remuneration aims to reward the contribution of the people who hold the greatest responsibility for the sustainable fulfilment of the Strategic Plan.

² The comparable entities used were the following: Iberdrola, Enagás, Repsol, Naturgy and Red Eléctrica. The information on comparable companies was obtained from the Annual Remuneration Reports corresponding to the 2018 financial year, with the exception of Naturgy, which had already published its Report corresponding to the year 2019.

³ In the case of EDP and EDF, the remuneration of the executive Chairman has been taken as a reference.

⁴ The data was obtained from E.ON (*Annual Report E.ON 2018*), EDP (*Declaração sobre política de remuneração dos membros del conselho de administração da EDP 2018*), EDF (*Eduburse, Rémunérations de Jean Bernard Lévy Pour EDF en tant que Président-directeur général Du 01-01-2018 au 31-12-2018*), Suez (*Eléments de rémunération et conditions financières de départ des dirigeants mandataires sociaux 2018, Paris - La Défense, le 28 février 2019*), Fortum (*Remuneration for the President and CEO and the Executive Management 2018, website*) and Verbund Ag (*Coporate Governance Report 2018, website*).

The weight of each of the different remuneration items is shown below:



As can be seen, the weight of the variable component fluctuates between 53%, which corresponds to the *target* scenario, and 63% of the scenario in case of over-compliance. This configuration of remuneration is common in comparable entities and is in line with the recommendations and practices on the matter.

Subject to the provisions of article 217.4 of the Capital Companies Law, the remuneration of executive Directors will be periodically reviewed or updated. These variations may be made taking into account factors related, among others, to the evolution of the Spanish wage market, the growth forecast for each year, and market studies and analysis.

In the event of the incorporation of new Directors with executive functions, their remuneration will be designed according to the level of responsibility assigned to them and their professional career, having to be in accordance with the best practices in the market. In any case, the fixed and variable remuneration for the CEO will act as a limit in the case of new incorporations.

(ii) Components of variable remuneration

a) Short-term variable remuneration

This remuneration depends on the recognition of the contribution of each Director to the results of Endesa in each year. To this end, economic-financial, non-financial, corporate governance and sustainability objectives are established and compliance with the objectives is analysed using an achievement scale, with a minimum threshold of compliance and a maximum of 120%.

In the case of Endesa, they are defined as:

- Economic-financial objectives: EBITDA (gross operating profit), *Cash-Cost* (fixed operating costs and maintenance investments), FFO (funds from operations, *Cash-Flow* before dividend payment, gross investments and extraordinary operations), among other things.
- Non-financial objectives: safety and injury rate reduction, availability of production plants, efficiency indicators, service quality, business line efficiency and specific projects.
- Corporate governance and sustainability objectives: the reduction of CO2 emissions of the Endesa group, as well as objectives linked to the personal performance of the Directors.

The *target* value of the short-term variable remuneration established for the CEO is 567,000 euros.

b) Long-term variable remuneration

For its part, long-term variable remuneration, traditionally articulated through a plan called the "Loyalty Plan", is taking up the space around a "Strategic Incentive" and is structured through successive three-year programmes.

The incentive will have a minimum compliance threshold and a maximum level of over-compliance of 180%. In this case, the *target* value of the long-term variable remuneration that is established for the CEO is 518,000 euros.

Long-term variable remuneration is based on two parameters:

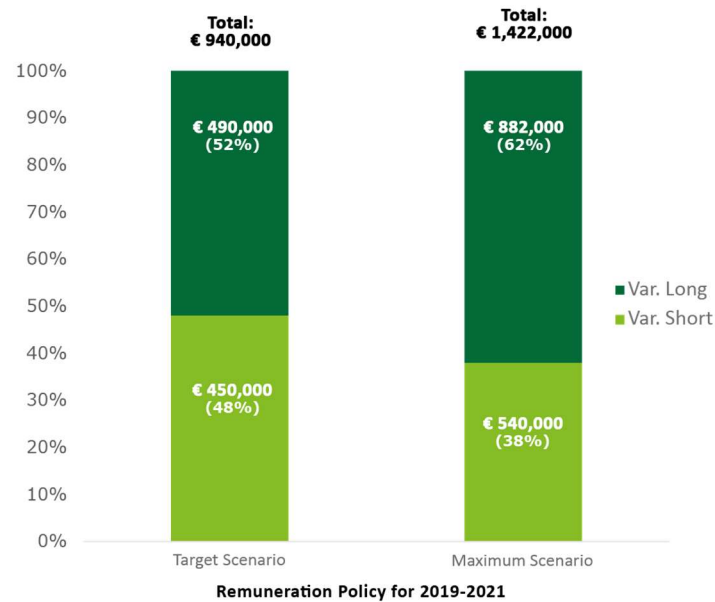
- A part of the remuneration to be received by the recipient will depend on the performance level of Endesa's average *Total Shareholders' Return* (TSR) compared to the average TSR of the *Euro-Stoxx Utilities Sx6E index*. With this comparison, part of the variable remuneration is being referenced to the performance of comparable companies, so that the market trend is taken into account, something recommended by the *proxy advisors*.
- The remaining part is linked to the *Return On Average Capital Employed* (ROACE) that represents the relationship between the Ordinary Operating Income and the average Net Invested Capital, accumulated in the accrual period.

The Board of Directors, at the proposal of the Appointments and Remuneration Committee, evaluates the level of achievement of the objectives at the end of each year.

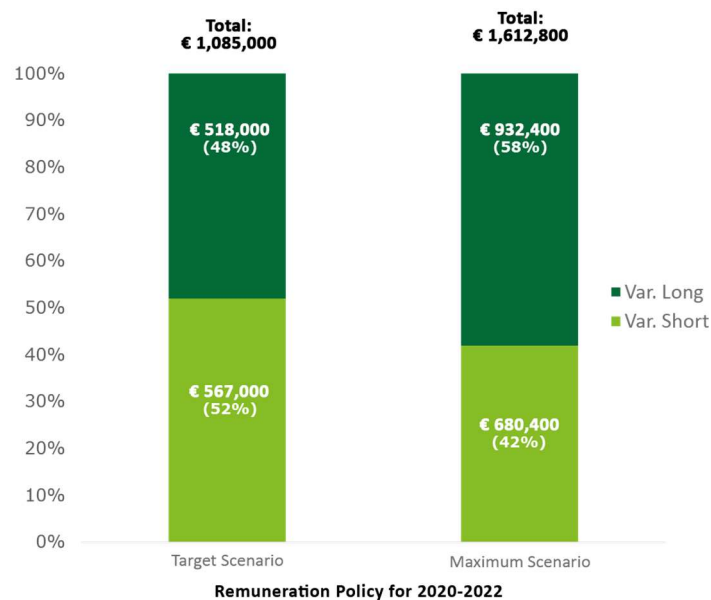
c) The weight between both variable components

The 2019-2021 Remuneration Policy already complies with recommendation 58 of the Good Governance Code because the variable remuneration of the CEO is linked to his professional performance, not only linked to market trends, and is distributed in a balanced way between Endesa's short and long-

term objectives, as reflected in the ratio between both types of variable remuneration according to the following graph:



The 2020-2022 Remuneration Policy maintains the same criteria of combining professional performance, market evolution and an adequate balance between the different types of objectives.



(iii) Other remuneration elements

Additionally, Executive Directors will be beneficiaries of certain **long-term savings systems**. This is a Supplemental Social Welfare System which covers the contingencies of retirement and death. In this sense, there is a Pension Plan in which all Endesa Group workers participate. It is also noteworthy that the CEO will maintain an annuity of 867,000 euros per year (this amount includes the public social security pension and the benefit derived from the pension plan). This amount will be received by the CEO at the time he leaves his position⁵. In case of death, his surviving spouse would receive 45% of the previous sum.

The inclusion of long-term savings systems for executive Directors complies with recommendation 57 of the Good Governance Code, as do 70% of Ibex 35 companies⁶.

Executive Directors will also have **other remuneration items**, typical of Endesa's Senior Management, such as special conditions on loans or the allocation of a vehicle through *renting*.

(iv) Payment of remuneration

Endesa does not foresee the deferral of variable remuneration in the short term, so the Ibex 35 trend in this aspect continues, since only 28% of companies are contemplating it.

On the other hand, in the same vein as 68.4% of Ibex 35 companies⁷, Endesa uses cash payments as instruments for short-term variable remuneration.

Instead, the long-term remuneration plan includes a deferral of payment and the need for the Executive Director to be active at the time of payment. The payment of this remuneration will be, where appropriate, 30% of the incentive in the year following the end of the plan and the remaining 70% in the second year after completion.

Likewise, and as a novel element, part of the Strategic Incentive will be paid through the giving of Endesa shares. Executive Directors may not transfer the shares of the Company received as a consequence of the long-term variable remuneration plans referred to in this section, in accordance with the terms established in the Good Governance Code. This form of payment, provided for the first time in this Remuneration Policy, complies with the recommendations of the *proxy advisors*.

Twenty-seven percent of the Ibex 35 companies that include long-term incentive plans consider their payment in a mixed way. Despite not being widely implemented, it is a practice aligned with recommendation 61 of the Good

⁵ The aforementioned annual amount was estimated taking as a reference the year 2022, the date on which the CEO will reach the age of sixty-seven. In case of deferral of his effective retirement, this annual amount will be estimated again.

⁶ Data obtained from the Annual Report on the Remuneration of Directors of listed companies 2018 from the CNMV.

⁷ *idem*.

Governance Code, which encourages the variable remuneration of executive Directors to be linked to the giving of shares or financial instruments referenced to their value. Finally, it should be noted that article 41 of the Bylaws expressly provides that the remuneration of executive Directors may comprise the giving of shares or option rights thereon or amounts referenced to the value of the shares.

For both variable payments, the power of Endesa not to pay the accrued remuneration (*malus* clause) and to compel the Director who has already received it, to pay it back (*clawback* clause), in the event that the data that have served as a reference for the calculation of said remuneration will be proved wrong.

It will be the Appointments and Remuneration Committee which will be able to submit a proposal to the Board of Directors for non-payment or request for reimbursement of variable components if it is subsequently determined that calculations were based on data that was clearly erroneous.

It is customary for these clauses to be included by comparable entities in the corresponding contracts with their executive Directors, and specifically, comparable entities also regulate the *clawback* clause and generally also use the *malus* clause⁸.

As previously stated, in line with the Technical Guide, the Remuneration Policy 2020-2022 contemplates the possibility of periodically reviewing or updating the remuneration of the Directors. Thus, it ensures its alignment with Endesa's situation and Endesa's short, medium and long term strategy and with market conditions. Specifically, both for the annual fixed remuneration and for the *target* of the variable remuneration of the executive Directors, the possible revisions or updates will be determined by the Board of Directors, with the intervention of the Appointments and Remuneration Committee, with reference to the information on the evolution of the Spanish wage market, the growth forecast for each year and the corresponding studies and market analysis, among other aspects.

(v) Main contractual conditions.

The contracts signed with the executive directors include clauses of (i) confidentiality, (ii) return of documents at the end of the relationship with the company, (iii) compensation after the termination of the relationship with the company and (iv) liquidation of assets and (v) post-contractual non-concurrence agreement in the event of termination of the executive director's senior management contract.

Specifically, it is noteworthy that the contract signed with the current Chief Executive Officer does not provide for compensation for dismissal from office. Notwithstanding, when the Chief Executive Officer steps down, his previous relationship, which is his senior management contract, suspended since his appointment as Chief Executive Officer, will be automatically terminated, in which case, due to the termination of his employment relationship as senior management, Mr. Bogas will be entitled to receive a net amount of 6,527,000 euros, this amount being the result of reducing the gross compensation that he

⁸ For these purposes, the following have been used as comparable entities: Iberdrola, Naturgy, Repsol, Red Eléctrica and Enagás.

has consolidated by the amount of withholdings on account of the IRPF personal income tax and, where appropriate, the Social Security contributions applicable at the date of payment.

The Remuneration Policy 2020-2022 states that when there are new incorporations to positions with executive functions on the Board of Directors of Endesa or its Group, a maximum limit of two years will be established for the total and annual remuneration earned, for payments for contract termination.

In this sense, for the General Meeting 2019, certain *proxy advisors*⁹ recommended voting in favour of the agreement regarding the approval of the Annual Remuneration Report for 2018 and the Remuneration Policy 2019-2021.

2.2 Directors' Remuneration in their capacity as such.

As for the remuneration system applicable to **Directors in their capacity as such**, as has been mentioned previously, it is less complex than that of executive Directors. The Remuneration Policy 2020-2022 calls on equity, dedication and responsibility as the remuneration criteria for these types of Directors.

In this sense, the following are considered to be positions on the Board of Directors that must be subject to special remuneration: Non-executive Chairman, Coordinating Director and Chairman or member of the different Committees of the Board of Directors.

In this way, the remuneration will consist of the following payments:

- (i) A fixed monthly payment. The members of the Board of Directors will receive 15,642.56 euros gross monthly.
- (ii) Allowances for attending each session of the Board of Directors and its Committees. The amount for this item totals 1,502.53 euros gross per session.

Likewise, the Remuneration Policy 2020-2022 establishes the following remuneration criteria for the following positions within the Board of Directors of Endesa:

- (i) The Non-executive Chairman of the Board of Directors will receive a monthly fixed remuneration of 50,000 euros gross, excluding the monthly fixed remuneration of 15,642.56 euros gross provided for other members.
- (ii) The Chairmen of Committees will receive a monthly fixed remuneration of 1,000 euros gross in addition to the monthly fixed remuneration as members.
- (iii) The Coordinating Director will receive a monthly fixed remuneration of 2,083 euros gross, which will also be in addition to the monthly fixed remuneration as a member.

It should be noted that compensation, contributions to social security systems or any other items, as explained in section 2.1 above, that shall not apply to Directors in their capacity as such, may correspond to executive Directors for the performance of their executive functions.

⁹ ISS and Glass Lewis.

In accordance with the Remuneration Policy 2020-2022, the maximum annual amount to be received by the Directors in terms of attendance allowances, fixed monthly allocation, for belonging to the Board of Directors, for chairing its Committees and for holding the position of Coordinating Director, amounts to four (4) million euros or the amount approved at subsequent General Shareholders' Meetings.

(i) Special reference to the non-executive Chairman.

The non-executive Chairman, in accordance with the Remuneration Policy 2020-2022, will receive a fixed remuneration (50,000 euros gross fixed monthly) and attendance fees (1,502.53 euros gross per session). Taking into account that the allowances for the 2019 financial year amount to 19,000 euros and that this reference remains constant, the estimated total remuneration is 619,000 euros.

According to the previous calculations, the non-executive Chairman of Endesa will receive 28.25% less emoluments than the average for the Ibex 35, which is 870,000 euros.

If the total remuneration of the non-executive Chairman of Endesa is compared with the average of comparable entities by market capitalisation (*i.e.* Repsol¹⁰, Caixabank, IAG and Amadeus ¹¹), of 1,302,250 euros per year, it is concluded that the non-executive Chairman of Endesa receives a remuneration 52.47% lower than their average.

The disappearance of the figure of the Executive Chairman and the appointment of a non-Executive Chairman represents a saving in the overall remuneration of the Board of Directors, as the amount that is no longer met for the Executive Chairman is higher compared to increased amount for the remuneration of the CEO.

It is noteworthy that non-executive Directors do not have any other remuneration than that which is necessary to remunerate their dedication without compromising their independence, which takes the form of a fixed monthly allowance and an attendance allowance.

2.3 Total remuneration of the Directors and average remuneration per Director.

In 2018, the total remuneration of the Board of Endesa amounted to 7,499,000 euros, which is 20% less than the average of comparable companies, which stands at 9,422,600 euros, and 19% less than the average of the Ibex 35, which is equivalent to 9,251,000 euros. Regarding the total remuneration per Director, Endesa falls within the range of 681,727.27 euros, above the comparable average (15% more) and below the Ibex 35 average (2% less).

Additionally, it should be borne in mind that the replacement of the Executive Chairman by a non-Executive Chairman will further reduce the average remuneration per Director and Endesa will maintain its position in the analysed framework. Thus, in the current financial year 2020, a reduction is foreseen in the overall amount to be received by the Directors as a whole.

¹⁰ In Repsol's case, such remuneration is much higher than comparable examples given the previous condition of the Chairman being the Executive Director.

¹¹ Data obtained from the Annual Remuneration Reports for 2018 sent by each of the companies.

3. Conclusions

- The Remuneration Policy 2020-2022 complies with legal requirements and is compatible with the remuneration regime of the Board of Directors provided in the Endesa Bylaws.
- The Remuneration Policy 2020-2022 is aligned with the main corporate governance guidelines and recommendations contained in the Good Governance Code and in the Technical Guide and those used by *proxy advisors*.
- The remuneration regime contained in the Remuneration Policy 2020-2022 is comparable to that of reference entities both by size and by activity.
- The Remuneration Policy 2020-2022 is aimed at promoting Endesa's long-term profitability and sustainability as well as at including the necessary precautions to prevent excessive assumption of risk and rewarding in the event of unfavourable results.
- The remuneration structure for Executive Directors establishes a proper combination between fixed remuneration, ordinary variable remuneration and long-term variable remuneration.
- The Remuneration Policy 2020-2022 increases transparency in the information regarding the remuneration of the administrative body, which facilitates the confidence of the market, of the shareholders and of the *proxy advisors* and is in line with the recommendations of the Good Governance Code.



Deloitte refers, individually or in combination, to Deloitte Touche Tohmatsu Limited ("DTTL") (a private company limited by guarantee, in accordance with UK law), and its network of member firms and their associated entities. DTTL and each of its member firms are entities with their own independent legal personality. DTTL (also called "Deloitte Global") does not provide services to clients. See page <http://www.deloitte.com/about> for a detailed description of DTTL and its member firms.

Deloitte provides auditing, consulting, financial advisory, risk management, taxation and other related services to public and private clients in a wide number of sectors. With a network of globally interconnected member firms spanning more than 150 countries and territories, Deloitte brings the best capabilities and highest quality service to its clients, offering them the help they need to tackle the complex challenges facing them. Deloitte's more than 244,000 professionals have made a commitment to make a real impact. © 2020 Deloitte Legal, S.L.P.