

# **Seeding Energies**

**Appointments and Remuneration Committee Report to the Endesa, S.A. Board of Directors, in compliance with Article 529 (19) of the Corporate Enterprises Act (Ley de Sociedades de Capital) on the proposed resolution for approval of the Directors Remuneration Policy for 2019-2021**



**endesa**



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## **I. Introduction:**

The report is prepared by Endesa's Appointments and Remuneration Committee based on the content of the report<sup>[1]</sup> prepared by independent expert PricewaterhouseCoopers analysing the alignment of the practices described in the proposed Remuneration Policy for 2019-2021 with the market and expert recommendations; with article 529 novodecies of the Corporate Enterprises Act (Ley de Sociedades de Capital), establishing the requirement that the Directors Remuneration Policy be approved by the General Shareholders' Meeting at least every three years and that the Board of Directors' proposal of the Remuneration Policy be justified and accompanied by a specific report from the Appointments and Remuneration Committee.

In this regard, the purpose of the Report is to explain the criteria adopted by the Committee for proposal to the Board of Endesa's Directors Remuneration Policy, which shall be submitted for approval, as a separate agenda item, to the Annual General Shareholders' Meeting, which will be held on 12 April 2019.

Furthermore and in accordance with Article 541 of the Corporate Enterprises Act, by proposal of the Board of Directors, the Annual Report on Director Remuneration for fiscal year 2018, shall be submitted, as a separate agenda item, to a binding vote of the General Shareholders' Meeting.

## **II. Appointments and Remuneration Committee: Composition and duties relating to the remuneration of Directors and Senior Executives**

### **Composition:**

The Appointments and Remuneration Committee is comprised of a majority of Independent Directors, which ensures autonomy and freedom of judgement in the exercise of their duties related to making proposals and reporting on key decisions within the scope of their competencies. All members of the Committee have the experience and knowledge required to carry out their duties.

As of the issue date of this Report, the Appointments and Remuneration Committee is composed of six Non-Executive Directors, five of which are Independent Directors.

Position	Member	Date of appointment	Category
<b>Chairman</b>	Miquel Roca Junyent	30.06.2009 19.09.2016*	External-Independent
<b>Director</b>	Alberto de Paoli	04.11.2014	External-Proprietary <sup>(1)</sup>
<b>Director</b>	Alejandro Echevarría Busquet	24.07.2012	External-Independent
<b>Director</b>	Helena Revoredo Delvecchio	04.11.2014	External-Independent
<b>Director</b>	Francisco de Lacerda	07.05.2015	External-Independent
<b>Director</b>	Ignacio Garralda Ruíz de Velasco	07.05.2015	External-Independent
<b>Secretary</b>	Borja Acha Besga	01.08.2015	External-Independent

\*Date of appointment as Chairman of the Appointments and Remuneration Committee

<sup>(1)</sup> Represents Enel

<sup>[1]</sup> "The report analyses the following aspects: (i) Remuneration of executive directors (remuneration structure, variable remuneration indicators, and payment mechanisms), (ii) Remuneration of directors as such (structure and amount of remuneration of the non-executive chairman) and (iii) transparency and quality of communication, with an analysis of the level of disclosures contained in the Remuneration Policy and the Annual Report on Director Remuneration".

### **Duties related to the remuneration of Directors and Senior Executives:**

The Appointments and Remuneration Committee shall be entrusted with the duties of appointing and removing Directors and Senior Executives, as well as for establishing their remuneration.

In accordance with the Company's Bylaws and the Board of Directors Regulations, the duties of the Appointments and Remuneration Committee as regards remuneration are, *inter alia*, as follows:

- To report to the Board of Directors on proposals for the appointment or removal of Endesa's Senior Executives together with the key terms of their contracts, including remuneration.
- To propose the adoption of Senior Management remuneration schemes that take the companies' profits into account. The Committee shall also apprise itself of and assess the Company's policy for executives as regards, in particular, training, promotion and selection.
- To propose the Directors Remuneration Policy to the Board of Directors, as well as individual remuneration and other contract terms for Executive Directors, ensuring compliance therewith.
- To verify information regarding remuneration of Directors and Senior Executives provided in various corporate documents, including the Annual Report on Director Remuneration.
- To ensure that any potential conflicts of interest do not threaten the independence of any external advising provided to the Appointments and Remuneration Committee.

### **III. Description and justification of the Directors Remuneration Policy for 2019-2021 reported on by the Appointments and Remuneration Committee for proposal to the General Shareholders' Meeting**

The new Directors Remuneration Policy for 2019-2021 submitted for consideration by the Board of Directors before it is presented at the General Shareholders' Meeting follows on from the Directors Remuneration Policies for 2016-2018 and 2018-2020. The general principles of the Policy as well as the remuneration systems applicable to the Directors remain unchanged.

Amendments were made to provide the policy with the necessary flexibility to pre-empt and back potential changes in composition, positions, etc. that may arise within the Board of Directors so that the Board can adapt to the needs of the Company at any given time. The new policy also sets clear limits to remuneration for new Executive Directors, within which the Board of Directors may establish the remuneration of Executive Directors who join the Company in future and that may not be breached without a resolution by the General Shareholders' Meeting to either amend the Policy or submit to a binding vote the Annual Report on Director Remuneration that includes the new amounts.

In this regard, changes include, *inter alia*, a remuneration system based on the potential positions that the Board of Directors may decide to appoint, especially provided for the possibility of the Board of Directors appointing a Non-executive Chairman.

Moreover, the section describing the system applicable to new additions of Executive Directors has been developed, providing for the possibility that one of the Executive Directors be appointed Chairman with executive duties.

In addition, other technical improvements were made to bring the Policy into line with "Technical Guide 1/2019 on Appointments and Remuneration Committees" (the "Technical Guide").

- The "Technical Guide" was prepared in accordance with art. 21 of the consolidated text of the Securities Market Act (LMV), section 3 of which states that the Spanish National Securities Commission (Comisión Nacional del Mercado de Valores) may draft technical guidelines for supervised institutions and groups and stipulates the criteria, practices, approaches and procedures it considers appropriate to comply with applicable regulations.

The document is designed to help the performance of Appointments and Remuneration Committee in companies since director and senior executive selection, appointment and remuneration are key issues of good governance of listed companies.

Therefore, the Technical Guide contains a series of principles, good practices and criteria regarding how these committees can better discharge their duties.

Good practices in the Technical Guide address, *inter alia*, the following matters, which have included in the amendments to the Policy:

- ✓ The proposed policy should be consistent with the undertaking's individual circumstances and strategy, and consider its impact on the company's sustainable and long-term performance and in terms of risk assumption.
- ✓ The Appointments and Remuneration Committee must review the remuneration policy annually to ensure that it is aligned with the entity's situation and short-, medium- and long-term strategy and assess whether it contributes to long-term value creation and adequate risk control and management.
- ✓ *The Directors Remuneration Policy must also ensure that the Board is able to approve, prior to their applicable, the objectives, criteria and metrics of the various remuneration items established for the current year in accordance with the remuneration policy approved by the shareholders' meeting. The Directors Remuneration Policy must also guarantee that the entity is able to evaluate the achievement of the objectives, criteria and metrics established for the previous year for the remuneration accrued by directors, especially executive directors, in that year. All this must be carried out sufficiently in advance and before the data of publication of the Annual Report on Director Remuneration so that it contains all the necessary information and disclosures.*

Lastly, best techniques outlined in the next text include the elimination of limits to the payment of variable remuneration exclusively in cash, allowing for the possibility of analysing in forthcoming periods another payment scheme such as delivery of shares, subject in any event to resolutions adopted by the General Shareholders' Meeting.

All this must be in accordance with the Endesa director remuneration systems defined in article 41 of the Company's Bylaws, which states that Executive Director remuneration may also include the delivery of shares, and that the remuneration of directors as such comprising a fixed monthly salary and allowances for attending each meeting of the Company's governing bodies and its committees, and that the Board is responsible for establishing the exact amount payable each year, within the limit established by the General Shareholders' Meeting, and distributing this amount among these items and the directors in the manner, time and proportion as freely determined, taking into account the functions and responsibilities entrusted to each Director, whether they belong to any of the Board's Committees and all other relevant objective circumstances.

The Remuneration Policy is aimed at promoting the Company's long-term profitability and sustainability as well as at including the necessary precautions to prevent excessive assumption of risk and rewarding unfavourable results.

In accordance with Article 217.4 of the Corporate Enterprises Act, which states that Directors' remuneration shall in all cases be reasonably proportional to the Company's relevance, economic situation from time to time and market standards for comparable companies, Directors' remuneration shall be regularly revised or updated.

Furthermore, in developing and proposing amendments to the remuneration scheme in force from time to time, the Board, following a report or proposal from the Appointments and Remuneration Committee, shall ensure that remuneration is based on the principles of balance, relationship to effective dedication and alignment with the long-term strategies and interests of Endesa and its shareholders. This remuneration is aimed at attracting, retaining and motivating people with the adequate qualifications to perform the duties inherent in the office of Director of a Company with the characteristics and traits of a company such as Endesa, taking into account the duties, best remuneration practices and comparative analysis conclusions reached by specialized external advisors and the results of the Company.

Moreover, the Appointments and Remuneration Committee, supported internally by senior members of the Human Resources, Strategy, Economic and Finance and Sustainability Divisions, as well as the Committee Secretary, shall review each year whether Endesa's Directors Remuneration Policy for 2019-2021 must be revised to ensure that it is aligned with the Company's situation and strategy and market conditions and to assess whether it contributes to long-term value creation and adequate risk control and management.

The Directors Remuneration Policy covers the following aspects:

- a) It is aligned with the remuneration scheme provided for in the Bylaws.
- b) It provides for a flexible remuneration structure that does not condition or limit the Board of Directors' ability to adapt its structure and composition to the Company's needs at any given time, even if the decision is made regarding whether the Chairman should be an Executive or Non-executive Director.

- c) It helps attract talent by establishing a clear regulation of limits to the remuneration of Executive Directors who may join the Board in future.
- d) It establishes remuneration for Executive Directors based on objective criteria related to their individual performance and the achievement of the Company's business objectives.
- e) The remuneration structure for Executive Directors and senior management guarantees an adequate mix between fixed remuneration, ordinary variable remuneration and long-term variable remuneration.
- f) Variable remuneration components are linked to the attainment of specific and measurable objectives that are in line with the Company's interests, are consistent with the Company's circumstances and strategy, and consider their real impact on the Company's sustainable and long-term performance.
- g) The variable remuneration established for Executive Directors is covered by clauses enabling the deferment of payments until effective attainment of targets can be verified. In any event, the Appointments and Remuneration Committee shall verify each year whether the circumstances are such that these clauses apply.
- h) Short- and long-term variable remuneration is covered by a clawback arrangement that requires the Director to return any variable remuneration received where, following payment of the incentive, it is found that the data used for such payment was clearly erroneous.
- i) The Executive Directors may be beneficiaries of a Supplemental Social Welfare System to cover the contingencies of retirement, disability and death.
- j) In accordance with Recommendation 64 of the Corporate Governance Code for listed companies, approved in February 2015, a maximum limit of two years of the total annual remuneration accrued shall be established for payments for termination of contracts with newly hired Senior Officers of the Company or its Group; as well as with all Executive Directors.
- k) Non-Executive Directors receive only the remuneration required to compensate for their dedication, without compromising their independence.
- l) The Remuneration policy is revised periodically on the basis of the conclusions from the comparative analyses completed by external specialised consultants, the annual remuneration reports for listed companies as published by the CNMV and the guidelines provided by institutional investors and proxy advisors.

If approved by the General Shareholders' Meeting, the new Policy will become effective from 1 January 2019 and remain valid, in any event, until the approval of the Directors Remuneration Policy for 2022-2024.

Any amendment or substitution of the Directors Remuneration Policy during said term shall require the prior approval of the General Shareholders' Meeting in accordance with current laws in force.

Based on all of the above, the Appointments and Remuneration Committee has concluded that the Directors Remuneration Policy is in line with applicable

regulations, recommendations, the regulatory environment and best practices, following all good governance and transparency criteria, is consistent with the Company's circumstances and, ultimately, enables the Company to have an adequate remuneration policy in line with the interests of the shareholders and providing for prudent risk management.

In this regard, PricewaterhouseCoopers states as a conclusion of its analysis that, in general, Endesa's practices are in line with the market and expert recommendations. For this purpose, it states that:

- ✓ The Policy's remuneration structure presents an appropriate balance between the various short- and long-term fixed and variable components as established by proxy advisors and market practice.
- ✓ The indicators used to determine variable remuneration reflect the Company's overall performance and not strictly financial, and are linked to the creation of long-term shareholder value.
- ✓ Specifically, the remuneration of the Non-executive Chairman defined in the Remuneration Policy is in line with standard market practice of companies with a similar market capitalisation.

Consequently, the Appointments and Remuneration Committee hereby issues this report justifying the Policy to, if approved by the Board of Directors, be presented together with the Directors Remuneration Policy to the Annual General Shareholders' Meeting, scheduled to be held on 12 April 2019.