

Appointments and Compensation Committee Report to Endesa's Board of Directors on the proposed resolution for approval of the 2016-2018 Director's Compensation Policy

DATOS IDENTIFICATIVOS DEL EMISOR

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endesa



Appointments and Compensation Committee Report to Endesa's Board of Directors, in compliance with Article 529 *novodecies* of the Spanish Capital Corporations Law, on the proposed resolution for approval of the 2016-2018 Directors' Compensation Policy

February 22, 2016

I. Introduction:

This Report has been drafted by the Appointments and Compensation Committee of the Board of Directors of Endesa, in accordance with Article 529 *novodecies* of the Spanish Capital Corporations Law (*Ley de Sociedades de Capital* - LSC), establishing the requirement that the Directors' Compensation Policy be approved by the General Shareholders' Meeting at least every three years and that the Board of Directors' proposal of the Compensation Policy shall be justified and accompanied by a specific report from the Appointments and Compensation Committee.

In this regard, the purpose of the report is to explain the criteria adopted by the Committee in developing the Directors' Compensation Policy, which shall be submitted, as a separate agenda item, for the binding approval of the Annual General Shareholders' Meeting, which will be held on April 26, 2016.

Furthermore and in accordance with Article 541 of the Spanish Capital Corporations Law, upon the proposal of the Board of Directors, the Annual Report on Director Compensation for fiscal year 2016, which shall include an overall summary of the application of the Compensation Policy in fiscal year 2015, shall be submitted to the General Shareholders' Meeting, as a separate agenda item, on a consultative basis.

II. Appointments and Compensation Committee: composition and duties relating to the compensation of Directors

Composition:

The Appointments and Compensation Committee is comprised of a majority of Independent Directors, which ensures autonomy and freedom of judgment in the exercise of their duties related to making proposals and providing support and reporting on key decisions regarding the Company's corporate governance. 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 Compensation Committee is comprised of six Non-Executive Directors, five of which are Independent Directors.

Appointments and Compensation Committee			
Position	Members	Appointment Date	Nature
Chairman	D/ Alejandro Echevarría Busquet	24/09/2012	External/Independent
Member	Alberto de Paoli	04/11/2014	External/Shareholder-Appointed
Member	Miquel Roca Junyent	30/06/2009	External/Independent
Member	/ Helena Revoredo Delvecchio	04/11/2014	External/Independent
Member	Francisco de Lacerda	07/05/2015	External/Independent
Member	D/ Ignacio Garralda Ruíz de Velasco	07/05/2015	External/Independent
Secretary	Borja Acha Besga	01/08/2015	

Duties related to Director Compensation:

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

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

- To propose the adoption of compensation schemes for Senior Management that take into account the profits of the companies. Likewise, it shall apprise itself of and assess the Company's policy on executive positions, particularly in the areas of training, promotion and selection.
- To ensure that any potential conflicts of interest do not threaten the independence of any external advising provided to the Appointments and Compensation Committee.
- To propose the Directors' Compensation Policy to the Board of Directors, as well as individual compensation and other contract terms for Executive Directors, ensuring compliance therewith.
- To verify information regarding compensation of Directors and Senior Executives provided in various corporate documents, including the annual report on director compensation.

III. Description and justification of the Directors' Compensation Policy proposed to the General Shareholders' Meeting

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

In accordance with Article 217.4 of the Spanish Capital Corporations Law, which states that Director compensation shall in all cases be reasonably proportional to the Company's relevance, economic situation from time to time and market standards for comparable companies, Director compensation shall be regularly revised or updated.

Furthermore, in developing and proposing amendments to the compensation scheme in force from time to time, the Board, following a report or proposal from the Appointments and Compensation Committee, shall ensure that compensation 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. Said compensation 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 compensation practices and comparative analysis conclusions reached by specialized external advisors and the Company.

The Directors' Compensation Policy covers the following aspects:

- a) It is aligned with the compensation scheme provided for in the Bylaws. The Board of Directors shall submit to the next General Shareholders' Meeting for approval any amendments to Bylaw provisions related to compensation of Executive Directors, before submitting the current Compensation Policy, in order to incorporate compensation linked to share value in the Director Compensation Scheme.

In this regard, it must be noted that compensation linked to share value has been included in the long-term variable compensation scheme for Executive Directors.

- b) As regards Executive Directors, Endesa's Compensation Policy establishes compensation based on objective criteria related to the individual performance of the Executive Directors and the attainment of the Company's business objectives.
- c) The compensation structure for Executive Directors and senior management guarantees an adequate mix between fixed compensation, ordinary variable compensation and long-term variable compensation.
- d) Variable compensation components are linked to the attainment of specific and quantifiable objectives that are in line with the Company's interests.
- e) The variable compensation attributed to Executive Directors is covered by clauses enabling payments to be deferred long enough to confirm that the objectives have been met.
- f) Short and long-term variable compensation is covered by a clawback clause that requires the Director to return any variable compensation received where following payment of the incentive it is found that the data used for such payment was clearly erroneous.
- g) In accordance with Recommendation 64 of the Corporate Governance Code for listed companies, approved in February 2015, a maximum limit of two years of total annual compensation 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.
- h) Non-Executive Directors receive only that compensation which is required to compensate for their dedication, without compromising their independence.
- i) The Compensation Policy is revised annually on the basis of the conclusions from the comparative analyses completed by external specialized consultants, the annual compensation reports for listed companies as published by the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores - CNMV*) and the guidelines provided by institutional investors and proxy advisors.

In this regard, in December 2015, the Appointments and Compensation Committee analyzed the Endesa Directors' Compensation Policy based on an in-depth study of the Annual Report on Compensation of Directors of Listed Companies for fiscal year 2014, issued by the CNMV, and other annual compensation reports from comparable companies.

The criteria used to properly define the relevant market for the analyses carried out include: geographic area (companies headquartered in Spain), sector (energy sector) and size factors (capital stock and IBEX 35 listed companies).

The study took into account, in particular, the new competencies of the Audit and Compliance Committee and the Appointments and Compensation Committee, the duties performed by the Coordinating Director under Law 31/2014, amending the Spanish Capital Corporations Law with a view to improving corporate governance, and the new Corporate Governance Code for listed companies from February 2015.

As a result of this analysis and the fact that these new duties require more dedication and responsibility by some Non-Executive Directors, the Committee submitted a proposal to the Board of Directors on January 25, 2016 for approval of a fixed monthly salary for the positions of Chairman of the Audit and Compliance Committee and Chairman of the Appointments and Compensation Committee in the amount of 1,000 euros (gross) per month and a fixed monthly salary, in the amount of 2,083 euros (gross) per month, for the Director acting as the Coordinating Director.

The Board of Directors met on February 22, 2016, at the proposal of the Appointments and Compensation Committee, and resolved to update the annual compensation of the Chief Executive Officer, Mr. José Damián Bogas Gálvez, increasing total compensation by 3.9%. This increase is subject to the approval by the upcoming General Shareholders' Meeting of the Company's Compensation Policy.

Finally, it should be noted that this Directors' Compensation Policy is proposed for a term of three years (i.e. fiscal years 2016, 2017 y 2018). Any amendment or substitution of the 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 Compensation Committee has concluded that the Compensation Policy is in line with applicable regulations, recommendations, the regulatory environment and best practices, following all good governance and transparency criteria, and which ultimately enables the Company to have an adequate compensation policy in line with the interests of the shareholders and providing for prudent risk management.

Consequently, the Appointments Committee hereby issues this justifying report for its presentation with the proposal of the Board of Directors Compensation Policy to the next General Shareholders' Meeting, which will be held on April 26, 2016.