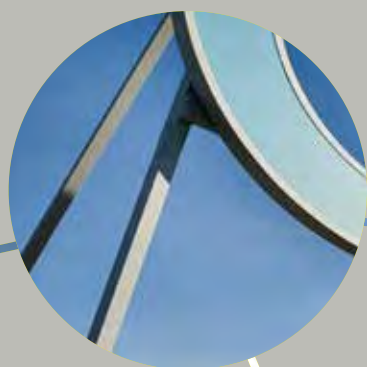


**2016 Annual Report**  
Annual Corporate  
Governance Report  
for listed companies



**Issuer's Particulars**

**End Of Relative Financial Year:** 31/12/2016  
**Company Tax ID :** A-28023430  
**Corporate Name:** ENDESA, S.A.  
**Registered Office:** c/ Ribera del Loira, 60. 28042 Madrid

**endesa**





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# A. Ownership Structure

## A.1. Complete the following table on the Company's share capital:

Date of last modification	Share capital (Euros)	Number of shares	Number of voting rights
01/10/1999	1,270,502,540.40	1,058,752,117	1,058,752,117

## Indicate whether different types of shares exist with different associated rights.

No

## A.2. List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
Enel, S.p.A.	0	742,195,713	70.10%

Name or corporate name of indirect shareholder	Through: Name or corporate name of direct shareholder	Number of voting rights
Enel, S.p.A.	Enel Iberoamérica, S.L.U.	742,195,713

## Indicate the most significant movements in the shareholder structure during the year.

## A.3. Complete the following tables on company directors holding voting rights through company shares:

Name or corporate name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
Ignacio Garralda Ruiz de Velasco	0	30,471	0.00%
José Damián Bogas Gálvez	2,374	0	0.00%
Alejandro Echevarría Busquet	200	0	0.00%
Helena Revoredo Delvecchio	332	0	0.00%

Name or corporate name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
Miquel Roca Junyent	363	0	0.00%
Borja Prado Eulate	15,960	0	0.00%
Francisco de Lacerda	0	0	0.00%
Francesco Starace	10	0	0.00%
Enrico Viale	2,500	0	0.00%
Livio Gallo	2,500	0	0.00%
Alberto de Paoli	10	0	0.00%

Name or corporate name of indirect shareholder	Through: Name or corporate name of direct shareholder	Number of voting rights
Ignacio Garralda Ruiz de Velasco	Manila Inversiones Globales Sicav, S.A.	30,471

% of total voting rights held by directors 0.00%

## Complete the following tables on share options held by directors of the company holding rights to company shares.

## A.4. Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

Related party name or corporate name	Type of relationship	Brief Description
Enel Iberoamérica, S.L.U. Enel, S.p.A.	Corporate	Enel, S.p.A., owner of 100% of Enel Iberoamérica, S.L.U.

## A.5. Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities.

Related party name or corporate name	Type of relationship	Brief Description
ENDESA Ingeniería, S.L.U. Enel Sole, S.R.L.	Corporate	ENDESA Ingeniería, S.L.U. (ENDESA Group subsidiary) and Enel Sole, S.r.L. (Enel Group subsidiary) hold a 50% stake in the following joint ventures: Mérida, Abarán, Rincón de la Victoria, Bolullos, Castro del Río, Muro de Alcoy, Fuente Álamo, Mora de Ebro, Los Alcázares, Vélez Rubio, Écija, Almodóvar del Río and Manacor. ENDESA Ingeniería, S.L.U. (10%), ENDESA Energía, S.A.U. (25%) (ENDESA Group subsidiary) and Enel Sole, S.r.L. (25%) (Enel Group subsidiary) hold stakes in the Móstoles temporary joint venture.

Related party name or corporate name	Type of relationship	Breve descripción
ENDESA Generación, S.A.U. Enel, S.p.A.	Corporate	ENDESA Generación, S.A.U. (an ENDESA Group subsidiary) and Enel S.p.A. hold 40.99% and 4.32% stakes respectively in the share capital of Elcogas, S.A.

**A.6. Indicate whether the company has been notified of any shareholders' agreements pursuant to Articles 530 and 531 of the Spanish Corporate Enterprises Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement.**

No

**Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:**

No

**Expressly indicate any amendments to or termination of such agreements or concerted actions during the year.**

—

**A.7. Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company pursuant to Article 4 of the Securities' Market Act. If so, identify:**

Yes

Name or corporate name	Remarks
Enel Iberoamérica, S.L.U.	Enel, S.P.A. is the sole shareholder of Enel Iberoamérica.

**A.8. Complete the following tables on the company's treasury shares:**

**At year-end:**

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
0	0	0.00%

**(\*) Through:**

**Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007.**

**Explain the significant changes.**

**A.9. Give details of the applicable conditions and time periods governing any resolutions of General Shareholders' Meeting to issue, buy back or transfer treasury stock.**

At the Ordinary General Meeting of 27 April 2015, shareholders authorised the Company and its subsidiaries to acquire treasury shares pursuant to the provisions of Article 146 of Spain's Corporate Enterprises Act.

I. To revoke and make void, as to the unused portion, the authorisation for the derivative acquisition of treasury shares, granted by the Ordinary General Shareholders' Meeting held on 21 June 2010.

II. To reauthorise the derivative acquisition of treasury shares, as well as the pre-emptive rights of first refusal in respect thereto, pursuant to Article 146 of Spain's Corporate Enterprises Act under the following conditions:

a) Acquisitions may be made via any legally accepted method, directly by ENDESA, S.A., by its Group companies or by proxy, up to the maximum legal limit.

b) Acquisitions shall be made at a minimum price per share of its par value and a maximum equal to their trading value plus an additional 5%.

c) The duration of this authorisation shall be 5 years.

d) As a consequence of the acquisition of shares, including those purchased previously and held at the time of the acquisition by the company or persons acting on their own behalf but in its stead, the resulting net equity shall not be reduced to below the sum of the share capital plus the restricted reserves established by law or the bylaws, all in accordance with the provisions of Article 146.1 b) of Spain's Corporate Enterprises Act.

The authorisation also includes the acquisition of shares which, as the case may be, must be delivered directly to the employees and Directors of the Company or its subsidiaries, as a consequence of the exercise of stock option rights held thereby.

**A.9.bis. Estimated floating capital:**

	%
Estimated floating capital	29.90

**A.10. Indicate, as applicable, any restrictions on the transfer of shares and/or the exercise of voting rights. In particular, indicate any restrictions that could prevent a party from taking control of the company by acquiring its shares on the market.**

No

**A.11. Indicate whether the General Shareholders' Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Law 6/2007.**

No

**If applicable, explain the measures adopted and the terms under which these restrictions may be lifted.**

**A.12. Indique si la sociedad ha emitido valores que no se negocian en un mercado regulado comunitario.**

No

**Indicate whether the company has issued shares that are not traded on a regulated EU market.**

# B. General Shareholders' Meeting

**B.1. Indicate the quorum required for constitution of the general shareholders' meeting. Describe how it differs from the system of minimum quorums established in the Spanish Corporate Enterprises Act (LSC).**

No

**B.2. Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC.**

No

**Describe how they differ from the rules established under the LSC.**

**B.3. Indicate the rules for modifying the company's by-laws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.**

Pursuant to Article 26 of the Bylaws, in order for the Ordinary or Extraordinary Shareholders' Meeting to validly agree on the amendment to the Corporate Bylaws, on first call shareholders representing at least 50% of the subscribed capital with voting rights must be present. On second call, 25% of the capital must be represented.

**B.4. Indicate the attendance figures for the general shareholders' meetings held during the year and the preceding year.**

**B.5. Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the General Shareholders' Meetings.**

No

**B.6. Section revoked.**

**B.7. Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.**

The Company's website is [www.endesa.com](http://www.endesa.com).

The website's home page provides access to content on:

- > Corporate Governance via Investors-Corporate Governance.
- > To access information on the General Shareholders' Meetings, a direct banner link is posted on the home page from the time the meeting is called until it is held. Once the meeting has been held, the information can be accessed through two channels:
  - Investors-Corporate Governance-Shareholders' Meetings
  - Investors-Shareholders-Shareholders' Meetings

Date of general meeting	% attending in person	% by proxy	Attendance data		Total
			% remote voting		
			Electronic means	Other	
27/04/2015	70.17%	13.09%	0.00%	1.53%	84.79%
26/04/2016	70.13%	14.45%	0.00%	1.77%	86.35%

# C. Company Management Structure

## C.1. Board of Directors

### C.1.1. List the maximum and minimum number of directors included in the bylaws.

Maximum number of directors	15
Minimum number of directors	9

### C.1.2. Complete the following table with Board members' details.

Name or corporate name of director	Representative	Director category	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Ignacio Garralda Ruiz de Velasco		Independent	Director	27/04/2015	27/04/2015	Resolution of the General Shareholders' Meeting
José Damián Bogas Gálvez		Executive	Chief Executive Officer	07/10/2014	21/10/2014	Resolution of the General Shareholders' Meeting
Alejandro Echevarría Busquet		Independent	Director	25/06/2009	22/04/2013	Resolution of the General Shareholders' Meeting
D.ª Helena Revoredo Delvecchio		Independent	Director	04/11/2014	27/04/2015	Resolution of the General Shareholders' Meeting
Miquel Roca Junyent		Independent	Director	25/06/2009	22/04/2013	Resolution of the General Shareholders' Meeting
Borja Prado Eulate		Executive	Chairman	20/06/2007	27/04/2015	Resolution of the General Shareholders' Meeting
Francisco de Lacerda		Independent	Director	27/04/2015	27/04/2015	Resolution of the General Shareholders' Meeting
Francesco Starace		Proprietary	Vice Chairman	16/06/2014	21/10/2014	Resolution of the General Shareholders' Meeting
Enrico Viale		Proprietary	Director	21/10/2014	21/10/2014	Resolution of the General Shareholders' Meeting
Livio Gallo		Proprietary	Director	21/10/2014	21/10/2014	Resolution of the General Shareholders' Meeting
Alberto de Paoli		Dominical Proprietary	Director	04/11/2014	27/04/2015	Resolution of the General Shareholders' Meeting
<b>Total number of Directors</b>						<b>11</b>

Indicate any board members who left during this period.

### C.1.3. Complete the following tables on Board members and their respective categories.

#### Executive Directors

Name or corporate name of director	Post held in the company	
José Damián Bogas Gálvez	Chief Executive Officer	
Borja Prado Eulate	Chairman	
<b>Total number of executive directors</b>		<b>2</b>
<b>% of the board</b>		<b>18,18%</b>



## External Proprietary Directors

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment
Francesco Starace	Enel, S.p.A.
Enrico Viale	Enel, S.p.A.
Livio Gallo	Enel, S.p.A.
Alberto de Paoli	Enel, S.p.A.
<b>Total number of proprietary directors</b>	<b>4</b>
<b>% of the board</b>	<b>36.36%</b>

## Independent External Directors

Name or corporate name of director:	Profile
Ignacio Garralda Ruiz de Velasco	Born in Madrid in 1951. Holds a degree in Law from the Complutense University of Madrid, Chartered Trade Broker and Stock and Exchange Broker. Chairman and CEO of Mutua Madrileña, First Vice Chairman of Bolsas y Mercados Españoles (BME).
Alejandro Echevarría Busquet	Born in Bilbao in 1942. Holds a degree in Business Administration from the University of Deusto. Chairman of Mediaset España Comunicación, S.A.
Helena Revoredo Delvecchio	Born in Rosario (Argentina) in 1947. Holds a degree in Business Management and Administration from the Catholic University of Buenos Aires and PADE (Business Senior Management Programme) from the IESE Business School. Chairman of Prosegur Compañía de Seguridad, S.A., Chairman of the Prosegur Foundation.
Miquel Roca Junyent	Born in Cauderan (France) in 1940. Holds a degree in Law from the University of Barcelona and an honorary doctorate from the UNED (Distance Learning University) León, Girona and Cádiz. Chairman and Partner of the Roca Junyent Law Firm, Ombudsman for Catalana Occidente.
Francisco de Lacerda	Born in Lisbon in 1960. Holds a degree in Business Administration from the Catholic University of Portugal. President & CEO of CTT-Correos de Portugal (privatised in 2013, listed on the Lisbon stock exchange), Chairman of Banco CTT, Chairman of Cotec Portugal.
<b>Total number of independent directors</b>	<b>5</b>
<b>% of the board</b>	<b>45.45%</b>

**List any independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder,**

**director or senior manager of an entity which maintains or has maintained the said relationship.**

Helena Revoredo Delvecchio is Chairman of Prosegur, and has been an independent director of ENDESA since 4 November 2014.

Helena Revoredo performs her functions as an independent director of ENDESA, S.A. without prejudice to the commercial relationship between Prosegur and ENDESA and the investees thereof.

In 2016 the Prosegur Group drew up two security and vigilance contracts with the ENDESA Group to guard ENDESA facilities in Spain. The services were awarded by the ENDESA Board following the results of tender processes, with no involvement by Helena Revoredo as director, pursuant to the legislation applicable to conflicts of interests. The two contracts were approved for a period of three years, for an approximate annual amount of Euros 1.1 million and Euros 1.4 million respectively.

In any case, the following must be pointed out in relation to these transactions: it was an ordinary service; the service was provided on an arm's length basis, as accredited by the external consultant's report issued in this regard; and, pursuant to international criteria in connection with good corporate governance practices, the amount is not significant or material, since the sums are well below 1% of the earnings or turnover of both companies.

**If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.**

## Other External Directors

**The other external directors shall be identified and the reasons listed why they cannot be considered proprietary or independent directors and details shall be given of their relationships with the company, its executives or shareholders:**

**List any changes in the category of each director which have occurred during the year:**

**C.1.4. Complete the following table on the number of female directors over the past 4 years and their category:**

	Number of female directors				% of total directors of each type			
	2016	2015	2014	2013	2016	2015	2014	2013
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	1	1	1	0	20.00%	20.00%	33.33%	0.00%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	1	1	1	0	9.09%	9.09%	11.11%	0.00%

**C.1.5. Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.**

**Explanation of measures**

On 10 November 2015 the Board of Directors approved a specific and attestable Policy for selecting directors, focusing on the integration of different management and professional skills and experience (including those that are specific to the businesses performed by the Company, financial and economical, and legal), and also promoting, insofar as possible, diversity of age and gender.

Particularly, with regard to gender diversity, the Company's Policy for selecting directors establishes the objective of the number of female directors representing at least 30% of the total members of the Board of Directors by 2020.

**C.1.6. Explain the measures taken, if applicable, by the appointments committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile.**

**Explanation of measures**

ENDESA is convinced that diversity in all of its facets, at all levels of its professional team, is an essential factor for ensuring the Company's competitiveness and a key feature of its corporate governance strategy.

Therefore, it ensures equal opportunities and fair treatment in people management at all levels, maximising the value contribution of those elements that differentiate people (gender, culture, age, capacities, etc.), promoting the participation and development of women in the organisation, especially in leadership positions and, in particular, on the Board of Directors.

In this regard, the policy for selecting directors shall promote the objective of the number of female directors representing at least 30% of the total members of the Board of Directors by 2020.

Selection process:

The Appointments and Remuneration Committee shall base its proposals for appointing, ratifying or re-electing on the result of an objective, attestable and transparent selection process, which shall start with a preliminary analysis of the Board of Directors' requirements, taking the integration of different management and professional experiences and skills as the objective, and promoting diversity of knowledge, experience and gender, considering the weight of the different activities performed by ENDESA and taking into account those areas or sectors that must be the object of specific promotion.

In the analysis of the candidatures, the Appointments and Remuneration Committee, taking the Board's requirements into account, shall value the following features:

- i) the candidates' professional and technical skills;

- ii) the candidates' management experience, also taking account of the context in which ENDESA operates;
- iii) the commitment required for performing the role, also assessing the roles already performed by the candidates at other companies;
- iv) the possible existence of conflicts of interest;
- v) the significance of possible professional, financial or commercial relationships, existing or maintained recently, directly or indirectly, of candidates with the Company or with other Group companies; and also
- vi) possible proceedings pending against the candidates, and also any criminal sentences or administrative penalties that the authorities may have imposed on them.

In the case of candidates for independent directorships, the Appointments and Remuneration Committee shall especially verify compliance with the requirements for independence established by Law.

In any case, proposals for the appointment, ratification or re-election of Directors made to the Board shall be made with regard to renowned persons who have the relevant experience and professional knowledge to perform their duties and who undertake a commitment of sufficient dedication to perform the tasks concerned.

**When, despite the measures taken, there are few or no female directors, explain the reasons:**

**Explanation of reasons**

This situation is exclusively due to chance, without any predetermined reasons or intention.

**C.1.6.bis. Explain the conclusions of the appointments committee on the verification of compliance with the policy for selecting directors. And, in particular, on how this policy is promoting the objective of the number of female directors representing at least 30% of the total number of members of the Board of Directors by 2020.**

**Explanation of conclusions**

At a meeting on 19 December 2016 the Appointments and Remuneration Committee unanimously concluded, in connection with verification of compliance with the policy for selecting Board candidates, as follows:

- > There were no directorship selection processes in 2016.
- > The current composition of the Board of Directors, in terms of numbers of members, structure and the professional experience and skills of its members, is felt to be appropriate to the needs of the Company and in accordance with best corporate governance practices.
- > With respect to promotion of diversity, and specifically with respect to diversity of gender, for the purposes of complying with the objective of the number of female directors representing at least 30% of the total members of the Board of Directors by 2020, this Committee continues to require that women with the desired professional profiles be included among the potential candidates in selection processes.

**C.1.7. Explain how shareholders with significant holdings are represented on the board.**

70.101% of ENDESA's share capital is owned by a single shareholder, the Italian company Enel Iberoamérica, S.R.L. The Italian company Enel, S.p.A holds 100% of the shares (and the voting rights) of Enel Iberoamérica, S.R.L.

The Board of Directors of ENDESA, S.A. comprises eleven members: five independent directors, four proprietary directors (representatives of Enel, S.p.A.), and two executive directors (Chairman and Chief Executive Officer), who were appointed to their posts with Enel, S.p.A. as the controlling shareholder.

**C.1.8. Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital:**

**Provide details of any rejections of formal requests for board representation from shareholders whose equity**

interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

No

**C.1.9. Indicate whether any Director has resigned from office before their term of office has expired, whether that Director has given the Board his/her reasons and through which channel. If made in writing to the whole Board, list below the reasons given by that Director:**

**C.1.10. Indicate which powers, if any, have been delegated to the Chief Executive Officer(s):**

**Name or corporate name of director:**

José Damián Bogas Gálvez

**Brief Description:**

Since 7 October 2014, the Board of Directors has delegated all powers of the Board that could be delegated legally and as per the bylaws to the Chief Executive Officer.

The Chief Executive Officer of ENDESA, S.A., José Damián Bogas Gálvez, shall exercise all powers delegated to him jointly with the Executive Committee of the Board of Directors, as applicable.

**C.1.11. List the Directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:**

Name or corporate name of director	Corporate name of the group company	Position	Do they have executive duties?
José Damián Bogas Gálvez	ENDESA Generación II	Joint director	No

**C1.12. List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets, insofar as these have been disclosed to the company:**

Name or corporate name of director	Corporate name of the group company	Position
Ignacio Garralda Ruiz de Velasco	Faes Farma, S.A.	Director
Ignacio Garralda Ruiz de Velasco	Bolsas y Mercados Españoles Sociedad Holding de Mercados y Sistemas Financieros, S.A.	Vice Chairman
Alejandro Echevarría Busquet	Mediaset España Comunicación, S.A.	Chairman
Helena Revoredo Delvecchio	Banco Popular Español, S.A.	Director
Helena Revoredo Delvecchio	Prosegur Compañía de Seguridad, S.A.	Chairman
Helena Revoredo Delvecchio	Mediaset España Comunicación, S.A.	Director
Miquel Roca Junyent	ACS, S.A.	Director
Borja Prado Eulate	Mediaset España Comunicación, S.A.	Director
Francisco de Lacerda	CTT Correos de Portugal	Chairman

**C.1.13. Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit.**

Yes

**Explanation of rules**

Article 10 of the ENDESA Bylaws establishes Incompatibilities for Directors and stipulates that any individual sitting on more than four boards of directors of listed companies, or eight organisations in total (including listed and unlisted companies), may not be appointed as a Director of the Company, considering that membership on various boards of directors for companies within the same group shall, for these purposes, count as one board for each group of companies. In addition, for these purposes, any board of directors on which the director sits shall not count when the board is that of a company that may submit abbreviated balance sheets and statements of changes in net equity or which is a holding company or a mere financial vehicle corporation.

**C1.14. Section revoked.**

**C1.15. List the total remuneration paid to the board of directors in the year:**

Remuneration paid to the board of directors (thousands of Euros)	6,260
Amount of total remuneration accumulated by current directors corresponding to pension rights (thousands of Euros)	11,741
Amount of total remuneration accumulated by former directors corresponding to pension rights (thousands of Euros)	3,287

**C1.16. List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year:**

Name or corporate name	Position
Francisco Borja Acha Besga	General Secretary and Secretary of the Board Of Directors
Javier Uriarte Monereo	General Manager Marketing
Pablo Azcoitia Lorente	General Manager Procurement
María Malaxechevarría Grande	General Manager Sustainability
José M.ª Grávalos Lasuen	General Manager Nuclear
Álvaro Quiralte Abelló	General Manager Energy Management
José Luis Puche Castillejo	General Manager Resources
Alberto Fernández Torres	General Manager Communication
Manuel Marín Guzmán	General Manager ICT
José Casas Marín	General Manager Institutions and Regulation
Enrique Durand Baquerizo	General Manager Audit
Manuel Morán Casero	General Manager Generation
Paolo Bondi	General Manager Administration, Finance and Control
Andrea Lo Faso	General Manager HR and Organisation
Francesco Amadei	General Manager Infrastructure And Networks
Luca Minzolini	General Manager Audit
Juan María Moreno Mellado	General Manager Nuclear
Enrique de las Morenas Moneo	General Manager Renewable Energies
<b>Total remuneration received by senior management (thousands of Euros)</b>	<b>12,934</b>

**C1.17. List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:**

Name or corporate name of director	Corporate name of significant shareholder	Position
José Damián Bogas Gálvez	Enel Iberoamérica, S.L.U.	Director
Borja Prado Eulate	Enel Iberoamérica, S.L.U.	Director
Francesco Starace	Enel, S.p.A.	Chief Executive Officer
Francesco Starace	Enel Iberoamérica, S.L.U.	Chairman
Enrico Viale	CESI	Director
Enrico Viale	Enel Américas, S.A.	Director
Livio Gallo	Enel Américas, S.A.	Director
Alberto de Paoli	Enel Italia	Director
Alberto de Paoli	Enel Green Power, S.p.A.	Chairman

**List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies.**

Name or corporate name of linked director	Name or corporate name of significant linked shareholder	Description of relationship
Enrico Viale	Enel, S.p.A.	General Manager - Generation
Livio Gallo	Enel, S.p.A.	General Manager - Infrastructure and Global Networks
Alberto de Paoli	Enel, S.p.A.	General Manager - Administration, Finance and Control

**C.1.18. Indicate whether any changes have been made to the regulations of the Board of Directors during the year:**

No

**C1.19. Indicate the procedures for appointing, re-electing, evaluating and removing directors. List the competent bodies, procedures and criteria used for each of these procedures.**

*Selection:*

The functions of the Appointments and Remuneration Committee also include an evaluation of the competences, knowledge and experience necessary on the Board. For these purposes, it shall define the functions and aptitudes necessary for candidates to fill each vacancy, and shall evaluate the time and dedication required for them to carry out their functions properly, specifically ensuring that non-executive directors have sufficient time available to carry out their duties after the proper fashion, submitting proposals for the appointment of independent directors and notifying the appointments of other directors.

The Appointments and Remuneration Committee shall base its proposals for appointments on the outcome of an objective, verifiable and transparent selection process, which shall commence with a preliminary analysis of the requirements of the Board, aiming to secure different professional experience, skills and managerial experience, and promote diversity of knowledge, experience and gender, in due consideration of the proportion of the various areas of business

carried on by ENDESA and of any areas or sectors that must be specifically catered for.

In any case, proposals for the appointment, ratification or re-election of Directors made to the Board shall be made with regard to renowned persons who have the relevant experience and professional knowledge to perform their duties and who undertake a commitment of sufficient dedication to perform the tasks concerned.

For the purposes of selecting Board candidates, the Appointments and Remuneration Committee may engage the services of one or more external consultancy firms specialising in the location and selection of candidates, in a bid to boost the efficiency, effectiveness and impartiality of procedures to identify such candidates.

#### *Appointment:*

The General Shareholders' Meeting shall be responsible for both the appointment and the removal of members of the Board of Directors. The Board shall appoint Directors following a report by the Appointments and Remuneration Committee in the event of vacancies arising, until the next General Shareholders' Meeting is held.

#### *Re-election:*

The term of office of Directors shall be four years, and they may be re-elected for periods of the same duration.

The proposed re-election of Directors made by the Board of Directors to the General Shareholders' Meeting shall be made at the proposal of the Appointments and Remuneration Committee, in the case of Independent Directors, and following a report by said Committee for all other types of Directors.

#### *Evaluation:*

On an annual basis the Board of Directors shall assess the quality and efficiency of the Board's operation following a report from the Appointments and Remuneration Committee; the performance of duties by the Chairman of the Board and by the Chief Executive Officer, based on the report by the Appointments and Remuneration Committee, and the operation and composition of its Committees and of the Execu-

tive Committee, as the case may be, in view of the report submitted thereto by said Committees.

The Board of Directors shall propose, based on the results of the assessment, an action plan to correct any deficiencies identified. The results shall be included in the meeting's minutes or as an attachment thereto. Every three years, the Board of Directors shall be assisted in carrying out an assessment by an independent external consultant.

#### *Removal:*

Directorships may be renounced and revoked. The term of directorships shall be four years. The General Shareholders' Meeting shall take responsibility for the "separation" of members of the Board. Prior to this, it shall also be the responsibility of the Appointments and Remuneration Committee to propose or report to the Board on the separation of Board members, depending on whether these are independent directors or other types of directors, respectively, when: their continued presence on the Board can impair the Company's credibility and reputation; they are concerned by one of the scenarios of incompatibility or are subject to a ban; or the shareholder they represent assigns its shareholding in full or reduces its stake.

### **C1.20. Explain to what extent this evaluation of the board has prompted significant changes in its internal organisation and the procedures applicable to its activities:**

#### **Description of amendments**

As a result of the annual evaluation of the operation of the Board and of its Committees in 2016, there were no changes to the internal organisation of the Board or of its Committees, or to the procedures applicable to their activities.

However, a proposal was submitted for an action plan to improve, inter alia, the following aspects:

- > To add to the information regularly provided for directors concerning stakeholders' perception of ENDESA.
- > To increase Board information sessions with members of Senior Management, in order to boost the Board's contribution to strategic planning and reflection.

**C1.20.bis. Describe the evaluation process and the areas evaluated by the Board of Directors aided, where applicable, by an external consultant, with regard to diversity in its composition and powers, the operation and composition of its committees, the performance of the Chairman of the Board and the Chief Executive Officer and the performance and contribution of each Director.**

In October 2016 an agreement was reached to commence the self-assessment process of the Board of ENDESA S.A., in due compliance with Article 529 nonies of the LSC and Recommendation 36 of the CNMV Spanish Securities Market Commission's Code of Good Governance, which states that a plenary session of the Board must conduct an annual assessment and, where applicable, adopt an action plan to correct any deficiencies detected regarding:

- > The quality and efficiency of the board's operation.
- > The performance and membership of its committees.
- > The diversity of Board membership and competences.
- > The performance of the Chairman of the Board of Directors and the company's Chief Executive.
- > The performance and contribution of individual directors, paying special attention to the Chairmen of Board committees.

The 2016 assessment was carried out without the assistance of an external consultant (the 2015 assessment was carried out with the assistance of KPMG).

The following aspects were differentiated in the assessment process:

- > Assessment and self-assessment of the Board of Directors, the Audit Committee, the Appointments and Remuneration Committee, the Chairman of the Board, the Chief Executive Officer and the Secretary of the Board of Directors by members.
- > Preparation of a report with the results of the questions asked and a summary with the aspects most positively and most negatively appraised by directors. The report

shall also include a comparison with the results obtained the previous year.

- > Improvements to be made in 2017, for the purposes of correcting any deficiencies detected.

**C.1.20.ter. List, where applicable, the business relationships that the consultant or any company in its group maintains with the company or any company in its group.**

**C1.21. Indicate the cases in which directors must resign.**

Directors must resign and tender their official resignation if they are affected by any of the scenarios established in Article 12.2 of the Board of Directors' Regulations.

In this regard, Directors must tender their resignation to the Board of Directors when their continued presence on the Board can impair the Company's credibility and reputation or they are concerned by one of the scenarios of incompatibility or are subject to a ban laid down in the law or in the Bylaws or in Board Regulations.

Additionally, independent directors must tender their resignation to the Board of Directors when just cause is found by the Board, following a report by the Appointments and Remuneration Committee; and proprietary directors must tender their resignation when the shareholders that they represent transfer their equity stake in its entirety, or reduce it. In the latter case, the corresponding number of proprietary directors shall be reduced.

Likewise, Directors shall notify the Company, via the Board Secretary, of all criminal cases and proceedings in which they are defendants, as well as all developments in said cases and proceedings (Article 12.3 of the Board of Directors' Regulations).

Finally, in the event that a Director steps down, whether due to resignation or otherwise, prior to the end of the term, the Director must explain the reasons in a letter to be sent to all Board members. Without prejudice to this departure being reported as a significant event, a report must be given on the reason for the departure in the Annual Corporate Governance Report (Article 12.4 of the Board of Directors' Regulations).

**C1.22. Section revoked.**

**C1.23. Are qualified majorities, other than those prescribed by law, required for any type of decisions?**

No

**If applicable, describe the differences.**

**C1.24. Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed chairman of the board.**

No

**C1.25. Indicate whether the Chairman has the casting vote.**

Yes

**Matters where the chairman has the casting vote**

Pursuant to the provisions of Article 47 of the Bylaws, "Resolutions shall be adopted by absolute majority of the Board Members who, present or represented, are in attendance at the meeting. In the event there is an equal number of votes, the Chairman, or whosoever substitutes the Chairman at the meeting, shall have the casting vote. The provisions of this section shall be applicable without prejudice to those resolutions for which a qualified majority of Board Members is required in accordance with these Corporate Bylaws or current laws in force."

**C1.26. Indicate whether the Bylaws or the board regulations set any age limit for directors.**

No

**C1.27. Indicate whether the Bylaws or the board regulations set a limited term of office for independent directors other than that stipulated in regulations.**

No

**C1.28. Indicate whether the Bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether any limitation has been stipulated regarding the categories that can be appointed proxy, other than any limitations imposed by law. If so, give brief details.**

Article 45 of the Company Bylaws and Article 20.2 of the Board of Directors' Regulations state that each director may grant a proxy to another member of the Board of Directors. Proxies shall be granted in writing and specifically for each Board Meeting, and no Board member may hold more than three proxies, except the Chairman, to whom this limit shall not be applicable, although he cannot represent the majority of the Board of Directors. Non-executive Directors can only delegate to another non-executive Director.

**C.1.29. Indicate the number of Board meetings held during the year. Also state how many times the board has met without the chairman in attendance. Attendance shall also include proxies appointed with specific instructions.**

Number of board meetings	12
Number of board meetings held in the absence of the chairman	0

**If the Chairman is an executive Director, indicate the number of meetings held without an executive Director present or represented and chaired by the lead Director**

Number of meetings	0
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**Indicate the number of meetings of the various board committees held during the year.**

Committee	Number of meetings
Audit and Compliance Committee	14
Appointments and Remuneration Committee	8
Executive Committee	0

**C.1.30. Indicate the number of board meetings held during the year with all members in attendance. Attendance shall also include proxies appointed with specific instructions.**

Number of meetings with all members present	10
% of attendances of the total votes cast during the year	99.86%

**C1.31. Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously.**

Yes

**Identify, where applicable, the person(s) who certified the company's individual and consolidated financial**



**statements prior to their authorisation for issue by the board.**

Name	Position
José Damián Bogas Gálvez	Chief Executive Officer
Paolo Bondi	General Manager - Administration, Finance and Control

**C1.32. Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified Audit Report.**

Prior to the Board meeting at which the financial statements are to be authorised for issue, in order to prevent the individual and consolidated financial statements thus authorised from being presented at the General Shareholders' Meeting with a qualified audit report, the auditor provides the Board of Directors with a letter setting out the main conclusions of its audit work.

**C1.33. Is the Secretary of the board also a Director?**

No

**Complete if the Secretary is not also a Director:**

Name or corporate name of the secretary	Representative
Francisco Borja Acha Besga	

**C1.34. Section revoked.**

**C1.35. Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.**

Pursuant to the provisions of Article 52 of the Bylaws, the Audit and Compliance Committee is responsible for ensuring compliance with good corporate governance and transparency of all action taken by the Company in the economic and financial area and in relation to external audits and compliance with internal audits, and to this end it is tasked with the following:

- > Relations with external auditors to establish relations with the external auditors in order to receive information on issues which may pose a threat to their independence, for examination by the Committee, and any others relating to the audit process and, where relevant, the authorisation of the services other than those prohibited, under the terms established in the applicable legislation in relation to the need for independence, and any other communications provided for in audit legislation and audit regulations.
- > Supervise the efficiency of the company's internal control system and risk management systems, and discuss with the auditor any significant weaknesses in the internal control system detected during the audit. For such purposes, and if appropriate, it may submit recommendations or proposals to the management body and the corresponding deadline for follow-up.
- > Supervise the process for preparation and presentation of mandatory financial information, and present recommendations or proposals to the management body to safeguard its integrity.
- > Make recommendations to the Board of Directors for the selection, appointment, reappointment and removal of the auditor, taking responsibility for the selection process, pursuant to the provisions of the regulations applicable, and the terms of engagement, and receive regular information from the auditor on the audit plan and the actual audit, in addition to preserving independence in the exercise of the auditor's functions.

In any case, the Audit and Compliance Committee shall also receive annually from the external auditors a statement of their independence vis-à-vis the company or entities directly or indirectly related to the company, as well as detailed individualised information on the additional services of any type provided and the corresponding fees received from these entities by the external auditor or by persons or entities related to the auditor, in accordance with the provisions of audit legislation.

Moreover, there is no relationship other than that arising from professional activities with financial analysts, investment banks and credit rating agencies.

**C1.36. Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.**

No

**Explain any disagreements with the outgoing auditor and the reasons for the same.**

**C1.37. Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group:**

Yes

	Company	Group	Total
Amount of non-audit work (in thousands of Euros)	182	0	182
Amount of non-audit work/Total amount billed by the audit firm (%)	9.93%	0.00%	5.09%

**C.1.38. Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the chairman of the audit committee to explain the content and scope of those reservations or qualifications.**

No

**C1.39. Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited.**

	Company	Group
Number of consecutive years	6	6
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	16.66%	20.69%

**C.1.40. Indicate and give details of any procedures through which directors may receive external advice:**

Yes

## Details of the procedure

Article 29 of the Board of Directors' Regulations governs the right to advice and information. The Directors, as required to perform their duties, have access to all of the Company's services and have a duty to request, and the right to gather, all information from the Company which may be appropriate or necessary in order to perform their duties, as well as any advice required in relation to any matter. The right to information extends to investees, and shall be requested by the Chairman through the Board Secretary and conveyed by the Chief Executive Officer.

Furthermore, the Board may request information on the actions of Senior Management of the Company and may ask for any explanations it deems relevant. This request shall be made by the Chairman through the Board Secretary and conveyed by the Chief Executive Officer.

The majority of the Directors and the Lead Director may also make proposals to the Board regarding the engagement, at the Company's expense, of any legal, accounting, technical, financial, commercial or other advisers they consider necessary in order to assist them in performing their duties as related to specific problems of a certain importance and complexity related to the exercise of their functions.

This proposal must be notified to the Company Chairman through the Board Secretary and conveyed by the Chief Executive Officer. The Board may refuse to approve financing for the advisory services referred to in the preceding paragraph on the grounds that they are not necessary to perform the functions entrusted, that their amount is disproportionate to the importance of the problem, or if it considers that such technical assistance could be adequately provided by Company personnel.

The Company shall establish an orientation programme which shall provide new Directors with speedy and sufficient knowledge of the Company, and of its rules of corporate governance. In addition, it shall also offer Directors knowledge recycling programmes when circumstances so advise.

**C.1.41. Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies.**

Yes

## Details of the procedure

Article 18 of the Board of Directors' Regulations stipulates that the call to meeting of the Board shall be made with the required notice, at least 48 hours before the date set for the meeting, to each of the directors and shall include the agenda, clearly identifying the items on which the Board of Directors shall make a decision or adopt a resolution so that the directors may study or gather in advance the information required to make such decisions. The minutes of the preceding meeting shall also be attached.

The Directors have a computer application for the purposes of managing the documentation of meetings of the Company's Board and of its Committees, which assists their right to information and the availability of and access to this information.

Pursuant to Board Regulations, as required to perform their duties, Directors have access to all of the Company's services and have a duty to request, and the right to gather, all information from the Company which may be appropriate or necessary in order to perform their duties, as well as any advice required in relation to any matter. The right to information extends to investees and shall be requested by the Chairman through the Board Secretary and conveyed by the Chief Executive Officer.

Furthermore, the Board may request information on the actions of Senior Management of the Company and may ask for any explanations it deems relevant. This request shall be made by the Chairman through the Board Secretary and conveyed by the Chief Executive Officer.

**C.1.42. Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's credibility or reputation, tendering their resignation as the case may be.**

Yes

## Details of rules

Directors must resign and tender their official resignation if they are affected by any of the scenarios established in Article 12.2 of the Board of Directors' Regulations.

In this regard, Directors must tender their resignation to the Board of Directors when their continued presence on the Board can impair the Company's credibility and reputation or they are concerned by one of the scenarios of incompatibility or are subject to a ban laid down in the law or in the Bylaws or in Board Regulations.

Additionally, independent directors must tender their resignation to the Board of Directors when just cause is found by the Board, following a report by the Appointments and Remuneration Committee; and proprietary directors must tender their resignation when the shareholders that they represent transfer their equity stake in its entirety, or reduce it. In the latter case, the corresponding number of proprietary directors shall be reduced. Likewise, Directors shall notify the Company, via the Board Secretary, of all criminal cases and proceedings in which they are defendants, as well as all developments in said cases and proceedings (Article 12.3 of the Board of Directors' Regulations).

Finally, in the event that a Director steps down, whether due to resignation or otherwise, prior to the end of the term, the Director must explain the reasons in a letter to be sent to all Board members. Without prejudice to this departure being reported as a significant event, a report must be given on the reason for the departure in the Annual Corporate Governance Report (Article 12.4 of the Board of Directors' Regulations).

**C.1.43. Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Spanish Corporate Enterprises Act (LSC):**

No

**Indicate whether the Board of Directors has examined the matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.**

**C.1.44. List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.**

ENDESA, S.A. has loans and other financial agreements with banks and Enel Finance International, N.V. of approximately Euros 5,250 million, with debt outstanding at 31 December 2016 in the amount of Euros 3,450 million, which might have to be repaid early in the event of a change in control at ENDESA.

Moreover, a number of ENDESA's renewables subsidiaries with project funding with an outstanding amount of Euros 178 million and derivatives associated with negative net market value of Euros 17 million might also have to be repaid early in the event of a change in control at ENDESA.

**C1.45. Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other operation.**

**Number of beneficiaries:** 25

**Type of beneficiary:**

Executive directors, senior executives and executives

**Description of resolution:**

These clauses are the same in all the contracts of the Executive Directors and senior executives of the Company and of its Group and were approved by the Board of Directors following the report of the Appointments and Remuneration Committee and provide for termination benefits in the event of termination of the employment relationship and a post-contractual non-competition clause.

With regard to management, although this type of termination clause is not the norm, the contents of cases in which it arises are similar to the scenarios of general employment relationships.

Furthermore, the Remuneration Policy stipulates that when additions are made to the Senior Management of the Company or the Group, a maximum limit of two years of total and annual remuneration shall be set for payments due to termination of contract, which is applicable in any case, in the same terms, to contracts drawn up with executive directors.

The regime for these clauses is as follows.

Termination of the employment relationship:

- > By mutual agreement: termination benefit equal to an amount between 1 and 3 times the annual remuneration, on a case-by-case basis. ENDESA's 2016-2018 Directors' Remuneration Policy stipulates that when additions are made to the Senior Management of the Company or the Group, a maximum limit of two years of total and annual remuneration shall be set for payments due to termination of contract, which is applicable in any case, in the same terms, to contracts drawn up with executive directors.
- > At the unilateral decision of the manager: no entitlement to termination benefit, unless the decision to terminate the employment relationship is based on a serious and culpable breach by the Company of its obligations, the position is eliminated, or in the event of a change of control or any of the other causes for compensation for termination stipulated in Royal Decree 1382/1985.
- > As a result of termination by the Company: termination benefit equal to that described in the first point.
- > At the decision of the Company based on serious wilful misconduct or negligence by the executive in discharging duties: no entitlement to termination benefit.

These conditions are alternatives to those arising from changes to the pre-existing employment relationship or its termination due to early retirement for senior executives.

Post-contractual non-competition clause: In the vast majority of contracts, senior executives are required not to engage in a business activity in competition with ENDESA for a period of two years; as consideration, the executive is entitled to an amount equal to up to 1 times the annual fixed remuneration payment.

**Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group.**

	Board of Directors	General Shareholders' Meeting	
		Yes	No
Body authorising clauses	Yes	No	
Is the General Shareholders' Meeting informed of such clauses?		X	

## C.2. Board committees

**C.2.1. Give details of all the board committees, their members and the proportion of executive, proprietary, independent and other external directors on the committees:**

### Audit and Compliance Committee

Name	Position	Category
Ignacio Garralda Ruiz de Velasco	Chairman	Independent
Alejandro Echevarría Busquet	Member	Independent
Alberto de Paoli	Member	Proprietary
Helena Revoredo Delvecchio	Member	Independent
Francisco de Lacerda	Member	Independent
Miquel Roca Junyent	Member	Independent
% of proprietary directors		16.67%
% of independent directors		83.33%
% of other external directors		0.00%

**Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.**

The Audit and Compliance Committee shall comprise a minimum of three and a maximum of six members of the Board of Directors. It shall be exclusively composed of non-executive directors, the majority of whom must be independent directors.

The Chairman of the Audit and Compliance Committee shall be appointed by the independent directors forming part of the Committee. The Chairman shall be proposed and appointed in due consideration of his or her knowledge and experience of accounting, audit or risk management. Members of the Audit and Compliance Committee shall carry out their functions for 4 years, and may be re-elected for periods of the same duration. The Chairman must be substituted every 4 years, and may be re-elected one year after vacating the post.

The Audit and Compliance Committee shall meet as often as it is convened by its Chairman, when so resolved by the majority of its members or at the request of the Board of Directors or the Lead Director. Committee meetings shall be quorate when the majority of the Committee members

attend in person or by proxy. Resolutions must be adopted with the favourable vote of the majority of the Directors attending the meeting. In the event of a tie, the Chairman or Acting Chairman shall have the casting vote.

The Secretary of the Committee shall be that of the Board of Directors and shall draft the minutes of the resolutions passed thereat, and the Board shall be informed of these resolutions.

The main task of the Committee shall be to promote good corporate governance and ensure the transparency of all actions of the Company in the areas of economics and finance, external audits, compliance and internal audits, and it shall in any event be tasked with competences relating to legal audits; the process of drawing up economic and financial information; internal control systems and risk management; tax issues and corporate social responsibility and sustainability.

The main tasks of the Committee in 2016 were, inter alia, the provision of information to the Board concerning the Company's Financial Information; recommendation to the Board of the proposal to re-elect the statutory auditor of ENDESA's financial statements, Ernst & Young, for 2017-2019; supervision of internal control systems and risk management in connection with financial information; information for the Board concerning modifications to internal regulations, in due consideration of legislative changes concerning market abuse; and information for the Board in connection with related-party transactions.

**Identify the Director who has been appointed Chairman of the Audit Committee on the basis of knowledge and experience of accounting or auditing, or both, and state the number of years this person has been the Chairman.**

Name of Director with experience	Ignacio Garralda Ruiz de Velasco
Number of years as Chairman	0

### Appointments and Remuneration Committee

Name	Position	Category
Miquel Roca Junyent	Chairman	Independent
Alberto de Paoli	Member	Proprietary
Alejandro Echevarría Busquet	Member	Independent
Helena Revoredo Delvecchio	Member	Independent
Francisco de Lacerda	Member	Independent
Ignacio Garralda Ruiz de Velasco	Member	Independent

% of proprietary directors	16.67%
% of independent directors	83.33%
% of other external directors	0.00%

**Explain the functions attributed to this committee, describe its organisational and operational rules and procedures and summarise its major activities during the year.**

The Appointments and Remuneration Committee shall be formed by a minimum of 3 and a maximum of 6 non-executive Members of the Board of Directors, at least 2 of whom must be independent directors. The Chairman of the Appointments and Remuneration Committee shall be appointed by the Board of Directors from among the Independent Directors forming part of the Committee.

The Appointments and Remuneration Committee shall meet as often as convened by its Chairman, when so resolved by the majority of its members, or at the request of the Board of Directors. Committee meetings shall be quorate when the majority of the Committee members attend in person or by proxy.

Resolutions must be adopted with the favourable vote of the majority of the Directors attending the meeting. In the event of a tie, the Chairman or Acting Chairman shall have the casting vote.

The Appointments and Remuneration Committee may seek external advice. The Secretary of the Committee shall be that of the Board of Directors and shall draft the minutes of the resolutions passed thereat, and the Board shall be informed of these resolutions.

The Appointments and Remuneration Committee shall have the following functions:

To assess the skills, knowledge and experience needed on the Board of Directors, in order to make proposals for the selection, appointment, re-election and separation of Board members; propose members to form part of the Executive Committee and each of the Committees; raise proposals for the appointment and separation of Senior Management, the basic terms and conditions of their contracts and remuneration; propose the adoption of remuneration schemes for Senior Management and table proposals to the Board

concerning Directors' remuneration policy, individual remuneration and the other contractual conditions of executive Directors; establish a representation target for the less represented sex on the Board; examine and organise the succession of the Chairman of the Board and the Chief Executive Officer, among other functions.

The main functions of the Committee in 2016 were information and proposals to the Board concerning Directors' remuneration policy for the years 2016, 2017 and 2018; update of the remuneration of the Chief Executive Officer; update of the remuneration of the Chairmen of Board Committees and of the Lead Director; and the succession plan for the Chairman of the Board and the Chief Executive Officer, among other functions.

**Executive Committee**

Name	Position	Category
José Damián Bogas Gálvez	Member	Executive
Borja Prado Eulate	Chairman	Executive
Francesco Starace	Member	Proprietary
Alejandro Echevarría Busquet	Member	Independent
Ignacio Garralda Ruiz de Velasco	Member	Independent
Alberto de Paoli	Member	Proprietary
Miquel Roca Junyent	Member	Independent

% of executive directors	28.57%
% of proprietary directors	28.57%
% of independent directors	42.86%
% of other external directors	0.00%

**Explain the functions attributed to this committee, describe its organisational and operational rules and procedures and summarise its major activities during the year.**

Article 22 of Board Regulations, which regulates the composition and operating system of the Executive Committee, firstly establishes its optional nature, and also establishes the following organisational and operational rules:

The Executive Committee, if any, shall be composed of at least 5 and not more than 7 Directors, including the Chairman and the Chief Executive Officer. The Chairman of the Board of Directors shall chair the Executive Committee, and the Secretary of the Board of Directors shall act as such on the Executive Committee. The rules on substituting these officers are as stipulated for the Board of Directors.

The composition of the Executive Committee must reasonably reflect the structure of the Board.

The Executive Committee shall have the power to adopt resolutions related to the powers delegated to it by the Board, and any other resolutions which may need to be adopted in the event of any emergency.

Members of the Executive Committee shall be appointed following a proposal by the Appointments and Remuneration Committee, and appointments shall require a vote in favour by at least two thirds of the members of the Board.

Resolutions of the Executive Committee on matters for which it has been delegated powers by the Board must be implemented as soon as they have been adopted. However, in cases where, in the opinion of the Chairman or of the majority of the members of the Executive Committee, the importance of the matter so advises, the resolutions of the Executive Committee shall be submitted for subsequent ratification by the Board.

The Secretary of the Executive Committee, who shall be the Secretary of the Board, shall draw up the minutes of the resolutions adopted, and apprise the Board of these. The minutes must be made available to all Board members.

It should be pointed out that the Executive Committee did not meet in 2016.

**Indicate whether the composition of the executive committee reflects the participation within the board of the different types of directors:**

Yes

**C.2.2. Complete the following table regarding the number of female directors serving on the board committees during the past four years:**

	Number of female directors							
	2016		2015		2014		2013	
	Number	%	Number	%	Number	%	Number	%
Audit and Compliance Committee	1	16.65%	1	16.65%	1	20.00%		
Appointments and Remuneration Committee	1	16.65%	1	16.65%	1	20.00%		
Executive Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%

**C.2.3. Section revoked.**

**C.2.4. Section revoked.**

**C.2.5. Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.**

### Audit and Compliance Committee

The Audit and Compliance Committee is regulated by the Bylaws, the Board Regulations and also by the Regulations of the Audit and Compliance Committee, which were approved by the Board in October 2016.

These regulations can be consulted on the Company's website [www.endesa.com](http://www.endesa.com).

The Regulations of the Audit Committee provide sufficient detail of the attributions or competences, or specifically the responsibilities of the Committee, although they also set out aspects of its composition and functioning.

To draw up the Regulations of the Audit and Compliance Committee, as is the case with ENDESA's other internal regulations, forming part of its Corporate Governance System, consideration was taken of the CNMV recommendations in connection with the good governance code for listed companies and recent amendments to the LSC, in compliance with Law 22/2015 of 20 July on the Auditing of Accounts.

In this regard, some mention should be made of the amendments to the Company's Bylaws, as approved at the 2016 Ordinary General Shareholders' Meeting, concerning Article 52 "Audit and Compliance Committee" and Article 58 "Appointment of Auditors".

Article 52 was amended with certain technical improvements to transfer the regulation of strict issues in relation to functioning to the regulations of the committees, and also to adapt its contents to the provisions of Article 529 quaterdecies of the new version of the Corporate Enterprises Act in accordance with Law 22/2015 of 20 July on the Auditing of Accounts, which came into force on 17 June 2016.

The technical precision set out in Article 22 of Law 22/2015 of 20 July on the Auditing of Accounts, which came into force on 17 June 2016, was added to Article 58, concerning the maximum timeframe for contracting audit services in successive extensions, and a reference to the total maximum contracting period laid down in law at any given time.

The Audit Committee issues an annual report on the activities of the Audit and Compliance Committee, among other reports.

#### **Appointments and Remuneration Committee**

The Appointments and Remuneration Committee is regulated by the Bylaws and the Board of Directors' Regulations.

These regulations can be consulted on the Company's website [www.endesa.com](http://www.endesa.com).

The changes to the Bylaws at the 2016 Ordinary General Shareholders' Meeting included an amendment to Article 41 regulating the remuneration of directors and, as stipulated in Article 219.1 of the Corporate Enterprises Act, the possibility was added to the Bylaws of the remuneration system for executive directors including the delivery of shares or share options, or remuneration pegged to share prices.

The Appointments and Remuneration Committee produces an annual Activity Report.

#### **Executive Committee**

The Executive Committee is regulated by the Bylaws and the Board of Directors' Regulations. These regulations can be consulted on the Company's website [www.endesa.com](http://www.endesa.com).

The Executive Committee did not meet in 2016.

#### **C.2.6. Section revoked.**



# D. Related-Party and Intragroup Transactions

## **D.1. Explain, if applicable, the procedures for approving related-party and intragroup transactions.**

### **Procedure for reporting the approval of related-party transactions**

The Procedure for approval of Related-party Transactions is set out in ENDESA's Regulations for Related-Party Transactions, approved by the Board of Directors on 22 February 2016.

Procedure for the request for approval of Related-party Transactions with Directors:

1. ENDESA Directors must request preliminary approval from the Board of Directors, through the General Secretary and the Board of Directors, for any transaction that they or their related parties intend to perform with ENDESA or with any company in the ENDESA Group.
2. When the Secretary is a Director and is the party requesting authorisation, authorisation is sought from the Chairman of the Board.
3. The request must state: (a) The Director or the related party who is to carry out the transaction, and the nature of their relationship. (b) The identity of the ENDESA Group company with which the transaction is to be carried out. (c) The purpose, amount and main terms and conditions of the transaction. (d) The motivation for the transaction. (e) Any other information or circumstances deemed relevant to appraise the transaction.
4. Without prejudice to section 1 above, Senior Management with knowledge of a possible related-party transaction with Directors or their related parties shall notify this circumstance to the General Secretary and the Board Secretary and the General Manager of Administration, Finance and Control at ENDESA.

Procedure for the request for approval of Related-party Transactions with significant shareholders:

1. Any transactions by ENDESA or ENDESA Group companies with significant shareholders or their related parties must be approved by the Board of Directors, after a report by the Audit and Compliance Committee.
2. Senior Management in the ENDESA Group must seek, through the General Secretary and the Board Secretary, approval for any transactions that ENDESA or any company in the ENDESA Group intends to carry out with significant shareholders or their related parties. Senior Management must also notify this request to the General Manager of Administration, Finance and Control at ENDESA.
3. The request must state the following: (a) The significant shareholder or the significant shareholder's related party who is to carry out the transaction, and the nature of their relationship. (b) The identity of the ENDESA Group company with which the transaction is to be carried out. (c) The purpose, amount and main terms and conditions of the transaction. (d) The motivation for the transaction. (e) Any other information or circumstances deemed relevant to appraise the transaction.

Approval of the transaction by the Board of Directors:

1. When the transaction must be approved by the Board of Directors, the General Secretary and Board Secretary shall ask the Audit and Compliance Committee to issue its report, and shall send it the information collated concerning the transaction.
2. The Audit and Compliance Committee shall analyse this information and shall issue a report on the transaction, and to this end it may request any further information it deems necessary, through the General Secretary and the Board. Pursuant to the provisions of Board Regulations, the Audit and Compliance Committee may use any external advisors it deems fit to issue this report.

3. The report by the Audit and Compliance Committee shall be submitted to the Board to enable it to rule as appropriate in relation to authorisation for the transaction.

4. In emergency circumstances, duly substantiated, the Chief Executive Officer may approve the transaction, which must be ratified by the first meeting of the Board held after the decision has been taken.

Obligation to abstain from participating in decision-making by Directors:

Any Directors who intend to carry out the transaction or who are related parties of the person who intends to carry it out, or the Director who is also the significant shareholder or a related party of the significant shareholder, and Directors that have been designated at the request of the aforementioned significant shareholder or Directors who, for any other reason, are affected by a conflict of interests, must abstain from deliberating and voting on the issue concerned, in such a way as to guarantee the independence of the Directors approving the related-party transaction.

In the case of related-party transactions with Directors and significant shareholders, the approval of the Board shall not be required (although details must nevertheless be furnished to the General Secretary and the Board Secretary) for related-party transactions with Directors and their related parties which simultaneously meet the following requirements: they are carried out by virtue of contracts the conditions of which have been standardised and apply en masse to a large number of customers; they are carried out at prices or tariffs generally established by the party acting as supplier of the goods or services concerned; they are insignificant transactions, understood as transactions the information on which is not necessary to express a true image of the assets, the financial position and results of ENDESA. In any event, transactions may only be considered insignificant if their amount does not exceed one per cent of ENDESA's annual earnings.

**D.2. List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:**

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousands of Euros)
Enel Iberoamérica, S.L.U.	ENDESA Financiación Filiales	Contractual	Interest paid	8
Enel, S.p.A.	ENDESA Energía, S.A.	Contractual	Management contracts	1,773
Enel, S.p.A.	ENDESA Energía XXI, S.L.	Contractual	Management contracts	111
Enel, S.p.A.	ENDESA Operaciones y Servicios Comerciales, S.L.	Contractual	Management contracts	139
Enel, S.p.A.	ENDESA Servicios, S.L.	Contractual	Management contracts	14
Enel, S.p.A.	ENDESA Generación, S.A.	Contractual	Management contracts	16,768
Enel, S.p.A.	Empresa Carbonífera del Sur, S.A.	Contractual	Management contracts	15
Enel, S.p.A.	Unión Eléctrica de Canarias Generación, S.A.	Contractual	Management contracts	3,357
Enel, S.p.A.	Gas y Electricidad Generación, S.A.	Contractual	Management contracts	1,961
Enel, S.p.A.	Distribuidora Eléctrica del Puerto de la Cruz, S.A.	Contractual	Management contracts	24
Enel, S.p.A.	ENDESA Red, S.A.	Contractual	Management contracts	60
Enel, S.p.A.	ENDESA Distribución Eléctrica	Contractual	Management contracts	16,870
Enel, S.p.A.	ENDESA Ingeniería, S.L.	Contractual	Management contracts	70
Enel, S.p.A.	ENDESA Financiación Filiales	Contractual	Partnership agreements	1
Enel, S.p.A.	ENDESA Energía, S.A.	Contractual	Operating lease agreements	58
Enel, S.p.A.	Distribuidora Eléctrica del Puerto de la Cruz, S.A.	Contractual	Property, plant and equipment purchases	9
Enel, S.p.A.	ENDESA Distribución Eléctrica	Contractual	Services rendered	1,674
Enel, S.p.A.	ENDESA Energía XXI, S.L.	Contractual	Rendering of services	10
Enel, S.p.A.	ENDESA Energía, S.A.	Contractual	Rendering of services	155
Enel, S.p.A.	ENDESA Generación, S.A.	Contractual	Services rendered	2,477
Enel, S.p.A.	ENDESA Red, S.A.	Contractual	Services rendered	612
Enel, S.p.A.	ENDESA S.A.	Contractual	Services rendered	905
Enel, S.p.A.	Hidroeléctrica de Catalunya, S.L.	Contractual	Management contracts	10
Enel, S.p.A.	ENDESA Distribución Eléctrica	Contractual	Purchase of finished goods and work in progress	96,155

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousands of Euros)
Enel, S.p.A.	ENDESA Energía, S.A.	Contractual	Purchase of finished goods and work in progress	79,733
Enel, S.p.A.	ENDESA Generación, S.A.	Contractual	Purchase of finished goods and work in progress	12,704
Enel, S.p.A.	ENDESA Ingeniería, S.L.	Contractual	Rendering of services	1,630
Enel, S.p.A.	ENDESA Energía, S.A.	Contractual	Other	487
Enel, S.p.A.	ENDESA Generación, S.A.	Contractual	Other	292,143
Enel, S.p.A.	ENDESA S.A.	Contractual	Interest paid	92,810
Enel, S.p.A.	ENDESA S.A.	Contractual	Management contracts	783
Enel, S.p.A.	ENDESA Distribución Eléctrica	Contractual	Rendering of services	135
Enel, S.p.A.	ENDESA Generación, S.A.	Contractual	Rendering of services	710
Enel, S.p.A.	ENDESA Servicios, S.L.	Contractual	Other	300
Enel, S.p.A.	ENDESA Red, S.A.	Contractual	Rendering of services	169
Enel, S.p.A.	ENDESA Energía, S.A.	Contractual	Sale of finished goods and work in progress	41,477
Enel, S.p.A.	ENDESA Generación, S.A.	Contractual	Sale of finished goods and work in progress	6,133
Enel, S.p.A.	ENDESA S.A.	Contractual	Other	5,817
Enel, S.p.A.	ENDESA S.A.	Contractual	Financing agreements: loans	3,000,000
Enel, S.p.A.	ENDESA S.A.	Contractual	Guarantees and endorsements	130,000
Enel, S.p.A.	ENDESA Generación, S.A.	Contractual	Property, plant and equipment purchases	110,345
Enel Iberoamérica, S.L.U.	Empresa Carbonífera del Sur, S.A.	Contractual	Services rendered	305
Enel Iberoamérica, S.L.U.	ENDESA Distribución Eléctrica	Contractual	Services rendered	58,495
Enel Iberoamérica, S.L.U.	ENDESA Energía, S.A.	Contractual	Services rendered	41,753
Enel Iberoamérica, S.L.U.	ENDESA Generación, S.A.	Contractual	Services rendered	244
Enel Iberoamérica, S.L.U.	ENDESA Ingeniería, S.L.	Contractual	Services rendered	70
Enel Iberoamérica, S.L.U.	ENDESA Operaciones y Servicios Comerciales, S.L.	Contractual	Services rendered	9,680
Enel Iberoamérica, S.L.U.	ENDESA Red, S.A.	Contractual	Services rendered	690
Enel Iberoamérica, S.L.U.	ENDESA Servicios, S.L.	Contractual	Services rendered	104
Enel Iberoamérica, S.L.U.	ENDESA S.A.	Contractual	Services rendered	23,120
Enel Iberoamérica, S.L.U.	Gas y Electricidad Generación, S.A.	Contractual	Services rendered	1,151
Enel Iberoamérica, S.L.U.	Unión Eléctrica de Canarias Generación, S.A.	Contractual	Services rendered	2,264
Enel Iberoamérica, S.L.U.	ENDESA S.A.	Contractual	Management contracts	3,564
Enel Iberoamérica, S.L.U.	ENDESA Distribución Eléctrica	Contractual	Operating lease agreements	520
Enel Iberoamérica, S.L.U.	ENDESA Servicios, S.L.	Contractual	Operating lease agreements	4,047
Enel Iberoamérica, S.L.U.	ENDESA Distribución Eléctrica	Contractual	Rendering of services	850
Enel Iberoamérica, S.L.U.	ENDESA Servicios, S.L.	Contractual	Rendering of services	1,249
Enel Iberoamérica, S.L.U.	ENDESA Distribución Eléctrica	Contractual	Property, plant and equipment purchases	32,735
Enel Iberoamérica, S.L.U.	ENDESA Energía, S.A.	Contractual	Property, plant and equipment purchases	24,834
Enel Iberoamérica, S.L.U.	ENDESA Generación, S.A.	Contractual	Property, plant and equipment purchases	1,884
Enel Iberoamérica, S.L.U.	ENDESA S.A.	Contractual	Property, plant and equipment purchases	22,863
Enel Iberoamérica, S.L.U.	Gas y Electricidad Generación, S.A.	Contractual	Property, plant and equipment purchases	81
Enel Iberoamérica, S.L.U.	Unión Eléctrica de Canarias Generación, S.A.	Contractual	Property, plant and equipment purchases	186
Enel Iberoamérica, S.L.U.	ENDESA S.A.	Corporate	Dividends and other distributions	761,493
Enel Iberoamérica, S.L.U.	Asociación Nuclear Ascó-Vandellós II, Aie	Contractual	Services rendered	128
Enel Iberoamérica, S.L.U.	ENDESA Energía, S.A.	Contractual	Property, plant and equipment purchases	36,021
Enel Iberoamérica, S.L.U.	ENDESA Financiación Filiales, S.A.	Contractual	Interest charged	140

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousands of Euros)
Enel Iberoamérica, S.L.U.	ENDESA Generación Portugal, S.A.	Contractual	Services rendered	29
Enel Iberoamérica, S.L.U.	ENDESA Generación, S.A.	Contractual	Services rendered	11,986
Enel Iberoamérica, S.L.U.	ENDESA Generación, S.A.	Contractual	Other	1,670
Enel Iberoamérica, S.L.U.	ENDESA Operaciones y Servicios Comerciales	Contractual	Rendering of services	56
Enel Iberoamérica, S.L.U.	ENDESA Operaciones y Servicios Comerciales	Contractual	Property, plant and equipment purchases	21
Enel Iberoamérica, S.L.U.	Enel Green Power España, S.L.	Contractual	Services rendered	530
Enel Iberoamérica, S.L.U.	Enel Green Power España, S.L.	Contractual	Rendering of services	60
Enel Iberoamérica, S.L.U.	Enel Green Power España, S.L.	Contractual	Other	6
Enel, S.p.A.	ENDESA Distribución Eléctrica, S.L.	Contractual	Other	36
Enel, S.p.A.	ENDESA Distribución Eléctrica, S.L.	Contractual	Property, plant and equipment purchases	18,061
Enel, S.p.A.	ENDESA Distribución Eléctrica, S.L.	Contractual	Guarantees and endorsements	115,400
Enel, S.p.A.	ENDESA Generación Portugal	Contractual	Management contracts	8
Enel, S.p.A.	ENDESA Generación, S.A.	Contractual	Guarantees and endorsements	18,034
Enel, S.p.A.	ENDESA, S.A.	Contractual	Interest charged	40
Enel, S.p.A.	ENDESA, S.A.	Contractual	Property, plant and equipment purchases	1,407
Enel, S.p.A.	ENDESA, S.A.	Contractual	Other instruments that could imply a transfer of resources or obligations between the company and the related party	200,000
Enel, S.p.A.	Enel Green Power España	Contractual	Interest paid	130
Enel, S.p.A.	Enel Green Power España, S.L.	Contractual	Management contracts	190
Enel, S.p.A.	Enel Green Power España, S.L.	Contractual	Services rendered	130
Enel, S.p.A.	Enel Green Power España, S.L.	Contractual	Interest charged	20
Enel, S.p.A.	Enel Green Power España, S.L.	Contractual	Rendering of services	3,410
Enel, S.p.A.	Enel Green Power España, S.L.	Contractual	Other	481
Enel Iberoamérica, S.L.U.	ENDESA Energía, S.A.	Contractual	Sale of finished goods and work in progress	189
Enel Iberoamérica, S.L.U.	ENDESA Generación, S.A.	Contractual	Sale of finished goods and work in progress	19,803
Enel, S.p.A.	ENDESA, S.A.	Contractual	Management contracts	2,545

**D.3. List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors:**

**D.4. List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.**

**In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.**

**D.5. Indicate the amount of related-party transactions.**

0 (in thousands of euros)

**D.6. List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.**

Directors shall adopt any measures necessary to prevent situations arising where their interests, whether on their own account or on the account of others, may come into conflict with those of the Company and with their duties towards the Company.

In particular, the duty to prevent situations of conflicts of interests obliges directors to refrain from:

- > Carrying out transactions with the Company, except when they are ordinary transactions, performed in stand-

ard conditions for customers and of scarce relevance, with these understood as those for which information is not necessary to express a true image of the assets, the financial position and results of the Company.

- > Using the Company name or relying on their status as Directors of the Company to unduly influence private transactions.
- > Making use of Company assets, including confidential information belonging to the Company, for private purposes.
- > Taking advantage of the Company's business opportunities.
- > Obtaining advantages or remuneration from third parties other than the Company and its group in association with the performance of their functions, with the exception of mere courtesies.
- > Carrying out activities on their behalf or on behalf of others that are effectively competition, whether real or potential, to the Company or that, in any other way, place them in permanent conflict with the interests of the Company.

Directors must disclose to the Board of Directors, via the Board Secretary, any direct or indirect conflict of interests between them and the Company. Directors shall refrain from taking part in deliberating and voting on any agreements or decisions where they or any related parties have a direct or indirect conflict of interests. This abstention obligation shall exclude agreements or decisions that affect their status as directors, such as their appointment or revocation for posts on the Board of Directors, its Committees and the Executive Committee, or others of similar standing.

In any event, information on any conflicts of interest affecting the Directors of the Company shall be reported according to the law in force.

Directors must perform their role with the loyalty of a faithful representative, in good faith and in the Company's best interest, interpreted with full independence, and they shall strive at all times to defend and protect the interests of all shareholders, from whom their authority originates and to whom they are accountable.

Directors, by virtue of their posts, are obliged in particular to:

- > Refrain from exercising their powers for purposes other than those for which they were granted.
- > Carry out their functions on the principle of personal responsibility with freedom of criteria or judgment and independence, irrespective of instructions from or relationships with third parties.
- > Fulfil the general principles and criteria of conduct contained in the Company's Code of Ethics.

ENDESA also has a Protocol for action to be taken concerning conflicts of interests, exclusive dedication and commercial competition, the purpose of which is to regulate the actions of ENDESA employees with regard to exclusive dedication and commercial competition, and establish the rules to be adhered to in connection with conduct or situations that entail a potential conflict between the interests of the Company and the personal direct or indirect interests of any of its employees.

#### **D.7. Is more than one group company listed in Spain?**

No

#### **Identify the listed subsidiaries in Spain.**

##### **Listed subsidiaries**

**Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.**

**Define any business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies.**

**Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies.**

##### **Mechanisms**

# E. Risk Control and Management Systems

## **E.1. Explain the Risk Management System in place at the company, including tax risks.**

The Risk Management and Control Policy, approved by the Board and applicable to ENDESA and all its subsidiaries, seeks to guide and direct strategic, organisational and operating activities to enable the Board of Directors to precisely identify an acceptable level of risk, to enable the managers of the various business lines to maximise the Company's profitability, maintain or increase its assets equity and the certainty of achievement of this above certain levels, preventing any uncertain and future events from undermining the profitability targets set.

The Risk Management and Control Policy defines ENDESA's Risk Control System as an interlaced system of rules, processes, controls and information systems, in which global risk is defined as the risk arising from consolidation of all risks to which it is exposed, taking into account the mitigating effects among the various risk exposures and risk categories, which enables the risk exposure of the group's business areas and units to be consolidated and measured, and the corresponding management information to be drawn up for decision-making on risk and appropriate use of capital.

The Risk Management and Control Process is based on the ongoing study of the risk profile, applying the current best practices in the energy sector or benchmark risk management practices, criteria for standardising measurements and the separation of risk managers and risk controllers. It is also based on ensuring that the risk undertaken is proportional to the resources required to operate the businesses, in constant adherence to a proper balance between the risk undertaken and the targets set by the Board.

The integral risk management process consists of identifying, measuring, analysing and monitoring risks, and following them up and controlling them over time, on the basis of the following actions:

- > Identification. The purpose of identifying risks is to maintain a prioritised and updated repository of all the risks undertaken by the corporation through coordinated and efficient participation at all levels of the Company.
- > Measurement. The purpose of measuring parameters that allow risks to be aggregated and compared is to quantify overall exposure to risk, including all of ENDESA's positions.
- > Control. The purpose of risk control is to guarantee that the risks undertaken by ENDESA are appropriate to the objectives ultimately set by the ENDESA, S.A. Board.
- > Management. The purpose of risk management is to implement actions aimed at adjusting risk levels at each level of the Company to the risk tolerance and predisposition established.

This process sets out to obtain a comprehensive view of risk, geared towards assessing and prioritising risks. It covers the main financial and non-financial risks to which the company is exposed, both endogenous (through internal factors) and exogenous (through external factors), and is set out on an annual map containing the main risks identified and establishing regular reviews.

In addition to the above, the ENDESA Board has also approved a Tax Risk Management and Control Policy to guide and direct strategic, organisational and operating activities to enable the managers of the Tax Matters Unit and various areas of the organisation the functions of which affect the tax paid by the company, and to achieve the objectives of the company's Tax Strategy with respect to the management and control of tax risks.

## **E.2. Identify the bodies responsible for preparing and implementing the Risk Management System.**

*Board of Directors.* The Board is responsible for determining the Risk Management and Control Policy, including tax issues, supervision of the internal information and control systems and establishment of the company's acceptable level of risks at all times.

*Audit and Compliance Committee.* Its functions include the following:

1. Report to the Board, in order to secure its approval, on the Risk Management and Control Policy, including tax risks, and amendments to the policy, ensuring that at least the following aspects are identified:

a) The different types of financial and non-financial risks (operational, technological, legal, social, environmental, political and reputational risk) faced by the Company, including contingent liabilities and other off-balance-sheet risks as financial or economic risks.

b) The determination of the level of risk the Company deems acceptable.

c) Measures in place to mitigate the impact of the risks identified, should they occur.

d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities or off-balance-sheet risks.

2. Supervise the effectiveness of internal control and of the risk management system. The Audit and Compliance Committee shall be responsible for direct supervision of ENDESA's Risk Committee, the internal body responsible for the Risk Management and Control Policy. A regular assessment shall be conducted of the performance of the internal Risk Management and Control function.

3. Carry out an annual assessment of all issues concerning the Company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks.

*Risk Committee.* This is the body responsible for implementation of the Risk Management and Control Policy, based on the internal procedures of the different lines of

business and corporate areas. The following functions are assigned to it:

> Regularly provide the Board of Directors with an integrated view of current and foreseeable risk exposure.

> Ensure that Senior Management is involved in strategic risk management and control decisions.

> Guarantee coordination between the risk management units and those units responsible for their control, and compliance with the risk management and control policy and its associated internal procedures.

> Guarantee the proper functioning of risk control and management systems and, in particular, ensure that they identify, manage, and adequately quantify all major risks.

> Actively participate in the preparation of risk strategy and in major decisions about how to manage it.

> Ensure that the risk control and management systems adequately mitigate risks within the Risk Management and Control Policy framework.

Risk Control has the following functions delegated to it by the Risk Committee with respect to management and control of company risks:

> Define procedures and standards to coordinate the company's comprehensive risk control system.

> Draw up documentation to report to the Risk Committee and to any decision-making body on the company's risk exposure and any relevant fact concerning risk management and control.

*Internal Control.* It is responsible for implementing, updating and monitoring Internal Control over Financial Reporting (ICFR), establishing the procedures and controls deemed necessary to guarantee the quality of the financial information disclosed by ENDESA.

Business lines and corporate areas. All areas of the company, including the tax area, are directly involved in risk management. The main responsibilities are as follows:

- > Consider risk management as an integral part of day-to-day business, implementing the risk management framework consistently and effectively.
  - > Ensure that risk policies, risk management processes and internal controls associated with the line of business are being implemented effectively in accordance with the principles and limits established.
  - > Fully identify risks affecting business development and risks that arise during activities.
  - > Ensure compliance with the segregation of functions established in the risk management framework, in such a way as to guarantee effective controls and implementation of the controls without creating any unnecessary inefficiency.
- Interest rate risk
  - Currency risk
  - Commodity risk
  - Liquidity and funding risk
  - Counterparty risk
- > Business risk: this type of risk includes:
    - Operational risk
    - Industrial risk
    - Environmental risk
    - Legal and tax risk
    - Reputational risk
    - Strategic and regulatory risk

**E.4. State whether the company has a risk tolerance level, including tax risk.**

*Internal Audit.* ENDESA's regulatory system, internal controls and supervision by the Audit Division guarantee controls to minimise operational risk which can generate economic, social, environmental and reputational impacts, in addition to legal risks and the risk of fraud. The Internal Audit function seeks to:

- > Systematically and independently assess the effectiveness and adequacy of the Company's internal control system.
- > Assist the various areas of the Company in supervising risks and identifying courses of action to mitigate them. The head of the Audit function regularly reports to Senior Management and to the Audit and Compliance Committee on the results of its work, assists the Committee with internal control, and properly supervises compliance programmes.

**E.3. Indicate the main risks, including tax risks, which may prevent the company from achieving its targets.**

The risk factors faced by ENDESA when carrying out its activities, as set out in the Risk Management and Control Policy, are as follows:

- > Financial risks or market risks: risk of fluctuations in prices and other market variables leading to changes in enterprise value or margin. These risks are classified as:

The businesses, corporate areas, and companies that form part of the Business Group establish the risk management controls required to ensure that transactions are performed in markets in accordance with ENDESA's policies, principles and procedures and, in any case, with due adherence to the following limits and precepts:

- > Alignment of the risk levels with the objectives set by the Board of Directors.
- > Optimisation of risk management and control on a consolidated basis, giving this priority rather than individual management of each individual risk.
- > Continuous evaluation of hedging, transfer and mitigation mechanisms to guarantee its suitability and the adoption of best market practices.
- > Continuous monitoring of the prevailing legislation, standards and regulations, doctrine and case-law, including those relating to tax, to ensure that transactions are performed in accordance with the rules governing the business.
- > Adherence to and compliance with internal regulations, focusing in particular on Corporate Governance, the Code of Ethics, the Corruption Zero-Tolerance Plan, and the General Principles for the Prevention of Criminal Risks.



- > The duty to protect the health and safety of those working in and for ENDESA.
- > Commitment to sustainable development, efficiency and respect for the environment, identifying, assessing and managing the environmental impacts of ENDESA's activities.
- > Responsible optimisation of the use of resources available in order to provide shareholders with a return as part of corporate relations based on the principles of loyalty and transparency.
- > ENDESA's financial policies are aimed at active management of the financial risks associated with its ordinary business. In general, speculative positions are restricted.
- > With regard to tax, the level of risk tolerance is set out in the company's Tax Strategy as determined by the Board and set out in the Tax Risk Control and Management Policy. The company undertakes to comply with prevailing tax regulations, adopting at all times a reasonable interpretation of these regulations and attempting to prevent, on the basis of this interpretation, inefficiency and unwarranted tax outlays for the company.

The following tasks are carried out to control risks:

- > Quantitative references are defined to reflect ENDESA's strategy and its risk predisposition (limits), and these are duly monitored.
- > Identification and consideration of possible breaches of the limits set.
- > Establishment of courses of action, processes and information flows needed to allow for periodic review of limits in order to take advantage of specific opportunities arising from each activity.
- > If risk limits are exceeded, the appropriate corrective measures are proposed, using hedging, transfer (insurance) and mitigation mechanisms for manageable risk and, in the case of non-manageable risk, the contingency plans are assessed or the activity is halted.

#### **E.5. Identify any risks, including tax risks, which occurred during the year.**

The risks that occurred during the year were inherent to the activity carried out, such as constant exposure to regulatory risks, interest rate risk, currency risk, fuel volatility risk, credit or counterparty risk.

These risks remained within normal limits in proportion to the Company's activities, and the control systems established functioned properly.

External risks included BREXIT, the impact of which on the company is considered to be limited.

#### **E.6. Explain the response and supervision plans for the main risks to which the company is exposed.**

ENDESA has a risk identification system for regular assessment of the nature and magnitude of the risks faced by the organisation. The development of an integrated risk control and management process and, as part of this, a structured and standardised reporting system, has helped synergies to be obtained for the consolidation and comprehensive processing of risks and has allowed key indicators to be developed to detect potential risks and issue early warnings. The comprehensive risk management process implemented at the company establishes the following, inter alia:

- > Achievement of a balanced debt structure that makes it possible to minimise the cost of the debt over several years with reduced income statement volatility, through diversification of types of financial assets and liabilities and modifications to the risk exposure profile by arranging derivatives.
- > Arrangement of financial currency swaps and exchange insurance in order to mitigate currency risk. ENDESA also strives to balance cash collections and payments for its assets and liabilities in foreign currencies.
- > Exposure to fluctuations in commodity prices is managed in the long term by diversifying contracts, managing the procurements portfolio by reference to indexes with a similar or comparable trend to that of the ultimate electricity prices (generation) or selling prices (retail) and through

regular renegotiations of contractual clauses aimed at maintaining the economic balance of procurements.

- > In the short term, liquidity risk is mitigated by ENDESA by maintaining a sufficient level of resources available unconditionally, including cash and short-term deposits, drawable lines of credit and a portfolio of highly liquid assets.
- > ENDESA's liquidity policy consists of arranging committed long-term credit facilities with both banks and Enel Group companies and financial investments in an amount sufficient to cover projected needs over a given period, based on the status and expectations of the debt and capital markets.
- > In addition, ENDESA develops the centralised cash function, drawing up cash forecasts to ensure it has sufficient cash to meet operational needs, maintaining sufficient levels of availability on its undrawn loans.
- > ENDESA closely monitors its credit risk, taking additional precautions which include the following, among others: Risk analysis, assessment and monitoring of the creditworthiness of counterparties; Establishing contractual clauses, requesting collateral, requesting guarantees or taking out insurance. - Exhaustive review of the level of counterparty exposure; Diversification of counterparties.
- > There is a single environmental policy defined throughout ENDESA.
- > Prevention and protection strategies are in place to mitigate the risk of breakdowns or accidents which temporarily interrupt operation of plants.
- > In order to transfer certain risks, mitigating the effects if they occur, ENDESA attempts to obtain adequate insur-

ance cover in relation to the main risks associated with its business - including, inter alia, damage to the Company itself, general civil liability, environmental and nuclear power plant liability.

ENDESA manages most of its tax obligations and those of the companies it controls in a centralised fashion. To this end it has implemented procedures for each of the taxes it manages. Besides describing the processes for proper payment of taxes and performing quality control regarding taxes paid, these processes include the appointment of a person responsible for the process and a person responsible for supervising it.

- > Due to different interpretations of applicable regulations, ENDESA relies on experts in the area to analyse them and it also relies on prestigious legal and tax advisors who interpret these regulations, allowing ENDESA to adapt its actions to legal requirements.
- > In order to have thorough, reliable knowledge of the status of audience opinion, ENDESA has social research tools used regularly and exclusively for the Company, and also information from studies of the same nature that are available to the public.
- > With respect to supervision of tax risks and the respective response plans, the unit managing tax issues regularly identifies the risks associated with the tax function, characterises them in accordance with the risk factor that produces them and its typology, and performs an economic assessment of them. They are properly managed subsequently, to eliminate or reduce the risk, which is undertaken only when it is considered there are solid arguments to defend the posture adopted. Risks are reported to the Risk Control Unit on a periodic basis, to be added to the company's Risk Map.

# F. Internal Control Over Financial Reporting (ICFR)

**Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.**

## F.1. The entity's control environment

**Specify at least the following components with a description of their main characteristics:**

**F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.**

### *Board of Directors*

The Board of Directors of ENDESA is ultimately responsible for the existence and regular updating of an adequate and effective ICFR system. As stipulated in the Board of Directors' Regulations, this duty has been delegated to the Audit and Compliance Committee.

The Board has the non-delegatable power to supervise internal information and control systems along with the Audit and Compliance Committee, the functions of which, pursuant to Spain's Corporate Enterprises Act, include supervision of the effectiveness of the company's internal control system.

### *Audit and Compliance Committee*

The Regulations of ENDESA's Audit and Compliance Committee stipulate that the main task of the Committee is to promote good corporate governance and ensure the transparency of all ENDESA's actions in economic and financial areas and in relation to external audit, compliance and internal audit.

The committee is entrusted with supervising the preparation and presentation of regulatory financial information and monitoring the efficacy of ENDESA's ICFR and risk management systems, as well as discussing with the auditors or audit firms any significant weaknesses detected in the internal control system during the course of the audit work.

The committee also supervises the internal audit services, ensuring the independence and effectiveness of the Internal Audit function, proposing the selection, appointment, re-election and removal of the head of internal audit, receiving regular reports on activities, and verifying that Senior Management is acting on the findings and recommendations of its reports.

Audit and Compliance Committee members are appointed in the light of their knowledge and experience of accounting, audit or risk management.

### *Transparency Committee*

In 2004, ENDESA set up a Transparency Committee chaired by the Chief Executive Officer, composed of its senior executives including all members of the Executive Management Committee and other members of ENDESA management directly involved in the preparation, certification and disclosure of financial information.

This Committee's main purpose is to ensure compliance with and the correct application of general financial reporting principles (confidentiality, transparency, consistency and responsibility) by evaluating the events, transactions, reports and other matters of relevance disclosed and determining the manner and deadlines for making these disclosures.

The duties of the Transparency Committee also include assessing the findings submitted to it by ENDESA's Department of Administration, Finance and Control, based on the

report prepared by the Internal Control unit on compliance with and effectiveness of the ICFR system and the internal controls and procedures concerning market disclosures, taking corrective and/or preventive action and reporting to the Board's Audit and Compliance Committee in this regard.

#### *Department of Administration, Finance and Control*

Acting as backup to the Transparency Committee, ENDESA's Department of Administration, Finance and Control performs the following ICFR-related duties within the framework of the Enel Group's policies and procedures:

- > Proposing financial reporting management policies to the Transparency Committee for approval.
- > Evaluating and reporting to the Transparency Committee on the effectiveness and operativity of controls and, where applicable, possible breaches of the internal control policies approved.

#### *Internal Control Unit*

ENDESA's Department of Administration, Finance and Control has an Internal Control Unit, the functions of which are as follows:

- > Communicating approval of ICFR policies and procedures to ENDESA's various subsidiaries and business units.
- > Maintaining, updating and furnishing the company's ICFR model and the documentation associated with processes and controls.
- > Defining the flows for certifying the evaluation of the effectiveness of the controls and procedures defined in the ICFR model.
- > Overseeing compliance with internal control over financial reporting and the internal disclosure controls and procedures, presenting periodic reports on its conclusions with respect to the system's effectiveness.

All matters relating to internal control over financial reporting and the disclosure of financial information are regulated in the N° 5 organisational procedure "Internal Control over Fi-

ancial Reporting"; the purpose of which is to establish the operating principles and responsible bodies for the establishment and maintenance of internal controls over financial reporting and internal financial information disclosure controls and procedures in order to ensure their reliability and to guarantee that reports, events, transactions and other material developments are disclosed in an adequate form and timeframe. The ICFR system is evaluated and certified in full every six months.

#### **F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process**

- > **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.**

#### *Design of the organisational structure*

The Board of Directors, through the CEO and the Appointments and Remuneration Committee (one of the Board's advisory committees), is responsible for the design and review of the organisational structure and for defining lines of responsibility and authority.

The CEO and the Appointments and Remuneration Committee establish the distribution of tasks and functions, ensuring adequate segregation of duties and coordination mechanisms among the various departments so that everything works as it should.

The Organisational and Human Resources Unit is tasked with designing, planning and disclosing the change management framework in the case of major organisational transformations, planning change programmes and the related resources and processes. It is also responsible for defining the guidelines for the Group's organisational structure and for relevant organisational changes. It also defines and implements the global job posts systems, evaluating key managerial functions and executive posts.

The N° 26 corporate policy “Organisational Guidelines” defines and establishes criteria to identify, develop and implement organisational guidelines, and appraises and evaluates positions.

The various organisational guidelines are posted on ENDESA’s Intranet and are available to all ENDESA employees.

- > **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

*Code of conduct - regulatory framework concerning ethics and compliance*

ENDESA has the following documents in connection with internal regulations concerning ethics and prevention of crimes:

*Code of Ethics*

ENDESA has a Board-endorsed Code of Ethics which itemises the ethical commitments and duties to which the professionals working for ENDESA and its subsidiaries, be they Directors or staff, no matter their positions, are bound in the course of managing these companies’ business and corporate activities.

The Code of Ethics comprises:

- > The general principles governing relations with stakeholders that define ENDESA’s benchmark business values.
- > The standards of conduct for dealing with all groups of stakeholders, enshrining the specific guidelines and rules which ENDESA professionals must adhere to in order to uphold the general principles and avoid unethical behaviour.
- > The Implementation Mechanisms, describing the organisational structure of the Code of Ethics environment,

responsible for ensuring that all employees are aware of, understand and comply with the Code.

The principles and provisions of ENDESA’s Code of Ethics must be respected and complied with by the members of the Board of Directors, the Audit and Compliance Committee and other governing bodies of ENDESA and its subsidiaries, as well as these entities’ executives, employees and any other professionals related to ENDESA via contractual relationships of any type, including those working for or with them on an occasional or temporary basis.

The Code’s general principles include that of “Information transparency and integrity”, which stipulates that “ENDESA’s professionals must provide complete, transparent, comprehensible and accurate information such that when entering a relationship with the Company the implicated parties can take independent decisions that are informed with respect to the interests at stake, the alternatives and the relevant ramifications”.

*Zero Tolerance Plan Against Corruption*

The Board-approved Zero Tolerance Plan Against Corruption requires all ENDESA employees to be honest, transparent and fair in the performance of their work. The same commitments are expected of its other stakeholders, i.e. people, groups and institutions that help ENDESA meet its objectives or that are involved in the activities it performs in order to achieve its goals.

In compliance with Principle 10 of the Global Compact, of which ENDESA is a signatory, “Businesses should work against corruption in all its forms, including extortion and bribery”, ENDESA expressly rejects all forms of corruption, direct and indirect, and to this end it has an anti-corruption programme in place.

*Criminal Risk Prevention Model*

ENDESA’s Criminal Risk Prevention Model, in place since 1 January 2012, is a control system for the purpose of preventing or significantly reducing the risk of criminal offences within the company, complying with the Spanish Criminal Code on the criminal liability of legal persons.

According to current legislation, the adoption of an appropriate and efficient prevention model, the operation and supervision of which have been entrusted to a Company body with independent powers of initiative and control, could exempt the Company from criminal liability with regard to a criminal offence.

The following protocols, which establish general criteria for action in different areas, form part of ENDESA's crime prevention model:

- > Protocol for action to be taken concerning conflicts of interests. Exclusive dedication and commercial competition.
- > Protocol for accepting and offering presents, gifts and favours.
- > Protocol for action to be taken concerning public servants and the authorities.
- > **A whistle-blowing channel to report to the audit committee any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

#### *Whistle-blowing channel*

ENDESA has had an Ethics Channel in place since 2005. This is accessible via its corporate website and intranet to all employees, so that all stakeholders can report, securely and anonymously, any irregular, unethical or illegal conduct which has, in their opinion, occurred in the course of ENDESA's activities.

The procedure for using this channel ensures confidentiality, as all complaints and communications are managed by an independent external supplier.

In addition to this Channel, a number of other channels are available for submitting complaints. These are all routed to Internal Audit, in accordance with ENDESA's internal procedures.

Internal Audit is responsible for ensuring that all complaints received are processed correctly, considering them and acting independently of other company units. It has access to all company documents needed for the exercise of its functions. It also monitors the implementation of the recommendations included in its audit reports. Internal Audit reports to the Board of Directors through the Audit and Compliance Committee, which centralises and channels significant complaints to the Board.

- > **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

#### *Training programmes*

The Business Organisation and Human Resources Department works with the Department of Administration, Finance and Control to prepare the training schedule for all staff involved in preparing ENDESA's financial statements. This Plan includes ongoing updates on business trends and regulatory developments affecting the activities performed by the various ENDESA subsidiaries, specific IFRS skills courses and training regarding ICFR standards and developments.

In 2016, ENDESA's Department of Administration, Finance and Control received 18,169.25 training hours, of which 16.83% were given over to the acquisition, refreshment and recycling of financial skills and knowledge, addressing matters such as accounting and audit standards, internal control, risk management and control and regulatory and business matters with which these professionals need to be familiar in order to properly draw up ENDESA's financial information. The rest of the training hours were earmarked for management skills, employment prevention and safety matters and IT skills. Of these hours, 38.22% were given over to languages, and 18.59% to leadership and management skills.

In addition, whenever necessary, ENDESA provides specific training courses on financial reporting and control matters to staff outside the Department of Administration, Finance and Control who are directly or indirectly involved in supplying information used in the financial reporting process.

## F.2. Risk assessment in financial reporting

### Report at least:

#### **F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:**

##### **> The process exists and is documented.**

ENDESA has operated an official ICFR system since 2005.

##### **> Whether the process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), whether it is updated and with what frequency.**

The financial reporting risk identification and maintenance process covers the following financial information objectives:

- > Existence and occurrence.
- > Completeness.
- > Valuation.
- > Presentation, disclosure and comparability.
- > Rights and obligations.

ENDESA's Internal Control Unit updates the ICFR's map of relevant processes to include any quantitative or qualitative changes affecting the internal control model.

The evaluation (in terms of probability and impact) of both inherent and residual risks is updated every time there is a change in processes or whenever a new company is added to the scope. This evaluation can result in the identification of new risks, which are mitigated by designing new controls or updating existing controls.

##### **> A specific process is in place to define the scope of consolidation, with reference to the possible exist-**

**ence of complex corporate structures, special-purpose vehicles, holding companies etc.**

#### *Defining the scope of consolidation*

ENDESA keeps a corporate register, which is permanently updated, of information on all its shareholdings, whether direct or indirect, including all entities over which ENDESA has the power to exercise control, regardless of the legal structure giving rise to such control.

This register therefore also includes holding companies and special-purpose vehicles.

The management and updating of this corporate register is governed by a procedure regulated by Corporate Regulation N.035 "ENDESA Corporate Records Management".

ENDESA's scope of consolidation is determined on a monthly basis by the Department of Administration, Finance and Control on the basis of the information available in the Corporate Records and in accordance with the criteria stipulated by International Financial Reporting Standards (hereinafter "IFRS") and other local accounting regulations. All ENDESA companies are informed of any changes to the scope of consolidation.

##### **> The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**

The financial reporting risk identification and maintenance process also factors in the impact that the other risk factors pinpointed on the risk map may have on the financial statements, primarily operational, regulatory, legal, environmental, financial and reputational risks.

##### **> Which of the company's governing bodies is responsible for overseeing the process.**

The Audit and Compliance Committee is tasked with overseeing the effectiveness of ENDESA's ICFR system and reporting on this to the Board. To this end it may submit recommendations or proposals to the Board of Directors and the corresponding deadline for their follow-up.

## F.3. Control activities

Indicate the existence of at least the following components, describing their main characteristics:

**F3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.**

*Procedures for reviewing and authorising the financial information and description of ICFR*

ENDESA discloses financial information to the market quarterly. This information is prepared by the Management Area, which performs certain controls as part of the closing of accounts procedure in order to ensure the reliability of the information disclosed.

In addition, the Planning and Control Area analyses and monitors the information produced.

ENDESA's General Manager of the Department of Administration, Finance and Control analyses the reports received, provisionally certifying the aforementioned financial information for submission to the Transparency Committee.

The Transparency Committee and the representatives designated by the Transparency Committee conduct a six-monthly and quarterly analysis, respectively, of the information received from the Department of Administration, Finance and Control. When the information has been approved, it is sent to the Audit and Compliance Committee.

The Audit and Compliance Committee oversees the financial information presented to it. At reporting dates that coincide with the end of a six-month financial period, and those deemed particularly important by the Audit and Compliance Committee, the Committee also receives information from

ENDESA's external auditors on the results of the work it has carried out.

Finally, the Audit and Compliance Committee presents its conclusions on the financial information to the Board of Directors. When the Board has approved the information for issue, it is disclosed to the market.

*Model for Internal Control over Financial Reporting*

ENDESA has an ICFR model in line with the model established for

all Enel Group companies, based on the COSO Model (Committee of Sponsoring Organisations of the Treadway Commission).

Firstly, there are Management Controls or "Entity Level Controls" (hereinafter "Management Controls" or "ELC") and "Company Level Controls" (hereinafter "CLC"). These structural elements are interrelated across all divisions/companies.

There are also specific ELC controls to mitigate the risk of Segregation of Duties (hereinafter "SOD-specific ELC") and access controls (hereinafter "ELC-ACCESS") that mitigate the risk of unauthorised access to the software applications or network folders involved in the processes.

Pursuant to the Enel Group model, ENDESA has identified the following business cycles at the process level common to all its subsidiaries:

- 1) Fixed assets
- 2) Accounting close
- 3) Capital investments
- 4) Finance
- 5) Inventory
- 6) Personnel expenses
- 7) Procurement cycle
- 8) Revenue cycle
- 9) Taxes other than income tax

The ICFR unit manages and continuously updates documentation on each process, following the methodology established to this end. All organisational changes imply the need



to review the control model in order to assess their impact and make any changes required to ensure operational continuity. The primary components of each process are:

- > Risks.
- > Control activities. Also called "Process Level Controls" (hereinafter "PLC"), except for the specific case of IT systems, which are known as IT General Controls (hereinafter "ITGCs"). The control activities ensure that ENDESA's control targets are met in the ordinary course of business and in respect of all consolidated financial statement headings.

The internal control model applied in 2016 entails average coverage of 97.63% of the main consolidated financial statement headings (total assets, debt, earnings and pre-tax results).

All information relating to the internal control model is documented in the SAP-GRC PROCESS CONTROL computer tool (hereinafter, SAP-GRC), coordinated by the ICFR unit. The persons responsible for control activity (the Control Owners) are appointed by the process managers, and are responsible for carrying out the six-monthly self-assessments.

The Internal Control Unit gives the managers of processes and controls the necessary backup, and ensures the assessment process is carried out properly.

The ICFR assessment process includes the following:

- > Certification of the internal control system, in the following phases:
  - Self-Assessment of Control Activities (PLC)
  - Self-Assessment of Management Controls (ELC/CLC)
  - Signature by the heads of the various Organisational Units involved, moving up the hierarchical structure of the company until the Chief Executive Officer has signed.

All of these phases are monitored and supported on a permanent basis by the Internal Control Unit.

- > Verification by the external consultant on the controls of the SCIIF of ENDESA.

The results of certification of the internal control system and the results obtained from verifications by the external consultant are added to the ICFR report.

Any weaknesses detected are classified in three categories as follows, depending on their potential effect on financial statements:

- > Control weaknesses (insignificant)
- > Significant weaknesses
- > Material weaknesses

All weaknesses detected in the ICFR system lead to a specific action plan to rectify each of them. The Internal Control Unit reports to the Transparency Committee and the Audit and Compliance Committee on the weaknesses detected in the ICFR until they have finally been resolved.

### **F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.**

The Global ICT area is responsible for the IT and telecommunications systems for all ENDESA's businesses and geographic markets.

Global ICT functions include the definition, application and monitoring of security standards, development and operation of applications and infrastructures, for traditional models and also for the new cloud computing paradigm. All IT activities are carried out by applying the internal control model to information technology.

ENDESA's internal control model and, in particular, the Global ICT model, encompass the IT processes, which in turn include the IT environment, architecture and infrastructure, and the applications, which affect transactions with a direct impact on the entity's key business processes and, ultimately, its financial information and reporting processes. These controls can be implemented by means of automated pro-

programming or using manual procedures. ENDESA has an internal control model for all key IT systems used in preparing financial information, which is designed to guarantee the overall quality and reliability of the financial information produced at each close and, by extension, the information disclosed to the market.

The IT internal control model is structured into four areas of governance:

- > Planning and Organisation
- > Solution & Maintenance
- > Service Delivery and Support
- > Performance Monitoring

These areas are in turn divided into processes and sub-processes with the necessary fine-tuning to guarantee an appropriate level of control of the IT system and ensure the integrity, availability and confidentiality of each company's economic and financial information.

ENDESA's internal IT system control model contains the control activities needed to cover the risks intrinsic to the following IT system management aspects, and financial information processes and systems:

- > IT environment
- > Management of application changes
- > IT operations and management
- > Physical and logical security
- > Telecommunications

To guarantee the security of its information, in 2007 ENDESA set up its Information Security function, now part of the Resources Department's Security Division, in response to requirements dictated by legislation, the technological environment and the market itself. This is based on the regulatory framework established for information security, the guiding principles of which are included in the Security Policy (Policy 40), the Information Protection and Classification Policy (Policy 33) and the IT Systems Access Control Policy (Policy 111).

The Security Policy establishes the organisational framework for managing the security risks to which the company's human resources and tangible and intangible assets

are exposed, determining the implementation of technical and organisational measures required to control and manage them.

The objectives of this are:

- > Protection of employees against risks of an intentional nature or those arising from natural disasters.
- > The observance of current safety standards, laws and regulations.
- > Protection of IT applications and infrastructure, industrial automation systems and control systems.
- > Protection of tangible resources (work places, the company's infrastructure systems) from threats that could affect their value or compromise their functional capacity.
- > Ongoing safeguarding of information and data from unauthorised alteration (integrity), unauthorised access (confidentiality) and accidental or intentional damage that might jeopardise their use by authorised users (availability); ensuring that the person responsible for the information or provision of a service (and their counterparty) are who they say they are (authentication) and that it is always possible to know who carried out any action affecting the information and when they carried it out (auditability).

There is also an IT Systems Access Control Policy (Policy 111), which sets out guidelines and establishes the control model for the management of access to IT systems and applications, in order to reduce the risk of fraud or involuntary access to Group information and safeguard its confidentiality, accuracy and availability.

In 2007 ENDESA set up a Decision Rights Management function (currently known as Segregation of Duties, part of the ICFR Unit) to guarantee the identification, management and control of functional incompatibilities and ensure that no single person can dominate a critical process.

In relation to the preceding paragraphs, the Segregation of Duties controls (SOD-specific ELC) and logical access con-

trols (ELC-ACCESS) form part of the ICFR, and are assessed and verified in the same way as the other controls forming part of the model.

**F3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.**

When ENDESA outsources an activity involving the issue of financial information, it requires the supplier to provide a guarantee attesting to the internal control measures in place for the activities performed. When processes are outsourced, service providers must obtain an ISAE 3402 “International Standard on Assurance Engagements” report. When IT infrastructure services are outsourced (Data Centre and Hardware), the contract stipulates that an SOC1/SSAE16 report must be obtained. This report allows ENDESA to check whether or not the service provider’s control objectives and activities have functioned during the time horizon concerned. In other cases, such as IT platform or software delegation services, ENDESA obtains information from an independent expert to certify that no aspects of the services could entail any material shortcomings with respect to the process of generating ENDESA’s consolidated financial statements.

When ENDESA engages the services of an independent expert, it first assures itself of their legal and technical competence and skills. ENDESA has control activities in place in respect of independent expert reports, as well as staff with the ability to validate the reasonableness of the report findings.

There is also an internal procedure for hiring external advisors, which stipulates a series of clearance levels depending on the size of the engagement, which may even call for CEO approval. The results or reports of outsourced accounting, tax or legal issues are supervised by the Department of Administration, Finance and Control and the Legal Advice unit, and by any other departments if this is deemed necessary.

## F.4. Information and communication

**Indicate the existence of at least the following components, describing their main characteristics.**

**F4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company’s operating units.**

Responsibility for application of ENDESA’s accounting policies for all its geographic markets is centralised in ENDESA’s Department of Administration, Finance and Control.

ENDESA’s Department of Administration, Finance and Control has an Accounting Criteria and Reporting Unit which is specifically responsible for analysing application of the International Financial Reporting Standards (hereinafter, “IFRS”) and the Spanish Chart of Accounts (“PGC”) to ENDESA Group companies. To carry out these functions, the Accounting Criteria and Reporting Unit is responsible for:

- > Defining ENDESA’s accounting policies.
- > Analysing executed and planned one-off transactions to determine the appropriate accounting treatment in line with ENDESA’s accounting policies.
- > Monitoring the new standards being worked on by the International Accounting Standards Board (hereinafter, “IASB”) and Spain’s Instituto de Contabilidad y Auditoría de Cuentas (hereinafter, “ICAC”), any new standards approved by these bodies and the EU process to endorse IASB regulations, assessing the impact of their implementation on all Group financial statements.
- > Resolving any query made by any subsidiary regarding application of ENDESA’s accounting policies.

The Accounting Criteria and Reporting Unit keeps all those with financial reporting responsibilities at the various levels within ENDESA abreast of amendments to accounting standards, settling any doubts they may have and gathering the required information from subsidiaries to ensure consistent application of ENDESA's accounting policies and to enable it to quantify the impact of application of new or amended accounting standards.

If application of accounting standards is deemed particularly complex, ENDESA's Department of Administration, Finance and Control informs the external auditors of the outcome of its internal analysis, asking them to provide an opinion on the conclusions reached.

ENDESA's accounting policies are based on IFRS and are documented in the "ENDESA Accounting Manual". This document is updated regularly and is distributed to the parties responsible for preparing the financial statements of all ENDESA companies.

#### **F4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.**

ENDESA has IT tools (catalogued internally for ICFR purposes) to cover all reporting requirements associated with its individual financial statements, and to facilitate the consolidation process and subsequent analysis. These tools centralise into a single system and under a single audit plan all the information corresponding to the individual financial statements of all ENDESA subsidiaries, including the notes or additional disclosures needed to prepare the consolidated financial statements.

Every year ENDESA engages an independent expert to certify that the tools do not present any material shortcomings with respect to the process of generating ENDESA's consolidated financial statements.

The data is uploaded into this consolidation system by the Economic Information System (transactional), which is also centralised and in place in virtually all ENDESA companies.

In turn, the ICFR model is supported by an IT system which is managed on a centralised basis and produces all the information needed to draw conclusions with respect to ICFR operativity.

## **F.5. Supervision of operation of the system**

**Indicate the existence of at least the following components, describing their main characteristics.**

### **F5.1. The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.**

Every six months, the Department of Administration, Finance and Control's Internal Control Unit monitors the process through which the design and functioning of the ICFR system is evaluated and certified. It duly reports its findings to the Transparency Committee, which is the body responsible for ensuring adequate internal control of the information disclosed to the market.

To this end, the Internal Control Unit is supplied with the evaluation of the entity/company, process and IT control (ELCs/CLCs, PLCs and ITGCs, respectively) in order to verify:

- > whether any changes have been made to the process, whether the identification of control Activities has been updated and whether the new Control Activities sufficiently cover Process Control Risks.

- > whether all weaknesses in the control system design or functioning have been detected. A weakness refers to an incident which implies that the control system may not be able to guarantee with reasonable assurance the ability to acquire, prepare, summarise and disclose the Company's financial information.
  - > Whether the actual/potential impact of the aforementioned weaknesses has been evaluated and any required mitigating control activities put in place to guarantee the reliability of the financial information, notwithstanding the existence of these weaknesses.
  - > The existence of action plans for each weakness identified.
- *PLC controls*: 2,128 Evaluated and 286 Reviewed by external consultant
  - *ELC/CLC controls*: 206 Evaluated and 14 Reviewed by external consultant, of which SOD-specific ELC: 93 Evaluated and 14 Reviewed by external consultant, and rest ELC/CLC: 113 Evaluated.
  - *ELC-ACCESS controls*: 9 Evaluated and 2 Reviewed by external consultant.
- > *General ITGC controls*: 220 Evaluated.

In the course of this process, any incidents of fraud, no matter how insignificant, involving managers or staff participating in processes with a financial reporting impact are identified and reported.

In addition, in the course of the year ENDESA monitors progress on the action plans put in place to address any shortcomings identified as stipulated above. These plans are defined by the parties responsible for each process, and are shared with the Internal Control Unit.

The Transparency Committee is informed of and certifies the evaluation of the model, the assessment of weaknesses and the status of related action plans twice a year.

Lastly, every six months, the Department of Administration, Finance and Control presents the Audit and Compliance Committee with its conclusions with respect to the evaluation of the ICFR system and progress on executing the action plans arising from earlier evaluations. The half-yearly evaluations carried out in 2016 revealed no material ICFR weaknesses. The following is a list of the number of controls evaluated and reviewed by the external consultant:

- > *Total controls*. 2,563 Evaluated and 302 Reviewed by external consultant
- > *Controls*: 2,343 Evaluated and 302 Reviewed by external consultant, of which:

In total, as a result of the self-assessment process and of the review carried out by the external consultant, 5 control weaknesses were identified which have no material effect on the quality of financial reporting, and 2 non-material weaknesses were detected concerning general ITGC controls.

In keeping with the foregoing, ENDESA's management believes that the ICFR model for the period 1 January to 31 December 2016 proved effective and that the controls and procedures in place to provide reasonable assurance that the information disclosed by the Group to the market is reliable and adequate are similarly effective.

ENDESA's Internal Audit unit, as part of its process audit function, also identifies the main shortcomings of the internal control system, and proposes the action plans necessary to resolve them, the parties responsible for their implementation and the timeframe to monitor the plans.

**F5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.**

The Board has a yearly meeting with the external auditor for information on the work undertaken and developments in the company's risk and accounting positions.

ENDESA's auditor has access to ENDESA Senior Management, and holds regular meetings in order to gather the

information needed to perform its work and to notify any control weaknesses encountered in the course of its work.

The auditor also reports to the Audit and Compliance Committee twice a year on the conclusions drawn from its review of ENDESA's financial statements, additionally presenting any matter deemed relevant.

The internal audit function reports regularly to Senior Management and the Audit and Compliance Committee on any material internal control weaknesses identified in the review of the different processes during the year, and on the status of any action plans put in place to mitigate these weaknesses.

## F.6. Other relevant information

All of ENDESA's material ICFR disclosures are covered in the preceding sections of this report.

## F.7. External auditor's report

**State whether:**

**F7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.**

Pursuant to Article 61 bis (h) of Spain's Securities Market Law 24/88 of 28 July and CNMV Circular 7/2015 of 22 December, ENDESA includes in its 2016 Annual Corporate Governance Report a description of the main features of its internal control and risk management systems with regard to statutory financial reporting, following the structure proposed in the aforementioned Circular.

In addition, ENDESA considered it appropriate to ask its external auditor to issue a report on its review of the information disclosed in this ICFR report in accordance with the pertinent professional conduct guide.

# G. Degree of Compliance with Corporate Governance Recommendations

Indicate the degree of the company's compliance with corporate governance recommendations for listed companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

**1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.**

Compliant

**2. When a dominant and a subsidiary company are listed, the two should provide detailed disclosure on:**

**a) The type of activity they engage in, and any business dealings between them, as well as between the listed subsidiary and other group companies;**

**b) The mechanisms in place to resolve possible conflicts of interest.**

Not applicable

**3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written**

**information circulated in the annual corporate governance report. In particular:**

**a) Changes taking place since the previous annual general meeting.**

**b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

Compliant

**4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.**

**This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.**

Compliant

**5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.**

**When a Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report**

on its website explaining the exclusion as envisaged in company legislation.

Compliant

**6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:**

- a) Report on auditor independence.
- b) Reviews of the operation of the audit committee and the appointments and remuneration committee.
- c) Audit committee report on third-party transactions.
- d) Corporate social responsibility policy.

Compliant

**7. The company should broadcast its general meetings live on the corporate website.**

Compliant

**8. The Audit Committee should ensure that the Board of Directors seeks to present the annual accounts to the General Shareholders' Meeting, with no reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.**

Compliant

**9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.**

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant

**10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:**

- a) Immediately circulate the supplementary items and new proposals.
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of votes.
- d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Not applicable

**11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.**

Not applicable

**12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.**

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of



its activities on the broader community and the natural environment.

Compliant

**13. In the interests of maximum effectiveness and participation, the board of directors should ideally have between five and fifteen members.**

Compliant

**14. The Board of Directors should approve a Director selection policy that:**

**a) Is concrete and verifiable;**

**b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and**

**c) Favours a diversity of knowledge, experience and gender.**

The results of the prior analysis of board needs should be written up in the appointments committee's explanatory report, to be published when the general meeting is convened that shall ratify the appointment and re-election of each Director.

The Director selection policy should pursue the goal of having at least 30% of total board places occupied by women Directors before the year 2020.

The appointments committee should run an annual check on compliance with the Director selection policy and set out its findings in the annual corporate governance report.

Compliant

**15. Proprietary and independent directors should occupy an ample majority of seats on the board, while the number of executive directors should be the minimum necessary, bearing in mind the complexity of the corporate group and the ownership interests they control.**

Compliant

**16. The percentage of proprietary directors of the total of non-executive directors should not exceed the proportion between the capital of the company represented by these directors and the remainder of the company's capital.**

This criterion can be attenuated:

**a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**

**b) In companies with a plurality of shareholders represented on the board with no links to each other.**

Compliant

**17. The number of independent directors should represent at least one half of all board members.**

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent Directors should occupy, at least, a third of Board places.

Compliant

**18. Companies should post the following director particulars on their websites, and keep them permanently updated:**

**a) Professional profile and background.**

**b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.**

**c) An indication of the director's classification, stating, in the case of proprietary directors, the shareholder they represent or have links with.**

**d) The date of their first and subsequent appointments as a company director.**

e) Shares held in the company and any options on them.

Compliant

**19.** The annual corporate governance report, following verification by the appointments committee, should explain the reasons for the appointment of proprietary directors at the behest of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a seat on the board from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Not applicable

**20.** Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to Proprietary Directors, the latter's number should be reduced accordingly.

Not applicable

**21.** The Board of Directors should not propose the removal of any independent directors before the expiry of their tenure as mandated by the Bylaws, except where just cause is found by the board, based on a report by the Appointments Committee. In particular, just cause shall be presumed when Directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed in the event of a takeover bid, merger or similar corporate operation which makes changes to the company's capital structure, when the changes to the board structure are propitiated by the proportionality criterion set out in Recommendation 16.

Compliant

**22.** Companies should establish rules obliging directors to inform and, where applicable, resign in any circumstances that might harm the organisation's name or reputation, with particular mention of any criminal charges brought against them and of any subsequent court proceedings.

If a director is indicted or tried for any of the crimes stipulated in corporate legislation, the board should examine the matter and, in view of the particular circumstances, decide whether or not the director should remain in his or her post. The board should also disclose all such determinations in a reasoned fashion in the annual corporate governance report.

Compliant

**23.** All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by a potential conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

When the board takes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this Recommendation should also apply to the secretary of the board, director or otherwise.

Not applicable

**24.** Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether the resignation is filed as a significant event, the reason for this must be explained in the annual corporate governance report.

Compliant

**25. The appointments committee should ensure that non-executive Directors have sufficient time available to discharge their responsibilities effectively.**

**Board regulations should establish rules about the number of directorships their board members can hold.**

Compliant

**26. The board should meet with the necessary frequency to properly perform its functions properly, at least eight times a year, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items to the agenda.**

Compliant

**27. Director absences should be kept to the bare minimum and quantified in the annual corporate governance report. In the event of absence, Directors should delegate their powers of representation with the appropriate instructions.**

Partially compliant

There have not been precise instructions with the delegation in all cases, although most delegations contain precise instructions. A procedure has also been established whereby the Directors can delegate in order to try to prevent these situations.

**28. When directors or the Secretary express concerns about a proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the board meeting, the person expressing them can request that they be recorded in the minutes.**

Not applicable

**29. The company should provide suitable channels for Directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.**

Compliant

**30. Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

Compliant

**31. The agendas of Board meetings should clearly indicate on which points Directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.**

For reasons of urgency, the Chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion shall require the express prior consent, duly recorded in the minutes, of the majority of Directors present.

Compliant

**32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.**

Compliant

**33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by law and the company's Bylaws, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's Chief Executive Officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each Director, when circumstances so advise.**

Compliant

**34. When a lead independent Director has been appointed, the Bylaws or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of Direc-**

tors in the absence of the Chairman or Vice Chairmen give voice to the concerns of non-executive Directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the Chairman's succession plan.

Compliant

**35. The Board Secretary should strive to ensure that the Board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.**

Compliant

**36. The Board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:**

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) The diversity of Board membership and competences.
- d) The performance of the Chairman of the Board of Directors and the company's Chief Executive.
- e) The performance and contribution of individual Directors, with particular attention to the Chairmen of Board committees.

The evaluation of Board committees should start from the reports they send the Board of Directors, while that of the Board itself should start from the report of the appointments committee.

Every three years, the Board of Directors should engage an external consultant to aid in the evaluation process. This consultant's independence should be verified by the appointments committee.

Any business dealings that the consultant or members of its corporate group maintain with the company or

members of its corporate group should be detailed in the Annual Corporate Governance Report.

The process followed and areas evaluated should be detailed in the Annual Corporate Governance Report.

Compliant

**37. When the company has an executive committee, the breakdown of its members by director category should be similar to that of the board itself. The secretary of the board should also act as secretary to the executive committee.**

Compliant

**38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the executive committee's minutes.**

Not applicable

**39. Audit committee members, particularly the Chairman, are appointed in the light of their knowledge and experience of accounting, audit or risk management, and the majority of members should be independent directors.**

Compliant

**40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the Board's Non-Executive Chairman or the Chairman of the audit committee.**

Compliant

**41. The head of internal audit should present an annual work programme to the Audit Committee, report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.**

Compliant

**42. The audit committee should have the following functions over and above those legally assigned:**

**1. With respect to internal control and reporting systems:**

**a) Monitoring the preparation and integrity of financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation and the correct application of accounting principles.**

**b) Monitoring the independence of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; proposing the department's budget; approving the focus and work plans; ensuring that activities focus mainly on the company's major risks; receiving regular feedback on its activities; and verifying that senior management takes account of the findings and recommendations of its reports.**

**c) Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any major irregularities they detect at the company in the course of their duties, especially financial or accounting irregularities.**

**2. With respect to the external auditor:**

**a) There should be an investigation of the issues giving rise to the resignation of any external auditor.**

**b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.**

**c) Ensure that the company notifies any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for these.**

**d) Ensure that the external auditor has a yearly meeting with the Board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.**

**e) Ensure that the Company and the auditor respect rules in force on the provision of non-auditing services, limits on the concentration of the auditor's business and, in general, further rules established in order to ensure the independence of the auditors;**

Compliant

**43. The audit committee should be empowered to meet with any company employee or manager, even in the absence of other senior officers.**

Compliant

**44. The Audit Committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the Board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.**

Compliant

**45. Control and risk management policy should specify at least:**

**a) The different types of financial and non-financial risk (inter alia, operational, technological, legal, social, environmental, political and reputational) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.**

**b) Establishment of the level of risk the company deems acceptable.**

**c) Measures in place to mitigate the impact of the risks identified, should they occur.**

**d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.**

Compliant

**46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the Audit Committee or some other dedicated Board committee. This function should be expressly charged with the following responsibilities:**

**a) Ensure the correct working of the risk control and management systems and, in particular, that they identify, manage, and adequately quantify all major risks affecting the company.**

**b) Actively participate in the preparation of risk strategy and in the major decisions about how to manage it.**

**c) Ensure that the risk control and management systems adequately mitigate risks pursuant to the policy defined by the board.**

Compliant

**47. Appointees to the appointments and remuneration committee — or of the appointments committee and remuneration committee, if separately constituted — should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent Directors.**

Compliant

**48. Large cap companies should operate separately constituted appointments and remuneration committees.**

Explain

The ENDESA Board is composed of 11 members, 5 of whom are independent directors.

Following the recommendations of the Good Governance Code, the majority of the members of the Appointments and Remuneration Committee (comprising six members) are independent. Specifically, all members of the Board classified as independent (five) form part of this Committee.

The decision was taken not to divide the current Appointments and Remuneration Committee into two separate committees (an appointments committee and a remuneration committee) because the composition of both of them would be practically identical, with the five independent members forming part of each.

**49. The appointments committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.**

**Any board member should be able to suggest directorship candidates to the appointments committee for its consideration.**

Compliant

**50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:**

**a) Propose the standard conditions for senior officer employment contracts to the board.**

**b) Check compliance with the remuneration policy set by the company.**

**c) Periodically review the remuneration policy for Directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual remuneration is proportionate to the amounts paid to other Directors and senior officers in the company.**

**d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**

**e) Verify the information on Director and senior officers' pay contained in corporate documents, including the Annual Directors' Remuneration Statement.**

Compliant

**51.** The remuneration committee should consult with the chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant

**52.** The terms of reference of supervision and control committees should be set out in the Board of Directors regulations and aligned with those governing legally mandatory Board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive Directors, with a majority of independents.

b) Committees should be chaired by an independent director.

c) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the tasks of each committee, discuss their proposals and reports, and report on their activity and the work carried out to the first board plenary following each meeting.

d) The committees should be able to engage external advisors, when they feel this is necessary for the discharge of their duties.

e) Minutes should be drawn up of proceedings, and a copy made available to all Board members.

Compliant

**53.** The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one Board committee or split between several, which could be the Audit Committee, the Appointments Committee, the Corporate Social Responsibility Committee, where one exists, or a dedicated committee established ad hoc by the Board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

f) Monitor and evaluate the company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant

**54.** The corporate social responsibility policy should state the principles or commitments the company shall voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues,

the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant

**55.** The company should report on corporate social responsibility developments in its Directors' report or in a separate document, using an internationally accepted methodology.

Compliant

**56.** Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive Directors.

Compliant

**57.** Variable remuneration linked to the company and the Director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive Directors.

The company may consider the share-based remuneration of non-executive Directors provided they retain such

shares until the end of their mandate. The above condition shall not apply to any shares that the Director must dispose of to defray costs related to their acquisition.

Compliant

**58.** In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector or other similar circumstances.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This shall ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant

**59.** A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant



**60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.**

Compliant

**61. A major part of executive Directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.**

Compliant

**62. Following the award of shares, share options or other rights on shares derived from the remuneration system, Directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.**

**The above condition shall not apply to any shares that the Director must dispose of to defray costs related to their acquisition.**

Not applicable

**63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the Director's actual performance or based on data subsequently found to be misstated.**

Compliant

**64. Termination payments should not exceed a fixed amount equivalent to two years of the Director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.**

Partially compliant

The contractual conditions of current executive directors are prior to this recommendation. However, ENDESA's Directors' Remuneration Policy stipulates that when additions are made to the Senior Management of the Company or the Group, a maximum limit of two years of total and annual remuneration shall be set for payments due to termination of contract, which is applicable in any case, in the same terms, to contracts drawn up with executive directors.

# H. Other Information of Interest

**1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.**

**2. You may include in this section any other information, clarification or observation related to the above sections of this report.**

**Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.**

**3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the code and date of adoption.**

*Note section A.3*

Section A.3 states the number of Company shares held by Directors at 31 December 2016. However, it should be pointed out that Chairman Borja Prado purchased 445 ENDESA shares on 4 January 2017, and thus the balance at the date of this report is 16,405 shares.

*Note section C.1.16*

The members of Senior Management listed in this section include two people (General Manager of Internal Audit and General Manager of Nuclear) who joined the voluntary contract suspension scheme and have since departed, and three people were added to the list (General Manager of Internal

Audit, General Manager of Nuclear and General Manager of Renewable Energies).

*Note section E.4*

On 30 January 2017, following a favourable report by the Audit and Compliance Committee, the ENDESA Board of Directors approved the Company's Tax Risk Management and Control Policy, which regulates the principles guiding ENDESA's Tax Function, defining the obligations and responsibilities within the organisation in this regard, with a description of the measures that must be in place to mitigate any tax risks identified, along with the principles to guide proper control of tax risks, including the performance of a number of ex ante preventive controls and also ex post controls to identify, measure, analyse, monitor and report these in keeping with the stipulations of ENDESA's Risk Management and Control Policy and its Risk Map Operating Instructions.

*CODE OF BEST PRACTICES*

"At a meeting on 20 December 2010, the Board of Directors of ENDESA approved the adoption of the Code of Best Tax Practices. In compliance with the provisions thereof, ENDESA's Head of Tax Affairs reports regularly to the Board, through the Audit Committee, on the company's tax policies and the tax implications of the company's most significant operations during the year. On 25 January 2016 the ENDESA Board ratified adoption of the Code by ENDESA, S.A. and its controlled subsidiaries in Spain, following the addition of an Appendix to same with new obligations of conduct for both the Company and the Administration."

ENDESA is also a signatory to the United Nations Global Compact, which promotes implementation, on an international level, of the 10 universally accepted principles for promoting corporate social responsibility (CSR) in the areas of human rights, labour regulations, the environment and the

fight against corruption in companies' business strategy and activities.

**This annual corporate governance report was adopted by the company's board of directors at its meeting held on 22/02/2017.**

**List whether any directors voted against or abstained from voting on the approval of this Report.**

No

ENDESA Group

Auditor's report on the "Information relating  
to Internal Control over Financial Reporting  
(ICFR-SCIIF in Spanish)" for 2016

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

**AUDITOR'S REPORT ON THE "INFORMATION RELATING TO INTERNAL CONTROL  
OVER FINANCIAL REPORTING (ICFR-SCIIF IN SPANISH)" OF THE ENDESA GROUP FOR 2016**

To the Directors,

At the request of the management of ENDESA, S.A. (the Parent Company) and its subsidiaries (the Group), and in accordance with our engagement letter dated December 20, 2016, we have performed certain procedures on the accompanying "ICFR-related information" included in the 2016 Annual Corporate Governance Report of the Group, which summarizes the Company's internal control procedures regarding annual financial information.

The Board of Directors is responsible for taking appropriate measures to reasonably ensure the implementation, maintenance, supervision, and improvement of a correct internal control system, as well as preparing and establishing the content of all the related accompanying ICFR data.

It is worth noting that apart from the quality of design and operability of the ENDESA Group's internal control system in relation to its annual financial information, it only provides a reasonable, rather than absolute, degree of security regarding its objectives due to the inherent limitations to the internal control system as a whole.

Throughout the course of our audit work on the financial statements, and in conformity with Technical Auditing Standards, the sole purpose of our evaluation of the Group's internal control system was to establish the scope, nature, and timing of the audit procedures performed on the Company's financial statements. Therefore, our internal control assessment, performed for the audit of the aforementioned financial statements, was not sufficiently extensive to enable us to issue a specific opinion on the effectiveness of the internal control over the regulated annual financial information issued.

For the purpose of issuing this report, we exclusively applied the following specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of the abovementioned procedures performed was limited and substantially less than that of an audit or a review on the internal control system, we have not expressed an opinion regarding its efficacy, design, or operational effectiveness regarding the Company's annual financial information for 2016 described in the accompanying ICFR. Consequently, had we performed procedures additional to those shown in the abovementioned Guidelines, or carried out an audit or review on the internal control system of regulated annual financial information, other matters might have come to our attention which would have been reported to you.

Since this special engagement does not constitute an audit of the financial statements or a review in accordance with prevailing audit regulations in Spain, we do not express an opinion in the terms established therein.

The following procedures were applied:

1. Read and understand the information prepared by the Group in relation to the ICFR - which is provided in the disclosure information included in the Management Report - and assess whether such information addresses all the required information which will follow the minimum content detailed in Section F, relating to the description of the ICFR, as per the Annual Corporate Governance Report model established by CNMV Circular nº 7/2015 dated December 22, 2015.
2. Question personnel in charge of preparing the information described in the above section 1, to: (i) obtain an understanding of its preparation process; (ii) obtain information making it possible to evaluate whether the terminology employed is in line with reference framework definitions; (iii) gather information regarding whether the described control procedures are implemented and functioning within the Group.
3. Review the explanatory documentation supporting the information described in section 1 above, which should, mainly, include that information directly provided to those in charge of preparing the descriptive ICFR information. This documentation includes reports prepared by the internal audit function, senior executives and other internal/external specialists in their role supporting the Audit Committee.
4. Compare the information contained in section 1 above with the Group's ICFR knowledge obtained as a result of performing the procedures within the framework of auditing the financial statements.
5. Read the minutes of the Board of Directors Meetings, Audit Committee, and other Company commissions in order to evaluate the consistency between issues described in the minutes related to the ICFR and information discussed in section 1 above.
6. Obtain the representation letter related to the work performed, duly signed by those responsible for preparing and authorizing the issuance of the information discussed in section 1 above.

As a result of the procedures applied on the ICFR-related information, no inconsistencies or incidents have come to our attention which might affect it.

This report was prepared exclusively within the framework of the requirements of the article 540 of the Spain's Corporate Enterprises Act, and the Circular nº 7/2015, of December 22, of the Spanish National Securities Market Commission related to the description of the ICFR in the Annual Corporate Governance Report.

ERNST & YOUNG, S.L.

*(Signed on the original in Spanish)*

February 22, 2017

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José Agustín Rico Horcajo



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