

SECOND PARTY OPINION

ON THE INTEGRATION OF ONE ENVIRONMENTAL FACTOR IN THE SDG 7 EURO-COMMERCIAL PAPER PROGRAM IN FAVOUR OF ENDESA

April 2020

BACKGROUND

Endesa (hereafter the “Borrower” or “Endesa”) contemplates including one environmental factor to a one-year four billion euros SDG 7 Euro-Commercial Paper Program (hereafter “CPP”). The CPP documentation will include the company’s commitment to achieve a certain target regarding one environmental Key Performance Indicator (hereafter “KPI” or “indicator”). The achievement or not of this target will not impact the financial characteristics of the CPP. As opposed to other sustainable financial instruments such as green bonds or green loans, the objective is not to report on the sustainable credentials of the projects or investment to be financed. Indeed, such financing are agnostic on how funds are used.

Endesa is engaged in the business of electricity and gas generation, distribution and sale, as well as related services. The Company generates electricity from various energy sources, such as hydroelectric, nuclear, thermal, wind and solar. In 2016, Endesa acquired Enel Green Power España S.L, which contributed to its generation capacity an installed power of 1,700 MW from renewable sources, mostly wind-generated.

For this so-called SDG 7 EURO CPP, the selected indicator is the following:

- Percentage of Renewable mainland installed net capacity (%), with the following target: 55% of renewable mainland capacity by 2022.

$$\text{Percentage of Renewable mainland installed net capacity (\%)} = \frac{\text{Renewable mainland installed net capacity (GW)}}{\text{Total mainland installed net capacity (GW)}}$$

Table 1 – Endesa’s CPP objectives (% of Renewable mainland installed net capacity)

2019 (Baseline)	2020	2021	2022
39%	40%*	50%*	55%

*To be noted that these % are not to be considered as targets set by the company but expected paths towards the 2022 target.

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion on the integration of one environmental factor in the CPP structured by Endesa. Our opinion is established according to our Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the Loan Market Association’s Sustainability Linked Loan Principles (“SLLP”), published in March 2019. This opinion is strictly limited to the integration of one environmental factor in the CPP. This opinion does not cover the integration of broader sustainability factors (i.e. social and governance), nor the labelling of the CPP, for which the final decision is left to Endesa. This opinion does not constitute a verification or a certification.

Our opinion is built on the review of the following components:

- 1) **Borrower:** we assessed the Borrower’s management of potential stakeholder-related ESG controversies and its involvement in controversial activities¹.
- 2) **Loan:** we assessed the loans’ alignment with the four core components of the SLLP 2019.

Our sources of information are multichanneled, combining data from (i) public information gathered from public sources, press content providers and stakeholders, (ii) information from Vigeo Eiris’ exclusive ESG rating database, and (iii) information provided by the Borrower through documents.

We carried out our due diligence assessment from March 10th to April 24th, 2020. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. To this purpose we used our reasonable efforts to verify such data accuracy.

¹The 17 controversial activities screened by Vigeo Eiris are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Gambling, Genetic engineering, High interest rate lending, Human Embryonic Stem Cells, Military, Nuclear power, Pornography, Reproductive medicine, Tar sands and oil shale, and Tobacco.

VIGEO EIRIS' OPINION

Vigeo Eiris is of the opinion that the contemplated CPP is aligned with the LMA's Sustainability Linked Loan Principles.

1) Borrower (see Part I):

- ▶ As of today, Endesa is facing two controversies, related to the Environment, Business Behaviour, and Community Involvement domains. The frequency is considered isolated. The severity is considered high², based on the analysis of its impact on both the company and its stakeholders. Endesa's capacity to respond is considered overall reactive.
- ▶ Regarding the 17 controversial activities screened under our methodology, Endesa has a major involvement in the Fossil fuels industry, Coal, and Nuclear power. It appears to not be involved in any of the other 14 activities screened under our methodology.

2) Loan (see Part II):

1. **Alignment with the first principle, "Relationship to Borrower's Overall CSR Strategy"** – The Borrower's sustainability objectives are clearly visible and the contemplated targets are coherent with its sustainability strategy.
2. **Alignment with the "Target setting" principle** – The target setting is relevant and material from a sustainability standpoint: the selected KPI reflects one of the company's most material environmental issues and the perimeter of reporting (activities with operational control) is coherent with the sector's practices. The targeted trends show a reasonable ambition, in comparison with existing international standards and sector peers.
3. **Alignment with the "Reporting" principle** – The Control & Reporting definitions and processes are relevant and consistent with the necessity for the company to report reliable data on the selected KPI. The selected indicator is well defined, referring to internationally recognized standards such as the Global Reporting Initiative (GRI). It is accountable, monitored and reported under a reasonably structured process including a third-party verification.
4. **Alignment with the "Review" principle** – The KPI will be audited and made publicly available. The achievement of the target will be annually reviewed by Endesa's management.

This opinion is based on the review of the information provided by the Borrower, according to our exclusive assessment methodology and to the SLLP voluntary guidelines (March 2019). Endesa acknowledges that in case of changes of such standards and market practices and expectations, VIGEO EIRIS shall exclude any liability regarding the use of the concerned opinion and its compliance with then-current standards and market practices and expectations.

Paris, April 24th 2020

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Disclaimer

Transparency on the relation between Vigeo Eiris and the Borrower: Vigeo Eiris has not carried out any audit mission or consultancy activity for Endesa. No established relation (financial or commercial) exists between Vigeo Eiris and the Borrower.

This opinion aims to explain for syndicated banks how the SDG 7 Euro-Commercial Paper Program integrates one environmental factor, based on the information which has been made available to and has been analysed by Vigeo Eiris. The opinion only reflects the integration of one environmental factor in the designated financial instrument. Vigeo Eiris endeavours to collect and to use the most reliable information accessible, but cannot guarantee its accuracy, completeness and up-to-datedness. Vigeo Eiris provides its services with the utmost professional care and quality assurance of its production processes. The user and its stakeholders may not – under any circumstances – require changes or alterations or distortions in the methodology or opinions of Vigeo Eiris. Neither Vigeo Eiris shall be liable for the message if altered, changed or falsified. The opinion delivered by Vigeo Eiris does not cover the financial criteria of the facilities. Endesa is fully responsible for attesting its compliance with the commitments defined in its documentation, for implementing appropriate measures to reach them and for monitoring its performance. Endesa remains solely responsible for the calculation of the selected indicator and the associated reporting on its past and future performances.

The product or service delivered by Vigeo Eiris is understood as a service of providing information, based on the methods and the rating process that Vigeo Eiris applies to Borrowers in the investment universes under its review. The information contained in this opinion does not constitute financial advice in any form and Vigeo Eiris does not act as a financial adviser. Vigeo Eiris is not endorsing, recommending or advising on the financial merits or otherwise of any financial instrument or product and no information within this opinion should be taken as such, nor should any information in this opinion be relied upon in making any financial decision. References and links to external websites are for information purposes only. Vigeo Eiris accepts no responsibility for content on external websites. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make financial decisions or to make any kind of business transaction. In the event of disagreements, the parties will endeavour to resolve them amicably and in good faith. The competent court is the exclusive jurisdiction of France: "Cour d'Appel de Bobigny".

Restriction on distribution and use of this opinion: the opinion is provided by Vigeo Eiris to Endesa and can only be used by them. It is established for the SDG 7 Euro-Commercial Paper Program of 4 billion euros described in Background, and is only valid for this operation. It may not be used as an opinion on any other operation. The distribution and publication must be submitted to Vigeo Eiris approval. The Borrower acknowledges and agrees that Vigeo Eiris reserves the right to publish the final version of the Second Party Opinion on Vigeo Eiris' website and on Vigeo Eiris' internal and external communication supporting documents.

² Scale: Minor, Significant, High, Critical

DETAILED RESULTS

Part I. BORROWER

Endesa is engaged in the business of electricity and gas generation, distribution and sale, as well as related services. The Company generates electricity from various energy sources, such as hydroelectric, nuclear, thermal, wind and solar. In 2016, Endesa acquired Enel Green Power España S.L, which contributed to its generation capacity an installed power of 1,700 MW from renewable sources, mostly wind-generated.

At the Borrower's request, this document does not contain information on its ESG rating as provided by Vigeo Eiris. The most recent rating conducted by Vigeo Eiris dates from October 2018, and thus does not reflect Endesa's ESG performance since then.

Management of stakeholder-related ESG controversies

As of today, Endesa is facing two stakeholder-related ESG controversies, linked to three of the six domains we analyse:

- Business Behaviour, in the criterion "Prevention of anti-competitive practices";
- Community Involvement, in the criterion "Promotion of the local social and economic development";
- Environment, in the criteria "Pollution prevention and control" and "Protection of biodiversity".

Frequency: On average, the controversies are considered isolated, in line with the sector average.

Severity: The severity of their impact on both the company and its stakeholders is considered high for one controversy and significant for the other – the sector average being significant.

Responsiveness: Endesa is considered reactive on average, in line with the sector average. It is considered reactive for one controversy and non-communicative for the other.

Involvement in controversial activities

The Borrower is involved in 3 of the 17 controversial activities screened under our methodology namely:

- Major involvement in Fossil Fuels Industry: Endesa has an estimated turnover from fossil fuels which is between 20-33% of total turnover. This turnover is derived from fossil fuel-powered electricity generation, primarily in Spain and Portugal.
- Major involvement in Coal: Endesa has an estimated turnover from coal which is less than 10% of total turnover. This turnover is derived from coal-powered electricity generation.
- Major involvement in Nuclear Power: Endesa has an estimated turnover from nuclear power which is between 10 and 33% of total turnover. This turnover is primarily derived from nuclear-powered electricity generation, as well as from services provided to the nuclear power industry.

The Borrower appears to be not involved in any of the 14 other controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Gambling, Genetic engineering, High interest rate lending, Human Embryonic Stem Cells, Military, Pornography, Reproductive medicine, Tar sands and oil shale, and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

Part II. Loan

Principle 1. Relationship to Borrower's Overall Corporate Social Responsibility (CSR) Strategy

The Borrower's sustainability objectives are clearly visible and the contemplated targets are coherent with its sustainability strategy.

The contemplated CPP is aligned with the first principle of the LMA's Sustainability Linked Loan Principles, "Relationship to Borrower's Overall CSR Strategy".

Accessibility

Endesa's general sustainability strategy and objectives are clearly visible and available to all stakeholders in the company's Sustainability Plan 2020-2022³ as well as in its Strategic Plan 2020-2022⁴, both publicly available on the Borrower's website.

The Borrower has disclosed the CPP's related KPI and target in its Strategic Plan 2020-2022, published in November 2019. Endesa has committed to disclose the KPI and its associated target within its Sustainability Report 2020, which will be publically available during the first quarter of 2021.

Coherence

Vigeo Eiris considers that the selected KPI is coherent with Endesa's strategy and priorities in terms of sustainability.

Endesa strives to be aligned with the objectives of the Paris Agreement (COP21) to maintain the average global temperature increase well below 2 °C compared with pre-industrial levels and to continue with efforts to limit this increase to 1.5 °C. According to the IPCC models, to limit global warming to below 1.5°C, CO₂ emissions should decline by 45% from 2010 levels by 2030, and reach net zero around 2050. To stay below 2°C, CO₂ emissions should decline by 25% by 2030 and reach net zero around 2070. Endesa's strategy is to reduce carbon dioxide emissions by 70% between 2017 and 2030 and reach full decarbonisation by 2050, which is aligned with the IPCC's model to stay below a 1.5°C warming.

The company's new 2020-2022 Strategic Plan has SDG13 on Climate Action as its cornerstone. The Strategic Plan includes an investment of over 4.3. billion euros in decarbonisation (56% of total CAPEX), the majority for the development of their green power portfolio. Endesa's objectives for the generation mix is to reach 85% of CO₂-free mainland production in 2022, with more than 55% of production capacity from renewable sources. It also includes a reduction of coal production by around 99% in 2022 with respect to 2019, with a complete coal phase out by 2030.

In addition, decarbonisation is one of four strategic pillars in Endesa's Sustainability Plan 2020-2022, with the following objectives, among others:

- Reduction of CO₂ emissions (full decarbonisation by 2050)
- CO₂ emissions-free energy production (100% by 2050)
- Decrease of installed fossil fuel thermal capacity (by 5,3 GW between 2020 and 2022)
- Increase in renewable capacity (2,8 GW between 2020 and 2022)
- Renewable energy production (from 10 TWh in 2019 to 17.8 TWh in 2022)

We consider that the CPP's KPI is coherent with the Borrower's sustainability strategy and that its associated target is in line with the target disclosed in the company's strategic plan.

³<https://www.endesa.com/content/dam/endesa-com/endesa-en/home/sostenibilidad/informesostenibilidad2017/english/endesa-sustainability-plan-2020-2022.pdf>

⁴ https://www.endesa.com/content/dam/enel-es/endesa-en/home/investors/investorsandanalysts/presentations/documents/2019/endesa_2020-22_strategic_plan.pdf

Principle 2. Target setting – Measuring the Sustainability of the Borrower

The target setting is relevant and material from a sustainability standpoint: the selected KPI reflects one of the company’s most material environmental issues and the perimeter of reporting (activities with operational control) is coherent with the sector’s practices. The targeted trends show a reasonable ambition, in comparison with existing international standards and sector peers.

The contemplated CPP is aligned with the “Target setting” principle of the LMA’s Sustainability Linked Loan Principles.

KPI: Percentage of Renewable mainland installed net capacity (%)
<p><u>Materiality</u></p> <p>The KPI selected is linked to the SDG 7. Affordable and clean energy: “Ensure access to affordable, reliable, sustainable and modern energy for all”, in particular the target 7.2. “By 2030, increase substantially the share of renewable energy in the global energy mix”; and SDG 13 Climate Action: “Take urgent action to combat climate change and its impacts”.</p> <p>The Electric & Gas Utilities sector has a major role to play regarding climate change and energy efficiency through the promotion of renewable energy sources, energy efficiency and reduction in greenhouse gas emissions of power plants. Companies are expected to set ambitious climate change strategies, backed by relevant targets and widespread environmental management systems. Indeed, with two-thirds of greenhouse gas (GHG) emissions coming from the energy sector, the Intergovernmental Panel on Climate Change (IPCC) highlights the need for a transformation of the world’s energy system with an immediate, large-scale shift to renewable energy and energy efficiency.</p> <p>According to a report⁵ published by the International Renewable Energy Agency (IRENA), the rapid adoption of renewable energy combined with energy efficiency strategies is a reliable pathway to achieve over 90% of energy-related CO₂ emissions reductions needed to meet National climate pledges.</p> <p>In addition, Endesa has conducted a materiality assessment in 2019 crossing the stakeholder’s priorities and the company’s priorities. Decarbonisation of the energy mix has been identified through the company’s materiality matrix as a topic of high priority, and is ranked as the number one Material topic.</p>
<p>The selected indicator reflects one of the most material environmental challenges for Endesa, namely increasing renewable energy in its global generation mix.</p> <p>The installed capacity is the maximum output of electricity that can be produced under ideal conditions. It is commonly observed that the share of energy generation from renewables is significantly lower than the share of installed net capacity from renewables, which can be due to intermittency, or inefficient or non-operational installed capacity. Thus, considering renewable installed capacity alone without taking into account the actual generation of this new build capacity could overestimate the environmental impact of the indicator.</p> <p>However, a comprehensive analysis of Endesa’s strategy, which includes both production targets and a goal of decarbonisation, allows to properly assess the company’s management of possible risks associated to the KPI:</p> <ul style="list-style-type: none"> - The company reports that from its strategic commitment to increase its renewable mainland installed capacity will result the following forecasts in renewable production: 20% (10TWh - actual data) in 2019, 25% (13.3TWh) in 2020, 29% (15TWh) in 2021 and 34% (17.8TWh) in 2022. These data show that Endesa forecasts a spread between renewable energy in the total installed capacity and in the generation mix that is coherent with what can be currently observed in the market. - Endesa has set a commitment to report to investors on the share of renewable generation and its performance in terms of decarbonisation. <p>Decarbonisation is reflected by the KPI, as it is based on total mainland installed capacity, which includes fossil fuels. However, the decrease in fossil fuel mainland installed capacity is reflected only indirectly, through changes in the total mainland installed capacity, without separate values for fossil fuel mainland installed capacity. To address this, Endesa has disclosed the decrease in production from fossil fuels in its Strategic Plan 2020-2022, its Sustainability Plan 2020-2022 and its Sustainability Report 2019. The Sustainability Plan includes a target of a decrease of installed fossil fuel thermal capacity by 5,3 GW between 2020 and 2022, and the Strategic Plan includes a reduction of coal production by around 99% in 2022 with respect to 2019, with a complete coal phase out by 2030.</p> <p>In addition, the calculation of the selected KPI considers different types of renewable energies including large hydropower. Although hydropower dams can produce power with low greenhouse gas emissions, adverse social and environmental externalities of large dams can result in substantial physical transformation of rivers, riverine ecosystems impacts, displacement, loss of livelihood and loss of cultural heritage are some of the worst impacts. As a result, we consider that excluding large hydropower from the perimeter of the collected KPI would improve its relevance from a sustainability perspective.</p>

⁵https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2019/Jun/IRENA_G20_climate_sustainability_2019.pdf

In this case, and as indicated in the Strategic Plan 2020-2022, there will be no increase in hydroelectric capacity, and reaching the target will rely exclusively on an increase of wind and solar installed capacity.

Exhaustiveness

The company reports that the reporting perimeter represents all of Endesa's energy generation activity. Indeed, the KPI integrates total mainland installed net capacity of energy generation. The Borrower reports that this perimeter will not be subject to modifications.

Ambition

KPI: Percentage of Renewable mainland installed net capacity (%)

By using the percentage of renewable mainland installed net capacity in relation to total mainland installed net capacity, the data should fairly reflect positive or negative trends of the company's engagement to fight climate change.

Table 1 below illustrates the existing data set, the company's corporate objectives, and the CPP's established variation.

Table 1 – Endesa's Renewable mainland installed net capacity (%)

	Reported data					Forecast		
	2015	2016	2017	2018	2019 (Baseline)	CPP's objectives		
	2015	2016	2017	2018	2019 (Baseline)	2020	2021	2022
KPI	28%	35%	35%	36%	39%	40%*	50%*	55%
Annual variation (% points)		+7	+0	+1	+3	+16		
Average annual variation (% points)		+2.75				+5.33		
Total renewable capacity (GW)	4.7	6.4	6.4	6.5	7.4	7.9	8.8	10.2
Variation in total renewable capacity (%)	N/A				+38%			

*To be noted that these % are not to be considered as targets set by the company but expected paths towards the 2022 target.

Based on several points of comparison, we consider that Endesa's target shows a reasonable⁶ level of ambition.

The objective is to reach over 55% of total mainland installed capacity from renewables by the end of 2022, compared to the 2019 baseline. This represents a 38% increase in renewable mainland installed capacity in relation to 2019, from a total renewable capacity of 7.4 GW in 2019 to 10.2 GW capacity in 2022. Therefore, the percentage of renewable mainland installed net capacity, in relation to total mainland installed net capacity, would increase of 16 percentage points, from 39% in 2019 to 55% in 2022. This foreseen increase over 2019-2022 would be higher than the reported increase over the 2015-2019 period.

According to Endesa, reaching 55% of renewable mainland installed net capacity by 2022 would allow to cover 34% of its production from renewable sources, compared to 20% in 2019.

In addition, Endesa's plan includes the 96% reduction of coal installed capacity by 2022 with respect to 2019 figures (5.1 GW), decreasing it to 0.2 GW leading to a total coal phase out by 2030.

⁶ Scale of assessment: Weak / Moderate / Reasonable

IRENA estimates that in order to meet the objectives of the Paris Climate Agreement, the share of renewable energy in the power sector would need to increase from 25% in 2017 to 86% in 2050. According to the International Energy Agency (IEA), renewable power capacity is set to expand by 50% between 2019 and 2024, led by solar PV⁷. The IEA reports that, overall, the share of renewables in worldwide power generation is expected to increase from 26% in 2019 to 30% in 2024⁸. Endesa reports an expected increase to 34% of its power generation from renewables in 2022, which is higher than the IEA's expectations. Of note, the evolution in expected power generation from renewables would represent a 78% increase from 2019 to 2022.

It is to be noted that, in order to evaluate whether the target set by Endesa is consistent with the above-mentioned targets, Vigeo Eiris had to rely on complementary data, notably its renewable generation production estimates as the selected KPI itself did not enable an appropriate comparison.

Endesa's target appears to be consistent with the performances of Electric and Gas Utility companies in Europe (with the *Top 10 performers* according the Vigeo Eiris' rating methodology). For instance, Endesa's target appears to be more ambitious than some of its sector peers, such as EDF and Engie, which aim to achieve 25% of renewable energy sources in their installed capacity mix in 2020. However, the selected target is below other utility companies, such as Iberdrola, which had 70% of renewables in its net installed capacity in 2017, and Energias de Portugal, with 74% of renewables in its net installed capacity in 2017.

Principle 3. Reporting

The Control & Reporting definitions and processes are relevant and consistent with the necessity for the company to report reliable data on the selected KPI. The selected indicator is well defined, referring to internationally recognized standards such as the Global Reporting Initiative (GRI)⁹. It is accountable, monitored and reported under a reasonably structured process including a third-party verification.

The contemplated CPP is aligned with the "Reporting" principle of the LMA's Sustainability Linked Loan Principles.

KPI: Percentage of Renewable mainland installed net capacity (%)
<p><u>Clarity</u></p> <p>The selected indicator and its associated methodologies are clearly defined by Endesa.</p> <p>The company refers to the Global Reporting Initiative (GRI). In particular, Endesa refers to the GRI sectorial indicator EU1¹⁰(GRI-G4-Electric-Utilities-Sector-Disclosures), which sets global standards to measure installed capacity, broken down by primary energy source.</p>
<p><u>Control</u></p> <p>The selected indicator is internally controlled through the company's reporting tool based in Oracle¹¹, named PRIMO, and used by the Administration and Finance Control Department to collect and consolidate the data. The Sustainability Department is responsible for the monitoring and control of all non-financial information.</p> <p>The selected KPI and its associated target are included in the yearly Sustainability Report, which receives a third-party independent review.</p>
<p><u>Reporting</u></p> <p>Endesa has been reporting on the selected KPI since 2019, when it was included in the 2020-2022 Strategic Plan. However, Endesa has monitored the data to calculate the KPI since 2017. Calculation methodologies have not evolved.</p> <p>The selected KPI has been monitored since 2017. The monitoring process occurs through the PRIMO tool, where information is uploaded at individual company level, thus including shareholding structures. Information is updated and consolidated on a monthly basis, with filters in the system to ensure a quality check. This information is included in the quarterly communications to investors, and consolidated for the yearly Legal Report and Sustainability Report, going through additional tools to guarantee the validation of the information.</p> <p>The shareholding structures are included in the scope.</p>

⁷ <https://www.iea.org/reports/renewables-2019>

⁸ <https://www.iea.org/news/global-solar-pv-market-set-for-spectacular-growth-over-next-5-years>

⁹ <https://www.globalreporting.org/>

¹⁰ <https://www.globalreporting.org/Documents/ResourceArchives/GRI-G4-Electric-Utilities-Sector-Disclosures.pdf>

¹¹ Oracle is a computer technology corporation that provides database software technology, cloud engineered systems and enterprise software products, including database management systems.

Accessibility of the results

Every year, the Borrower will publicly disclose the data in its Sustainability Report. The reporting will include the details of the underlying methodologies and assumptions used to calculate the KPI.

Principle 4. Review

The KPI will be audited and made publicly available. The achievement of the target will be annually reviewed by Endesa's management.

The contemplated CPP is aligned with the "Review" principle of the LMA's Sustainability Linked Loan Principles.

External review of the achieved results

The results will be reported annually in the company's Sustainability Report. This report is audited externally.

Although the results against the targets will not be independently verified by a qualified external reviewer, as recommended by the SLLP, the lenders may rely on the Borrower's public disclosure to verify such achievement.

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization, activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Borrower's Corporate Social Responsibility as an organization, and on the process and commitments applying to the intended issuance.

Vigeo Eiris' methodology for the definition and assessment of the corporation's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and is organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. Our evaluation framework of the material ESG issues have been adapted, based on the specificities of the Borrower's business activity.

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the audit department for second party opinions) complemented by a final review and validation by the Director of Methods. Our SPO are also subject to internal quality control at three levels (consultants in charge of the mission, Production Manager, and final review and validation by the Director of Sustainable Finance and/or the Director of Methods. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company, then the Director of Methods, and finally Vigeo Eiris' Scientific Council.

All employees are signatories of Vigeo Eiris' Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

Part I. BORROWER

NB: At the Borrower's request, this document does not contain information on its ESG rating as provided by Vigeo Eiris. The most recent rating conducted by Vigeo Eiris dates from October 2018, and thus does not reflect Endesa's ESG performance since then.

Management of stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Borrower on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation based on unproven facts.

Vigeo Eiris reviewed information provided by the Borrower, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Frequency:** reflects for each ESG challenge the number of controversies faced. At corporate level, this factor reflects on the overall number of controversies faced and scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- **Severity:** the more a controversy will relate to stakeholders' fundamental interests, will prove actual corporate responsibility in its occurrence, and will have adverse impacts for stakeholders and the company, the highest its severity. Severity assigned at corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- **Responsiveness:** ability demonstrated by a Borrower to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, Vigeo Eiris' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

Involvement in controversial activities

17 controversial activities have been analysed following 30 parameters to verify if the company is involved in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the company.

Part II. LOAN

The indicator has been evaluated by Vigeo Eiris according to the SLLP and on our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Relationship to Borrower's Overall CSR Strategy

We question the visibility of the Borrower's CSR strategy, as well as the consistency of the contemplated loan's targets with the sustainability strategy and objectives.

Target setting

We analyse the nature, the precision, the intelligibility, the availability and the meaning of the Borrower's indicators as well as their scale in absolute terms and in a sector comparative perspective.

Reporting

We assess the robustness of the accounting system of the Borrower, with a focus on its reporting management system in terms of process design and management, internal and external control, accessibility to its results for all relevant stakeholders.

Review

We question the extent to which the alignment of the achieved results of the Borrower with the contemplated targets are annually reviewed by an external stakeholder.



Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organizations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organizations.

Vigeo Eiris offers a wide range of services:

- ▶ **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- ▶ **For companies & organizations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable bonds, corporate ratings, CSR evaluations and more).

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