



General Shareholders' Meeting

Report on the Independence of the Auditor Financial Year 2017 / 2018



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INTRODUCTION

Pursuant to subsection 4.f) of section 529 *quaterdecies* of the restated text of the Companies Act (*Ley de Sociedades de Capital*) approved by *Royal Legislative Decree 1/2010 of 2 July* (the "**Companies Act**"), listed companies shall annually issue (prior to the audit report) a report that shall express an opinion as to whether the independence of the auditors is compromised. This report must contain a reasoned assessment of the provision of services other than statutory audit by the auditor, in relation to the rules on independence or to the legal provisions regarding the auditing of accounts.

This power is also provided for in the Corporate Governance System of Iberdrola, S.A. ("**Iberdrola**" or the "**Company**"), and particularly in the *Auditor Contracting and Relations Policy*. Recommendation 6.a) of the *Good Governance Code of Listed Companies* recommends that these companies publish the aforementioned independence report on their website well in advance of the annual general shareholders' meeting.

At the meeting held on 31 March 2017, the shareholders acting at a General Shareholders' Meeting of the Company resolved, at the request of the Board of Directors upon a prior proposal of the Audit and Risk Supervision Committee (the "**Committee**"), to appoint KPMG Auditores, S.L. ("**KPMG**" or the "**Auditor**") as auditor of the annual accounts of the Company and its consolidated group for financial years 2017, 2018 and 2019.

In consideration of the foregoing, the Committee issues this report in which it states its opinion regarding the independence of the Auditor of the Company and its consolidated group for financial year 2017.

A. Scope and Work Performed

The Committee has analysed the following information to prepare this report:

I. Written statement of the Auditor regarding the independence thereof

Pursuant to subsection 4.e) of section 529 *quaterdecies* of the *Companies Act*, Iberdrola must annually receive from the Auditor a statement of its independence regarding the entities connected to the Company. KPMG must also provide a detailed and itemised breakdown of information regarding additional services of any kind provided to the Iberdrola group, including the fees received (by either KPMG or by its connected persons or entities), pursuant to the legal provisions governing the auditing of accounts.

In compliance with the above, the Auditor of the Company and its consolidated group today sent a letter to the Committee in which it stated the following:

"The team of the firm in charge of the audit, KPMG Auditores, S.L., and any other persons belonging to the audit firm or any other firms of the network, with the applicable extensions, have met the applicable independence requirements pursuant to the provisions of the Statutory Auditing Act and Regulation (EU) No 537/2014 of 16 April".

II. Relationships with the auditors

During financial year 2017, KPMG appeared before the Committee on eight occasions in order to report on the items set out below:

1. at the meeting held on 15 February it reported on the transition plan with the new statutory auditor for financial years 2017 to 2019 and on news regarding KPMG appearing in the press during December 2016;
2. at the Committee meeting of 12 July it appeared to report on the following items on the agenda: (i) progress on the Board of Directors' report on the economic/financial information of the Company and its consolidated group for the first half of 2017; (ii) explanation of the news regarding KPMG appearing in the press so far that year; (iii) report on the services that KPMG will provide to "Elektro Holding, S.A." and to "Neoenergia, S.A.";
3. at the meeting of 17 July it explained its analysis of the limited review of the individual and consolidated financial statements of Iberdrola for the first half of 2017;
4. at the meeting held on 3 November it reported on the main developments regarding the new structure of audit reports;
5. at the meeting of 20 November it explained the work plan for the statutory audit of Iberdrola and its group and KPMG's strategy; and
6. finally, at the meeting held on 18 December it gave a preview of the closing for financial year 2017.

It is stated for the record that at these meetings, the Auditor did not report any circumstance that might have put its independence at risk.

In addition, pursuant to recommendation 42.2 d) of the *Good Governance Code of Listed Companies*, KPMG will appear at the meeting of the Company's Board of Directors to be held on 20 February 2018 in order to report on: (i) the audit opinion; (ii) the report on independence of the auditor; (iii) the audit work performed; and (iv) the draft audit report; all with respect to the annual accounts of the Company for financial year 2017.

III. Protective measures to detect threats to independence

In the statement of independence set to the Committee on 19 February, the Auditor stated the following:

“Our Firm has implemented the internal policies and procedures described in section 4 of the Transparency Report for financial year 2017 of KPMG Auditores, S.L., available at <https://home.kpmg.com/es/es/home/servicios/audit.html>, to provide you with reasonable assurances that KPMG Auditores, S.L. and its personnel, and any other persons subject to independence requirements (including the personnel of network firms) maintain independence when required by applicable legal provisions. These procedures include those intended to identify and evaluate threats that might arise from circumstances related to audited entities, including those that might entail grounds for disqualification and/or that might require the application of necessary protective measures to reduce threats to an acceptable low level.

In this regard, in our professional opinion and in relation to the aforementioned audit, no circumstances have been identified that individually or as a whole might entail a significant threat to our independence and that would therefore require the application of protective measures or that might involve grounds for disqualification.”

IV. Other non-auditing services provided and fees

Pursuant to the provisions of subsection 4.f) of section 529 *quartedecies* of the *Companies Act*, the Auditor, in its letter to the Committee dated 19 February 2018, reports the following fees billed to the Company and its group in 2017:

In thousands of euros	Audit services	Audit-related services	Other services	TOTAL
Iberdrola, S.A.	3,744	1,387	0	5,131
Subsidiaries	21,266	2,336	0	23,602
Iberdrola, S.A. and consolidated group	25,010	3,723	0	28,733

V. Audit services

Fees for audit services are 25,010 thousand euros, and include the statutory audit of the financial statements of Iberdrola and of its group for financial year 2017.

Its engagement was approved prior to the commencement of its duties by the Auditor, for the entire period during which they were performed, and was previously reported by the Committee at its meeting of 14 December 2015, on which date the initial amount of the Auditor's fees was proposed.

At the meeting of the Committee held on 13 June 2017, the amount of the fees proposed to the Board of Directors was 24,300 thousand euros. However, the final fees received were the amount indicated above, i.e. 25,010 thousand euros. This amount is mainly due to the half-yearly review of the accounts of the Company and its consolidated group and to the two reviews of scope after the date indicated.

In compliance with section 24.1 of the *Audit Act approved by Royal Legislative Decree 1/2011 of 1 July* (the “**Audit Act**”), it is noted for the record that these fees are not influenced or determined by the provision of additional services, nor are they contingent or based on conditions other than changes in the circumstances on which the determination of the fees are based.

VI. Audit-related services

Fees for the provision of services relating to the audit of the Iberdrola group were 3,723 thousand euros. The description of these fees included as annex 1 to the statement is explained below.

- 1,162 thousand euros are for the limited review of the half-yearly financial statements of the Iberdrola group;
- 65 thousand euros are from the issuance of comfort letters for Iberdrola in relation to issues of debt within the framework of the EMTN (Euro Medium Term Note) programme in July 2017;
- an additional 65 thousand euros are from the issuance of comfort letters for Iberdrola in relation to issues of debt in September 2017;
- 95 thousand euros derive from the delivery of comfort letters for Iberdrola in relation to issues of debt in November 2017;
- 25 thousand euros are from the issuance of comfort letters for “Iberdrola Finanzas, S.A.” (Sociedad Unipersonal) (“**Iberdrola Finanzas**”) in relation to issues of debt within the framework of the EMTN (Euro Medium Term Note) programme in July 2017;
- 25 thousand euros derive from the delivery of comfort letters for Iberdrola Finanzas in relation to issues of debt in September 2017;

7. 27 thousand euros are from the issuance of comfort letters for Iberdrola International B.V. in relation to issues of debt within the framework of the EMTN (Euro Medium Term Note) programme in July 2017;
8. 26 thousand euros derive from the delivery of comfort letters for Iberdrola International B.V. in relation to issues of debt in November 2017;
9. 45 thousand euros are for the issue of reports on approved procedures (*pursuant to the International Standard on Related Services (ISRS) 4400*) for Iberdrola Generación, S.A. (Sociedad Unipersonal) in relation to its thermal plants;
10. 115 thousand euros are from the issuance of comfort letters for Avangrid, Inc. ("**Avangrid**") in relation to issues of debt in 2017;
11. 164 thousand euros are from the issuance of comfort letters for Avangrid in relation to additional issues of debt in 2017;
12. 222 thousand euros are from the issuance of a limited review report on the financial statements of Neoenergia, S.A. ("**Neoenergia**") at 30 June and 30 September 2017;
13. 379 thousand euros are from the issuance of a limited review report on the historical financial information (*pursuant to the International Standard on Assurance Engagements 3000*) regarding the pro forma financial statements of Neoenergia at 30 June 2017 in relation to its initial public offering;
14. 247 thousand euros correspond to the issuance of a limited review report on the historical financial information (*pursuant to the International Standard on Assurance Engagements 3000*) regarding the pro forma financial statements of Neoenergia at 30 September 2017 in relation to its initial public offering;
15. 580 thousand euros are from the issuance of comfort letters for Neoenergia in relation to issues of debt in 2017;
16. 80 thousand euros are from the issuance of comfort letters for "Companhia Energetica do Rio Grande do Norte, S.A." in relation to issues of debt in 2017;
17. 75 thousand euros are from the delivery of a limited review report (*pursuant to the International Standard on Review Engagements 2410*) regarding the financial statements of Elektro Holding, S.A. ("**Elektro Holding**") at 24 August 2017 in relation to the initial public offering of Neoenergia;
18. 125 thousand euros correspond to the issuance of a limited review report on the historical financial information (*pursuant to the International Standard on Assurance Engagements 3000*) regarding the pro forma financial statements of Elektro Holding at 30 June 2017 in relation to the initial public offering of Neoenergia;
19. 36 thousand euros are from the issuance of a limited review report (*pursuant to the International Standard on Review Engagements 2410*) on the financial statements of Elektro Redes, S.A. ("**Elektro Redes**") at 30 March, 30 June and 30 September 2017;
20. 25 thousand euros are from a regulated audit of Elektro Redes;
21. 111 thousand euros correspond to the issuance of a limited review report (*pursuant to the International Standard on Review Engagements 2410*) on the financial statements of Elektro Redes at 30 June 2017; and
22. 31 thousand euros are from a regulated audit for Elektro Redes during financial year 2016.

The engagements are for services that only the Auditor can provide and/or that it carries out pursuant to the procedures of the *International Standard on Related Services 4400 (ISRS 4400)*, "*Engagements to Perform. Agreed-upon Procedures Regarding Financial Information*", issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants and published in Spain by the *Instituto de Censores Jurados de Cuentas de España* (Spanish Institute of Sworn Auditors) in June 2008.

The Committee has been informed of the prior engagements by the Auditor, and when deemed justified, has approved the provision by KPMG of those services for which the prior approval of the Committee was required pursuant to the standards adopted by this body and the legal provisions governing auditing activities.

VII. Other services

During financial year 2017 the auditor has not provided services other than the above to the Iberdrola group.

In this regard, it is reported that, pursuant to articles 51.5 of the *Regulations of the Board of Directors* and 27.3 of the *Regulations of the Audit and Risk Supervision Committee*, these bodies may not propose an entity to be the Company's auditor if they have evidence that the fees that Company intends to pay it for any and all services are greater than five percent of its total domestic income during the last financial year.

In this regard, in its declaration of 19 February 2018, KPMG represented to the Company as follows:

"(...) we confirm that the fees paid by the Company to KPMG Auditores, S.L. during the financial year ended 31 December 2017 for all items are not greater than five per cent of its total income during the annual financial period ended 30 September 2017".

VIII. Term and rotation

By application of the provisions of *Statutory Auditing Act* as regards the appointment, rotation and engagement of statutory auditors, the Board of Directors, at its meeting of 15 December 2015, after a tender led by the Audit and Risk Supervision Committee, resolved to propose to the shareholders at the Company's General Shareholders' Meeting held on 31 March 2017 the appointment of KPMG as the new auditor of the annual accounts of the Committee and its consolidated group for financial years 2017 to 2019. The shareholders acting at this General Shareholders' Meeting of the Company approved such appointment for the period indicated.

As regards the audit of the annual accounts of the Company and its consolidated group for financial year 2017, the audit report will be signed by Enrique Asla García, a partner of KPG, who has also signed the statement by the Auditor confirming its independence and will sign the additional report that KPMG will deliver to the Committee pursuant to section 36 of the *Statutory Auditing Act* and article 11 of *Regulation (EU) no 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC*.

IX. Audit teams

In compliance with article 27.7 del *Regulations of the Audit and Risk Supervision Committee*, the Auditor states the following in the declaration of independence that it has made today:

"(...) no member of the major components that participated in the audit of the consolidated annual accounts at 31 December 2017 has joined as an employee of Iberdrola, S.A. or its related companies."

B. Conclusion

In light of the foregoing, the Committee finds that during financial year 2017 KPMG has performed its audit work with independence from Iberdrola and its consolidated group.

The Committee issues this report on independence prior to the delivery of the audit report and pursuant to the provisions of the *Companies Act*, the Corporate Governance System of Iberdrola and the *Good Governance Code of Listed Companies*.