# Statutory Auditor Contracting and Relations Policy

22 October 2018

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The Audit and Risk Supervision Committee of IBERDROLA, S.A. ("Iberdrola" or the "Company") approves this Statutory Auditor Contracting and Relations Policy (the "Policy"), the purpose of which is to ensure that the position of statutory auditor of the Company is held by an independent firm that has the technical qualifications required to perform its work in an efficient and responsible manner and in accordance with applicable legal provisions.

This Policy governs the selection, appointment and any re-election or removal of the statutory auditor of the individual accounts of the Company and of the accounts of the Company consolidated with those of the companies making up the group of which the Company is the controlling entity, within the meaning established by law (the "Group"), as well as the framework of relations with such statutory auditor and the procedure for evaluating the activities thereof.

This Policy also sets forth the principles that must govern the selection, appointment and any re-election or removal of the statutory auditors of the other companies within the Group, as well as the framework of relations between such companies and their auditors.

1. Appointment, Re-election and Removal

The appointment, re-election and removal of the statutory auditor that is to verify the individual annual accounts of the Company as well as the accounts of the Company consolidated with those of the companies belonging to the Group is within the purview of the shareholders acting at the General Shareholders’ Meeting.

The Board of Directors shall submit for the approval of the shareholders at the General Shareholders’ Meeting the proposal for appointment, re-election or removal of such statutory auditor pursuant to the provisions of Iberdrola’s Corporate Governance System and applicable legal provisions.

2. Procedure for Selection, Contracting and Proposal for Appointment

The Audit and Risk Supervision Committee (the "Committee") is the body responsible for the procedure of selecting the Company’s statutory auditor.

In particular, the Committee shall establish the minimum requirements to be satisfied by entities applying to act as statutory auditors of the Company, as well as the most appropriate selection and contracting procedure, which must be impartial, transparent, efficient and non-discriminatory, and contemplate the holding of a tender among the various candidate entities to ensure compliance with the foregoing requirements. In any event, the Committee shall ensure, among other things, strict compliance with the regulations applicable to the selection and contracting of statutory auditors, and particularly the equal treatment of the candidates.

For such purposes, the Committee shall approve a set of bid terms and conditions for all candidates invited to participate in the procedure, whereby they may become familiar with the activities of the Company and the characteristics and scope of the required services, including any services other than auditing. The bid terms shall also contain a tentative schedule for the process.

To protect the integrity of the selection process and the confidential information that the Company makes available to the candidates, a corresponding confidentiality agreement shall be signed with each of them.

The bid terms and conditions shall include transparent and non-discriminatory selection standards, which the Company shall apply objectively in evaluating the bids submitted. Such standards must include at least the following:

i. The statutory auditor’s resources, skills and experience, especially in the energy sector, in the application of International Financial Reporting Standards, in the provision of services to the Group, in the auditing of international groups similar in size to that of the Group, and in maintaining relations with audit committees at listed companies.

ii. The presence of the statutory auditor in the countries in which the Group does business.

iii. The independence of the statutory auditor, particularly due to its individual circumstances or in relation to the provision to the Group of non-audit services, pursuant to applicable legal provisions, as well as any other circumstance arising from the independence rules to which the statutory auditor is subject.

iv. The quality and efficiency of its services. For this purpose, the Committee shall take into account the results of the inspections of the various statutory auditors that may have been performed by the Instituto de Contabilidad y Auditoría de Cuentas (Institute of Accounting and Accounts Auditing) (the "ICAC") or other leading regulatory bodies, as well as strict compliance with any other requirement established by applicable legal provisions at any time.

In no event may the ability of the statutory auditor to provide non-audit services be a standard for selection.

The Committee shall establish a weighting for each of the selection standards set out in the bid terms and conditions, which shall not form a part thereof. The Committee shall not overweight the proposed fees or other quantitative aspects.

In addition to the selection standards, the bid terms and conditions must state the terms of the bid that can be negotiated by the statutory auditor in strict compliance with the legal provisions in effect at any time.

The Supervision Committee may provide in the bid terms and conditions for the possibility of not giving an award or abandoning the tender.

The Committee, through the secretary of the Board of Directors, may request the assistance of officers or employees of Iberdrola or of any company of the Group that has an audit committee and that is not subordinate to a country subholding company that has its own audit committee. In turn, the audit committees of the country subholding companies shall channel the Committee’s requests for assistance addressed to the officers or employees of their subsidiaries.

In this regard, the division or area of the Group that provides assistance shall make conclusions regarding the selection process in a report to be ratified, if applicable, by the Committee or the audit committee of the country subholding company, as appropriate.

The candidates shall submit their bids to the Committee at one or more meetings called for this purpose, at which the Committee...
may ask the candidates questions and request the clarifications it deems are appropriate. Communications with the candidates shall in any event be led by the Committee. The candidates must refrain from requesting additional information through channels other than those established by the Committee for such purpose in the bid terms and conditions. Furthermore, no company of the Group shall respond to any question or request for information that is not channelled through the Committee.

The Committee shall not submit a proposal to the Board of Directors for appointment of an audit firm as the Company’s statutory auditor if it has evidence that such firm is affected by any circumstance of lack of independence, prohibition or disqualification pursuant to the legal provisions governing the audit of accounts. In particular, the foregoing shall apply if the fees accrued from the provision of audit services and services other than audit that the Company and any other entity of the Group expect to pay the statutory auditor or audit firm or a member of its network during each of the last three consecutive financial years represent more than fifteen per cent of the total annual income of the statutory auditor or audit firm and of said network.

In addition, the total fees received for services other than audit may not exceed sixty per cent of the average of the fees paid during the last three financial years for audit work provided to the Company and to the other entities of the Group.

The tender may include the selection of the statutory auditor of other companies of the Group provided that applicable legal provisions in each case do not prevent the selection thereof.

Once the bids submitted have been evaluated in accordance with the selections standards set forth in the bid terms and conditions, the Committee, based on the report, if any, submitted by the relevant division or area, shall submit to the Board of Directors a report describing the selection process and recommending two candidates to serve as statutory auditor of the individual accounts of the Company and the accounts of the company consolidated with those of its subsidiaries, indicating its preference for one of them and providing sufficient grounds thereof.

In stating its preference for one of the candidates in its report, the Committee shall state that its recommendation is free from any third-party influence and that no contractual provision has been imposed upon it whereby the election is restricted to certain categories or lists of statutory auditors, pursuant to the terms of applicable legal provisions.

Said report shall also indicate the financial years for which the Committee recommends appointing the candidates in question.

In view of the report, the Board of Directors shall propose to the shareholders at the General Shareholders’ Meeting the appointment of one of the two candidates selected by the Committee, with the reasons for the proposal if it differs from the preference of this committee.

3. Proposal for Re-election

Before the end of the financial year in which the appointment of the Company’s statutory auditor is to expire, the Committee shall consider its possible re-election or, if appropriate, the commencement of the procedure for selecting and appointing a new statutory auditor, pursuant to the provisions of the preceding section.

To such end, the Committee shall take into account the result of the annual evaluation of the independence and quality of the work performed by the Company’s statutory auditor, as well as any time and quantitative limits established by applicable legal provisions.

The Committee shall submit to the Board of Directors the proposed re-election of the statutory auditor in order for it to submit the proposal to the shareholders at the General Shareholders’ Meeting.

4. Proposal for Removal

The Committee may only propose the removal of the statutory auditor to the Board of Directors, for subsequent submission to the shareholders at the General Shareholders’ Meeting, if so allowed by legal provisions.

5. Relationship with the Statutory Auditor

The Committee shall serve as the channel of communication between the Board of Directors and the statutory auditor. The Committee shall maintain an objective, professional, fluid and ongoing relationship with the Company’s statutory auditor, and shall at all times respect the independence thereof.

The Committee shall ensure that the Board of Directors meets with the statutory auditor at least once per year in order to receive information regarding the work performed and regarding the accounting status and risks of the Company.

The annual schedule of Committee meetings must include all items that might influence the audit report and the independence of the statutory auditor. The following actions should be taken to facilitate communication between the Committee and the statutory auditor:

a. The Committee and the statutory auditor must notify each other of any significant aspect detected in relation to accounting, the internal control system or auditing.

b. The Committee must ask the statutory auditor for information regarding the most important aspects of its strategy and its work plan in relation to the audit of the Company, including: (i) the determination of the materiality figure; (ii) how it plans to respond to the most significant risks; (iii) the resources assigned to the performance of the work; (iv) the reasons for the use of specialists, if required; and (v) a schedule for the planned work, indicating the nature and scope of the tests of controls and substantive tests that have been planned.

c. The Committee shall discuss with the statutory auditor the opinions rendered regarding: (i) the quality and applicability of the Company’s accounting principles; (ii) the major assumptions used in critical estimates, particularly those with a high level of uncertainty, and significant changes thereto; (iii) errors and violations identified by the statutory auditor, specifying whether or not they have been corrected by Iberdrola; and (iv) difficulties encountered during the course of the audit.

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d. During the audit work, the Committee must ask the statutory auditor for the communications required to facilitate the supervision of the process of preparing the economic/financial information relating to the Company and its group, including its opinion on the accounting treatment of complex, high-risk or controversial transactions by management.

e. The Committee must ask the statutory auditor for information regarding: (i) the materiality figures, for the financial statements as a whole and, if applicable, for particular transactions, balances or information to be disclosed in the notes; (ii) consideration of qualitative aspects for determination thereof; and (iii) how it will determine the scope and level of the audit work.

f. The Committee shall discuss with the statutory auditor the methods and assumptions used by management in significant accounting estimates, as well as the effect of considering alternative methods or assumptions, and the consideration by the statutory auditor of data or information that might contradict management’s assumptions.

g. The Committee and the statutory auditor shall evaluate whether their communication and relationship have been appropriate, and if necessary, whether the Committee should adopt measures to improve them.

The Committee shall verify compliance with the statutory auditor’s audit plan, for which purpose it shall regularly receive from the statutory auditor information regarding such audit plan and the results of the implementation thereof.

For its part, the statutory auditor shall submit to the Committee an annual report with its recommendations as a product of its work. The Committee shall follow up on all recommendations proposed by the statutory auditor, and may require its cooperation whenever it deems it necessary. The statutory auditor shall also explain to the Committee how it has dealt with the risks encountered.

Finally, whenever the Committee knows or has been informed that the statutory auditor believes that any of the circumstances provided for in article 12.1 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (or any other legal provision that at any time replaces such article) is present, it shall propose to the Board of Directors the adoption of appropriate measures to cause the removal of the reasons for such circumstances, to the extent that they are factors under the Company’s control, or if not possible to mitigate the impact thereof on the financial statements.

6. Independence

The Company’s Corporate Governance System ensures the establishment of the required relations between the Committee and the statutory auditor so that the former receives from the latter specific information regarding matters that might entail threats to the independence thereof.

The Committee shall endeavour to ensure that the statutory auditor of the Company is independent and that this is made clear in the relations between them. To this end, it must authorise, prior to formalisation thereof, any contract it intends to sign with the statutory auditor or with any member of its network for the provision of services other than auditing to the Company or any of the companies of its Group, in order to be able to individually and globally analyse the threats to independence that might arise from said contracts. The Committee shall continuously communicate and coordinate with the audit and compliance committees of the other companies of the Group for this purpose.

The Committee must assess the aspects set forth in the Regulations of the Audit and Risk Supervision Committee in order to approve the provision of non-audit services by the statutory auditor.

Without prejudice to the foregoing, the statutory auditor may carry out limited audits or reviews of the interim accounts that are published with a frequency of less than one year pursuant to applicable legal provisions.

The Committee shall also be immediately informed of any contracting of audit or non-audit services from firms performing audits at companies of the Group, with a level of detail sufficient to allow it to perform a global and effective analysis of the effect that the contracting of these services may have on independence from an individual and collective viewpoint.

On an annual basis, the Committee shall receive from the Company’s statutory auditor a certification of independence of the firm as a whole and of the members of the team participating in the process of auditing the annual accounts of the Group from the Company or entities related or not related thereto, as well as a detailed breakdown of information regarding additional services (other than auditing) of any kind provided to such entities by said statutory auditor or by persons or entities connected thereto, pursuant to the legislation governing the audit of accounts. In addition, in the annual certification that it sends to the Committee, the statutory auditor shall report on compliance with the internal procedures of quality assurance and protection of independence of the Group.

On an annual basis and prior to the issuance of the audit report, the Committee shall issue a report setting forth an opinion on the independence of the statutory auditor. This report must contain an assessment of the possible impact on the independence of the statutory auditor of each and every one of the additional services other than the legal audit referred to in the preceding paragraph, considered individually and as a whole.

The Committee must also discuss with the statutory auditor any circumstance that might give rise to a threat to the independence thereof and evaluate the effectiveness of the protective measures adopted, as well as understand and evaluate the set of relationships between the Group and the statutory auditor and its network that entail the provision of non-audit services or any other type of relationship.

Furthermore, the Committee shall monitor the internal procedures for assuring quality and safeguarding independence implemented by the Company’s statutory auditor.

The audit firms carrying out audits of accounts at companies of the Group shall on an annual basis provide to the Committee, through the audit committees or the bodies at each company assuming the powers thereof, any information regarding the profiles and the track record of the persons making up the audit teams working for the Company and the Group, with specific mention of the changes in the composition of such teams compared to the immediately preceding financial year.

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The Committee shall also receive information on the hiring by any of the companies of the Group of professionals coming from any of the Group’s audit firms.

7. Transparency

The Committee shall review the information published in relation to the audit of accounts, and particularly the fees paid by the Company to the various audit firms working for the Group, both in consideration for the audit of accounts and for services other than the audit of accounts, specifying the fees paid to the statutory auditor and those paid to any company of the network to which the statutory auditor belongs or to any other company to which the statutory auditor is related under a relationship of joint ownership, management or control. The Committee shall also include in the Activities Report of the Board of Directors and of the Committees thereof information regarding activities performed during the preceding financial year in relation to the statutory auditor and the audit of accounts.

8. Evaluation

On an annual basis, the Committee shall evaluate the conduct of the statutory auditor and the contribution thereof to the quality of the audit and to the integrity of the financial information.

Such evaluation shall include at least the following parameters: (i) the independence of the statutory auditor; (ii) its knowledge of the businesses of the Group; (iii) the frequency and quality of its communications; (iv) the public results of the quality controls or inspections carried out by the ICAC and other supervisors; and (v) the reports on transparency of the statutory auditor, as well as any other available information.

The Committee shall also gather the opinion on the statutory auditor of the directors of each of the businesses of the Group and of the corporate Finance and Resources, Administration and Control, and Internal Audit areas, as well as of any other officer of the Group that the Committee deems appropriate at any time due to such officer’s significant contact with the statutory auditor. For these purposes, on an annual basis, the Committee shall approve a survey to be sent to each of such officers that shall include parameters relating to the quality of the statutory auditor’s service, its resources, communication and interaction with the management in question, the scope of the audit and the independence of the statutory auditor.

In the event that, after the evaluation of the statutory auditor, the Committee finds that there are worrisome or unresolved issues regarding the quality of the audit, it must consider the possibility of informing the Board of Directors so that, if it so deems appropriate, it may provide evidence thereof to the supervisory bodies.

9. Statutory Auditors of the Other Companies of the Group

Companies legally considered to be public-interest entities within the European Union shall carry out their own procedures for the selection, appointment, re-election and removal of statutory auditors, which shall be conducted independently and shall be governed by the same rules and principles as those contained in this Policy, provided that they are not incompatible with specific legal provisions that may apply in each case. Those companies in other countries whose respective applicable legal provisions so require shall also do so.

Their respective tenders for the selection of a statutory auditor may include the award of audit work at their subsidiaries when so permitted by applicable legal provisions.

In any event, the relations between the other companies within the Group and their respective statutory auditors shall be governed by the principles of independence and transparency set forth above, also taking into account any specific regulations applicable thereto in each case.

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This Statutory Auditor Contracting and Relations Policy was initially approved by the Committee on 23 November 2005 and was last amended on 22 October 2018.