



**Statutory Auditor  
Independence Report**

Financial Year 2018



## To the Board of Directors of "Iberdrola, S.A.":

### Introduction

Pursuant to section 529 *quaterdecies*, subsection 4.f) 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 expressing an opinion on whether the independence of the statutory auditors is compromised. This report must contain a reasoned assessment of the provision of non-audit services by the statutory auditor in relation to the rules on independence or the legal provisions regarding statutory auditing.

This power is also provided for in the Corporate Governance System of "Iberdrola, S.A." ("**Iberdrola**" or the "**Company**"), and particularly in the *Statutory Auditor Contracting and Relations Policy*, which incorporates the recommendations of *Technical Guide 3/2017 on audit committees at public-interest entities* of the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*).

Furthermore, recommendation 6.a) of the *Good Governance Code of Listed Companies* advises that these companies publish said independence report on their website sufficiently in advance of the ordinary general meeting.

The shareholders acting at the General Shareholders' Meeting held on 31 March 2017, at the request of the Board of Directors and after a proposal of the Audit and Risk Supervision Committee (the "**Committee**"), resolved to appoint "KPMG Auditores, S.L." ("**KPMG**" or the "**Statutory Auditor**") as statutory 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 expresses its opinion on the independence of the Statutory Auditor of the Company and its consolidated group during financial year 2018.

### A. Scope and Work Performed

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

#### I. Written statement of the Statutory Auditor confirming the independence thereof

Pursuant to subsection 4.e) of section 529 *quaterdecies* of the *Companies Act*, Iberdrola must annually receive from the Statutory 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 Statutory Auditor of the Company and its consolidated group today sent a letter to the Committee in which it stated the following:

*"The team in charge of the audit, KPMG Auditores, S.L. and, as the case may be, any other persons belonging to the audit firm and, if appropriate, other firms of the network, with the coverage applicable thereto, have complied with applicable independence requirements in accordance with the provisions of the Statutory Audit Act and Regulation (EU) no 537/2014, of 16 April.*

#### II. Relationships with the statutory auditors

During financial year 2018, KPMG appeared before the Committee on fifteen occasions in order to report on the items set out below:

1. At the meeting held on 15 January 2018 it appeared in order to describe the structure of the new report that, as statutory auditor, it was required to issue for the Committee pursuant to sections 36 of *Law 22/2015, of 20 July, on Statutory Auditing* (the "**Statutory Audit Act**") and 11 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 (the "Regulation (EU) 596/2014")* (the "**Additional Statutory Auditor Report**").
2. At the meeting of the Committee held on 14 February 2018 it submitted the preliminary results of the review of the financial statements for financial year 2017.
3. At the meeting of 19 February 2018: (i) it delivered and explained to the committee the drafts of the audit report on the individual annual accounts of Iberdrola and the annual accounts consolidated with its subsidiaries; (ii) it reported on the Additional Statutory Auditor Report; and (iii) it reported on the presentation that KPMG would make to the Board of Directors on the audit opinion.
4. At the special meeting held on 13 April 2018 it explained the accounting impact of a transaction that required a report of the Audit and Risk Supervision Committee pursuant to recommendation 44 of the *Good Governance Code of Listed Companies*.



5. At the meeting of 23 April 2018: (i) it reported on new developments in accounting standards; and (ii) it reported certain circumstances related to its independence as Iberdrola's statutory auditor, as well as the measures implemented to eliminate any possibility of a threat to its independence.
6. At the meeting held on 20 June 2018 it explained the internal control recommendations resulting from the audit of the Company's accounts for financial year 2017.
7. At the meeting of 18 July 2018 it submitted the preliminary results of the limited review of the financial statements for the first half of the financial year.
8. At the meeting of 23 July 2018 it explained its final analysis of the limited review of the individual and consolidated financial statements of Iberdrola for the first half of 2018.
9. At the meeting of 24 September 2018 it reported on the work performed by KPMG as a result of the assumption by the Committee of the duties of the audit committee of "Iberdrola Finanzas, S.A." (Sociedad Unipersonal) ("**Iberdrola Finanzas**"), "Iberdrola Finance Ireland, DAC" and "Iberdrola International B.V." ("**Iberdrola International**").
10. At the meeting held on 22 October 2018 it reported on a letter sent by KPMG to the Committee in relation to the resolution of a civil proceeding against such entity and the results of the inspections by the Spanish Accounting and Account Auditing Institute (the *Instituto de Contabilidad y Auditoría de Cuentas*) and by other regulators.
11. At the meeting of 19 November 2018 it submitted its work and strategy plan for the statutory audit of Iberdrola and its group for financial year 2018.
12. Finally, at the meeting held on 17 December 2018 it submitted a preview of the close for financial year 2018.

It is stated for the record that at these meetings, the Statutory 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 19 February 2019 in order to report on: (i) the audit opinion; (ii) the report on independence of the statutory 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 2018.

### III. Protective measures to detect threats to independence

In the statement of independence sent to the Committee on 18 February 2019, the Statutory Auditor stated the following:

*"Our Firm has implemented internal policies and procedures designed, as described in section 4 of the Transparency Report for financial year 2018 of KPMG Auditores, S.L. available at <https://home.kpmg.com/es/es/home/servicios/audit.html>, to provide you with reasonable assurance that KPMG Auditores, S.L. and its personnel and any other persons subject to independence requirements (including personnel of firms of the network) maintain independence when so required by applicable legal provisions. These procedures include those intended to identify and evaluate threats that might arise from circumstances relating to audited entities, including those that might entail grounds for disqualification and/or that might require the application of protective measures needed to reduce threats to an acceptable low level.*

*Along these lines, in our professional opinion and in relation to said 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 be grounds for disqualification."*



#### IV. Other non-audit services provided and fees

Pursuant to the provisions of subsection 4.f) of section 529 *quaterdecies* of the *Companies Act*, the Statutory Auditor, in its letter to the Committee dated 18 February 2019, reports the following fees billed to the Company and its group in 2018:

In thousands of euros	Audit services	Audit related services	Other services	TOTAL
Iberdrola, S.A.	3,223	1,459	0	4,682
Subsidiaries	22,116	1,592	0	23,708
<b>Iberdrola, S.A. and consolidated group</b>	<b>25,339</b>	<b>3,051</b>	<b>0</b>	<b>28,390</b>

#### V. Audit services

Fees for audit services amount to 25,339 thousand euros, and include the statutory audit of the financial statements of Iberdrola and its group for financial year 2018.

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

At the meeting of the Committee held on 20 June 2018, the amount of the fees proposed to the Board of Directors was 22,585 thousand euros. However, the final fees received come to the amount indicated above, that is 25,339 thousand euros. Said increase arises from the need to perform audit work additional to the work initially anticipated.

In compliance with section 24.1 of the *Statutory Audit Act*, it is noted for the record that these fees are not influenced or determined by the provision of additional services to the Iberdrola group, 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 related to the audit of the Iberdrola group amount to 3,051 thousand euros. The description of these fees, included as an annex to the statement, is explained below:

- 1,194 thousand euros for the limited review of the half-yearly financial statements of the Iberdrola group.
- 45 thousand euros are for the preparation of a report on approved procedures for Iberdrola in relation to the calculation of the tax contribution ratio of the Iberdrola group for financial year 2016.
- 9 thousand euros are for the preparation of a report on approved procedures for the Company regarding the liquidity status of the Iberdrola group for the *Wikingen* offshore wind farm (350 MW capacity, located in the German zone of the Baltic Sea).
- 6 thousand euros arise from the issuance of a report on approved procedures for the Company regarding the status of investments in and divestments from the Lemóniz (Biscay) nuclear plant.
- 100 thousand euros correspond to various comfort letters issued by the statutory auditor in favour of the Company and Iberdrola International relating to the issue of green hybrid bonds in March 2018.
- 90 thousand euros are for the issuance of comfort letters in relation to an issue of debt under the "EMTN Programme" in June for Iberdrola and Iberdrola Finanzas.
- 115 thousand euros arise from the issuance of comfort letters for Iberdrola, Iberdrola International and Iberdrola Finanzas in relation to the update of the "EMTN Programme" in July.
- 120, 177 and 100 thousand euros are for the performance of regulatory audits at "Iberdrola Distribución Eléctrica, S.A." (Sociedad Unipersonal) regarding, respectively: (i) the inventory of facilities placed into service prior to 1 January 2018; (ii) the facilities placed into service in 2017; and (iii) the forms required by *Informational Circular 4/2015, of 22 July, of the National Markets and Competition Commission, on requests for information from electric power distribution companies for the supervision and calculation of remuneration for the activity.*
- 11, 8 and 8 thousand euros arise from the performance of the regulatory audits indicated in the preceding paragraph 8. at "Conquense Distribución Eléctrica, S.A." (Sociedad Unipersonal).
- 9, 6.5 and 6.5 thousand euros arise from the performance of the regulatory audits indicated in the preceding paragraph 8. at "Anselmo León Distribución, S.A." (Sociedad Unipersonal).
- 15 thousand euros arise from the preparation of reports on approved procedures for certain maintenance cost items included in the financial statements of "Iberdrola Generación, S.A." (Sociedad Unipersonal) for financial year 2017.



12. 20 thousand euros are for reports on approved procedures regarding the 400kV Castellón substation for "Iberdrola Generación Térmica, S.A." (Sociedad Unipersonal).
13. 14 thousand euros are related to the issuance of a report on approved procedures regarding corporate services re-invoiced to subsidiaries of "Iberdrola Renovables Energía, S.A." (Sociedad Unipersonal).
14. 3 thousand euros derive from the issuance of a report on approved procedures for the calculation of certain financial ratios of "Iberdrola Renovables La Rioja, S.A."
15. 99 thousand euros are for verification work other than auditing or a review of historical financial information of the Greek subsidiaries of the Iberdrola group.
16. 72 thousand euros are for the verification of certain tax information of "Iberdrola México, S.A. de C.V." and its subsidiaries.
17. 136 thousand euros are related to the performance of regulatory audits of electric distribution assets of "SP Distribution Plc.", "SP Transmission Plc." and "SP Manweb Plc." for the British regulator, the Office of the Gas and Electricity Markets ("**Ofgem**").
18. 11 thousand euros arise from the performance of a regulatory audit of "Scottish Power UK Plc." required by Ofgem.
19. 28 thousand euros are for the audit of the segmented consolidated statements of "Scottish Power Energy Management (Agency), Ltd." required by Ofgem.
20. 374 thousand euros arise from the issuance of three comfort letters for Avangrid in relation to debt issues.
21. 34 thousand euros arise as a result of the preparation of a report on approved procedures regarding the calculation of certain ratios within the framework of an issue of "green bonds" by Avangrid.
22. 114 thousand euros arise from the audit of the quarterly financial statements of "Neoenergia, S.A." ("**Neoenergia**") required by the *Agência Nacional de Energia Elétrica* ("**Aneel**").
23. 20 thousand euros are for the issuance for Neoenergia of reports on approved procedures in accordance with the provisions of the technical guides developed in the *Relatório de Controle Patrimonial* ("**RCP**") of the *Superintendência de Fiscalização Econômica e Financeira* of Aneel for financial year 2017.
24. 54 thousand euros arise from the audit of the quarterly financial statements of subsidiaries of Neoenergia required by Aneel.
25. 16 thousand euros are for the issuance for subsidiaries of Neoenergia of reports on procedures approved in accordance with the provisions of the technical guides developed in the RCP for financial year 2017.
26. 30 thousand euros arise from the audit of the quarterly financial statements of "Elektro Redes, S.A." ("**Elektro Redes**") required by Aneel.
27. 6 thousand euros are for the issuance for Elektro Redes of reports on approved procedures in accordance with the provisions of the technical guides developed in the RCP for financial year 2017.

The Committee has been informed of the prior engagements by the Statutory 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.

Furthermore, in those cases in which the provision of services other than the statutory audit, but related to this activity, was requested for a group company other than Iberdrola, the audit committee and the internal audit division of the company receiving the services also stated, when applicable, that the provision of said services did not give rise to threats to the independence of the statutory auditor.

#### **VII. Other services**

During financial year 2018 the Statutory Auditor has not provided services other than the above to the Iberdrola group or non-audit services that were unrelated thereto.

In this regard, it is reported that, pursuant to articles 56.5 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 statutory auditor if they have evidence that the fees that the Company intends to pay to such entity for any and all services are greater than five per cent of its total domestic income during the last financial year.

In this regard, in its statement of 18 February 2019, KPMG represented to the Company as follows:

*"we confirm that the fees paid by the Company to KPMG Auditores, S.L. during the annual financial period ended on 31 December 2018 for all items do not exceed five per cent of its total income during the annual financial period ended on 30 September 2018."*



### **VIII. Term and rotation**

By application of the provisions of the *Statutory Audit Act* as regards the appointment, rotation and engagement of statutory auditors, the Board of Directors of the Company, 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 statutory auditor of the annual accounts of the Company 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 2018, the audit report will be signed by Mr Enrique Asla García, a partner of KPMG, who has also signed the statement by the Statutory Auditor confirming its independence and will sign the Additional Statutory Auditor Report that KPMG will deliver to the Committee pursuant to section 36 of the *Statutory Audit Act* and article 11 of *Regulation (EU) 596/2014*.

### **IX. Audit teams**

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

*"we are not aware of any member of the significant components (the significant components are those indicated in our audit plan which was submitted to the Audit and Risk Supervision Committee on 19 November 2018) participating in the audit of the consolidated annual accounts at 31 December 2018 having joined Iberdrola, S.A. or its related subsidiaries as an employee."*

### **B. Conclusion**

In light of the foregoing, the Committee considers that during financial year 2018 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*.

\* \* \*

Bilbao, 18 February 2019.