



RED
ELÉCTRICA
CORPORACIÓN

Audit Committee

26 January 2017

Report on the independence of the
external auditor



REPORT ON THE INDEPENDENCE OF THE EXTERNAL AUDITOR OF RED ELÉCTRICA CORPORACIÓN, S.A. IN FISCAL YEAR 2016

I. Justification

Pursuant to that set out in Article 529 *quaterdecies*, section 4, letter f) of the Capital Companies Act (the “**Capital Companies Act**”), as per the version in force for the fiscal year beginning on January 1, 2016, and in accordance with the provisions of Article 14.3 c) of the Regulations of the Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A. (hereinafter REC or the Company), as per the version in force until 20 December 2016, in relation to the regulation and duties of the Audit Committee, it is established that a report shall be issued annually, prior to the issuance of the audit report, which will express an opinion on the independence of the external auditors.

Said report shall issue a statement, in any case, evaluating the provision of additional services, considered individually and as a whole, other than the statutory audit and in connection with the regime of independence or the rules governing Audit, provided by said auditors or by persons or entities related to them, in accordance with the provisions of the Law on Auditing. Accordingly, the Audit Committee issues this report, which shall be published on the website of Red Eléctrica well in advance of its Ordinary General Shareholders’ Meeting, in compliance with that set out in Recommendation 6 of the Spanish Code of Good Governance of Listed Companies.

II. Analysis of the Independence of the external auditor

The Ordinary General Shareholders’ Meeting of REC held on April 15, 2016 appointed KPMG Auditores, S.L. (“**KPMG Auditores**”) as auditors of the Company and its consolidated Group to carry out the audit of the individual and consolidated annual accounts of the Company and its consolidated Group for fiscal years 2016, 2017 and 2018.

In order to ensure the independence of the external auditor, during 2016 the Audit Committee has monitored compliance with the current regulations on the provision of services other than auditing of accounts, proceeding to the approval of the different services other than those prohibited in accordance with applicable regulations, in agreement with Article 13 of Legislative Royal Decree 1/2011, of 1 July, enacting regulations of the Consolidated Text of the Law on Auditing of Accounts, in force for the fiscal year beginning on January 1, 2016.

Herein is a breakdown of the fees paid by the Company and its Subsidiaries, directly or indirectly, by concept:



(Amounts in Euros)	<u>2016</u>
Audit services (*)	241,225
<u>Other audit-related services</u>	<u>46,465</u>
Total audit and related services	287,690
Other services allowed by the Law on Auditing of Accounts	72,500

(*) VAT has not been included in the cost of services for those companies that, due to the activities they carry out, cannot deduct the VAT borne. Fees in foreign currency are converted into euros at the closing exchange rate for the year 2016. In the Annual Accounts for 2016, the amount related to the audit services will amount to 247,000 euros, said amount includes VAT for those companies for which it is not deductible, taking into account the exchange rate in the middle of 2016 in order to convert the fees into foreign currency.

Included in the concept of "Other audit-related services", are primarily those Assurance services related to the EMTN program are included. Included in the concept of " Other services allowed by the Law on Auditing of Accounts", are primarily those related to legal advice in labour affairs, corporate responsibility services and regulatory advisory services. The Audit Committee states that the services provided by KPMG are among the services allowed under the Law on Auditing of Accounts in force for the fiscal year beginning on 1 January 2016.

Regarding the contracting conditions set out in Article 19 of the Law on Auditing of Accounts, in force for the fiscal year beginning on 1 January 2016, as the total net revenue of Red Eléctrica exceeds 50 million euros, the Audit Committee confirms that the mandatory rotation of the auditor firm signing the audit report is complied with. Specifically, four years have passed since the current signing audit partner was appointed, a period less than that established by the regulations applicable to the mandatory audit firm rotation.

The present report is based on the document submitted to the Audit Committee and prepared by the external auditors of the Company, which is attached as **Annex**, which contains the written confirmation of their independence from the Company and its Subsidiaries, as well as information about the audit and non-audit services provided to these entities by the auditor or by related persons or entities, in accordance with the provisions of the Law on Auditing of Accounts, in force for the fiscal year beginning on 1 January 2016.

By means of the statement of independence it is evidenced that the auditor has not identified, during fiscal year 2016, any circumstances that could represent a cause of incompatibility pursuant to that set forth in the Law on Auditing of Accounts in force for the fiscal year beginning on 1 January 2016. Those which in their professional judgment could lead to a threat were eliminated or reduced to an acceptably low degree, by applying the necessary safeguarding measures.

III. Conclusions



In view of the information that it has had access to, the Audit Committee of the Company has not identified any aspects that raise any doubts on the compliance with the regulations in force in Spain for the audit activity in matters regarding auditor independence and, in particular, the Committee confirms that no aspects of that nature have been identified that could cast doubt on the independence of the external auditor.

Annex: Statement of independence issued by the external auditor of Red Eléctrica Corporación, S.A. and Subsidiaries



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(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

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Madrid

Our ref 2017m23aav1

For the attention of
the Audit Committee

12 January 2017

Dear Sirs,

On 15 April 2016, we were appointed as auditors of the individual and consolidated annual accounts of Red Eléctrica Corporación, S.A. and subsidiaries for the year ended 31 December 2016.

In relation to our appointment as auditors, we hereby confirm that:

- The audit engagement team and KPMG Auditores, S.L., to the extent so required, have complied with the applicable independence requirements stipulated in the Revised Audit Law, approved by Royal Legislative Decree 1/2011 of 1 July 2011 and its implementing legislation.
- The fees charged by KPMG Auditores, S.L. and other KPMG member firms to the Entity and its directly and indirectly related parties for audit and non-audit services in the year ended 31 December 2016 are listed below, by item, to enable your assessment of those fees in relation to our independence:

	Euros
Audit services (*)	241,225
Other audit-related services	46,465
Total audit and related services	287,690
Tax services	-
Other services	72,500
Total services	72,500

(*) This amount does not include VAT for companies that are not eligible for VAT deductions in light of their activities or for the other companies.



Red Eléctrica Corporación, S.A.
12 January 2017

- Our Firm has designed and implemented general independence procedures to safeguard our independence, as described in section 4.3.2 of the KPMG Auditores, S.L. Transparency Report for 2016, which is available via the following link:

<https://assets.kpmg.com/content/dam/kpmg/es/pdf/2016/12/informe-transparencia-2016.pdf>. These procedures comprise specific processes aimed at identifying and assessing threats to our independence that could arise from circumstances associated with audited entities, including those that could give rise to causes of incompatibility or require application of safeguard measures to reduce threats to an acceptably low level.

In relation to the aforementioned audit, no circumstances that could represent an incompatibility have been identified. Any matters that in our professional judgement constituted significant threats to our independence were eliminated or reduced to an acceptably low level by applying the necessary safeguards.

This confirmation has been drawn up solely for the addressees of this letter in the context of your preparation of the Auditor Independence Report and may not be used for any other purpose.

Kind regards,

(Signed on original in Spanish)

Ana Fernández Poderós
Partner