



**RED**  
**ELÉCTRICA**  
CORPORACIÓN

## **Audit Commission**

24 January 2018

Report on the independence of the  
external accounts auditor



## **2017 REPORT ON THE INDEPENDENCE OF THE EXTERNAL ACCOUNTS AUDITOR OF RED ELÉCTRICA CORPORACIÓN, S.A.**

### **I. Justification**

As established in section 4 (f) of Article 529 of the Spanish Law on Corporations (the “Law on Corporations”), amended by section twenty of the Fourth Final Provision of Spanish Law 22/2015 of 20 July on Account Auditing, and by virtue of the provisions set forth in Article 16.3 h) of the Regulation of the Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A. (Hereinafter, “REC” or the “Company”) related to the regulation and functions of the Audit Commission, it is established that each year, prior to issuing the account audit report, a report shall be issued that expresses an opinion about whether or not the independence of the external account auditor or audit companies is compromised.

In all cases, the aforementioned report must include a reasoned assessment of the provision of each and every one of the additional services, considered individually and as a whole, as distinct from the statutory audit, and viewed in relation to the regime of independence and the regulatory standards of the account auditing profession, as provided by the aforementioned external account auditors or audit companies, in accordance with the provisions set forth in the Account Auditing Law. As a result, the Audit Commission issues the present report, which will be published on Red Eléctrica’s website sufficiently in advance of the holding of the Ordinary General Shareholders’ Meeting, in accordance with the provisions established in Recommendation No. 6 of the Spanish Best Governance Code for Listed Companies.

### **II. Analysis of the independence of the external accounts auditor**

Since 2013, KPGM Auditores, S.L. (“**KPGM Auditores**”) has been the account auditor of the Company and its Group. REC’s Ordinary General Board Meeting, held on 15 April 2016, named KPMG Auditores as the account auditors of the Company and its consolidated Group for the purposes of carrying out the individual annual account audits of the Company and its consolidated Group for 2016, 2017 and 2018.

In order to guarantee the independence of the external auditor, the Audit Commission has overseen throughout 2017 compliance with the currently applicable standards concerning the provision of services other than account audits, proceeding to authorise all services other than those prohibited in accordance with the applicable standards, in accordance with Article 16 of the Account Auditing Law currently in force.

The fees charged to the Company and its related companies for the performance of all the checking processes are detailed below, broken down by item, both for the auditing services and for services other than auditing, during the year ended 31 December 2017, as conducted by KPMG Auditores, S.L. and (if applicable) other firms from its same network:



	Euros
Audit services (*)	249,889
Other audit-related services	67,307
<b>Total audit and related services</b>	<b>317,196</b>
Tax services	-
Other services	55,000
<b>Total services</b>	<b>55,000</b>

(\*) This amount for audit services does not include VAT for those companies that, because of the activities they carry out, cannot deduct VAT, nor for the other companies. The fees in foreign currencies are converted into euros at the exchange rate on 30 November 2017. In the 2017 Financial Statements, the amount referring to the audit services will increase to 268.8 thousand euros, an amount that includes VAT in those companies for which it is not deductible, and considering the average exchange rate in 2017 to convert the fees into foreign currency.

Assurance services are included in “Other audit-related services”. The most significant amounts correspond to the procedures agreed upon relating to the company Red Eléctrica Infraestructuras de Telecomunicación (Reintel) and audit services for issuing a comfort letter related to the renewal of the annual programme and the issuances of Notes by Red Eléctrica within the scope of the EMTN programme. “Other services” includes both strategic and human resources consulting services, as well as sustainability.

As for the contract conditions set forth in Article 40 of the Account Auditing Law, and given that Red Eléctrica is considered a public-interest entity as set forth in Article 3 of said Law, the Audit Commission states that it complies with the obligation to ensure a regular rotation of the account auditor signing the audit report. Specifically, five years have passed since the first nomination of the current signing audit partner, which is a period less than that established by the applicable standards for obligatory rotation.

The present report is based on the document sent to the Audit Commission and prepared by the Company’s external account auditors, which is attached as an Appendix, and which contains the written confirmation of their independence in relation to the Company and the Subsidiary Companies, in addition to information about the auditing services and the services other than auditing, provided to the said entities by the aforementioned auditors or by the people or entities related to them, in accordance with the provisions set forth in the Account Auditing Law currently in force.



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Through the said declaration of independence, it is declared that in 2017 the auditor has not identified circumstances that may entail causes of incompatibility, or that may have represented a significant threat to its independence, and therefore, would have required the application of safeguards.

### **III. Conclusions**

In light of the information provided by the external auditors, the Company's Audit Commission has not identified aspects that put into question compliance with the regulations valid in Spain regarding the independence of the auditor in relation to the account auditing activity, and in particular, the Commission confirms that no aspects of that nature have been identified that may compromise the independence of the external auditor.

**Appendix: Statement of independence issued by the external account auditors of Red Eléctrica Corporación, S.A. and Subsidiaries**



KPMG Auditores, S.L.  
Paseo de la Castellana, 259 C  
28046 Madrid  
Tel +34 91 456 34 00  
Fax +34 91 555 01 32  
www.kpmg.es

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

Red Eléctrica Corporación, S.A.  
Paseo Conde de los Gaitanes, 177  
28109 Alcobendas (Madrid)

Our ref: 2018e30aav1

For the attention of  
the Audit Committee

15 January 2018

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 its subsidiaries for the year ended 31 December 2017.

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

- The audit engagement team, KPMG Auditores, S.L. and, where applicable, other persons belonging to the audit firm and, where appropriate, other member firms of the KPMG network, to the extent so required, have complied with the applicable independence requirements stipulated in the Spanish Audit Law and Regulation (EU) no 537/2014 of 16 April 2014.
- The fees charged by KPMG Auditores, S.L. and, where applicable, by other firms of the KPMG network to the Entity and its related parties due to a relationship of control, for audit and non-audit services in the year ended 31 December 2017 are listed below, by item, to enable your assessment of those fees in relation to our independence:

	Euros
Audit services (*)	249,889
Other audit-related services	67,307
Total audit and related services	317,196
Tax services	-
Other services	55,000
Total services	55,000

(\*) This figure excludes VAT for those companies which, due to their activity, cannot deduct VAT, or other companies.



**Red Eléctrica Corporación, S.A.**

15 January 2018

— Our Firm has implemented in-house policies and procedures as described in section 4 of KPMG Auditores, S.L.'s 2017 Transparency Report 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, where applicable, other persons subject to independence requirements (including personnel from KPMG network firms) avail of independence when required by applicable legislation. These procedures include those 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.

Based on our professional judgement and in relation to the aforementioned audit, no circumstances have been identified that, individually or as a whole, could present a significant threat to our independence, and which would therefore require the application of safeguard measures or could give rise to a situation that is not permitted under independence rules.

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