



Red Eléctrica Group

Audit Committee

19 February 2020

**Report on the independence of
the external auditor**



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Annex: Declaration of independence issued by the external auditors of Red Eléctrica Corporación, S.A. and subsidiary companies.



1. Justification

Pursuant to the provisions of section 4 (f) of Article 529 *quaterdecies* of the Spanish Capital Companies Law (the "Capital Companies Law"), as amended by section 20 of the fourth final provision of Law 22/2015 of 20 July on the Auditing of Accounts, and in accordance with Article 16.3 h) of the Regulations of the Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A. (hereinafter "REC" or the "Company") concerning the regulation and functions of the Audit Committee, a report will be issued annually, prior to the issuance of the audit report, expressing an opinion on whether the independence of the external auditors or audit firms is compromised.

The report must in all cases contain a reasoned assessment of all services provided by the aforementioned external auditors or audit firms as additions to the statutory audit. The services must be considered individually and as a whole and in light of their relationship to independence rules or account auditing legislation, in accordance with the provisions of the legislation mentioned in the preceding paragraph. Accordingly, the Audit Committee issues this report, which will be published on the company's website sufficiently in advance of its Ordinary General Meeting of Shareholders, in accordance with the provisions of Recommendation 6 of the Spanish Code of Good Governance for Listed Companies.

2. Analysis of the independence of the external auditors

KPMG Auditors, S.L. ("KPMG Auditors") has been the auditor of the accounts of the company and its group since the 2013 financial year. The REC Ordinary General Meeting of Shareholders held on 15 April 2016 re-appointed KPMG Auditors as the auditor of the company and its consolidated group to audit the individual annual accounts of the company and of its consolidated group for the 2016, 2017 and 2018 financial years. The Ordinary General Meeting of Shareholders held on 22 March 2019 resolved to re-appoint KPMG for one (1) year, covering the 2019 financial year.

With regard to the contracting conditions provided for in Article 40 of the Accounts Auditing Law, and given that Red Eléctrica qualifies as a public-interest entity under Article 3 of that Law, the Audit Committee notes that the obligation to rotate the auditor signing the audit report has been complied with.

In order to ensure the independence of the external auditor, throughout the 2019 financial year the Audit Committee monitored compliance with the rules on the provision of services other than the auditing of accounts, authorising the services other than those prohibited under the applicable legislation, in accordance with Article 16 of the Accounts Auditing Law.

Details are provided below of the fees charged to the company and its subsidiaries, for both auditing and non-auditing services, during the financial year ended 31 December 2019 by KPMG Auditors, S.L. and (if applicable) other firms within its group:



Thousands of euro	Red Eléctrica Corporación S.A.	Subsidiaries of Red Eléctrica Corporación S.A.	Total	Subject to advance approval by the Audit Committee
Audit services (*) (***)	89,640	486,158	575,798	543,138
Other audit-related services (*)	44,486	93,991	138,477	138,477
Total audit and audit-related services	134,126	580,149	714,275	681,615
Other services	40,000	-	40,000	40,000
Total professional services	174,126	580,149	754,275	721,615

(*) No VAT for any company is included in this audit services amount. Fees in foreign currency are converted to euro at the average exchange rate for 2019.

(**) In the Consolidated Annual Accounts for the 2019 financial year, the audit services amount will be 558 thousand euros, which includes VAT of 15 thousand euros for companies that cannot deduct it due to the nature of their activities.

The audit services included in the last column above, approved by the Audit Committee, do not include the 32.7 thousand euros for audit services that KPMG provided Hisdesat Servicios Estrastrategicos, S.A. This is because the Hispasat subgroup does not have a controlling stake in this company, meaning that the appointment of its auditor and the amount of the fees are not the responsibility of the Red Eléctrica Group Audit Committee. Likewise, the 21.3 thousand euros in fees for the limited review of the group's semi-annual financial statements are not included. These fees have been included under "Other audit-related services".

The above table does not include the cost of the tax services that KPMG provided to the Hispasat subgroup prior its takeover by the Red Eléctrica Group. These services were discontinued in October 2020, with 331.7 thousand euros billed during the financial year.

2.1 Audit services

Audit service fees are 543 thousand euros and include the statutory audit of the financial statements of REC and its consolidated group for the 2019 financial year, broken down as follows:

Thousands of euro	
Audit services for REC, the group and other Spanish and European companies (excluding the Hispasat Group)	245.1
Audit Services for Peruvian and Chilean companies	119.2
Audit Services for the Hispasat Group	178.8
Audit services total	543.1

2.2 Other audit related services

Fees for audit-related services, totalling 138 thousand euros, are broken down as follows (VAT not included):

1. Review of the group's interim financial statements for 21 thousand euros.



2. Issuance of comfort letters for Red Eléctrica Financiaciones in relation to debt renewal and issuance processes, amounting to 71 thousand euros. This amount includes the billing for comfort letters for the 2017, 2018 and 2019 financial years. The Audit Committee approved these amounts as part of the fees for each financial year.
3. Issuance of the SCIIF (*Sistema de Control Interno de la Información Financiera* – internal control system for financial reporting), amounting to 16 thousand euros.
4. Services costing 12 thousand euros for the translation of the financial statements into English. This amount includes billing for part of the translation services approved in the 2018 financial year. There are also translation services approved for the 2019 financial year that are pending billing.
5. Agreed procedures related to the company Red Eléctrica Infraestructuras de Telecomunicación (Reintel) for the amount of 18 thousand euros.

2.3 Other services

The "Other services" fees of 40 thousand euros are for strategic consulting for human resources.

This report is based on the document sent to the Audit Committee and drafted by the company's external auditors, attached as an annex, which contains written confirmation of their independence from the company and its subsidiaries. The document also contains information on the auditing and other services provided to the aforementioned entities by the auditors, or persons or entities related thereto, in compliance with the provisions of the Accounts Auditing Law.

In the aforementioned declaration of independence, the auditor states: *"In our professional opinion, no circumstances have been identified in relation to the aforementioned audit, either individually or as a whole, that could constitute an incompatibility. Any circumstances that in our professional opinion entailed significant threats were eliminated or reduced to an acceptably low degree by implementing the necessary safeguard measures"*.

3. Relationship with the auditors

During the 2019 financial year, KPMG appeared before the Audit Committee on five occasions to report on the following points:

1. At the meeting of 15 February 2019, it reported on the progress of the report for the Board of Directors on the economic and financial information of Red Eléctrica Corporación and its consolidated group at the end of the 2018 financial year, including both financial and SCIIF audits. On 20 February 2019, pursuant to Article 11 of Regulation (EU) No. 537/2014 of the European Parliament, and as required by Article 36 of Law 22/2015 of July 20 on the Auditing of Accounts, the additional report on both the consolidated group and Red Eléctrica Corporación, S.A. was sent to the Audit Committee.
2. At the meeting of 29 July 2019, KPMG reported on the progress of the report for the Board of Directors on the economic and financial information of Red Eléctrica Corporación and its consolidated group for the first half of 2019.
3. At the meeting of 18 September 2019, KPMG presented the audit plan and strategy for the financial year ended 31 December 2019.
4. At the meeting of 12 November 2019, KPMG updated the presentation made at the previous meeting with additional information regarding the impact of the acquisition of Hispasat on the audit plan and strategy.
5. At the meeting of 12 December 2019, it reported on the progress of the preparation of the accounts for the 2019 financial year.



4. Conclusions

In the light of the information provided by the external auditor, the company's Audit Committee has not identified any aspects that call into question the auditor's independence under Spanish account auditing legislation. In particular, the Committee confirms that nothing that might compromise the independence of the external auditor has been identified.

Annex: Declaration of independence issued by the external auditors of Red Eléctrica Corporación, S.A. and subsidiary companies. KPMG will re-sign the declaration of independence on the date of its audit report.



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

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Our ref 2020f13aga3

For the attention of:
the Audit Committee

February 25, 2020

Dear Sir/Madam,

On 22 March 2019, we were appointed as auditor of the individual and consolidated annual accounts of Red Eléctrica Corporación, S.A. and its subsidiaries (hereinafter “the Company” or “the Red Eléctrica Group”) for the year ended 31 December 2019.

In relation to our appointment as auditor, 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 firms of the network, with the applicable extensions, have met the independence requirements in accordance with the Spanish Audit Law and Regulation (EU) no. 537/2014 of 16 April 2014.
- The fees, in Euros, charged by KPMG Auditores, S.L. and other firms of the same network to the Company and its related entities for audit and non-audit services in the year ended 31 December 2019 are listed below, by item, to enable your assessment of these fees in relation to our independence:

	Red Eléctrica Corporación S.A.	Related parties of Red Eléctrica Corporación, S.A. (*)	Total (*)	Of which subject to pre-approval by the AC (**)
Audit services (***)	89,640	486,158	575,798	543,138
Other audit-related services	44,486	93,991	138,477	138,477
Total audit and related services	134,126	580,149	714,275	681,615
Other services	40,000	-	40,000	40,000
Total professional services	174,126	580,149	754,275	721,615



Red Eléctrica Corporación, S.A.

February 25, 2020

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

(*) Includes the subgroup Hispasat, S.A. and subsidiaries, including Hisdesat Servicios Estratégicos, S.A.

(**) Does not include Hisdesat Servicios Estratégicos, S.A. as it is not a controlled company.

(***) The fees for audit services do not include the fees for the review of the interim financial services, which are included under "Other audit-related services".

The fees detailed in the table above do not include amounts for tax services rendered to the Hispasat, S.A. subgroup by other KPMG network firms prior to the Red Eléctrica Group assuming control of this company. These services were discontinued in October 2020 and a total of Euros 331,766 was invoiced in 2019.

Our Firm has implemented in-house policies and procedures designed, as described in section 4 of KPMG Auditores, S.L.'s 2019 Transparency Report available at <https://assets.kpmg/content/dam/kpmg/es/pdf/2019/01/informe-transparencia-2019.pdf>, 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 the network firms) preserve their 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.

In our professional judgement and in relation to the aforementioned audit, no circumstances that, individually or as a whole, could give rise to a situation that is not permitted under independence rules 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 at the request of the Red Eléctrica Group's Audit Committee solely for the purposes of being made public and should not be used for any other purpose. Under no circumstances does it meet the requirements of article 529 quaterdecies 4.e) of the Revised Spanish Companies Act, approved by Royal Legislative Decree 1/2010 of 2 July 2010 (amended by the fourth final provision of Spanish Audit Law 22/2015 of 20 July 2015), and this has been communicated to the Audit Committee.

This confirmation has been drawn up solely for the addressees of this letter and may not be distributed or used for any other purpose.

Kind regards,

Eduardo González Fernández
Partner