



RED
ELÉCTRICA
CORPORACIÓN

Audit Committee

15 February 2019

Report on the independence of the
external auditor.



REPORT ON THE INDEPENDENCE OF THE EXTERNAL ACCOUNT AUDITOR OF RED ELÉCTRICA CORPORACIÓN, S.A. IN FINANCIAL YEAR 2018

I. Justification

In accordance with the provisions of section 4 (f) of article 529 quaterdecies of the Capital Companies Law (the "Capital Companies Law"), modified by section twenty of the fourth final provision of Law 22/2015, of 20 July, Account Auditing, and in accordance with the provisions of article 16.3 h) on the Regulations of the Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A. (hereinafter REC or the Company) in relation to the regulation and functions of the Audit Committee, it is established that a report shall be issued annually, prior to the issuance of the audit report, in which an opinion shall be expressed on whether the independence of external auditors or audit firms is compromised.

In all cases, the aforementioned report must contain the reasoned appraisal of the provision of each of the additional services, individually and as a whole, other than the legal audit and in relation to the independence regime or the governing regulations of the accounting audit activity, provided by the aforementioned external accounts auditors or audit companies, in accordance with the provisions of the aforementioned regulations. Therefore, the Audit Committee issues this report, which shall be published on the corporate website in well in advance of the holding of its Ordinary General Shareholders' Meeting, in line with the provisions of Recommendation No. 6 of the Spanish Good Governance Code of Listed Companies.

II. Analysis on the independence of external account auditors

Since 2013, KPMG Auditores, S.L. ("KPMG Auditores") has been the auditor of the accounts of the Company and its Group. The Ordinary General Meeting of Shareholders of REC held on 15 April 2016 re-elected KPMG Auditores as the auditors of the Company and its consolidated Group's accounts to carry out the audit of the individual financial statement of the Company and its consolidated Group, for financial years 2016, 2017 and 2018.

With the aim of guaranteeing the independence of the external auditor, the Audit Committee has supervised the compliance with the regulations in force on the provision of services other than account auditing throughout 2018, carrying out the authorisation of services other than those forbidden in accordance with the applicable regulations, in compliance with article 16 of the current Accounts Auditing Law.

The fees charged to the entity and its related entities are displayed below, by control, broken down by item, both for audit services and for services other than auditing, during the year ended 31 December 2018 by KPMG Auditors, S.L. and (if applicable) other firms in the same network:



	Euros
Audit services (*)	318,699
Other audit related services	69,484
Total audit and related services	388,183
Tax services	-
Other services	65,000
Total services	453,183

(*) VAT is not included in this amount of audit services for those companies that, due to their activities, cannot deduct VAT, nor for other companies. The fees paid in foreign currency are converted to euros at the average exchange rate of 2018. In the Financial Statement for financial year 2018, the amount related to the audit services shall amount to 332 thousand euros, since it includes the VAT for those companies that, due to their activities, cannot deduct VAT, amounting to 13 thousand euros.

Audit services

The fees for audit services amount to 318.7 thousand euros and include the legal audit of the financial statements of Red Eléctrica Corporación and its consolidated group for financial year 2018, according to the following breakdown

Audit Services for REC and the Group	79.2
Audit Services for Spanish companies	102.9
Audit Services for other European companies	31.6
Audit Services for Peruvian companies	49.0
Audit Services for Chilean companies	56.0
Total audit services	318.7



Other audit related services

The fees for audit related services, for an overall amount of 69.5 thousand euros, are broken down as follows (VAT not included):

1. Issuance of Comfort Letters for Red Eléctrica Financiaciones in relation to debt renewal and issuance processes, amounting to 23.7 thousand euros.
2. Issuance of the Internal Control System of Financial Reporting (SCIIF), amounting to 15.7 thousand euros.
3. Translation services into English of the financial statement for the amount of 12.5 thousand euros.
4. Agreed procedures related to the company Red Eléctrica Infraestructuras de Telecomunicación (Reintel) for the amount of 17.6 thousand euros.

Other services

The fees related to other services correspond to strategic consulting services for both human resources, amounting to 40 thousand euros, and sustainability, for 25 thousand euros.

Regarding the contracting conditions provided for in article 40 of the Accounts Auditing Law, and provided that Red Eléctrica is a public interest entity as established in article 3 of said Law, the Audit Committee notes that the rotation obligation of the account auditor signing the audit report is satisfied. Specifically, in financial year 2018 and to comply with the rotation requirements enforced by the aforementioned Law on Auditing, KPMG has carried out the rotation of the main audit partner.

This report is based on the document sent to the Audit Committee and drafted by the external auditors of the Company, attached as an Annex, which contains the written confirmation of its independence from the Company and its Subsidiaries, as well as information on the audit services and other services, provided to said entities by the aforementioned auditors or by the persons or entities related to them, in compliance with the provisions of the Accounts Auditing Law in force.

In the aforementioned declaration of independence, the auditor states: *"In this sense, according to our professional judgement and in relation to the aforementioned audit, no circumstances that, individually or as a whole, could entail a significant threat to our independence have been identified and, therefore, the implementation of safeguard measures or measures that could cause incompatibilities are not required."*

III. Relationship with account auditors

Throughout financial year 2018, KPMG appeared on five occasions before the Audit Committee, in order to report on the following points:



1. In the session of 24 January 2018, KPMG reported on the draft of the new audit report for Red Eléctrica Corporación (individual and consolidated), the draft of the audit report on the Internal Control System for Financial Information (SCIIF), the additional disclosures to the consolidated financial statement, and the progress of the structure and content of the additional report to the Audit Committee. All the above related to the closing of financial year 2017.
2. At the meeting held on 12 February 2018, it reported on the progress of the report to the Board of Directors regarding the economic-financial information of Red Eléctrica Corporación and its consolidated group corresponding to the closing of financial year 2017, both financial and SCIIF audits. On 19 February 2018, it was sent to the Audit Committee, pursuant to Article 11 of Regulation (EU) No. 537/2014 of the European Parliament, and as required in article 36 of Law 22/2015 of 20th July on Account Auditing, the Additional Report for the Audit Committee, both of the consolidated Group and of Red Eléctrica Corporación, S.A.
3. At the session held on 27 July 2018, KPMG reported on the progress of the report to the Board of Directors regarding the economic-financial information of Red Eléctrica Corporación and its consolidated group corresponding to the first semester of 2018.
4. At the meeting on 19 September 2018 KPMG presented the audit and strategy plan for the financial year ended 31 December 2018.
5. In the session of 12 December 2018, it reported the closing progress corresponding to financial year 2018.

The Responsible Partner of KPMG has confirmed to the Audit Commission that their employees and the Company Management have collaborated and provided to the audit team all the information required to complete their work.

IV. Conclusions

In light of the information provided by the external auditor, the Company's Audit Committee has not identified issues that call into question compliance with the regulations in force in Spain for the audit of accounts in relation to the auditor's independence and, in particular, the Committee confirms that no aspects of this nature that could compromise the independence of the external auditor have been identified.

Annex: Declaration of independence issued by the external account auditors of Red Eléctrica Corporación, S.A. and Subsidiaries. KPMG shall sign the declaration of independence once again with the date of its audit report.



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

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28109 Alcobendas (Madrid)

Our ref: 2019f19aab1

For the attention of:
The Audit Committee

20 February 2019

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 2018.

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 2018 are listed below, by item, to enable your assessment of those fees in relation to our independence:

	Euros
Audit services (*)	318,699
Other audit-related services	69,484
Total audit and related services	388,183
Tax services	-
Other services	65,000
Total services	453,183

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



Red Eléctrica Corporación, S.A.

20 February 2019

— Our Firm has implemented in-house policies and procedures as described in section 4 of KPMG Auditores, S.L.'s 2018 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)

Eduardo González Fernández

Partner