

# Auditor Contracting and Relations Policy

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The Audit and Risk Supervision Committee of IBERDROLA, S.A. (“Iberdrola” or the “Company”) approves this *Auditor Contracting and Relations Policy* (the “Policy”), the purpose of which is to ensure that the position of auditor of the Company is held by an independent firm that has the technical qualifications required to perform its work in an efficient and responsible manner and in accordance with applicable legal provisions.

This *Policy* governs the selection, appointment, re-election, and, if applicable, removal of the auditor of the individual accounts of the Company and of the accounts of the Company consolidated with those of the companies making up the group of which the Company is the controlling entity, within the meaning established by law (the “Group”), as well as the framework for relations with such auditor.

This *Policy* also sets forth the principles that must govern the selection, appointment, re-election, and, if applicable, removal of the auditors of the other companies within the Group, as well as the framework of relations between such companies and their auditors.

### **1. Appointment, Re-election, and Removal**

The appointment, re-election, and removal of the auditor that is to verify the individual annual accounts of the Company as well as the accounts of the Company consolidated with those of the companies belonging to the Group is within the purview of the shareholders acting at the General Shareholders’ Meeting.

The Board of Directors shall submit to the shareholders at the General Shareholders’ Meeting the proposal for appointment, re-election, or removal of such auditor pursuant to the provisions of this *Policy* and applicable legal provisions.

### **2. Procedure for Selection, Contracting, and Proposal for Appointment**

The Audit and Risk Supervision Committee shall establish the minimum requirements to be satisfied by entities applying to act as auditors of the Company, as well as the most appropriate selection and contracting procedure, which must be impartial, transparent, efficient, and non-discriminatory, and contemplate the holding of a tender among the various candidate entities to ensure compliance with the foregoing requirements.

For such purposes, the Audit and Risk Supervision Committee shall approve a set of bid terms and conditions for all candidates invited to participate in the procedure, whereby they may become familiar with the activities of the Company and the characteristics and scope of the required services, including any services other than auditing. The bid terms shall also contain a tentative schedule for the process.

To protect the integrity of the selection process and the confidential information that the Company makes available to the candidates, a corresponding confidentiality agreement shall be signed with each of them.

The bid terms and conditions shall include transparent and non-discriminatory selection criteria, which the Company shall apply objectively in evaluating the bids submitted. These criteria must ensure the independence of the auditor, the sufficiency and suitability of its experience, solvency and operational capacity, and strict compliance with any other requirement or demand of any applicable legal provisions that may be established at any time. The Audit and Risk Supervision Committee shall establish a weighting for each of the selection standards set out in the bid terms and conditions, which shall not form a part thereof.

The Audit and Risk Supervision Committee may rely on the collaboration of any division or area of Iberdrola or the companies of the group. In this regard, the division or area specified by the Audit and Risk Supervision Committee in the bid terms and conditions shall make conclusions regarding the selection process in a report to be ratified by the committee.

The candidates shall submit their bids to the Audit and Risk Supervision Committee at one or more meetings called for this purpose, at which the committee may ask the candidates questions and request the clarifications it deems are appropriate.

During the selection process, the Audit and Risk Supervision Committee shall ensure, among other things, strict compliance with the regulations applicable to the selection and contracting of auditors, and particularly the equal treatment of the candidates. The Audit and Risk Supervision Committee may provide in the bid terms and conditions for the possibility of not giving an award or abandoning the tender.

Communications with the candidates shall in any event be led by the Audit and Risk Supervision Committee. The candidates must refrain from requesting additional information through channels other than those established by the Audit and Risk Supervision Committee for such purpose in the bid terms and conditions. Furthermore, no company of the Group shall respond to any question or request for information that is not channelled through the Audit and Risk Supervision Committee.

The Audit and Risk Supervision Committee shall not submit a proposal to the Board of Directors, and the Board of Directors shall not submit a proposal to the shareholders at the General Shareholders’ Meeting, for appointment of an audit firm as the Company’s auditor if it has evidence that such firm is affected by any circumstance of lack of independence, prohibition, or disqualification pursuant to the legal provisions governing the audit of accounts. In particular, if the fees accrued from the provision of audit services and services other than audit that the Company and any other entity of the Group expect to pay the auditor or audit firm or a member of its network during each of the last three consecutive financial years represent more than fifteen per cent of the total annual income of the auditor or audit firm and of said network.

In addition, the total fees received for services other than audit may not exceed sixty per cent of the average of the fees paid during the last three financial years for audit work provided to the Company and to the other entities of the Group.

The tender may include the selection of the auditor of other companies of the Group provided that applicable legal provisions in each case do not prevent the selection thereof.

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Once the bids submitted have been evaluated in accordance with the criteria set forth in the bid terms and conditions, the Audit and Risk Supervision Committee, based on the report, if any, submitted by the relevant division or area, shall submit to the Board of Directors a report recommending two candidates to serve as auditor of the individual accounts of the Company and the accounts of the company consolidated with those of its subsidiaries, indicating its preference for one of them and providing sufficient grounds therefor.

In indicating its preference for one of the candidates in its report, the Audit and Risk Supervision Committee shall state that its recommendation is free from any third-party influence and that no contractual provision has been imposed upon it whereby the election is restricted to certain categories or lists of auditors, pursuant to the terms of applicable legal provisions.

In view of the report, the Board of Directors shall propose to the shareholders at the General Shareholders' Meeting the appointment of one of the two candidates selected by the Audit and Risk Supervision Committee, with the reasons for the proposal if it differs from the preference of this committee.

### **3. Proposal for Re-election**

Before the end of the financial year in which the appointment of the Company's auditor is to expire, the Audit and Risk Supervision Committee shall consider its possible re-election or, if appropriate, the commencement of the procedure for selecting and contracting a new auditor, pursuant to the provisions of the preceding section.

To such end, the Audit and Risk Supervision Committee shall take into account the result of the annual evaluation of the independence and quality of the work performed by the Company's auditor, as well as any time and quantitative limits established by applicable legal provisions.

In view of the foregoing, upon a proposal of the Audit and Risk Supervision Committee, the Board of Directors shall submit the proposal for re-election of the Company's auditor to the shareholders at the General Shareholders' Meeting.

If the proposed re-election is approved, the shareholders shall authorise the Board of Directors, with the express power of substitution, to enter into the corresponding services agreement.

### **4. Proposal for Removal**

The Board of Directors may only propose the removal of the auditor to the shareholders at the General Shareholders' Meeting if so allowed by legal provisions, after a report from the Audit and Risk Supervision Committee.

### **5. Relationship with the Auditor**

The Board of Directors shall maintain an objective, professional, and ongoing relationship with the Company's auditor, and shall at all times respect the independence thereof. Such relationship shall normally be channelled through the Audit and Risk Supervision Committee.

The Board of Directors shall meet with the auditor at least once per year in order to receive information regarding the work performed and regarding the accounting status and risks of the Company.

The Audit and Risk Supervision Committee shall perform, on an annual basis, a formal evaluation of the quality of the work carried out by the auditor during the financial year and of the level of coordination among the different firms performing audit work at entities within the Group, if there is more than one such firm. To this end, it shall regularly receive information regarding the audit plan and the implementation thereof.

For its part, the auditor shall submit to the Audit and Risk Supervision Committee an annual report with its recommendations as a product of its work.

The auditor may carry out limited audits or reviews of the interim accounts that are published with a frequency of less than one year pursuant to applicable legal provisions.

### **6. Independence**

The Company's Corporate Governance System ensures the establishment of the required relations between the Audit and Risk Supervision Committee and the auditor so that it receives this specific information regarding matters that might entail threats to the independence thereof.

The Audit and Risk Supervision Committee shall endeavour to ensure that the auditor of the Company is independent and that this is made clear in the relations between them. To this end, it must authorise, prior to formalisation thereof, any contract it intends to sign with the auditor or with any member of its network for the provision of services other than auditing to the Company or any of the companies of its Group, in order to be able to individually and globally analyse the threats to independence that might arise from said contracts. The Audit and Risk Supervision Committee shall continuously communicate and coordinate with the audit and compliance committees of the other companies of the Group for this purpose.

The Company's Audit and Risk Supervision Committee shall also be immediately informed of any contracting of audit or non-audit services from firms performing audits of the Group, with a level of detail sufficient to allow it to perform a global and effective analysis of the effect that the contracting of these services may have on independence from an individual and collective viewpoint.

The Audit and Risk Supervision Committee shall receive from the Company's auditor, on an annual basis, written confirmation of its independence in respect of the Company or entities directly or indirectly related thereto, as well as a detailed breakdown

of information regarding additional services (other than auditing) of any kind provided to such entities by said auditor or by persons or entities related thereto, pursuant to the legislation governing the audit of accounts.

The Audit and Risk Supervision Committee shall issue, on an annual basis and prior to the issuance of the audit report, a report setting forth an opinion on the independence of the auditor. This report must contain an assessment of the possible impact on the independence of the auditor of each and every one of the additional services other than the legal audit referred to in the preceding paragraph, considered individually and as a whole.

Furthermore, the Audit and Risk Supervision Committee shall monitor the internal procedures for assuring quality and safeguarding independence implemented by the Company's auditor.

The audit firms carrying out audits of accounts at companies of the Group shall on an annual basis provide to the Audit and Risk Supervision Committee, through the audit committees or the bodies at each company assuming the powers thereof, information regarding the profiles and the track record of the persons making up the audit teams working for the Company and the Group, with specific mention of the changes in the composition of such teams compared to the immediately preceding financial year. If the proposed appointment is approved, the shareholders shall authorise the Board of Directors, with the express power of substitution, to enter into the corresponding services agreement.

In addition, the Audit and Risk Supervision Committee shall receive information on professionals joining any of the companies within the Group who were formerly employed by any of the Group's audit firms.

## **7. Transparency**

The Board of Directors shall make public the fees paid by the Company to the various audit firms working for the Group, both in consideration for the audit of accounts and for services other than the audit of accounts, specifying the fees paid to the auditor and those paid to any company of the network to which the auditor belongs or to any other company to which the auditor is related under a relationship of joint ownership, management, or control.

The activities report of the Audit and Risk Supervision Committee, which shall be submitted to the Board of Directors for approval and shall subsequently be made available to shareholders and investors, shall contain information regarding the significant aspects of the auditor's activity during the financial year.

Any information regarding the audit of accounts required in the *Annual Corporate Governance Report* shall first be reviewed by the Audit and Risk Supervision Committee.

## **8. Auditors of the Other Companies of the Group**

Companies legally considered to be public utilities within the European Union shall carry out their own procedures for the selection, appointment, re-election, and removal of auditors, which shall be conducted independently and shall be governed by the same rules and principles as those contained in this *Policy*, provided that they are not incompatible with specific legal provisions that may apply in each case. Those companies in other countries whose respective applicable legal provisions so require shall also do so.

Their respective tenders for the selection of an auditor may include the award of audit work at their subsidiaries when so permitted by applicable legal provisions.

In any event, the relations between the other companies within the Group and their respective auditors shall be governed by the principles of independence and transparency set forth above, also taking into account any specific regulations applicable thereto in each case.

This *Auditor Contracting and Relations Policy* was initially approved by the Audit and Risk Supervision Committee on 23 November 2005 and was last amended on 22 February 2016.