

Audit and Compliance
Committee
Iberdrola España
12 February 2020

**Activity Report for
2019**



This Activity Report has been issued by the Audit and Compliance Committee of Iberdrola España at its meeting of 12 February 2020 to be subsequently made available to the Board of Directors of the Company.

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Contents

1. Introduction 6

2. Composition and attendance 8

3. Activities 10

3.1. Activities carried out in relation to economic and financial information: 11

3.2. Activities carried out in relation to the risk control and management systems: 11

3.3. Activities carried out in relation to internal audit: 11

3.4. Activities carried out in relation to the audit of the financial statements: 12

3.5. Activities carried out in relation to compliance with legal and good governance requirements and the prevention and correction of illegal or fraudulent conduct: 12

3.6. Activities carried out in relation to compliance with the regulations on the separation of regulated activities: 12

4. Appearances 14

5. Training 16

6. Conclusion 18

1. Introduction

Following the establishment of the Audit and Compliance Committee (the “**Committee**”) of Iberdrola España S.A. Sociedad Unipersonal (hereinafter “**Iberdrola España**” or “**the Company**”), the Committee has been performing the functions laid down in the *Regulations of the Audit and Compliance Committee* of Iberdrola España which govern it (hereinafter the “**Regulations**”), and in the Company’s By-laws (hereinafter the “**By-laws**”).

In accordance with the provisions of Article 5 of the Regulations, within three months of the end of each financial year the Audit and Compliance Committee (hereinafter “**the Committee**”) must submit a Report on the activities carried out in the previous financial year for approval by the Board of Directors. Subsequently, this Report must be made available to the chairman of the Audit and Risk Supervision Committee of Iberdrola S.A. (“**Iberdrola**”) and the chairman of Iberdrola’s Sustainable Development Committee for purposes of that Committee’s compliance activities.

The *Regulations of the Audit and Compliance Committee* were modified by the Audit and Compliance Committee on 9 April 2019, and endorsed by the Board of Directors on 11 April 2019.

2. Composition and attendance

As of 31 December 2019, Iberdrola España's Committee consisted of three members, all of whom were members of the Board of Directors, and two of whom were independent directors. Mr. Gerardo Codes Calatrava is non-member secretary of the Committee.

Position	Name	Status	Experience in accounting, financial and risk management
Chairman	Mr Fernando Diago de la Presentación	Independent	Yes
Member	Mr Emilio Ontiveros Baeza	Independent	Yes
Member	Mr Juan Carlos Rebollo Liceaga	Executive	Yes

In 2019, the Committee met six (6) times in person and adopted resolutions by means of the written procedure without a session four (4) times. Following the call notice for each meeting or written procedure, the members of the Committee were provided with all the information necessary for adequately preparing the matters submitted for their consideration. The following are the details of the meetings or procedures referred to:

Date	Place where meeting was held or is deemed to have been held
21 January 2019	Madrid
06 February 2019	Madrid
12 March 2019	Madrid
09 April 2019	Madrid
31 May 2019	Madrid
09 July 2019	Madrid
15 October 2019	Madrid
27 November 2019	Madrid
04 December 2018	Madrid
12 December 2109	Madrid

The attendance of each Committee member at the meetings held in 2019 was as follows:

Director	Meetings attended
Mr Fernando Diago de la Presentación	6/6
Mr Emilio Ontiveros Baeza	6/6
Mr Juan Carlos Rebollo Liceaga	5/6

3. Activities

3.1. Activities carried out in relation to economic and financial information:

- During 2019 the process of preparing and the integrity of the Company's economic and financial reporting were supervised in detail. The Committee also made sure that the interim information presented to the Board of Directors is drawn up in accordance using the same accounting standards as the annual financial statements.
- On 06 February 2019 the Committee drew up a Report for the Board of Directors on economic and financial reporting for the year 2018. Subsequently, the Committee drew up the corresponding reports with the quarterly and half-yearly financial information in accordance with the provisions of Article 3.2.d.iii. of the *Regulations of the Audit and Compliance Committee*.

3.2. Activities carried out in relation to the risk control and management systems:

Review of the Overall Risk System

In the meetings of 6 February, 12 March and 9 July, the Committee decided unanimously to issue the following reports for subsequent submission to the Board of Directors:

- (i) *Risk report on risk control and management systems for the second half of 2018:*
- (ii) *Report on the guidelines on risk limits for 2019 and specifications for the application of specific risk policies for the various businesses of the Iberdrola España Group;*
- (iii) *Risk report on risk control and management systems for the first half of 2019.*

These reports were in turn made available to the chairman of the Iberdrola Audit and Risk Supervision Committee.

Risks arising from litigation.

In accordance with the provisions of article 3.2.b.viii of the *Regulations of the Audit and Compliance Committee*, the Committee on 15 October issued a Report on Claims affecting the Company and its group of companies for the 2019 financial year, which includes the main litigations of the Company and its subsidiaries.

3.3. Activities carried out in relation to internal audit:

- The Committee fulfilled its supervisory role with regard to the Internal Audit Area through regular presentations made by the Internal Audit Director in the Committee's meetings on the basis of the Annual Audit Plan and the monitoring reports on the activities contained in the plan. During 2019 the Committee supervised the work carried out by the Company's Internal Audit Division in the meetings held on 6 February, 9 April, 9 July and 15 October.
- Additionally, in the last meeting of 2019, which was held on 4 December, the Internal Audit Director presented the plan for activities to be carried out during 2020 together with the financial budget. The Plan was approved by the Committee and the budget was submitted to the Board for approval. This

plan forms the basis for the tasks to be performed by the Internal Audit Division during the year and for estimating the resources needed for their performance.

- Likewise, at the meeting of 4 December 2020, the Committee validated the objectives of the Internal Audit Director prior to their raising before the Board of Directors, all in accordance with the provisions of article 3.2.a.v of the *Regulations of the Audit and Compliance Committee*.

3.4. Activities carried out in relation to the audit of the financial statements:

- In accordance with the provisions of Article 3.2.c.iv of the *Regulations of the Audit and Compliance Committee*, the Committee issued a *Report on the independence of the auditors of the Company for financial year 2018* at its meeting of 6 February 2019.

In this report the Committee concluded that the Company's auditor had performed its audit work independently.

- On 31 May 2019, the Committee, through the procedure for taking agreements in writing and without a session, issued the proposed conditions for contracting the auditor of the Company and other companies of the Iberdrola España Group for the year 2019. This proposal was duly laid before the Board of Directors for approval in accordance with the provisions of the Regulations.

3.5. Activities carried out in relation to compliance with legal and good governance requirements and the prevention and correction of illegal or fraudulent conduct:

- In the meeting of 9 April 2019, the Compliance Director presented the *Report on compliance and the effectiveness of the Company's compliance system* to the Committee, as well as the *Annual Compliance Division report on the implementation and effectiveness of the Company's and its investees' Crime Prevention Programme*. The updates to this Programme were also analysed by the Committee in its meetings of 9 July and 4 December.
- At the 9 April session, the Committee was informed of the creation of the Iberdrola España Compliance Office, in accordance with the provisions of the *Regulations of the Compliance Division*, and of the approval of the *Protocol for risk management of third party fraud and corruption* of Iberdrola España.
- Additionally, at the last session of the 2019 financial year, held on 4 December, the Committee approved the plan of activities to be carried out in 2020 and submitted the budget for said financial year to the Board of Directors. At the same meeting, the Committee validated the objectives of the Compliance Director prior to raising them to the Board of Directors, all in accordance with the provisions of article 3.2.e.vii of the *Regulations of the Audit and Compliance Committee*.

3.6. Activities carried out in relation to compliance with the regulations on the separation of regulated activities:

- In the meeting of 06 February 2019, the Committee issued a prior opinion on the "*Annual Report on compliance with and effectiveness of the Code for the Separation of Activities of Iberdrola España Group companies with regulated activities*", which was presented by the Compliance Director and submitted to the Board of Directors for consideration. The purpose of this report, issued pursuant to the provisions of Article 20 of the *Code for the Separation of Activities of Iberdrola España Group companies with*

regulated activities, is to analyse and report on fulfilment of the obligations regarding the Incompatible Activities by Iberdrola España Group companies with regulated activities in Spain during financial year 2018. The report concludes that the Iberdrola España Group complied appropriately with the measures established in the Code for the Separation of Activities during financial year 2018.

Other areas of the remit and issues pertaining to the Committee:

- In accordance with the provisions of Article 3.2.g of the Regulations of the Audit and Compliance Committee, on 9 July 2019 the Committee issued its Report on the monitoring of special purpose entities domiciled in tax havens and their operational status. This report highlights that: (i) Iberdrola España does not (at said date), hold any direct or indirect participation in companies or entities that are domiciled in countries or territories that are considered tax havens or territories included in the blacklist of non-cooperating jurisdictions of the European Union; (ii) since the previous presentation of the report (9 July 2018), the Iberdrola España Board of Directors has not received any request for the incorporation and/or acquisition of any company that meets the characteristics of specific purpose companies or those domiciled in tax countries by any company of the Iberdrola España Group.

4. Appearances

During 2019 the following Iberdrola group executives and members of the external auditor's team appeared before the Committee. Details of their appearances are shown hereunder:

Person appearing	Regular	Ad hoc
Internal audit	✓	
Administration and Control	✓	
Accounts Auditor	✓	
Risks	✓	
Legal Services		✓
Corporate Tax Division		✓
Compliance Division	✓	

5. Training

The Committee has a training plan, the content of which comprises training sessions held in the Committee meetings. Three (3) training sessions were held during Committee meetings in 2019, on the following aspects:

Date	Training sessions
09 April 2019	Innovation- Young Entrepreneurs Programme
09 July 2019	Regulatory Developments
15 October 2019	New developments in accounting and auditing

6. Conclusion

In accordance with the guidelines of Iberdrola's Board of Directors, the Committee, advised by *PricewaterhouseCoopers Asesores de Negocios, S.L. ("PWC")*, has drawn up a report on the Audit and Compliance Committee of Iberdrola España, concluding that (i) it complies with all the indicators analysed deriving from internal regulations; and (ii) the Committee is aligned with the two future trends based on the Good Governance documents for unlisted companies¹, as well as those considered relevant by the parent company for the evaluation of this Committee.

It can be concluded that in 2019, the Iberdrola España Audit and Compliance Committee satisfactorily performed the functions entrusted in its *Regulations*, supervising the activity of the areas under its scope of action and raising the relevant reports to the Board of Directors of the Company and to the Audit and Risk Supervision Committee of Iberdrola, S.A.

¹ "Corporate Governance Guidance and Principles for Unlisted Companies in Europe" and "Good Corporate Governance Principles for Unlisted Companies"

