

October 10, 2018

**Audit and
Compliance
Committee
Regulations
of Iberdrola
Distribución
Eléctrica, S.A.U.**



**IBERDROLA
DISTRIBUCIÓN ELÉCTRICA**

Content

CHAPTER I.- NATURE, PURPOSE AND APPROVAL OF THE REGULATIONS.	3
Article 1.- Nature and purpose	3
Article 2.- Approval, modification and legal order of priority	3
CHAPTER II.- COMMITTEE DUTIES.	3
Article 3.- Functions.	3
Article 4.- Scope of the functions. Information for the Board of Directors:	5
Article 5.- Report of Activities	5
Article 6.- Assistance of experts.	6
CHAPTER III.- COMPOSITION, APPOINTMENT AND MEMBER DISMISSAL	6
Article 7.- Composition.	6
Article 8.- Appointment.	6
Article 9.- Term of office.	6
Article 10.- Dismissal.	6
CHAPTER IV.- COMMITTEE MEETINGS	6
Article 11.- Meetings.	6
Article 12.- Call to meeting.	6
Article 13.- Quorum, attendance, and passing of resolutions.	6
Article 14.- Attendance	7
CHAPTER V. COMPLIANCE WITH, INTERPRETATION OF, AND INTEGRATION OF THE REGULATIONS	7
Article 15.- Compliance.	7
Article 16.- Interpretation and integration of the Regulations.	7



CHAPTER I.- NATURE, PURPOSE AND APPROVAL OF THE REGULATIONS.

Article 1.- Nature and purpose

1. In accordance with the By-Laws of Iberdrola Distribución Eléctrica, S.A., sociedad unipersonal ((hereinafter the “Company”), the Board of Directors establishes the Audit and Compliance Committee (hereinafter the “Committee”) as a permanent internal body of informational and consultative nature, without executive powers, and in charge of providing information, advice, control and proposals to the Board of Directors within its scope of action, to be governed by the rules of the By-Laws and these Regulations.
2. The purpose of this Regulation is to define the principles of action and internal system for the working of the Audit and Compliance Committee, given that Iberdrola España, S.A.U., as a subholding company encompassing the different companies of the Iberdrola Group that carry out their energy business in Spain, in turn, also has an Audit and Risk Supervision Committee as well as a Corporate Social Responsibility Committee within its own governance structure.

Article 2.- Approval, modification and legal order of priority

1. These Regulations must be approved by majority agreement of the Committee's members and by the Company's Board of Directors.
2. At the request of the Chairman of the Committee or most of its members, these Regulations may be modified through an agreement adopted by the Committee itself; these modifications, in all cases, must be approved by the Board of Directors.
3. These Regulations implement and complement the By-Laws applicable to the Audit and Compliance Committee, which shall prevail in the event of contradiction with the provisions of these Regulations.

CHAPTER II.- COMMITTEE DUTIES.

Article 3.- Functions.

1. The Audit and Compliance Committee and the Internal Audit and Compliance Division of the Company, perform their duties with full autonomy without prejudice to the establishment of a framework for collaboration and information about the performance of their duties with the Audit and Compliance Committee, the Internal Audit Department and the Compliance Division of Iberdrola España, S.A.U., provided this does not affect the principle of separation of activities to the protection of commercially-sensitive information in accordance with regulations on separation of regulated activities and the corresponding Code for the Separation of activities of the companies of the Iberdrola España Group with regulated activities (the “Code for the Separation of activities”) on this matter. In particular, the coordination relationships with Iberdrola España, S.A.U.'s Audit and Compliance Committee must be channelled through the chairmen of the audit committees and their purpose shall be to inform Iberdrola España, S.A.U.'s Audit and Compliance Committee of any matters dealt with by the subsidiaries that might have a significant impact at Group level in Spain seen by the Committee. Moreover, the relations between the Committee and Iberdrola's Audit and Risk Supervision Committee will be subject to the General framework for coordination and information relations between the audit committees of Iberdrola, S.A. and its group approved by Iberdrola, S.A.'s Board of Directors.
2. Under all circumstances, the Committee shall have the following functions:
 - a) With regard to the Internal Audit Division:
 - i. To safeguard the independence and effectiveness of the Company's Internal Audit Division ensuring that it is provided with sufficient resources and a suitable level of professional qualification for the optimal development of its functions and, likewise, to assure compliance with the Basic Internal Audit Regulations of the Iberdrola Group.
 - ii. To approve the guidelines and the annual plans of action of the Internal Audit Department of the company according to the guidelines and general plans established by the Internal Audit Department of Iberdrola España, S.A.U., provided this does not affect the principle of separation of activities or the protection of commercially-sensitive information, according to the regulations on separation of regulated activities and the corresponding Code for the Separation of activities of the Iberdrola España Group in this field, ensuring it performs its duties proactively and in a way that its activities are mainly focused on risks relevant to the Company.
 - iii. To propose the budget for the Company's Internal Audit Department, submitted to the Board of Directors for approval.
 - iv. To propose the appointment and dismissal of the person responsible of the Division to the Board of Directors. When drawing up such proposal, the Chairman of the Committee shall liaise as appropriate with the person responsible of the Internal Audit Area of Iberdrola España, S.A.U., and shall report on this to the Committee.
 - v. To guide and supervise the Company's Internal Audit Department, which shall report functionally to the Chairman of the Committee and hierarchically to the Chairman of the Board of Directors, and which shall prepare the necessary information for its meetings, at which it must be present as deemed necessary by the Chairman. Likewise, the Internal Audit Department shall inform the Committee of any incidents that arise in the performance of its annual work plan, and shall submit an activities report at the end of each financial year which shall also be submitted to the Internal Audit Department of Iberdrola España, S.A.U.
 - vi. To receive regular information on the activities carried out by the Internal Audit Division, which, through its Director, shall also maintain the flow of necessary information with the Internal Audit Department of Iberdrola España, S.A.U. to ensure compliance with the guidelines and general plans established by the aforementioned company, provided this does not affect the principle of separation of activities or the protection of commercially-sensitive information, according to regulation on separation of regulated activities and the corresponding Code for the Separation of Activities of the Iberdrola España Group on this subject.
 - vii. To verify, taking into account the conclusions and recommendations of the Internal Audit Department's reports, that Company directors take into account the conclusions and recommendations of its reports as the ordinary channel for communication between

NOTICE. This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document that this translation is intended to reflect, the text of the original Spanish-language document shall prevail.

the Committee and the rest of the Company organisation, without prejudice to the provisions of section b) iii) below concerning risk management. The Internal Audit Division will prepare the required information during Committee meetings, which will be attended by its Director if the Committee deems it appropriate. The Committee may gather information from and request the collaboration of any Director of the Company or of its subsidiaries, informing the Chairman of the Board of Directors as well as the Chief Executive Officer, if any, in accordance with the provisions of article 14 below.

b) With regard to the internal control and risk management systems:

- i. To be knowledgeable of and review the financial reporting process and the internal control systems associated with the risks of both the Company and of its subsidiaries, ensuring that they are suitable for the general processes and systems established by the Iberdrola Group.
- ii. To ensure, in accordance with the general policy on the control and management of risks laid down by the Iberdrola, S.A., that the main risks facing the Company and its subsidiaries are properly identified, managed, and reported, identifying, on the basis of the foregoing, as least: the different types of risk (operational, technological, financial, legal and reputational) the Company faces, including, amongst those of a financial or economic nature, contingent liabilities and other off-balance sheet risks; the setting and revision of the risk map and levels the Company considers to be acceptable; the measures foreseen to mitigate the impact of those risks identified, if they should materialise; and the internal information and control systems to be used in order to control and manage the said risks, including contingent liabilities or off-balance sheet risks.
- iii. To maintain the corresponding relationships with the responsible department in the area of company risk management. To this end, this department will be the ordinary channel for communication with the Committee and with the rest of the Company's organisations on matters related to risk management, and is likewise responsible for preparing the required information for Committee meetings which address this issue, at which the departmental manager must be present if deemed appropriate, without prejudice to the provisions set forth by Article 14 below.
- iv. To issue, at least once every six months, a report for the Board of Directors on the Company's internal control and risk management systems, which the Chairman of the Audit and Compliance Committee, within the framework for coordination and reporting set forth at the Iberdrola España Group level, will subsequently make available to the Chairman of the Audit and Risk Supervision Committee of Iberdrola España, S.A.U., to enable the latter Committee to fulfil the duties with which it has been entrusted concerning the Iberdrola España Group's internal control and risk management systems.

c) In respect of Accounts Auditing:

- i. To propose to the Board of Directors the conditions under which the Company's Auditor appointed by the Shareholders Meeting is to be employed in accordance with the policy in this regard laid down by Iberdrola, S.A., acting for these purposes in the interests of the Company and of all companies within the Iberdrola Group.
- ii. To safeguard the independence of the Auditors, gathering from them information on any matters which could jeopardise their independence, as well as ensuring there are no circumstances of prohibition or incompatibility.
- iii. To receive information from the Auditors on a regular basis regarding matters provided for in applicable legislation governing accounts auditing and the technical auditing standards in effect at any time, establishing suitable information channels for these purposes between the Internal Audit Department of the Company and the Internal Audit Department of Iberdrola España, S.A.U.

In any event, the Committee must receive annually written confirmation by the Auditors as to their independence from the Company or its direct or indirect subsidiaries, as well as detailed and particular information on additional services of any nature rendered to these bodies by the Auditors or by related persons or entities, in accordance with applicable legislation governing the auditing of accounts.

- iv. To issue a report reflecting an opinion as to whether the independence of the Auditors on a yearly basis and before the audit report is compromised. This report shall include a reasoned appraisal and, in any event, refer to the rendering of the each and any additional services referred to in section iii above, individually and as a group, which is different from legal auditing and in connection with the independence system or the regulations on account auditing.
- v. To analyse, together with the Auditors, significant weaknesses of the internal control system detected during the execution of the audit, all of this without affecting their independence. For this purpose, it can submit recommendations or proposals to the Board of Directors and the time frame to follow them up.
- vi. To review the content of the accounts Audit Reports before they are issued so that they do not contain any qualifications and to assess the results of each accounts audit, overseeing the response by the Company's management to the recommendations contained therein.
- vii. To serve as a communication channel between the Board of Directors and the Accounts Auditors, from which the Committee shall receive regular information on the audit plan and the results of its execution.

d) With regard to the process for drawing up the financial statements:

- i. To supervise the drafting and filing process and the completeness of the Company's financial statements. The Committee will ensure that the interim information submitted before the Board of Directors of the Company is drawn up in accordance with the same accounting standards as the annual financial statements, and will assess any proposal on changes to accounting practices or policies within the general practices and policies observed in the Group and will submit recommendations or proposals to the Board of Directors to safeguard the integrity of application thereof.



The Audit and Compliance Committee will draft a report for the Board of Directors on the annual financial statements and the quarterly and half-yearly economic-financial information. The Chairman of the Audit and Compliance Committee will make this report available to the Chairman of the Audit and Compliance Committee of Iberdrola España, S.A.U. to enable the latter to supervise the preparation and presentation of the financial-economic information relating to the Iberdrola España Group, as well as its completeness.

- ii. To ensure that all statutory requirements are met and that the national and international accounting and financial reporting standards and principles applicable to the Company's Annual Financial Statements and Management Report are correctly applied.
 - iii. To inform the Board of Directors of the standards that all transactions carried out between the Company and its subsidiaries and any other companies within the Iberdrola Group must meet, all of which must be pursued with the purpose of protecting the corporate interest.
- e) With regard to compliance with statutory duties, good governance requirements and the prevention and correction of illegal or fraudulent conducts:
- i. Receive and analyse decisions made by the Compliance Division as regards irregularities or acts against the law or the regulations of the corporate governance system that affect members of the Board of Directors; and propose that said members be admonished, removed or dealt with in any other suitable way as per the findings of the case.
 - ii. To receive information from the Compliance Division concerning any relevant matter relating to regulatory compliance and the prevention and correction of illegal or fraudulent conducts.
 - iii. To review, through the Compliance Division, the Company's internal policies and procedures to confirm their effectiveness in preventing misconduct, such as the Ethics Mailbox, and identify possible policies or procedures that may be more effective in promoting the highest ethical standards, for submission to the Board of Directors.
 - iv. To review and validate the annual operating budget of the Compliance Division for submission to the Board of Directors and ensure that the Compliance Division has the material and human resources needed to carry out its tasks, ensuring its independence and effectiveness.
 - v. To approve the annual activities plan of the Compliance Division.
 - vi. To report on the proposals for the appointment of the Compliance Director.
 - vii. To give an opinion on reports drawn up in the area of separation of regulated activities and, particularly, on the annual status report on incompatible activities in the Company which must be submitted to the Board of Directors.
 - viii. In particular, it shall report to the Board of Directors on the proposed amendments to the Company's Regulations of the Compliance Division.
- f) Concerning reports of irregular or inappropriate conduct as regards financial and accounting-related issues:
- i. To establish and supervise, in co-ordination with the mechanisms established by Iberdrola España S.A.U., the channels allowing Company professionals to report in confidence – and where appropriate, anonymously – any potentially significant irregularities, especially of a financial or accounting nature, that they may detect within the Company, whilst at the same time abiding by the rules on personal data protection and respecting the fundamental rights of the parties involved.
 - ii. To ensure the conducting of the investigations required in the event of third-party claims against the Company or in the face of irregular or anomalous conduct, in accordance with the provisions of the above sub-section.
- g) As regards special-purpose entities in tax havens:
- To report to the Board of Directors, in advance of the corresponding decisions being taken in this regard by the said body, on the creation or acquisition of interests in special-purpose entities or entities registered in countries or territories deemed to be tax havens, as well as any other transactions or operations of a similar nature which, given their complex nature, might reduce the transparency of the Iberdrola España Group, and likewise submitting the report to the Chairman of the Audit and Compliance Committee of Iberdrola España, S.A.U..
3. The Audit and Compliance Committee shall likewise be responsible for any other functions that may be conferred on it by the Corporate By-Laws or the Board of Directors.

Article 4.- Scope of the functions. Information for the Board of Directors:

1. The functions described in the previous article shall extend to the Company and to its subsidiaries.
2. Where appropriate, the Chairman of the Committee shall report to the Board of Directors on any resolutions approved or significant events occurring at Committee meetings. The said report shall be submitted at the first Board meeting after the relevant Committee meeting.

Article 5.- Report of Activities

The Committee shall submit a Report of its activities in the previous fiscal year within three months from the fiscal year end for approval by the Board of Directors. This report will subsequently be made available to the Chairman of the Audit and Compliance Committee of Iberdrola España, S.A.U., fully abiding by the principle of separation of activities and protection of commercially-sensitive information, according to the regulation on the separation of regulated activities and the corresponding Code for the Separation of Activities of the Iberdrola España Group on this subject.

Article 6.- Assistance of experts.

1. In the performance of its functions, the Committee may seek, either on a permanent or ad hoc basis, the assistance of legal advisers, accountants, technicians, financiers, salespeople or other experts, who may attend the Committee meetings, as well as the meetings of the Board of Directors where necessary, with the right to speak but not to vote.
2. The engagement of these experts must in any event comply with the provisions of the corporate By-Laws.

CHAPTER III.- COMPOSITION, APPOINTMENT AND MEMBER DISMISSAL

Article 7.- Composition.

1. The Committee shall be composed of a minimum of three (3) Directors and a maximum of three (5); at least one of which shall be classed as an Independent Director, in accordance with the definition of this class of Director given in the By-laws.
2. The Audit and Compliance Committee shall have a Chairman and a Secretary. In the event of absence, the Chairman shall be replaced by the longest-serving member, and should there be a tie as to seniority, by the eldest of those in attendance. In the event of absence, the Secretary shall be replaced by the shortest-serving member of the Committee, and where there should be a tie as to seniority, by the youngest of those in attendance.

Article 8.- Appointment.

1. Both the members and the Chairmen of the Committee shall be appointed by the Board of Directors.
2. The Board of Directors shall endeavour to ensure that the members of the Audit and Compliance Committee have such background knowledge and experience in the area of accounting, audit or risk management as is required by the duties they are called upon to perform, although they need not be experts in these fields.

Article 9.- Term of office.

1. Unless the Board of Directors should decide otherwise, the Directors sitting on the Committee shall remain in office for as long as they remain Directors of the Company.
2. Directors sitting on the Committee who are re-elected as Directors of the Company by resolution of the shareholders adopted at a General Shareholders' Meeting shall continue to hold their positions within the Committee, without the need for a new election, unless the Board of Directors resolves otherwise.

Article 10.- Dismissal.

The members of the Committee shall be removed from their office:

- a) When they cease to be Directors of the Company.
- b) By resolution of the Board of Directors.

CHAPTER IV.- COMMITTEE MEETINGS

Article 11.- Meetings.

1. The Committee shall meet as many times as its Chairman deems necessary for the fulfilment of its obligations, and at least four (4) times per year, or upon the request of two (2) of its members.
2. The Chairman of the Board of Directors and the Chief Executive Officer, if any, may request exceptional meetings with the Committee for the provision of information.

Article 12.- Call to meeting.

1. The Chairman of the Committee, or the Secretary on the instruction of the Chairman, shall call Committee meetings by way of a letter, fax, telegram, e-mail or any other method addressed to each one of the members, stating the venue, date, and time of the meeting, as well as the agenda.
2. The call must be issued at least forty-eight hours in advance, except in the event of urgent sessions.
3. Committee meetings need not be called in advance when all members are in attendance and they unanimously agree to hold a meeting and agree on the items to be included on the agenda.

Article 13.- Quorum, attendance, and passing of resolutions.

1. Committee meetings shall be quorate when at least two (2) of its members are in attendance, whether in person or by proxy.
Committee members may confer their representation on another Committee member by way of a communication addressed to the Committee Secretary, sent using any of the methods provided for in the previous article, and which shall include specific instructions on which way to vote.
Meetings shall be carried out in the registered offices or place, within Spain or abroad, which might be indicated in the notice to convene the meeting, and shall be chaired by the Chairman of the Committee, assisted by the Secretary, and, as the case may be, by the Deputy Secretary.
The meeting may also be held in various locations connected by multiconferencing, videoconferencing or telepresence, or any other technology which allows the participants to be recognised and identified, and ensures permanent communication between the attendees independent of the location they are in, as well as their participation and casting of votes, all in real time. The participants, whatever their location, shall be considered to be present at one and the same meeting for all purposes relating to the Audit and Compliance Committee. The meeting shall

NOTICE. This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document that this translation is intended to reflect, the text of the original Spanish-language document shall prevail.



be considered to be held where most Committee members are gathered and if the numbers at different locations are equal, where the board member is who presides over the meeting.

2. Resolutions shall be approved by a majority of the votes cast by the members in attendance, whether in person or by proxy. In the event of a tie, the Chairman shall have a casting vote.
3. Where no Committee member objects, votes may be cast in writing and without a session being held, and for these purposes the provisions of the By-Laws regarding Board meetings shall be applicable.
4. The Secretary of the Committee shall keep the minutes of every session held, which minutes shall be approved at the end of the session or at the start of the next session.

Article 14.- Attendance

1. At the request of the Chairman of the Committee, for these purposes by notifying the Chairman of the Board of Directors of the Company, any member of the Board of Directors may be called to attend the Committee meetings. The Chairman of the Audit and Compliance Committee may also request, through the Secretary of the Board of Directors, the appearance before the Committee of any Company Director, employee or any member of the internal management and decision-making bodies of companies in which the Company has an effective stake and whose appointment has been proposed by the Company, provided that there is no legal impediment against this.
2. Persons who are not members of the Committee may not attend its meetings when the issues being discussed are beyond the scope of the powers or duties corresponding to these persons.
3. The Committee may require the presence at its meetings of either the Company's Accounts Auditor or the Auditors of any other entity in which the Company has an effective interest, provided that there is no legal impediment against this.

CHAPTER V. COMPLIANCE WITH, INTERPRETATION OF, AND INTEGRATION OF THE REGULATIONS

Article 15.- Compliance.

1. The members of the Committee, as well as any other Directors who are affected, are under the obligation to be acquainted with and to abide by these Regulations, for which purpose the Secretary of the Board of Directors shall provide them all with a copy of these Regulations.
2. Furthermore, the Committee, and in particular its Chairman, are under the obligation to ensure compliance with these Regulations, implementing any appropriate measures.

Article 16.- Interpretation and integration of the Regulations.

1. In case of any doubt or discrepancy as regards the interpretation of these Regulations, a decision will be made by a majority vote of the members of the Committee itself and, in the absence thereof, by the Chairman, assisted, where appropriate, by the persons designated by the Board for this purpose. The Board of Directors must be informed as to the interpretation and resolution concerning any doubts or discrepancies which may arise.
2. In the absence of any specific rule, the Audit and Compliance Committee shall be bound by the provisions of the By-Laws relating to the operation of the Board of Directors, in so far as these are not incompatible with its nature or functions.