

Report on Tax Transparency of the Iberdrola group

Financial Year 2021

Our commitment to society





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1. Letter from the Chairman & CEO

This year, Iberdrola once again voluntarily publishes this report on tax transparency, underscoring the Group's full commitment to responsibility in tax matters, the disclosure of information to all of its Stakeholders, and good governance. Tax contributions are also an essential element of Iberdrola's social dividend, since through our contribution we help to finance public services for the benefit of all.

Tax policy should also encourage behaviour that is most beneficial to society as a whole, like promoting conservation of the natural environment. That is why environmental aspects have become an integral part of the legislative and governmental action of the EU Member States, including in the area of taxation.

Fostering frameworks based on the "polluter pays" principle is essential if we are to achieve the ambitious climate goals promoted by the United Nations through the Paris Agreement, and already enshrined into EU law. Environmental taxation is one of the cornerstones of the Fit for 55 package of legislative proposals advocated by the European Commission to make it possible to meet its 2030 emissions targets.

This report reaffirms Iberdrola's defence of a fair and appropriate tax framework that maintains the necessary levels of sufficiency, promotes economic activity and competitiveness, and favours the achievement of environmental objectives. A framework allowing the various players to contribute, through responsible activity and with full transparency, to the creation of a more sustainable socio-economic model.





2. Significant aspects from financial year 2021 with an impact on global tax contribution

Convinced that economic recovery can only be green

Global energy leader, in renewables, grids and storage

And now, in the development of green hydrogen

Convinced that the recovery can only be green

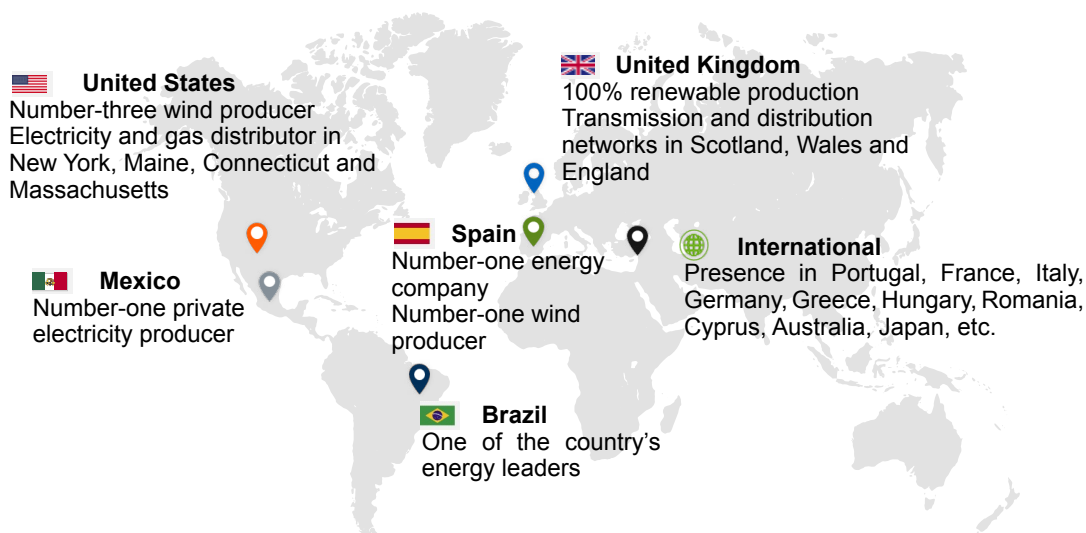
The recovery of the economy and employment after COVID-19 **can only be green** and, in this regard, Iberdrola advocates promoting the transition towards a new socioeconomic model that is climate neutral, resilient, sustainable and inclusive, in line with the United Nations Sustainable Development Goals (SDGs).

The Group's experience throughout its century-long history, and especially in the last two decades, has demonstrated that investments to promote electrification through clean energy, grids and storage are the best way to promote the creation of local industrial and job opportunities. With more than €120,000 million invested since the turn of the century, **Iberdrola** has become an **international leader in the fight against climate change and a driving force for employment, sustaining 400,000 jobs among the thousands of suppliers that make up its value chain.**

In 2021, in a still complex environment, the Group's investments reached a record **€9,940 million, 3% more than the previous year**, with **90% allocated to grids and renewables**. By region, the United States was the leading investment destination with 28% of the amount, followed by Spain (24%), Brazil (19%), International (16%) and the United Kingdom (11%).

Global energy leader

Iberdrola is currently the **leading producer of wind energy** and one of the **largest electricity companies in the world in terms of market capitalisation**, with a presence in the following countries and geographical areas:



■ Leader in renewables, grids and storage

The Iberdrola group first made its commitment to renewable energies more than two decades ago, as a fundamental pillar on which to build its clean, reliable and smart business model. Through this vision, the company is today a world leader in renewable energy, power grids and storage and is spearheading the energy transition to a low-emission economy. This commitment is reflected in its investment plan.

In line with the Group's investment strategy, in **2021** Iberdrola **increased renewable capacity by 9.2% globally**, exceeding **38,000 MW of renewable capacity**, registering growth in all leading countries, and its **base of grid assets** reached **€33,000 million**, after growing by **€2,000 million in just one year**.

■ Leader in development of green hydrogen

In its drive to lead the energy transition, **Iberdrola** is now also **spearheading the development of green hydrogen**, with more than 60 projects in eight countries (including Spain, the United Kingdom, Brazil and the United States) to meet the decarbonisation needs of sectors such as heavy industry and transport. The company has created a new green hydrogen business unit with which it aims to position itself as a world leader in this technology, capable of producing hydrogen from clean energy sources using 100% renewable electricity.





3. Overall information on the Iberdrola group in 2021

Net profit of €3,885 million

Record investments and advance purchases

Strengthening of leadership in renewable energy

Leader in reducing CO₂ emissions and in green finance

81% of installed capacity emission-free

Tax contribution of over €38,500 million over the last 5 years, 44% of the Group's profit

Total tax contribution of €7,836 million in 2021, 42% of the Group's profit

Tax contribution increased by more than €360 million, an increase of approximately 5% compared to the previous year

More than €21 million paid per day in Taxes

Key figures

Assets of €142,449 million.

EBITDA of €12,006 million.

Net profit of €3,885 million, an increase of 8%.

Record investments of more than **€9,940 million**, an increase of 3% over the prior year.

€22,000 million in procurement awarded, supporting the activities of our supply chain.

Strengthening of "green" leadership. Worldwide increase of 9.2% in renewable capacity by 2021, exceeding 38,000 MW of "green" capacity.

Reduction of CO₂ emissions to just 103 g/kWh_{eq}.

Leader in green finance, with **€38,800 million** in green/sustainable instruments, strengthening our **commitment** to **ESG** standards.

World's most innovative private electricity company, according to the main rankings, with an investment of €337 million in 2021.

Selected as **one of the world's most sustainable utilities**, according to the **Global 100 Most Sustainable Corporations in the World** index.

An equal opportunity leader, having been **included** in the **Bloomberg Gender Equality Index** (GEI) for the fifth consecutive year. Iberdrola has made ambitious commitments in the area of gender equality (SDG 5 of the 2030 Agenda), improving its score compared to the previous year, in recognition of its practices in areas such as leadership and the channelling of women's talent and women's support of our brand and inclusive culture.

Tax contribution, tax governance and best practices

The **Iberdrola group's tax contribution in figures:**

- **Daily** contribution of **more than €21 million**.
- **Total annual** contribution of **€7,836 million**, or **42% of its profits**¹.
- In the case of **Spain**, tax payments represent **more than 44% of the tax contribution ratio**².
- **Tax** contribution increased by more than **€360 million**, an increase of approximately 5% compared to the previous year.
- **Direct tax contributions**, together with **indirect** and **indicative** taxes, represent close to **€14,000 million**³.

One of the top IBEX-35 companies in terms of tax transparency, according to the Fundación Haz ranking.

Recognition by the **Spanish Tax Administration** for the voluntary presentation of the "Annual Tax Transparency Report for companies adhering to the Good Tax Practices Code". **Letter of congratulations** received and special mention on the website of the Spanish Tax Administration.

Satisfactory audit of the tax compliance system awarded by AENOR for the third year in a row.

¹ Profit before Income Tax, other taxes and company Social Security contributions.

² Taxes divided by Profit before Income Tax, other taxes and company Social Security contributions.

³ According to PWC report based on Iberdrola's 2020 activities.



4. *Corporate Tax Policy* guidelines: the Iberdrola group's tax strategy

Iberdrola's Corporate Tax Policy forms part of the Group's *Governance and Sustainability System*, which constitutes the internal rules of Iberdrola and its Group established in the exercise of its legally protected corporate autonomy to ensure through these rules the fulfilment of its purpose and values and the achievement of its corporate goals and objectives.

The *Governance and Sustainability System* is one of Iberdrola's distinguishing hallmarks, which was a pioneer in the development of its own internal system, initially called the *Corporate Governance System*. Constantly evolving to adapt to regulatory changes and the highest international standards, this system was restructured in 2020 around the three main foundations that the international investment community uses to measure the impact and sustainability of its investments: environmental, social and governance (ESG).

Iberdrola reorganised its contents to emphasise its environmental and climate change performance and its social commitment, forming two major programmatic blocks that will govern Iberdrola's governance and actions, as a reflection of its commitment to a competitive and sustainable energy model and promoting the company's role as business catalyst, driving force and lever for social change.

Iberdrola pursues its strategy on the basis of a purpose and values to which all entities and persons belonging to the Group are committed, the common denominator of which is the creation of value in a sustainable manner, the pursuit of the social dividend, and leadership in all its activities.

Likewise, Iberdrola's *Equality, Diversity and Inclusion Policy* reaffirms its unwavering commitment to its professionals to promote diversity, inclusion, equal opportunity and non-discrimination, all within the framework of its sustainable development strategy.

The *Corporate Tax Policy* was approved by the Board of Directors in 2010 and is subject to ongoing updates, its latest amendment taking place on 17 June 2021. This policy is the cornerstone for the conduct of the Group and of the professionals who guide and supervise its tax practices. Excellence and a commitment to good tax practices are the foundations for the Company's tax strategy. This policy has also been adopted by the country subholding companies⁴ in each of the countries, as well as by each of the head of business companies thereof.

Principles

The Iberdrola group's excellence in the tax area, along with the Group's compliance with its tax obligations and its relations with tax authorities, is defined by the following principles:

1. **Legality: regulatory compliance and reasonable interpretation of tax laws and regulations.**

The Iberdrola group is governed by strict compliance with tax laws and regulations in each of the countries and territories in which it operates, by paying all taxes due in accordance with the legal system. Furthermore, all tax-related decisions are based on a reasonable interpretation of applicable law, which minimises potential tax risks, in close connection with the Group's activity.

2. **Excellence in the management of tax risks:** the prevention and mitigation of significant tax risks requires taxes to bear an appropriate relationship to the structure and location of activities, human and material resources, and the business risks of the Group.

⁴ Except for Avangrid, Inc. and Neoenergia, S.A., which, pursuant to their strengthened autonomy, have approved their own corporate tax policies, the principles of which are fully aligned with those of Iberdrola's *Corporate Tax Policy*.

3. **Excellence in relations with the tax authorities:** the strengthening of relations with tax authorities in each of the territories in which the Group operates is based on respect for the law, fidelity, reliability, professionalism, cooperation, reciprocity, and good faith.
4. **Tax transparency:** growing demand from Stakeholders for multinational companies' tax information calls for the highest tax transparency standards to be maintained. This report is proof thereof, showing the Iberdrola group's commitment to the pursuit of excellence, continuous improvement in transparency, and commitment to good tax practices.

Good tax practices

Good tax practices require strict compliance with regulations, the reduction of tax risks and the prevention of all conduct that can generate such risks.

With these aims, tax practices require the following:

Iberdrola DOES:

- Comply with all legal and regulatory obligations, by means of a reasonable interpretation of legal provisions.
- Act with integrity in all tax-related decisions, following the recommendations of the good tax practices codes approved in the various countries in which the Group does business.
- Cooperate with the tax authorities in the detection of and search for solutions regarding fraudulent tax practices of which the Company is aware that may occur in the markets in which the Group has a presence.
- Provide significant tax-related information and documents that are requested by the competent tax authorities as soon as practicable and with the required scope.
- Make the necessary whistleblower channels available to anyone who wishes to anonymously report conduct that may involve any improper action or conduct contrary to the law or to the *Governance and Sustainability System*, including the rules of conduct set forth in the *Code of Ethics*, and thus tax-related activities.

All of the foregoing is without undermining the protection of Iberdrola's legitimate interests, in accordance with its obligations.

Iberdrola DOES NOT:

- Use artificial or opaque structures for the sole purpose of reducing the tax burden and that are unconnected to the Group's economic activity.
- Create or acquire companies registered in countries or territories that Spanish legal provisions deem to be tax havens or that are included in the EU black list of non-cooperative jurisdictions, with the sole exception of the Group being forced to do so because it is an indirect acquisition in which the company in question is part of a group of companies. However, a specific procedure approved by Iberdrola's Board of Directors is established for this situation.

- In order to monitor the list of tax havens, under this procedure the Global Tax Division is tasked with the ongoing update (at least twice a year) of the EU's lists of blacklisted and greylisted territories and non-cooperative jurisdictions.
- Artificially transfer profits from one jurisdiction to another solely to minimise tax payments.

Implementation of the Iberdrola group's *Governance and Sustainability System* in the tax area

The Iberdrola group's *Governance and Sustainability System* meets the highest international standards in this area, and the *Corporate Tax Policy* is a very important part of this set of rules. In accordance with the Iberdrola group's corporate and governance structure, the implementation of the *Corporate Tax Policy* and of the Iberdrola group's tax strategy is structured on three levels:

- 1. At the parent company:** Iberdrola's Board of Directors is in charge of coordinating, within legal limits, the overall management strategies and guidelines of the Iberdrola group, acting in furtherance of the interests of each and every one of the companies forming part thereof, while the Chairman of the Board of Directors & Chief Executive Officer and the members of senior management of Iberdrola are responsible for the organisation and coordination of the Group by means of the dissemination, implementation and monitoring of the general strategies and policies established by the Board of Directors.

Based on the foregoing, the Board of Directors, through its Chairman & CEO and the entire management team, promotes observance of the tax principles and good practices contained in the tax policy approved by the companies forming part of the Group with activities that have a significant impact on taxation, without prejudice to the strengthened autonomy applicable to the listed country subholding companies.

In addition, Iberdrola's Audit and Risk Supervision Committee is entrusted with the following specific tax-related powers, among others⁵:

- Report to the Board of Directors on the tax guidelines used by the Company during the financial year and, in particular, on the level of compliance with the *Corporate Tax Policy*.
 - Report to the Board of Directors on the tax policies applied and, in the case of transactions or matters that must be submitted to the Board of Directors for approval, regarding the tax consequences thereof when such consequences represent a significant issue.
- 2. At the country subholding companies:** the country subholding companies, respecting the principles and good tax practices described in the *Corporate Tax Policy*, are responsible for determining, coordinating and supervising compliance, in the respective countries and/or businesses in which they operate, with the standards that must be followed in the application of those taxes that, due to the nature thereof, affect more than one company of the Group.
 - 3. At the head of business companies:** finally, the head of business companies are responsible for complying with tax obligations, in all cases respecting the tax principles and good practices of the *Corporate Tax Policy* and the standards established by the country subholding companies.

⁵ Expanded information in section 11. Tax governance and best practices.

In application thereof, the management bodies of the various entities of the Group—country subholding and head of business companies— must also ensure (each at the respective level of responsibility thereof) compliance with the *Corporate Tax Policy* and observance of the tax principles and good practices that are set forth therein, as well as any standards that may be established therefor. The Group's tax organisation at each of the three levels indicated above is sufficient to ensure the proper application of the *Corporate Tax Policy*.

In any case, the management body of each company of the Group shall be responsible for ensuring that the information such company provides to meet the tax obligations of the tax group to which it belongs complies with applicable tax provisions as well as the principles and rules set forth in the *Corporate Tax Policy*. This information must be prepared in accordance with the standards set by each country subholding company pursuant to the procedures established by the tax divisions of each country. Finally, the parent company consolidates all tax information of the country subholding companies and the head of business companies.

Monitoring and control of the *Corporate Tax Policy*

All companies of the Iberdrola group are required to adopt the control mechanisms necessary to ensure compliance with tax laws and regulations and with the principles and good practices set forth in the *Corporate Tax Policy*, within the context of proper business management, dedicating adequate and sufficiently qualified human and material resources for these purposes.

This monitoring and control takes place on three levels:

- The head of business companies shall report to the country subholding companies regarding the level of compliance with the *Corporate Tax Policy*.
- The audit and compliance committees (ACC) of the country subholding companies shall report to Iberdrola's Audit and Risk Supervision Committee on the level of compliance with the *Corporate Tax Policy*. The regulated companies have audit and compliance committees that are responsible for such reporting.
- Iberdrola's Audit and Risk Supervision Committee, in accordance with the provisions of its Regulations, provides to the Board of Directors information on the tax policies and standards applied by the Company during the financial year and, in particular, on the level of compliance by the Group with the *Corporate Tax Policy*.

For its part, the competent tax division shall report on the tax consequences of transactions or matters that must be submitted for approval of the management bodies of the different companies of the Group when they constitute a significant factor. Special mention should also be made in relation to listed companies, where a mechanism of strengthened autonomy has been developed that also ensures the oversight and control of the *Corporate Tax Policy*.

Ongoing review of the *Corporate Tax Policy*

Taxation is not static and is subject to continuous change, which requires the Iberdrola group to be fully apprised of any changes that occur.

This means that, like the rest of the *Governance and Sustainability System*, the *Corporate Tax Policy* is subject to a constant process of revision to continuously incorporate best practices in this area,

adjusting to continuous changes in the environment and, more specifically, to the increased tax demands driven by the globalised environment and to the tax excellence that the Group imposes on itself in order to meet the highest standards of tax transparency.

The Global Tax Division must explicitly approve and regularly review guidelines for the evaluation and management of tax risks, to be applied to all companies of the Group.

Since financial year 2018, on occasion of the approval of Council Directive (EU) 2018/822 as regards mandatory automatic exchange of information in the field of taxation in relation to potentially aggressive cross-border tax-planning arrangements, the management of Iberdrola's tax risks has included the establishment of objective standards to classify Group transactions based on the tax risk thereof, as well as different procedures for the approval thereof.

The boards of directors of each of the country subholding companies of the Iberdrola group are responsible for ensuring compliance with the *Corporate Tax Policy* in their respective areas of activity, adopting the aforementioned objective standards and the required procedures.

The last amendment to the *Corporate Tax Policy* was approved by the Board of Directors on 17 June 2021, wherein an update was included to extend it to companies having a business relationship (i.e. joint ventures) and to reflect the strengthened autonomy of listed companies and of country subholding companies in general.





5. Responsible tax practices

The Corporate Tax Policy envisages the taxes that Group companies pay in the countries and territories in which they do business as the principal contribution to supporting public expenditures and, therefore, one of their contributions to society as a whole and towards meeting the Sustainable Development Goals (SDGs) of the UN 2030 Agenda, in line with the social dividend recognised in the By-Laws.

Iberdrola's tax practices are inspired by the *Purpose and Values of the Iberdrola group*⁶, and are based on a commitment to ethical principles, good corporate governance and transparency, with Iberdrola being recognised for yet another year as **one of the leading IBEX-35 companies in tax transparency by Fundación Haz** (formerly called *Fundación Compromiso y Transparencia*).

Good tax governance requires responsible tax practices with a commitment to society in general and to transparency, elements that inspire our day-to-day activities in this area, showing that it is possible to maintain an optimal balance among the various legitimate expectations of the Stakeholders.

The Iberdrola group has a legitimate obligation to maximise financial return for its shareholders, which leads, always on the basis of strict compliance with the law, to ensure the maximum possible profit and increase yields for its shareholders, while respecting the legitimate interests of the other Stakeholders. As a listed company, Iberdrola has a large and highly fragmented shareholder base, distributed across institutions, pension funds and individuals who trust in the Company as a means to secure them a future income. Iberdrola therefore has an obligation to return the trust of these shareholders in the Company in the form of a financial dividend.

But the **Group's strategy is far broader than the mere achievement of its own financial profitability, as the financial dividend is only one component of the social dividend**, which is understood as the direct, indirect or induced value of its activities for the Stakeholders, particularly by contributing to the achievement of the Sustainable Development Goals, the maximisation of which is a priority of the Group, whereby the overall dividend is the sum of the financial dividend plus the social dividend.

Iberdrola contributes, with the social dividend generated through its activities, with its tax contribution, and through the development of its corporate object in accordance with the principles set forth in its environmental, social and corporate governance and regulatory compliance policies: to the stimulation of society in general, both from an economic viewpoint as well as from the perspective of business ethics, to the promotion of equality and justice, to the protection of vulnerable groups, to the encouragement of innovation, to respect for the environment and the fight against climate change, and to the generation of high-quality employment based on diversity, inclusion and a sense of belonging, and to other measures of well-being.

The contribution to Stakeholders with its social dividend is one of the basic premises for the success of Iberdrola's business enterprise and is based on the SDGs, the principles of which it accepts and supports. This strategy seeks to put the Group at the forefront of best practices in this area and position Iberdrola as one of the best companies for the world, ultimately aspiring to act as a driver and lever for social and environmental change.

⁶ Approved by the Board of Directors of Iberdrola, S.A. on 19 February 2019 and last updated and amended on 19 April 2021.

In addition, true to its firm commitment to the creation of sustainable value for society as a whole, the Iberdrola group continues to work to further strengthen the initiatives that make up the social dividend with a view to ensuring that its activities have a positive impact on all of the communities in which the Group has a presence.

This commitment is embodied in numerous initiatives at the global level, including actions to promote the integral development of the most underprivileged groups through social and awareness-raising projects, thereby guaranteeing the Group's social commitment.

The Iberdrola group, committed to the energy, cultural and social development of the communities in which it operates, promotes social initiatives through its **foundations** that are dedicated to the economic, social and cultural development of the territories in which it does business. One of the aims of Iberdrola's foundations is to promote positive changes for the sustainable development of the planet and the most vulnerable people, **all in line with the UN's Sustainable Development Goals (SDGs)**.

Other projects include the **Construir para Educar** programme **in Mexico**, dedicated to the reconstruction of schools damaged by the earthquakes in Oaxaca in 2019, and cooperation with the **Fundo Transforma** initiative **in Brazil**, to help economically disadvantaged families.

The Iberdrola group's **International Corporate Volunteering Programme** also plays a significant role. This initiative was created to channel the employees' spirit of community service and motivate them to participate in social projects aimed at the integration of vulnerable groups, improving the environment and sustainable development.

In **2021** Iberdrola brought together more than **12,000 volunteers (17.4% more than the previous year)** in the International Corporate Volunteering Programme, **helping more than half a million people** through more than **700 actions** carried out in **12 countries** in which Iberdrola operates: Spain, the United Kingdom, the United States, Brazil, Mexico, Portugal, Australia, Greece, France, Belgium, Germany and Italy.

The Iberdrola group works to maximise its financial and social profitability, without in any way compromising compliance with its tax obligations. Iberdrola has been, is and will continue to be a leading company in the area of tax compliance, ensuring that it faithfully and loyally contributes to sustaining public finances.

However, in recent years, there seems to be a persistent spread of the erroneous idea that multinational companies generally pay little tax, calling into question the lawfulness of their actions, extending this opinion applying equally to companies that comply with all their tax obligations in line with the highest standards required by good tax practices.

This idea focuses on analysing only Income Tax as the typical form of business taxation. But the amount of this tax is not low in the case of the Group, nor is it the only tax through which it contributes; an overall analysis of the Group's tax contribution to society in general is thus indispensable.

It is therefore more necessary than ever to provide society in general with the information needed for it to be able to assess the actual contribution that the Iberdrola group makes to public finances. It is only in this way that its Stakeholders can have an accurate view of reality, preventing biased information or information not applicable to the Iberdrola group from distorting the extraordinary role that Iberdrola plays through its tax contribution.

As a result of the foregoing, it should be emphasised that:

1. Income Tax is not the only tax that Iberdrola pays, although it is the most significant, representing more than 27% of its taxes. However, in quantifying the taxes that a company pays, there continues to be a partial trend among some commentators to focus solely on the Income Tax, which is incorrect, as it distorts the analysis of a company's real tax contribution. Iberdrola is affected by more than 100 different taxes worldwide. Therefore, although it is a significant tax, using the Income Tax as the sole reference point to measure the Group's taxation and tax responsibility would provide a very partial and biased view, and would also be clearly erroneous.

In any case, the absolute figures relating to the Iberdrola group's Income Tax are far from low, amounting to €832 million in 2021.

2. Existence of other taxes. The Iberdrola group contributes via many other forms of taxation (tariffs of various kinds, levies, duties, etc.) that are assessed on its activity, often simultaneously. Of note, for example, is the number of energy taxes in Spain, which are specifically and solely assessed on the activity of electricity production and are established by the various levels of government administrations (national, autonomous community and local), which, in addition to complicating the taxation outlook, generate different tax categories that sometimes overlap with each other, giving rise to cases of double taxation or to situations that could be understood as removed from the paradigm of what tax fairness should be, inspired by the principle of equality, in relation to other sectors of activity.

In this regard, the energy taxes paid by Iberdrola in Spain alone amounted to €774 million in 2021, surpassing the 2020 amount by €67 million and representing 22% of profit before taxes⁷ in Spain, of which €409 million correspond to taxes introduced by Law 15/2012, recording an increase in 2021 of more than 8% compared to the previous year, amounting to €32 million.

All of this is paradigmatic for a company that carries out its activities based on respect for and protection of the environment, where 81% of installed capacity and 75% of production worldwide is emission-free and has been carbon neutral for several years, complying with or improving upon the standards established in the applicable environmental regulations, minimising the impact that its activities might have on the environment and promoting actions that contribute to the protection thereof, engaging in and sponsoring research and development projects that promote the decarbonisation of the economy. Good environmental taxation ideally drives social behavioural change and helps to achieve environmental objectives, the most urgent of which is decarbonisation. Until now, tax legislation has failed to embrace this role of protecting environmental objectives and promoting the changes needed to achieve them, focusing instead on purely revenue-raising objectives.

Iberdrola is a clear advocate of a comprehensive change in environmental taxation in Spain to guarantee the "polluter pays" principle, and to contribute to the guidance of social behaviour towards cleaner and healthier energy. The EU's Fit for 55 package of legislative proposals is an example of the way forward for environmental policy and taxation.

⁷ Profit before Income Tax, taxes and company Social Security contributions.

Also of note is the tax contribution in terms of local taxes, which in 2021 amounted to €961 million globally, with particularly significant contributions in Spain and the United States.

3. Iberdrola lawfully applies the applicable legal provisions in each country in which it has a presence. It is customary for different regulatory entities to establish tax incentives in order to stimulate investment in their tax jurisdictions; these are entirely lawful incentives that reduce or defer the tax burden for businesses, including multinationals. Iberdrola's investment effort is intensive, generating a significant direct, indirect and induced impact based on the priority objective of ensuring the absolute protection of the environment using the most cutting-edge technologies, which generates a very significant direct, indirect and induced impact on society, which at times gives it to access tax incentives. When this happens, the Group applies them lawfully. The Group therefore applies those rules that permit tax incentives in line with applicable law in each case, but this should not lead to the mistaken opinion that there is any avoidance of its tax obligations; rather, entirely to the contrary, i.e. the Group is contributing to investment and business development for the creation of wealth and employment in accordance with the legal parameters established in each case. Moreover, in the case of the Iberdrola group, this investment is fundamentally directed at generating clean energy and smart grids, both essential elements in the active fight against climate change.

4. Other payments are also made to regulatory entities that, although not technically classified as taxes, also help to contribute to supporting public finances. This is the case, for example, of subsidised rates (*bono social*) and contributions to the Spanish National Energy Efficiency Fund (*Fondo Nacional de Eficiencia Energética*), which involved the contribution of an additional €88 million to the government this year, and payments for concessions in various parts of the world, which contribute to increased tax collection in the various countries in which the companies of the Iberdrola group do business.

All of the foregoing is without including the efforts that the Group makes in other economic areas that further the general interest.

5. The group pays the tax authorities numerous taxes, which, as they represent tax obligations, are not included in the income statement, as they are taxes withheld from or passed on to third parties; in 2021, they amounted to a total of €4,711 million, an increase of almost 4% compared to the prior year.

These taxes derive from the Group's own economic activity, such as taxes associated with the employment that Iberdrola generates directly and indirectly or financial transaction taxes and other taxes (Group employees, suppliers, purchases of products and services, etc.).

In the last five years, the Iberdrola group has withheld close to €23,700 million for these types of taxes.

These figures reflect the importance of the taxes withheld or passed on to third parties and the role played by the Iberdrola group as a driving force behind the activity that generates such taxes and ensures that the amounts thereof are paid into the public coffers, so much so that if Iberdrola did not exist, this volume of taxes would cease to be collected.

Iberdrola also contributes through its activities to the creation of wealth and prosperity in the territories in which it does business. Specifically, its contribution to GDP worldwide exceeds €34,400 million, of which €11,250 million are in Spain, while its global workforce amounts to more than 39,000 people, with the Company generating close to 380,000 direct, indirect and induced jobs worldwide⁸.

For example, this effort is very significant in research, development and innovation as a contribution to value and efficiency, well above the average, both for companies in its sector and for the Spanish business sector, as well as on a global level. According to the main rankings, Iberdrola is the most innovative private electric utility in the world, with investment amounting to €337 million in 2021.

Financial resources are mainly allocated to projects relating to renewable energy, smart grids, digital transformation and the development of custom solutions for customers.

The Iberdrola group also works with various universities and institutions on the spread of energy services, as well as on bolstering knowledge in specific areas of science, energy and information technology thanks to an open and decentralised R&D investment management model.

⁸ According to PWC report based on Iberdrola's 2020 activities.





6. Iberdrola and international tax practices: OECD, BEPS and EU

Iberdrola is explicitly committed to applying the guidelines and is fully aligned with the principles and actions of the OECD for multinational enterprises in the area of taxation.

The Group's Compliance System in general, and the internal tax risk control and management framework in particular, prohibit fraudulent transactions and establish specific protocols to ensure diligent tax conduct.

Iberdrola conducts its activities responsibly and pays special attention to the development of sustainable economic activity, creation of stable employment, implementation of investments that respect the environment, and fair contribution to public finances.

The Iberdrola group is aligned with the principles and actions advocated by the OECD's **BEPS (Base Erosion Profit Shifting) Plan**, currently the primary instrument in the fight against international tax fraud, having also made an explicit commitment in 2021 **to the OECD guidelines for multinational enterprises in the area of taxation.**

The Iberdrola group:

- **complies**, in due time and form, **with its tax obligations** in the various jurisdictions in which it has a presence.
- **does not use aggressive tax planning mechanisms**, but rather always adopts a reasonable interpretation of regulations.
- **does not have a presence in tax havens.**

It is important to note that due to the nature of its industrial activity, the Group cannot shift its profits. Moreover, in accordance with the **BEPS Plan actions**:

IBERDROLA DOES NOT:

- have a significant digital presence in the economy of any country whereby it is not subject to taxation.
- use legal constructs that are classified as hybrid entities for tax purposes, nor are there situations whereby its subsidiaries lack tax residency. Nor does it make fraudulent use of other hybrid mechanisms.
- have subsidiaries with little or no business activity in low-tax countries that are used to shift revenues from an entity residing in another country or territory.
- use shell companies in order to take artificial advantage of beneficial tax regimes. All the tax incentives it obtains are generated in accordance with applicable law in the various jurisdictions, particularly as regards requirements on activity and substance.
- artificially use intragroup loans and credits in order to generate taxable base erosions.

IBERDROLA DOES:

- prudently respect and apply regulations limiting the deduction of financial expense in the jurisdictions in which it has a presence.
- allocate the profits established in tax agreements only in cases in which the relevant entities are genuinely entitled to application thereof and there are real business reasons for the transactions covered thereby.

- operate abroad via subsidiaries and/or permanent establishments insofar as this structure is required, and does not use legal entities that are considered to be hybrid structures for tax purposes.

BEPS 2.0 and EU

The G20 leaders called for implementation of the BEPS package after its publication in October 2015, and asked the OECD to develop a more inclusive framework involving interested non-G20 countries and developing economies. The OECD thus established the BEPS Inclusive Framework to facilitate the joint work of all member countries and jurisdictions.

In 2019 the Inclusive Framework introduced two initiatives called “Pillar 1” and “Pillar 2”:

- “Pillar 1” is intended to establish a new tax mechanism for those instances in which the digitalisation of the economy has generated new value creation mechanisms that distort the place of income taxation. However, it does not appear that this new tax mechanism should affect an industry like that of the Iberdrola group, given that the generation of value in this industry is completely localised and situated in the territory in which the taxation of income occurs.
- “Pillar 2” is intended to establish a global minimum tax level for multinational groups.

In December 2021 the G20/OECD Inclusive Framework published model rules to assist in the implementation of the global “Pillar 2” minimum taxation standard.

Furthermore, in December 2021 the European Commission presented its proposal for a Directive on the implementation of a global minimum tax for multinational groups in the European Union, in line with the OECD and G20 model rules.

The publication of the model rules and the text of the proposed Directive on “Pillar 2” is a significant milestone that aims to revise international tax rules, establishing a very ambitious timetable for their implementation.

The Iberdrola group believes that the necessary funds must be provided to ensure the proper functioning of today’s society. As such, the requirement of a minimum level of taxation for multinational companies is fully in line with a fair and properly distributed tax system, such that the taxation of a multinational group should comply with the required sufficiency standards.

However, the adoption of this measure should not be rushed and should provide the necessary certainty to achieve the intended purpose, which is to avoid distorted profit shifting to jurisdictions where there is no or low taxation. This measure should never be to the detriment of a lawful and properly conducted economic activity, and especially not to the detriment of those entities that are aligned with environmental objectives and that already make a very significant tax contribution. Nor should this lead to a substantial increase in formal obligations.

Cross-border mechanisms subject to reporting

Furthermore, in 2018 the European Union approved Council Directive 2018/822 as regards mandatory automatic exchange of information in the field of taxation in relation to potentially aggressive cross-border tax-planning arrangements (known as DAC 6). The transposition of the Directive in Spain

was ultimately implemented through the passage of Law 10/2020 of 29 December and Royal Decree 243/2021 of 6 April, establishing the formal obligations and template returns to be used by intermediaries or taxpayers to comply with their reporting obligations.

Directive 2018/822 is a significant anti-avoidance mechanism, and a deterrent to aggressive tax planning mechanisms at the international level. Acting in advance of the transposition of the Directive, and as part of its mechanisms for the control and management of tax risks, the Iberdrola group established:

- The prohibition of certain mechanisms or transactions set forth in Directive 2018/822, including the following: the Group has prohibited advice on the implementation of corporate transactions in which the remuneration of a third party depends on the tax benefit obtained, confidentiality clauses regarding how a tax benefit or advantage arises, acquisitions of loss-making companies involving discontinuing the acquired activity, and using said losses to reduce the Group's tax obligations, or transactions giving rise to circular movements of funds, flows of goods and services or shares through intermediary entities with no commercial activity.

In general, the Iberdrola group has also prohibited the implementation of any transaction that is subject to a probable risk of being classified as simulated from a tax perspective.

- A strengthened internal procedure for other non-prohibited transactions that are referred to in the aforementioned directive, and for other transactions that may be carried out, in order to diligently ensure the suitability and validity thereof.

Iberdrola duly complied with the reporting obligations established in this regard in 2021.

Fit for 55 legislative package

Aware of the exponential deterioration of the environment and the threat of global climate change, in December 2019 the European Commission presented the **European Green Deal** as a roadmap for transforming the EU economy towards a sustainable system, with the aim of making Europe the first climate-neutral continent by 2050.

As part of their commitment to make the EU the first climate neutral zone by 2050, Member States set a target to reduce emissions by at least 55% by 2030.

As a means of implementing these objectives, the Commission presented the **Fit for 55** package of legislative proposals on 14 July 2021. These measures include legislative proposals to update the EU's climate and energy framework, including an update of the Energy Taxation Directive, with the aim of contributing to climate neutrality.

An updated Energy Taxation Directive focuses on establishing a new tax rate structure, taking into account the actual energy content and environmental performance of fuels and electricity.

This update of the Energy Taxation Directive is a perfect opportunity to ensure that the most polluting energies are the most heavily taxed and for promoting renewable energies through tax incentives.

The Iberdrola group is firmly committed to driving the transition to a new socio-economic model, and the proposals included in the Fit for 55 package are strongly endorsed by the Group.



7. Transfer pricing

The Iberdrola group's transfer pricing policy is applicable to all the Group's companies and is fully aligned with the transfer pricing guidelines of the OECD.

The Group values all its related-party transactions on an arm's-length basis, following standards aligned with the OECD's Transfer Pricing Guidelines adapted to the new post-BEPS standards.

Intra-group transactions are invoiced following standards that are objective, transparent and consistent with the arm's length principle, avoiding any discrimination or competitive advantage.

Leading international transfer pricing advisors assist the Group in transfer pricing issues and check that the policies applied follow the criteria set by the OECD and are properly implemented and up to date.

Due to the structure of their main business, the results and taxable bases of the entities that own the electricity production and transmission facilities cannot be shifted from the place in which said facilities are located. Moreover, the profitability of businesses in Iberdrola's sector is notably **influenced by each country's regulations**, particularly in the electricity distribution business. For this reason, related-party transactions carry a relatively limited risk within the Iberdrola group, particularly in the cross-border context.

The Iberdrola group **values all its related-party transactions on an arm's length basis, following standards aligned with the transfer pricing guidelines of the OECD** adapted to the new post-BEPS standards.

Furthermore, all existing related-party transactions of the Group are duly documented on the terms established by the legal provisions of the various countries. Said documentation is aligned with the principles and content established in Action 13 of the BEPS Plan. The Group is also committed to preparing and filing the "Country-by-Country" report in due time and form, on the terms established by the laws of the jurisdiction of its parent company (in this case, Spain).

Additionally, in the case of "Neoenergia S.A.", the Group's country subholding company in Brazil, there is a Related Parties Committee whose function is to approve the execution of contracts or transactions that said company or any of its subsidiaries sign with related parties, in order to ensure the equality and transparency of transactions and show that they are signed on arm's length conditions, preventing them from unduly benefiting either party.

In turn, at "Avangrid Inc.", the Group's country subholding company in the United States of America, there is an Unaffiliated Committee responsible for, among other issues, reviewing and approving all transactions entered into between said company and Iberdrola or its subsidiaries, in order to ensure that they are implemented on arm's length conditions.

In the case of listed companies, special care is taken to protect the interests of minority shareholders without undermining action with respect to other entities, such that the aforementioned Committees are made up of independent members without representation from the Iberdrola group in order to guarantee maximum independence and ensure the proper treatment of related-party transactions, as in all other relationships between parent companies and subsidiaries.

Finally, the management bodies of the various companies of the Group report on compliance with the *Corporate Tax Policy* to ensure that all companies of the Iberdrola group adopt the control mechanisms necessary to ensure compliance with tax laws and regulations, principles and good practices.

Main intra-group transactions

The Group's model is based on three pillars, representing the distinguishing elements that make Iberdrola a different company: A framework of trust based on an advanced governance model; the *Purpose and Values of the Iberdrola group* reflecting the Group's culture as defined by the Board of Directors; and a strategy geared towards achieving the Group's objectives.

The competitiveness of the model is secured through the responsible management of the company's tangible and intangible assets. To operate under this model, Iberdrola has organised its management into three global businesses: Networks Business, Wholesale and Retail Business, and Renewables Business, with a Corporation as the central management body for the Group.

In keeping with the Iberdrola group's organisational and operational structure, from a functional standpoint, Iberdrola is structured on two levels:

1. **Business activities.** Each business in each of the main locations performs a number of common functions for all of the entities belonging to it. Interactions between the businesses in the different jurisdictions are limited to providing highly specialised business services to each other:
 - a. **Liberalised business:** the main intra-group transactions are (i) services for the development and construction of energy facilities; (ii) services for the operation and maintenance of these facilities; or (iii) centralised energy management services: supply of electricity for sale, market representation and operation, access to European markets, etc.
 - b. **Renewables business:** the main intra-group transactions are (i) services for the development and construction of facilities; (ii) services for the operation and maintenance of facilities; or (iii) purchase and sale of electricity/guarantees of origin.
 - c. **Networks Business:** the main intra-group transactions within this Business are regulated activities to which the prices established by the corresponding regulations are directly applied. The non-regulated activities carried out in the Networks Business include: (i) technical management support services; (ii) electricity grid works services; or (iii) operation and maintenance services at shared facilities.
 - d. **Other Businesses (engineering, real estate):** the main transactions in the other Businesses correspond to the provision of engineering services.
2. **Corporate Activities.** As mentioned above, the Iberdrola group has a Corporation as the Group's central management body. Iberdrola, S.A., as the Group's holding company, through its Board of Directors, defines and supervises the policies, strategies and general guidelines for the management of the Group, and makes strategic decisions. Additionally, the Chairman & CEO, with the technical support of the Operating Committee, the Group's Business CEO and the rest of the management team, assumes the duty of strategic organisation and coordination through the dissemination, implementation and monitoring of the general strategy and the

basic management guidelines established by the Board of Directors.

Under the corporate structure of the Iberdrola group, there are also intra-group commercial relationships that mainly branch out from the Corporation, such as:

- a. Corporate Services.** The low value-added support services provided by Iberdrola to its Spanish and foreign subsidiaries are among the most significant transactions carried out between Group companies. These services cover various types of services to subsidiaries, such as human resources, systems, quality, telephony, financial, legal, etc. They are generally provided and invoiced on a “cascading” basis, top-down, from the service-provider companies, at the holding company, country subholding company or head of business company level, to the corresponding customer companies.
- b. Intangibles.** In line with the recommendations set out in the report on Actions 8 to 10 *“Aligning Transfer Pricing Outcomes with Value Creation”*, issued by the OECD under the BEPS Action Plan, each member of the multinational enterprise group must be compensated at arm’s length according to the value that the parties generate and contribute to the value chain. In this regard, based on a functional analysis of corporate functions, intra-group transactions are regulated in order to reflect the contribution and corresponding invoicing by (i) adapting the invoicing of corporate services to the Group’s current organisational structure; and (ii) implementing the assignment of the use of intangible assets in accordance with the requirements of a transfer pricing analysis.
- c. Financial transactions.** The Iberdrola group is re-examining its transfer pricing policies on financial transactions to ensure their alignment with the latest trends and guidelines contemplated in the OECD’s publication of the new transfer pricing guidelines on financial transactions, which provide continuity to Actions 4 and 8 to 10 of the BEPS project, establishing the treatment from the perspective of related-party transactions of the main types of financial transactions such as loans, guarantees, cash pooling arrangements, and hedging transactions.

Intra-group **transactions** are invoiced following **standards that are objective, transparent and consistent** with the arm’s length principle, avoiding any discrimination, subsidy or competitive advantage.

As part of its standard tax practices, the Iberdrola group is advised by prestigious international firms that provide assistance to the Group in transfer pricing matters and verify that the policies applied follow the standards established by the OECD and are duly implemented and updated.





8. Tax havens and non-cooperative jurisdictions

The Iberdrola group does not include any company residing in tax havens according to Spanish law, or in territories included on the EU's black list of non-cooperative tax jurisdictions, among the companies in which it has a controlling interest.

In applying best practices in this area, the Iberdrola group has prohibited the organisation or acquisition of companies residing in tax havens or jurisdictions included on the EU black list as non-cooperative.

On an exceptional basis, there is a special procedure for the creation or acquisition of companies resident in jurisdictions on the EU grey list, which must be previously approved by the Board of Directors.

Companies of the Iberdrola group are always organised based on objective business criteria and not on tax engineering structures.

Having a presence in tax havens is increasingly penalised, even if lawful industrial activities are being carried out. In December 2017 the European Union approved a **black list** of non-cooperative tax jurisdictions, which is being constantly updated, and which includes jurisdictions that do not comply with European good tax governance standards. These standards are based on transparency, the exchange of tax information, non-harmful tax competition and a commitment to the effective implementation of the minimum standards of the BEPS plan. This **black list** is supplemented with a **grey list** of jurisdictions that are similarly non-compliant but have assumed the political commitments required to align themselves with the aforementioned standards. Both lists are subject to ongoing review and update.

The Group therefore believes that the concept of **tax haven** described in section 529 *ter* of the Companies Act (*Ley de Sociedades de Capital*) should be supplemented with the European Union **black list** of non-cooperative tax jurisdictions.

Taking this into account, the Group's *Corporate Tax Policy* has established consistent treatment for acquiring equity interests in all these jurisdictions, whether tax havens according to Spanish law or non-cooperative tax jurisdictions on the European Union black list, such that **it is prohibited to organise or acquire companies residing in tax havens or in territories or countries included on the black list of non-cooperative jurisdictions**, with the sole exception of those cases in which the group is forced to do so because it is an indirect acquisition as part of a larger group that is being acquired and, in that case, with a commitment to liquidate it as soon as possible.

For its part, **the companies in which the Group has a controlling interest** do not include any company residing in **tax havens** according to Spanish law, or **in** territories included on the European Union's **black list** of non-cooperative tax jurisdictions.

In addition, the countries and territories included on the European Union's **grey list** of non-cooperative jurisdictions with which Spain has not signed a treaty for the avoidance of double taxation are subject to special monitoring by the Company. This means that any organisation or acquisition of companies resident in these countries and territories requires approval pursuant to a special procedure, such that in the exceptional case that it is necessary to take a holding in an entity registered in a country or jurisdiction included on the European Union's grey list of non-cooperative jurisdictions with which

Spain has not signed a treaty for the avoidance of double taxation, said transaction should be approved by the acquiring company's management body. If the acquiring company is not Iberdrola, it will also be necessary to obtain the approval of the Board of Directors thereof.

By way of example of its responsible tax practices, in 2020 the Group made a takeover bid for the shares of the Australian entity Infigen Energy, reaching a 50% stake on 5 August, a percentage that has been increasing to reach the current 100%. At the time of the takeover bid, Infigen Energy's corporate structure included two inactive legal entities domiciled in the tax haven of Bermuda. The Group accelerated the liquidation of these two companies, called Infigen Energy (Bermuda) Limited and BBWP Holdings (Bermuda) Limited, which was completed on 4 September 2020, so that no structures are now maintained in tax havens or territories included in the EU's black list of non-cooperative jurisdictions.

There were no transactions involving the acquisition of companies based in tax havens in 2021.

Finally, the Iberdrola group pays special attention to the state of Delaware (United States of America) due to the interest it raises, even though **it is not considered a tax haven** or non-cooperative jurisdiction. Some companies of the Iberdrola group have been formed in this state due to its commercial law and well-settled case law. This combination provides strong legal security in the commercial arena.

However, all of the companies of the Iberdrola group organised in Delaware have their tax domicile and pay taxes in the states in which the locations of operation of the consolidated tax group of which they form a part are situated, which does not include Delaware. Therefore, all of their profits are taxed in accordance with the general regime of the state in which their assets are located, and being organised in Delaware does not provide them with any tax advantage.

In summary, **the companies of the Iberdrola group are organised based on objective business standards and not on tax engineering structures.**



9. Government cooperation

Iberdrola endorses the content of the *Guidelines for a Model for a European Taxpayer's Code*

Respect for the law, fidelity, trust, professionalism, collaboration, reciprocity and good faith are the basis for the Iberdrola group's relations with the tax authorities.

In recent years, a need has developed in the international context for greater interaction with regulatory entities and the tax authorities themselves. The *Guidelines for a Model for a European Taxpayer's Code* issued by the European Commission in 2016 offer a good example of the entirely necessary trend toward creating a relationship of cooperation and trust with the tax authorities.

Iberdrola does not only fully agree to this code; it also deems it necessary to foster and build the cooperative relationship proposed in such code. The principles of the *Corporate Tax Policy* include strengthening the relationship with regulatory entities on tax matters based on respect for the law, loyalty, trust, professionalism, collaboration, reciprocity and good faith, without prejudice to the legitimate disputes with such bodies that might arise with respect to the interpretation of applicable legal provisions, all while observing the aforementioned principles and in the defence of the corporate interest.

Iberdrola is also fully committed to:

- Working with the tax authorities in the detection of and search for solutions regarding fraudulent tax practices of which it is aware; and
- Providing significant tax-related information and documents that are requested by the competent tax authorities as soon as practicable and with the required scope.

Applying best practices and the highest standards of tax transparency, Iberdrola has adhered to and complies with the *Good Tax Practices Code* approved on 20 July 2010 by the full Forum of Large Businesses (*Foro de Grandes Empresas*), established on 10 July 2009 at the behest of the Spanish Tax Administration Agency (*Agencia Estatal de Administración Tributaria*) ("AEAT" or "Tax Agency").

This code promotes a reciprocally cooperative relationship between the Tax Agency and the signatory companies, and contains recommendations, voluntarily assumed by the Administration and the companies, aimed at improving the application of the tax system by increasing legal certainty, reciprocal cooperation based on good faith and legitimate trust between the Tax Agency and the companies themselves, and the application of responsible tax policies.

Iberdrola's commitment to compliance with, further development and implementation of the code extends to any other good tax practices that stem from the recommendations of the Code in effect at any time, even if not expressly set forth in the *Corporate Tax Policy*.

This approach with the tax authorities has also been extended to the other countries in which the Iberdrola group does business. For example, in the case of the United Kingdom, in addition to adopting the guide from Her Majesty's Revenue and Customs (HMRC), Scottish Power has for another year obtained the classification of a "low risk" entity with regard to its tax conduct.



10. Inspections and tax litigation

As a multinational company, Iberdrola's taxation is subject to almost constant review by various regulatory entities. It is therefore reasonable for there to be audits pending in various countries.

One of the Iberdrola group's principles is to strengthen relations with the tax authorities, based on respect for the law, loyalty, trust, professionalism, cooperation, reciprocity and good faith, without prejudice to any legitimate disputes that may arise in connection with the interpretation of tax provisions. Therefore, when disputes arise, the Group conducts its dealings with the authorities on the basis of a cooperative relationship, in accordance with the principles of transparency and mutual trust.

As a result, all the Group's major tax-related decisions are based on a reasonable interpretation of applicable law, which minimises potential tax risks, in close connection with the Group's activity. These decisions are also analysed by its internal and external advisors, ensuring that these actions have been in accordance with the law and are based on reasonable interpretations of the tax provisions.

The audits under way at financial year-end 2021 varied depending on the tax laws of each country.

Administrative actions

1. Spain

In June 2020 the Spanish Tax Administration Agency commenced initiated a partial inspection (for the years 2012 to 2014) and general verification (for the years 2015 to 2017) for the main corporate taxes applicable to the entities of the Iberdrola group within the tax consolidated group no. 2/86.

In 2021 a number of tax assessments were signed on an uncontested and agreed basis in relation to transfer pricing matters for the 2012 to 2014 period, while other assessments were signed on a contested basis in relation to other corporate income tax matters (the same as those discussed in the general tax audit for 2008-2011), which did not have significant financial impacts of the Iberdrola group.

On 17 December 2021 an economic-administrative claim was filed before the Central Tax Appeal Board (*Tribunal Económico Administrativo Central*) against the settlement agreement resulting from the assessments signed on a contested basis referred to in the previous paragraph.

The audit procedures initiated in June 2020 are still ongoing, with the remaining settlement proposals and assessments resulting from these procedures expected to take place in 2022.

2. Other countries

In other countries in which the Group has a significant presence the main ongoing audits are as follows:

- In the United States, the most significant audit is related to income tax in the State of New York. Additionally, given its status as a major taxpayer at the federal and state level, Avangrid has several ongoing audits with regard to other tax items.
- In the United Kingdom, as regards Scottish Power, the only relevant issue under discussion relates to the deductibility of certain payments made on the instructions of the electricity regulator (OFGEM), the relevant arguments having been made in 2021 in relation to the claims brought before the First Tier Tax Tribunal.

- Brazil is a highly litigious jurisdiction, and there are multiple pending audits in that country, which is due to the country's tax and administrative structure and the customary actions of the tax authorities. However, these proceedings are generally resolved at a very low amount in favour of the tax authorities.
- Lastly, in Mexico audits are currently underway by the Local Tax Administration (SAT) on Income Tax and VAT for the 2017 and/or 2018 financial years of some of the subsidiaries (mainly Iberdrola México, Iberdrola Energía Escobedo and Iberdrola Energía Monterrey, S.A. de C.V.).

Tax litigation

1. Spain

In June 2020 Iberdrola was notified of decisions of the Central Tax Appeal Board (*Tribunal Económico Administrativo Central*) (TEAC) regarding claims filed in relation to the tax assessments signed by Iberdrola in 2016, corresponding to the general verification procedure followed with respect to the consolidated tax group (no. 2/86) for financial years 2008 to 2011.

In the decision regarding Value-Added Tax, the TEAC ruling was favourable to the interests of Iberdrola (which led to the annulment of the Inspectorate's assessments and settlements), while ruling unfavourably in the decisions on income tax.

On 7 July 2020 Iberdrola filed appeals for judicial review against the latter rulings with the National High Court (*Audiencia Nacional*), which are still pending resolution, and the appropriate claims have been filed in the course of this financial year.

The main adjustments included in the settlement agreements arising from the tax assessments signed on a contested basis related to the quantification of financial goodwill subject to tax amortisation due to the acquisition of Scottish Power, the elimination of the exemption for dividends of Scottish Power due to the audit finding it incompatible with an adjustment in portfolio value due to hedging of net investment, differences in tax consolidation criteria and possible existence of a transaction involving a change of debtor in certain bond issues, due to the circumstances established in Section 15.1 of the General Tax Act (*Ley General Tributaria*).

In December 2020 Iberdrola was also notified of the decision of the Central Tax Appeal Board relating to certain corporate income tax assessments signed on a contested basis arising from the limited verification proceedings for financial years 2012 to 2014. The dispute with the tax office essentially had to do with the applicability of the criteria of temporary imputation established in certain rulings of the Supreme Court, in relation to the income received by the Group based on payments unlawfully made.

The aforementioned decision of December 2020 partially upheld Iberdrola's claims, accepting its position with respect to the taxes declared to be unconstitutional. On 25 January 2021 Iberdrola filed an administrative appeal to the National High Court in due time and form with respect to the other situations in dispute.

Lastly, in 2021 the Supreme Court partially upheld the appeal filed by the Group and the electricity employers' association in relation to the fee for the use of inland waters for electricity production introduced in the Spanish legal system in 2013.

2. Other countries

In general, there is no significant tax litigation in the other jurisdictions in which the Group does business, except in the case of Brazil, where there is a large number of litigation matters and administrative and judicial proceedings with regard to which the group believes it likely that it will obtain a favourable final decision.

Existing litigation in Brazil includes the following:

- amortised gain/goodwill expense (*agio*) is not tax deductible for the purpose of calculating income tax (both in income tax and employee contribution tax) applicable to certain subsidiaries;
- failure to withhold income tax on the payment of interest on shareholders' equity between entities of the same group;
- the income tax withholding requirement on the purported taxable capital gain accrued by Iberdrola Energía SA following the takeover of Elektro Holding by Neoenergia;
- the questioning of excise tax credits with respect to the consumption tax (*imposto sobre operações relativas à circulação de mercadorias e serviços*) (ICMS) at NC Energia, Celpe and Elektro;
- the consideration by the tax authority that payments for profit-sharing, social welfare, medical care and life insurance should be subject to social insurance contributions;
- offsetting by Neoenergia of receivables due to wrongly applying PIS/COFINS to finance income under a favourable ruling, which has been contested;
- challenges to federal taxes (IRPJ and CSLL) for rejecting expenses with payment of regulatory compensation in the Coelba entity; and
- the municipality's questioning of the street lighting service contribution (COSIP), arguing that Coelba had underpaid during the period from January 2018 to December 2019.





11. Tax governance and best practices

The Iberdrola group is a pioneer in tax transparency and early implementation of best practices.

One of Iberdrola's principles of conduct in the area of good practices is tax transparency. Iberdrola firmly believes that by applying the highest standards of tax transparency, it builds confidence and provides assurance to its Stakeholders regarding responsible tax compliance.

Through the voluntary publication of this report, Iberdrola is exercising the maximum expression of tax transparency with its Stakeholders.

Stakeholder engagement

At the centre of our decisions

Iberdrola pursues a responsible and sustainable business model, one of the essential elements of which is Stakeholder engagement and the creation of shared value for Stakeholders, as set forth in the *Stakeholder Engagement Policy*, approved by the Board of Directors on 17 February 2015 and last amended on 16 December 2021.

The purpose of the *Stakeholder Engagement Policy* is to:

- Encourage the engagement of the Stakeholders in Company's business enterprise through a strategy of strong involvement in the communities in which it operates and the creation of shared sustainable value for all of them.
- Respond to the legitimate interests of the Stakeholders with which the Company interacts.
- Build trust among Stakeholders in order to build long-lasting, stable and robust relationships.
- Encourage the recognition by all of its Stakeholders of the Company's commitment to diversity in the broad sense, particularly in all matters regarding the professional development of their members.
- Contribute through all of the above to maintaining the corporate reputation in the various countries and businesses in which the Company does business.

Iberdrola has eight priority categories of Stakeholders:

Stakeholders	Workforce	Customers
	Shareholders and financial community	Suppliers
	Regulatory entities	The media
	Society at large	The environment

The **Iberdrola group also considers Stakeholder engagement in tax matters** to be crucial. To this end, it involves its Stakeholders through the following initiatives, among others, in order to build the trust expected of a Group such as Iberdrola:

- Understanding the tax contribution as part of the social dividend.
- Preserving the Group's long-standing reputation in tax matters.
- Upholding the principles of striving for excellence and continuous improvement at the highest levels.

- Embodying the highest expression of tax compliance culture.
- Fostering cooperative relationships, based on mutual trust, with the tax authorities in the jurisdictions in which the Iberdrola group has a presence.
- Listening and engaging in dialogue, through participation and attendance at specialised forums and committees.
- Committing to anticipating and applying best tax practices.
- Making the maximum effort in terms of transparency and communication, through the dissemination and publication of relevant tax information, accessible to all Stakeholders.

Corporate and governance structure - Tax reporting procedure

The governance structure of the Group described in the *Policy for the Definition and Coordination of the Iberdrola group* and *Foundations of Corporate Organisation*, aimed at defining the Iberdrola group's corporate and governance structure, duly distinguishes between day-to-day and effective management duties attributed to the head of business companies and strategic, supervision and control duties attributed to Iberdrola S.A. (the "Company") which only exercises the duties of a holding company, and the country subholding companies, which strengthens the strategic organisation and coordination function in each country.

The Company, the country subholding companies and the head of business companies all share the principles reflected in the *Purpose and Values of the Iberdrola group* and the *Code of Ethics*, and see the social dividend as the contribution of direct, indirect or induced value that its activities represent for all Stakeholders,

In view of the corporate and governance structure of the Group, the monitoring and reporting of tax matters is mainly governed by the principles set out below.

1. Iberdrola's Board of Directors

The Company's Board of Directors, through its Chairman & CEO and its management team, drives the due observance of the principles and good tax practices generally set out in the *Governance and Sustainability System*, and particularly set out in the *Corporate Tax Policy*, by the companies forming part of the Group with significant activities in the tax area, in any case without prejudice to respect for the special framework of strengthened autonomy applicable to listed country subholding companies.

The Global Head of Taxation appeared before the Board of Directors of Iberdrola, S.A. on 23 February 2021 to present the *Report on Tax Transparency of the Iberdrola group / Financial Year 2020. Our commitment to society*. The Global Head of Taxation also appeared on 22 February 2022 to present the Report for financial year 2021.

2. Iberdrola's Audit and Risk Supervision Committee

Iberdrola's Audit and Risk Supervision Committee has the following duties, among others, in the tax area⁹:

- prior to the preparation of the annual accounts and to the filing of the Corporate Income Tax return, obtain from the Company's tax director, for transmittal to the Board of Directors,

⁹ Regulations of the Audit and Risk Supervision Committee.

information on the tax guidelines used by the Company during the financial year and, in particular, on the level of compliance with the *Corporate Tax Policy*; and

- based on the information received from the Company's tax director, report to the Board of Directors on the tax policies applied and, in the case of transactions or matters that must be submitted to the Board of Directors for approval, regarding the tax consequences thereof when such consequences represent a significant issue.

In order to comply with the provisions of the *Governance and Sustainability System* in this regard, in financial year 2021 the Global Head of Taxation appeared before the Company's Audit and Risk Supervision Committee on 22 February and 19 July to report, respectively, on the level of compliance with the *Corporate Tax Policy* and tax standards applied during financial year 2020 and during the first half of 2021. An appearance for the 2021 financial year took place on 21 February 2022.

The main issues related to tax strategy and risk discussed in the appearances for the 2021 financial year were as follows:

- Level of compliance with the *Corporate Tax Policy* and tax standards applied during financial year 2020 and during the first half of the financial year 2021.
- Tax liabilities and procedures / Contingent assets / Income Tax expense.
- Tax audit procedures by the tax authorities. Tax litigation.
- Analysis of the Group's transactions during financial year 2020 and the first half of financial year 2021.
- Voluntary submission to the Tax Agency of the "Annual Tax Transparency Report for companies adhering to the Good Tax Practices Code" for the 2019 financial year. Acknowledgement of the letter of congratulations received from the Large Taxpayers Central Office of the Spanish Tax Administration Agency.
- Review of the content of the Report on Tax Transparency of the Iberdrola Group / Financial Year 2020. Our commitment to society.
- Other particularly significant matters:
 - *Tax compliance management system. UNE 19602 standard*
 - Announcement of the satisfactory result of the audit for the 2020 financial year carried out by AENOR.
 - Acknowledgement of the satisfactory independent expert report by an external consultant.
 - Amendment of the *Corporate Tax Policy* to conform it to AENOR recommendations.
 - Planning of the audit of the *System* for the 2021 financial year planned in the fourth quarter of 2021.
 - Internal Audit review of the Tax Cycle. Positive certification.
 - Regulatory changes in tax matters.

3. Audit and compliance committees of the country subholding companies and companies engaged in regulated business

The audit and compliance committees of the country subholding companies and companies engaged in regulated business have a duty to report to Iberdrola's Audit and Risk Supervision Committee on the level of compliance with the *Corporate Tax Policy* and the supervision of the tax

standards applied during each financial year within their respective purviews. For these purposes, the head of each tax division appears before his or her respective committee, ensuring that information flows upwards to the parent company.

4. Management bodies of the head of business companies

The management bodies of the head of business companies are responsible for ensuring compliance with the *Corporate Tax Policy* by the entities of the Group through which they carry out their respective businesses, in all cases complying with the tax principles and good practices described in said policy and the standards established by the country subholding companies.

Without prejudice to the provisions of law and as described above, the management body of each company of the Group is responsible for ensuring that the information such company provides to complies with the tax obligations of the tax group to which it belongs complies with applicable tax provisions as well as the principles and rules set forth in the *Corporate Tax Policy*. Said information shall in all cases be prepared in accordance with the standards set by each country subholding company pursuant to the provisions established by the tax divisions of each country.

In addition, and for purposes of complying with the provisions of the Iberdrola group's *Governance and Sustainability System*, the Global Tax Division also appears before other committees and offices when requested to do so.

1. Sustainable Development Committee

The Sustainable Development Committee is an internal informational and consultative body created by the Board of Directors, without executive powers, with informational, advisory and proposal-making powers within its purview.

This Committee has powers in connection with the *Purpose and Values of the Iberdrola group*, and in matters related to sustainable development, ESG requirements, corporate social responsibility, and corporate governance.

The Committee is responsible, inter alia, for periodically reviewing the *Governance and Sustainability System*, with special emphasis on corporate governance and regulatory compliance policies.

In compliance with the *Regulations of the Sustainable Development Committee*, the Global Head of Taxation appeared on 22 February 2021 to present the Report on Tax Transparency of the Iberdrola Group / Financial Year 2020. Our commitment to society. An appearance for the 2021 financial year took place on 21 February 2022.

2. Office of the Compliance Unit

Iberdrola's Compliance Unit is a collective, internal and permanent body linked to the Sustainable Development Committee of the Company's Board of Directors.

This Unit is the Company's body responsible for proactively ensuring the effective operation of the compliance system, structured in accordance with the provisions of the *Governance and Sustainability System*.

Among other duties, the Unit addresses issues related to the *Code of Ethics*, with respect to crime prevention, corruption and fraud, securities markets, separation of activities, etc.

To comply with the tasks entrusted to it, the Unit is supported by a multidisciplinary office (the Compliance Office) made up of the Director of Compliance and representatives of those areas or functions of the Company that have responsibilities in areas related to the compliance system.

In this regard, as established in the *Regulations of the Compliance Unit*, among others, the Tax area is represented in the Compliance Office through the Global Tax Division, as the body responsible for tax compliance within the Company.

To this end, during the 2021 financial year the Global Tax Division attended the meetings of the Compliance Office held on 20 July and 26 November.

The Iberdrola Group's three lines model

The Iberdrola group's **Internal Control System** is structured in accordance **with international best practices** in this area.

Accordingly, Iberdrola adopts the **Three Lines Model**, published by The Institute of Internal Auditors (IIA), which is based on an assurance system combined around three lines, providing a comprehensive view of how the different parts of the Group interact in an effective and coordinated manner, streamlining the efficiency of the processes for management and internal control of the entity's significant risks.

First line roles deal with the provision of products or services to customers, together with the management of risk in these activities, and include the roles of the support functions.

Second line roles involve providing expertise, monitoring and challenging risk-related matters, and include assistance and oversight in risk management or specific matters such as regulatory compliance or internal control.

Finally, third line roles focus on independent and objective assurance and advice on all issues related to the achievement of objectives.

The three lines in the tax area

The Iberdrola group faithfully complies with the three lines of defence model in tax-related matters.

The first line of defence is exercised within the Tax Division, through decision-making and enforcement of tax compliance.

Given the expertise required in this field, the second line of defence is formed within the Tax Division itself, complemented and strengthened by the Group's Legal Services when necessary, as well as by external advisors. In addition, the Risk Management and Internal Assurance Division acts as the second line of defence in the Group's internal control and risk management system with regard to the process of preparing financial and non-financial information.

Finally, the Internal Audit area's role, as the third line of defence, is to proactively ensure the proper operation of the internal control, risk management and governance systems, systematically auditing the roles of the first and second lines in the performance of their respective duties of management and control.

Tax compliance management system

In February 2019, the UNE 19602 Standard - *Tax Compliance Management Systems* was approved, establishing a leading standard, as well as the guidelines and requirements that a tax compliance

management system must have, with Iberdrola taking an active part in the working meetings held during the process of drafting the Standard.

Given the increasing importance of the tax function in the business area, this standard tries to establish the quality standards, similar to an ISO standard, that this function must have in order to prevent, detect, manage and mitigate tax contingencies and risks.

Along these lines, the standard contains due diligence criteria and requires a performance evaluation in order to ensure that the tax system of a company has documented tax information, the creation of evidence of tax compliance, and ongoing review to improve the tax risk systems.

In 2019 **Iberdrola was the first Spanish company to obtain the AENOR certificate** for a tax compliance management system in accordance with the requirements of **UNE Standard 19602**.

To this end, Iberdrola conducted a global review of the alignment of its tax management and control system with the requirements of the UNE 19602 Standard for its transformation into the **Iberdrola Group's Tax Compliance System**.

This certification, which is aligned with the Spanish standard and the recommendations of the OECD, focuses on the establishment and supervision of tax policies and strategies, the basic guidelines for the management thereof, and decisions on matters of strategic importance, as well as on the design of the Iberdrola group's tax management and control system.

In compliance with the provisions of the *Corporate Tax Policy*, the Global Tax Division regularly approves and updates the guidelines for the evaluation and management of tax risks, to be applied to all companies of the Group.

Consequently, in the ongoing pursuit of excellence, the *Iberdrola group's Tax Compliance System* is under constant review, and in **2021** work has continued to improve it, having obtained a **satisfactory audit** by AENOR for the **third consecutive year**, with no non-conformities having been detected, thus maintaining the certification.

Improvements include updating the *Corporate Tax Policy* to extend its scope to companies having a business relationship (i.e. joint ventures) and to reflect the strengthened autonomy of listed companies and country subholding companies in general.

In addition, improvements continued in key areas such as tax risk controls, process indicators, due diligence processes, training, etc.

The reports of the audits conducted by AENOR, as the **certifying expert**, highlight the following strengths:

- Correct and effective implementation of the *Tax Compliance System*.
- High and mature compliance culture levels.
- **Monitoring of the system** and work towards implementing opportunities for improvement.
- The organisation's **transparency** with regard to its relationship with the Tax Administration and other Stakeholders.
- **Ongoing analysis and monitoring of risks with tax implications** and the work carried out in relation to the indicators associated with the controls.
- **Level of detail of the specific controls** developed by the Group.
- Efforts deployed in terms of communication and training.
- The organisation's commitment to continuous improvement.

In addition, as part of the review of its *Tax Compliance System* and ongoing improvement process, Iberdrola receives an annual report from an external expert on the compliance of its System with the requirements laid down in the UNE 19602 Standard and other standards and with benchmark best practices in this field in the market.

Receipt of the certification and the satisfactory audit confirm that **Iberdrola has a robust tax risk prevention model in line with best corporate governance tax practices , which is duly monitored**, updated and aligned with applicable legal requirements.

Social commitment. Our investment in society

■ The legacy we want to leave in the world

Iberdrola is firmly convinced of the role it must play in society to improve opportunities for all stakeholders: employees, shareholders and investors, and customers. The Group has made it part of its culture to contribute to “green” economic and employment development and recovery, and to drive the transition to a new socio-economic model that is climate neutral, resilient, sustainable and inclusive.

In this sense, the *Corporate Tax Policy* envisages the taxes that Group companies pay in the countries and territories in which they operate as the principal contribution to sustaining public expenditures, and therefore one of their contributions to society. Nonetheless, and also in line with the social dividend recognised in the By-Laws, Iberdrola promotes other initiatives that demonstrate its social commitment to values such as community service (solidarity), equal opportunity, and diversity, in areas such as sports, education, cooperation, and assistance to the most underprivileged groups.

1. Spain

- **Iberdrola is committed to the** energy, cultural, environmental and social development of the communities in which it has a presence.
- **Iberdrola and Iberdrola España** through their policies, reflect the social commitment within the framework of the **sustainable development strategy**, the Group’s connection with human rights, and the development of professional relationships based on diversity, inclusion and a sense of belonging, as it is essential to promote equal opportunity and ensure non-discrimination in the management of people.
- In Spain, **Iberdrola earmarks 0.7% of its Corporate Income Tax quota for social purposes** through the annual tax return.
- **Fundación Iberdrola España** embodies a firm commitment to the development of initiatives that contribute to improving the quality of life of people, through actions to contribute to training and research, environmental protection, cultural development, cooperation and community service.

2. United Kingdom

- **Scottish Power** makes regular contributions to community organisations and **participates in activities to help the communities in which it operates**.
- Scottish Power employees make significant payroll donations to the company’s partnership programmes.

- Since 2013, through the **Scottish Power Foundation**, the Group has helped support dozens of inspiring projects that benefit thousands of people across the UK.

3.

United States of America

- **Avangrid** takes an active part in **community support initiatives** that seek to help the most vulnerable groups, supporting, among others, initiatives to improve energy efficiency and reduce energy costs.
- It participates in programmes like the Connecticut Neighbourhood Assistance Act (NAA) Tax Credit Program, aimed at funding municipal organisations.
- Through the **Avangrid Foundation**, the Group invests in charities, aid programmes and philanthropic partnerships in the communities in which Avangrid and its subsidiaries operate, having invested millions of dollars in grants to build sustainable, vital and healthy communities and improve the lives of people in the communities they serve.

4.

Brazil

- The **Neoenergia** group works with national and international organisations tasked with providing principles and guidelines for the sustainable management of its business.
- Through **Instituto Neoenergia**, they contribute to helping the local populations where they are present, connecting people, strengthening civil society networks and contributing to overcoming social inequality.

5.

Mexico

- **Iberdrola Mexico** remains socially committed to the communities in which it operates, carrying out a range of activities in conjunction with other non-governmental entities and organisations that have a **positive impact on society's vulnerable groups**.
- Through **Fundación Iberdrola México**, it promotes initiatives that contribute to improving the quality of life of the inhabitants in communities in which Iberdrola México has a presence, with the goal of attending to local needs, collaborating in actions dedicated to training, research and innovation, the improvement of biodiversity, and sustainable human development.
- In Mexico, **Iberdrola allocated 0.27% of its profit** mainly **to support disadvantaged** sectors, while also contributing through its tax returns to training and research activities, biodiversity and climate change.

Forum of Large Businesses of the Spanish Tax Administration Agency

1. Working groups of the Forum of Large Businesses

The Forum of Large Businesses (*Foro de Grandes Empresas*) is a framework for collaboration between large enterprises and the Spanish tax administration, based on the principles of transparency and mutual trust, through the exchange of knowledge.

In this respect, working sessions are organised to discuss any issues that may arise in the application of the tax system.

As part of the cooperative relationship with the Spanish tax authorities, Iberdrola actively participates in the working groups of the Forum of Large Businesses, and is a member of the working groups on the Cooperative Relationship, Special Taxes, Transfer Pricing, Analysis of Tax Regulations and Reduction of Conflict, and Immediate Supply of Information (*Suministro Inmediato de Información*) (“SII”).

In financial year 2021 Iberdrola attended the general meetings of the Forum of Large Businesses held on 29 June and 16 November and all of the working group meetings.

In addition, during financial year 2021 the Iberdrola group’s Global Head of Taxation acted as a business partner within the Technical Secretariat of the Forum of Large Businesses.

2. Voluntary submission of the “Annual Tax Transparency Report for companies adhering to the Good Tax Practices Code”

As mentioned above, Iberdrola is a member of the Forum of Large Businesses, which was established on 10 July 2009 by the Spanish Tax Administration, and complies with the *Good Tax Practices Code*, approved on 20 July 2010.

In this regard, on 2 November 2015 the Plenary Session of the Forum of Large Companies agreed to introduce an Annex to the *Good Tax Practices Code* to strengthen the cooperative relationship and reinforce good practices in corporate tax transparency, through a number of actions to promote transparency and legal certainty in the fulfilment of tax obligations.

This initiative is aimed at providing early knowledge of the tax policy and tax risk management of businesses, leading to lower compliance costs and contributing to the reduction of conflict.

Among them, it was established that companies could voluntarily make information available to the Tax Administration Agency regarding a number of actions and decisions in tax matters, through the presentation of the “Annual Tax Transparency Report for companies adhering to the Good Tax Practices Code”, by means of which the following information, among others, is provided:

- aspects of the companies’ economic activity,
- tax strategy,
- presence in tax havens,
- compliance with the OECD’s BEPS actions,
- most significant corporate transactions, etc.

This voluntary reporting represents the **highest expression of tax transparency with the Spanish tax authorities**, and Iberdrola, firmly convinced of its usefulness, submits the aforementioned report every year.

As a consequence, and within the framework of strengthened cooperation, Iberdrola voluntarily submitted to the Spanish Tax Administration the “Annual Tax Transparency Report for companies adhering to the Good Tax Practices Code” for 2015, 2016, 2017, 2018, 2019 and 2020, and is in the process of preparing the report for 2021.

This report includes information on the Group’s tax strategy, structure and international activity, presence in tax havens, financing, international and customs taxation, level of consistency of tax policy with BEPS principles and actions, and most significant corporate transactions.

In pursuing excellence and continuous improvement in the area of transparency, Iberdrola’s

report includes improvements each year for discussion and for strengthening the cooperative relationship.

As regards recent Reports, Iberdrola submitted the Annual Report on Tax Transparency relating to financial year 2019 on 23 October 2020, and held a meeting with representatives of the Spanish Tax Administration Agency on 23 March 2021 in order for them to more fully understand and evaluate the contents of the report. The additional information requested was then included.

On 24 March 2021 Iberdrola received a letter from the Central Delegation of Large Taxpayers of the Spanish Tax Administration Agency certifying the submission of the report, and which highlighted the tremendous willingness and availability offered in voluntarily sending information for financial year 2019 and thanking it for the transparency provided.

The Iberdrola group's Annual Report on Tax Transparency for financial year 2020 was submitted on 22 October 2021.

The voluntary submission of the Iberdrola group's report **has been acknowledged on the Tax Administration's website**, expressly mentioning Iberdrola as a company that submits its transparency report.

Participation in specialised forums, committees and studies

As part of its Stakeholder engagement, Iberdrola considers that participation by members of the Tax Division in specialised forums, committees, and studies available in the market is essential. Iberdrola also actively participates in regulatory development consultation procedures.

Accordingly, the Iberdrola group:

Spain

- Plays an active role of the taxation working groups of both the Spanish Confederation of Employers and Industries (*Confederación Española de Organizaciones Empresariales*) ("CEOE") and the *Círculo de Empresarios*.
- Is present in the Spanish Association of Tax Advisors (*Asociación Española de Asesores Fiscales*) ("AEDAF"), the Spanish Association of Financial Law (*Asociación Española de Derecho Financiero*) ("AEDF") and the Register of Economists and Tax Advisors (*Registro de Economistas y Asesores Fiscales*) ("REAF").
- Is a member of specialised tax committees, such as the Tax Committee of the Spanish Gas Association (*Asociación Española del Gas*) ("SEDIGAS") and the Tax Committee of the Association of Electricity Companies (*Asociación de Empresas de Energía Eléctrica*) ("AELEC").
- Participates in initiatives organised by the *Fundación Impuestos y Competitividad*.
- Contributes to independent external studies on the tax contribution of large enterprises at national and international level.

United Kingdom

- The tax team of Scottish Power is a member of the Chartered Institute of Taxation (CIOT) and the Institute of the Chartered Accountants of Scotland (ICAS).
- Membership in these bodies requires ongoing Continuing Professional Development (CPD) to be completed on an annual basis. This can include attending the CIOT - Industry & Commerce Indirect Tax Conference, participation in the Tax in Industry Quarterly Forums and attendance at the UK Electricity Industry Tax Forum.

United States of America

- Is an active member of the tax committee of the Edison Electric Institute (EEI), the American Gas Association (AGA), the American Clean Power Association and the Global Business Alliance (GBA).
- Participates actively in the Council on State Taxation (COST).

Brazil

- Forms part of various associations where, among others, tax issues are addressed, including the Brazilian Association of Wind Energy Companies (ABEOLICA), the Brazilian Association of Electricity Distributors (ABRADEE), the Union of Energy Companies of the State of São Paulo (SINDIENERGIA) and the Brazilian Association of Electricity Industry Accountants (ABRACONEE).
- It actively participates in *Programa Confia*, a cooperative tax compliance and transparency project launched by the Brazilian tax administration.

Mexico

- The members of Iberdrola Mexico's tax team attend and actively participate in ongoing tax training programmes, and are members of the Mexican Association of Public Accountants.

Statement of Non-Financial Information - Sustainability Report

The transparency of the consolidated non-financial information that the Group regularly publishes is a key element of its strategy to allow the Stakeholders to be aware of the social dividend generated by the Group and its contribution to the Sustainable Development Goals.

The Iberdrola group's *Non-Financial Information Preparation Policy* defines an orderly process for preparing the consolidated non-financial information applicable to all companies of the Group, one that is consistent with the principles of subsidiarity and decentralised management that govern the corporate structure and governance model thereof, that ensures that the consolidated non-financial information has been prepared based on information provided by the various companies of the Group and that clearly describes the responsibility of the management decision-making bodies of each company in such process. As part of this process, the corresponding tax divisions of the country subholding companies report the tax information required in the preparation of the non-financial information, in a manner consistent with the *Governance and Sustainability System*.

In this regard, Iberdrola once again publishes the Statement of Non-Financial Information. Sustainability Report, which seeks to reflect the Company's performance on sustainability issues during financial year 2021, as well as the social dividend generated by the Group, and its contribution to the Sustainable Development Goals.

Iberdrola thus satisfies the growing demand by society in general for companies to provide a detailed report of their non-financial performance in the environmental, social and corporate governance (ESG) fields, with the understanding that good performance in these areas is an essential factor for the long-term success of the companies.

The report has been prepared in accordance with the reporting requirements and recommendations of the Consolidated Set of Global Reporting Initiative (GRI) Sustainability Reporting Standards.

Iberdrola completes the tax information included in this report in accordance with the standards established in GRI 207 on tax, in addition to complying with regulatory obligations regarding the information to be included in the statement of non-financial information.

A brief description of the content of the GRI-207 standard and its application at Iberdrola is set forth below:

GRI 207: TAX	Requirement	Application
207-1 Approach to tax	i. Whether the organisation has a tax strategy, and if so if publicly available.	Iberdrola's <i>Corporate Tax Policy</i> sets out its tax strategy and is public and accessible through the corporate website.
	ii. Governance body or executive-level position that formally reviews and approves the tax strategy and the frequency of reviews.	Taxation is not a static area. The <i>Corporate Tax Policy</i> is constantly being reviewed. This power is vested in the Board of Directors.
	iii. Approach to regulatory compliance.	Compliance with applicable laws is a fundamental principle of the <i>Corporate Tax Policy</i> . To guarantee a responsible tax approach, Iberdrola strives to ensure that taxation is appropriately related to the structure and location of its activities and fosters a relationship with the tax authorities based on respect for the law, loyalty, trust, professionalism, cooperation, reciprocity, and good faith. Iberdrola is certified in Spain under the Spanish UNE 19602 quality standard for tax compliance management systems.
	iv. How the approach to tax is linked to the business and sustainable development strategies of the organisation.	In addition to the provisions of the preceding section, the responsible tax practices of the companies of the Iberdrola group are enshrined in the <i>General Sustainable Development Policy</i> . The Group companies share the principles reflected in the <i>Purpose and Values of the Iberdrola group</i> and the <i>Code of Ethics</i> , and see the social dividend as the contribution of direct, indirect or induced value that its activities represent for all Stakeholders.

207-2 Tax governance, control and risk management	a. Tax governance and control framework.	<p>The Global Tax Division approves and regularly reviews guidelines for the evaluation and management of tax risks, to be applied to all companies of the Group.</p> <p>Implementation of the Iberdrola group's Governance and Sustainability System in the tax area.</p> <p>The implementation of the <i>Corporate Tax Policy</i> and of the Iberdrola group's tax strategy is structured on three levels: (i) Parent company, (ii) country subholding companies and, (iii) head of business companies.</p> <p>Monitoring and control of the Corporate Tax Policy</p> <ul style="list-style-type: none"> i. The head of business companies report to the country subholding companies regarding the level of compliance with the <i>Corporate Tax Policy</i>. ii. Audit and compliance committees of the country subholding companies report to Iberdrola's Audit and Risk Supervision Committee on the level of compliance with the <i>Corporate Tax Policy</i>. The regulated companies have audit and compliance committees that are responsible for such reporting. iii. Iberdrola's Audit and Risk Supervision Committee, provides to the Board of Directors information on the tax policies and standards applied by the Company during the financial year, and particularly on the Group's level of compliance with the <i>Corporate Tax Policy</i>.
	b. Mechanisms for reporting concerns about unethical or unlawful behaviour.	<p>Iberdrola makes specific ethics mailboxes available to its Stakeholders, which constitute tools to report conduct that could be improper conduct or conduct contrary to the law or to internal rules of conduct, including with respect to taxes.</p>
	c. Assurance of disclosures on tax.	<p>Review by internal experts and independent external third party experts.</p>

207-3 Stakeholder involvement and management of concerns related to tax	Description of the approach to taxation and Stakeholder engagement: (i) Engagement with tax authorities. (ii) Public policy advocacy on tax. (iii) Processes for collecting and considering the views and concerns of Stakeholders.	<p>Iberdrola, S.A. adheres to the Code of <i>Good Tax Practices</i> of the Forum of Large Businesses (<i>Foro de Grandes Empresas</i>) of the Spanish Tax Administration Agency (<i>Agencia Estatal de Administración Tributaria</i>). The commitment to compliance with, further development and implementation of the Code extends to any other good tax practices that stem from the recommendations of the Code in effect at any time. The Group is also committed to compliance with the OECD Guidelines for Multinational Enterprises in tax matters.</p> <ul style="list-style-type: none"> i. Voluntary submission to the Spanish Tax Administration Agency of the <i>Annual Tax Transparency Report for companies adhering to the Good Tax Practices Code</i>. ii. Voluntarily preparation and publication of the annual <i>Report on Tax Transparency of the Iberdrola group. Our commitment to society</i>. iii. Publication of the Iberdrola group's global tax contribution. iv. Participation in specialised forums and committees. v. Specific anonymous ethics mailboxes to report conduct that could entail improper conduct or conduct contrary to the law or to internal rules of conduct.
207-4 Country-by-country reporting	Financial, economic and tax information on each jurisdiction in which the organisation operates.	Iberdrola includes the <i>Report on Tax Transparency of the Iberdrola group. Our commitment to society</i> , the Country by Country Report for the previous year presented in the same terms as those submitted to the Spanish tax authorities.

Comprehensive information on the application of the content of the GRI-207 standard on taxation and its application at Iberdrola is provided mainly in the *Corporate Tax Policy*, in the Statement of Non-Financial Information and in this report.

Other initiatives and recognitions

Studies on tax transparency

Iberdrola has been recognised, for yet another year, as one of the top IBEX-35 companies in terms of tax transparency by Fundación Haz (formerly Fundación Compromiso y Transparencia).

Fundación Haz awarded Iberdrola the category of "Transparent", which is the highest of the three established categories.

Conference on Corporate Tax Responsibility, sponsored by the Group

In 2021 Iberdrola sponsored the *Conference on Corporate Tax Responsibility: compliance, cooperation and corporate transparency*, organised by the *Asociación para el Progreso y Desarrollo* (APD) held in the Basque Country (Bilbao) on 29 November.

The conference, attended by top tax officials from domestic and international institutions (Provincial Council of Bizkaia, Provincial Treasury of Bizkaia, OECD, EU, Directorate General of Taxation), as well as representatives from the private sector, addressed issues related to updates on international taxation, compliance-based tax responsibility, transparency and the cooperative relationship, and the challenges of energy taxation, among others.

■ **Global Counsel Awards**

Last November, the Iberdrola group's Global Head of Taxation was recognised as European and Global Head of Tax of the Year 2021 at the Global Counsel Awards in the Corporate Tax area.

The Global Counsel Awards are considered one of the most prestigious awards for distinguishing professionals who are industry leaders and recognising in-house legal professionals.

Whistleblower channels

Iberdrola has established an ethics mailbox in order to promote compliance with legal provisions and with the rules of conduct established in the *Code of Ethics* and the reporting of possible improper activities.

This channel allows the professionals of the Iberdrola group to report any conduct that may involve the commission of an improper act or an act in violation of legal provisions or of the rules of conduct laid down in this *Code of Ethics* and to ask questions that may arise regarding the interpretation thereof, thus including conduct in the tax area.

Communications made through ethics mailboxes are dealt with anonymously and must meet truthfulness and proportionality standards, and are at all times considered confidential information.





12. Country-by-country tax contribution

Overall tax contribution data

+ than €38,500 million in taxes in 5 years

Total tax contribution of €7,836 million

+ €361 million compared to previous year

Increase in contributions of approximately 5%

€21 million paid in tax each day

- In the last **five years** (2017-2021), the Iberdrola group has paid more than **€38,500 million** to public administrations worldwide.
- The **total tax contribution** for financial year **2021** amounts to **€7,836 million**, i.e. **€21 million of taxes paid per day**, with **42%** of profits¹⁰ going to taxes worldwide.
- In addition, **€88 million** was collected in Spain in **other regulatory payments** (subsidised rate and energy efficiency).
- In 2021, the **tax contribution increased by €361 million, up by 4.8%** compared to the previous year.
- The **exchange rate** effect in **Brazil** is significant (BRL/EUR 2021=6.38 - BRL/EUR 2020=5.90).
- In the case of Spain, tax payments represent more than **44%** of the tax contribution ratio¹¹.
- **Income Tax** is a very significant tax (**€832 million**). It represents **27%** of the taxes paid by the Iberdrola group.
- Of note is the amount of **energy taxes at the global level (€781 million)**, which represent **25%** of the global contribution, amounting to **€774 million in Spain**.

38,517
million paid in the last
five years

7,836
million in 2021

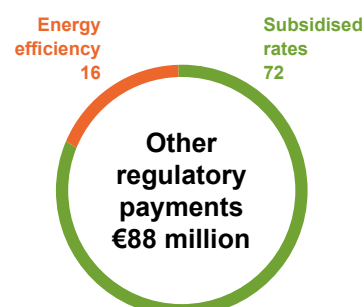
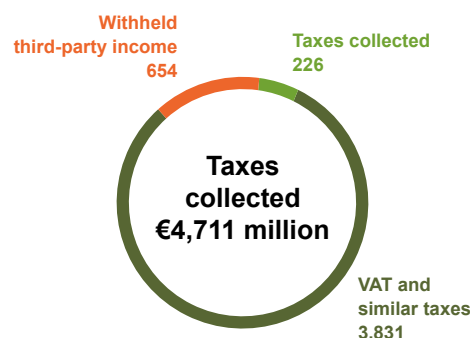
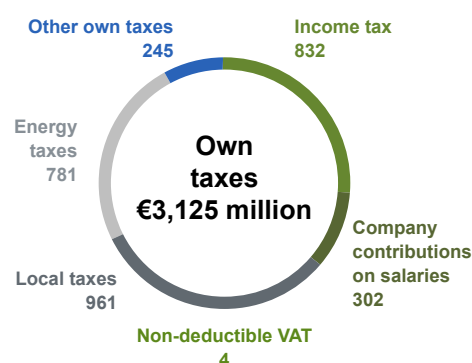
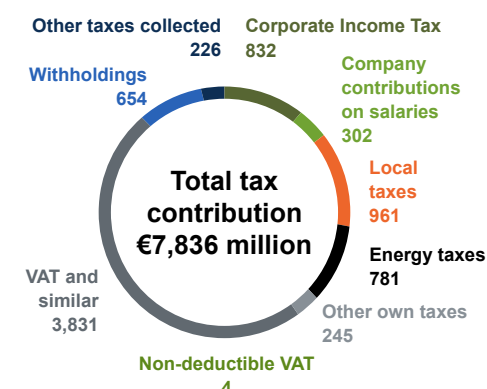
21
million paid in tax
each day

¹⁰ Profit before Income Tax, other taxes and social security payable by the company.

¹¹ Taxes on profits before Income Tax, other taxes and Social Security payable by the company.

The total direct tax contribution in 2021 amounted to **€7,836 million**, distributed among the following categories (in millions of euros):

€ MILLION	2021
Own taxes	3,125
Corporate Income Tax	832
Non-deductible VAT and similar	4
Company contributions on salaries	302
Local taxes	961
Energy taxes	781
Other own taxes	245
Taxes collected	4,711
VAT and similar	3,831
Withheld third-party income	654
Other taxes collected	226
Total	7,836



1

Own taxes

- Own **taxes** (charged to the profit and loss account) in 2021 amounted to **€3,125 million**
- This includes **Corporate Income Tax (27%)**, **local taxes (31%)** and **energy taxes (25%)**

2

Taxes collected

- **Taxes collected** in 2021 amounted to **€4,537 million**
- This includes **VAT and similar taxes**, which account for **81%** of total taxes collected

3

Other regulatory payments

- Iberdrola also makes other **payments to regulatory bodies**, including in the form of subsidised rates (*bono social*) and the contribution to the National Energy Efficiency Fund, in the amount of **€88 million**

Total payments to public entities €7,924 million

The Iberdrola group is made up of more than 400 companies, which carry on activities in the different links of the energy value chain, from the generation to the sale of energy via distribution and maintenance of supply grids.

The Group has an economic presence across some 35 countries.

Country-by-country direct tax contribution

Looking only at the distribution of the direct tax contribution, the distribution by country in comparison with the prior year is as follows:

Taxes paid into the public treasury	Taxes charged to the income statement		Taxes collected		Total	
	2021	2020	2021	2020	2021	2020
€ million						
Spain	1,586	1,478	1,883	1,902	3,469	3,380
United Kingdom	341	372	379	258	720	630
United States of America	753	661	284	274	1,037	935
Brazil	179	202	1,879	1,782	2,058	1,984
Mexico	177	128	89	115	266	243
Other countries	89	97	197	206	286	303
Total	3,125	2,938	4,711	4,537	7,836	7,475

The tax contribution in 2021 increased compared to 2020 in the amount of €361 million. The exchange rate effect in Brazil is significant.

In order to facilitate this analysis, country-by-country tax data are provided in their respective local currencies:

Taxes paid into the public treasury	Taxes charged to the income statement		Taxes collected		Total	
	2021	2020	2021	2020	2021	2020
Local Currency (LC) (million)						
Spain	1,586	1,478	1,883	1,902	3,469	3,380
United Kingdom	293	331	326	230	619	561
United States of America	891	755	336	313	1,227	1,067
Brazil	1,142	1,191	11,986	10,507	13,127	11,698
Mexico	4,247	3,140	2,135	2,821	6,382	5,962
Other countries	89	97	197	206	286	303

The exchange rates used for the conversion of the contribution in the different currencies into euros are the official rates published by the European Central Bank, as follows:

ECB exchange rates	2021	2020
GBP / EUR	0.86	0.89
USD / EUR	1.18	1.14
BRL / EUR	6.38	5.90
MXN / EUR	23.99	24.53

Taking into account only the taxes recorded with a charge to the income statement, the tax contribution ratios are as follows:

€ million	Taxes charged to the income statement ¹²	Tax contribution ratio % ¹³
Spain	1,586	44%
United Kingdom	341	34%
United States of America ¹⁴	753	56%
Brazil	179	19%
Mexico	177	34%
Other countries	89	36%
Total	3,125	42%

According to the information provided, **Iberdrola allocates approximately 42% of its profit before taxes to the payment of taxes across all countries.**

This is particularly significant in the case of Spain and the United States of America, where some 44% and 56% of profit before taxes is allocated to the payment of all classes of taxes.

The main country-by-country details of the Iberdrola group's tax contribution are set forth below.

¹² Includes Income Tax, company Social Security contribution, other taxes and non-deductible VAT.

¹³ Ratio between payment of taxes and profit before taxes (Income Tax, other taxes and company Social Security contribution) in each country.

¹⁴ Profit before tax is determined in accordance with US GAAP.

Spain / € million

Tax contribution ratio	44%
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Total paid into public treasury	
Own taxes	1,586
Taxes collected	1,883
Total	3,469

Spain (€ million)	
Own taxes	1,586
Corporate Income Tax	404
Non-deductible VAT and similar	4
Company contributions on salaries	137
Local taxes	255
Energy taxes	774
Other own taxes	12
Taxes collected	1,883
VAT and similar	1,527
Withheld third-party income	327
Other taxes collected	29
Total	3,469

Comments

Iberdrola is a Group in which the parent company is located in Spain.

Iberdrola S.A. is the controlling company of two tax consolidation groups in terms of Corporate Income Tax in the Spanish territory: group 2/86, of common territory, and group 02415BSC, of Biscayan foral territory.

The amount of energy taxes is very high, particularly since the approval of Law 15/2012 of 27 December on tax measures for energy sustainability. Significant increases are recorded in the energy taxes of the autonomous communities (Tax on facilities that affect the environment), in the Water Act rate (including the Hydraulic Fee), derived from the increase in production, and in the ENRESA rate.

There is also a significant increase in Corporate Income Tax, due to the performance of the businesses.

In addition, an increase in VAT receipts is recorded, derived from the energy price situation and a decrease in Electricity Tax collection, justified by the change in the tax rate.

Legal entities

Significant entities

Iberdrola, S.A.
 Iberdrola España, S.A.U.
 Iberdrola Energía Internacional, S.A.U.
 Iberdrola Energía, S.A.U.
 Hidrola I, S.L.
 Iberdrola Participaciones, S.A.U.
 Iberdrola Generación, S.A.U.
 Iberdrola Clientes España, S.A.U.
 Iberdrola Generación Nuclear, S.A.U.
 Iberdrola Generación Térmica, S.L.U.
 Iberdrola Renovables Energía, S.A.U.
 Iberdrola Renovables Internacional, S.A.U.
 Iberdrola Redes España, S.A.U.
 Iberdrola Ingeniería y Construcción, S.A.U.
 Iberdrola Inmobiliaria, S.A.U.
 I-DE Redes Eléctricas Inteligentes, S.A.U.

United Kingdom / € million - GBP million

Tax contribution ratio	34%
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Comments

The country has a classical tax structure, with a homogenous mix of own and collected taxes as well as a centralised tax authority.

The exchange rate effect in the United Kingdom is moderate.

The reduction in the Corporate Income Tax amount is mainly due to the decrease in the number of advance tax payments during the year, following the transitional measures approved for the year 2020.

In addition, there has been a significant increase in VAT collection, with the introduction of deferred payment in 2020.

Total paid into public treasury	
Own taxes	341
Taxes collected	379
Total	720

United Kingdom (€ million)	
Own taxes	341
Corporate Income Tax	75
Non-deductible VAT and similar	0
Company contributions on salaries	38
Local taxes	140
Energy taxes	0
Other own taxes	88
Taxes collected	379
VAT and similar	230
Withheld third-party income	71
Other taxes collected	78
Total	720

Legal entities

Significant entities

Scottish Power Investments, Ltd.
 Scottish Power, Ltd.
 Scottish Power UK, Plc
 Scottish Power, Ltd.
 Scottish Power Renewable Energy Ltd.
 Scottish Power Retail Holdings Ltd.
 Scottish Power Energy Networks Holdings Ltd.
 Scottish Power Renewables (UK) Ltd.
 Scottish Power Generation (Assets) Ltd.
 Scottish Power Energy Retail Ltd.
 Scottish Power Energy Management Ltd.
 SP Transmission Plc

United Kingdom (GBP million) - Local currency	
Own taxes	293
Corporate Income Tax	64
Non-deductible VAT and similar	0
Company contributions on salaries	33
Local taxes	120
Energy taxes	0
Other own taxes	76
Taxes collected	326
VAT and similar	198
Withheld third-party income	61
Other taxes collected	67
Total	619

United States of America / € million - USD million

Tax contribution ratio	56%
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Comments

Country with a classical structure and a large variety of tax jurisdictions.

The exchange rate effect in the United States is moderate.

For Corporate Income Tax, there are certain federal and state tax incentives that apply to the Avangrid group.

The existence of tax credits from previous years means that effective taxation (cash) at the federal level is not significant.

The main differences compared to the previous year's contribution are in the categories Regulatory Assessment Fees and Payroll taxes.

Total paid into public treasury	
Own taxes	753
Taxes collected	284
Total	1,037

United States of America (€ million)	
Own taxes	753
Corporate Income Tax	2
Non-deductible VAT and similar	0
Company contributions on salaries	54
Local taxes	559
Energy taxes	0
Other own taxes	138
Taxes collected	284
VAT and similar	87
Withheld third-party income	145
Other taxes collected	52
Total	1,037

Legal entities

Significant entities

Avangrid, Inc.
Avangrid Management Company LLC.
Avangrid Networks Inc.
Avangrid Renewables Holding Inc.
Avangrid Renewables LLC
Atlantic Renewable Energy Corporation
Atlantic Wind LLC
Central Maine Power Company
Avangrid New York TransCo, LLC
UIL Group, LLC
New York State Electric & Gas Corporation
Rochester Gas and Electric Corporation
West Valley Leasing Company, LLC
Maine Natural Gas Corporation

United States of America (USD million) - Local currency	
Own taxes	891
Corporate Income Tax	2
Non-deductible VAT and similar	0
Company contributions on salaries	64
Local taxes	661
Energy taxes	0
Other own taxes	163
Taxes collected	336
VAT and similar	103
Withheld third-party income	172
Other taxes collected	62
Total	1,227

Brazil / MM€ - BRL million

Tax contribution ratio	19%
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Total paid into public treasury	
Own taxes	179
Taxes collected	1,879
Total	2,058

Brazil (€ million)	
Own taxes	179
Corporate Income Tax	118
Non-deductible VAT and similar	0
Company contributions on salaries	54
Local taxes	3
Energy taxes	0
Other own taxes	4
Taxes collected	1,879
VAT and similar	1,770
Withheld third-party income	74
Other taxes collected	35
Total	2,058

Brazil (BRL million) - Local currency	
Own taxes	1,142
Corporate Income Tax	753
Non-deductible VAT and similar	0
Company contributions on salaries	344
Local taxes	19
Energy taxes	0
Other own taxes	26
Taxes collected	11,986
VAT and similar	11,290
Withheld third-party income	472
Other taxes collected	223
Total	13,127

Comments

Brazil has a complex tax structure, arising from its political, federal and state structure of multiple tax jurisdictions.

The range of taxes and jurisdictions leads to a high tax burden, particularly in the area of indirect taxation.

The exchange rate effect in Brazil is significant, although the tax contribution expressed in local currency increases, it has an effect on the tax contribution ratio.

Overall, the tax contribution remains stable.

There is a very significant amount of collected taxes, given that the regulated business entails mass invoicing of multiple customers, with the corresponding taxes being passed on.

In this respect, an increase in VAT receipts has been recorded, mainly as a result of the energy price situation.

Legal entities

Significant entities

Neoenergia S.A.

Companhia de Eletricidade do Estado do Bahia, S.A.

Companhia Energética de Pernambuco, S.A.

Companhia Energética do Rio Grande do Norte, S.A.

Elektro Redes, S.A.

Elektro Renováveis do Brasil, S.A.

Enerbrasil-Energias Renováveis do Brasil, S.A.

Termopernambuco, S.A.

Elektro Comercializadora de Energia Ltda.

Mexico / € million - MXN million

Tax contribution ratio	34%
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Comments

Mexico has a simple tax framework, based on Corporate Income Tax and on VAT, with a federal-level administrative centralisation.

The exchange rate effect in Mexico is moderate.

There is an increase in Corporate Income Tax, mainly due to the increase in turnover.

Furthermore, there is a decrease in VAT collection, considering that in 2021 there were significant refunds of credit balances, and these refunds will be lower in 2020.

Total paid into public treasury	
Own taxes	177
Taxes collected	89
Total	266

Mexico (€ million)	
Own taxes	177
Corporate Income Tax	169
Non-deductible VAT and similar	0
Company contributions on salaries	8
Local taxes	0
Energy taxes	0
Other own taxes	0
Taxes collected	89
VAT and similar	62
Withheld third-party income	19
Other taxes collected	8
Total	266

Legal entities

Significant entities

Iberdrola México, S.A. de C.V.

Iberdrola Generación México, S.A. de C.V.

Iberdrola Renovables México, S.A. de C.V.

Iberdrola Servicios Corporativos S.A. de C.V.

Iberdrola Clientes, S.A. de C.V.

Iberdrola Generación, S.A. de C.V.

Mexico (MXN million) - Local currency	
Own taxes	4,247
Corporate Income Tax	4,055
Non-deductible VAT and similar	0
Company contributions on salaries	192
Local taxes	0
Energy taxes	0
Other own taxes	0
Taxes collected	2,135
VAT and similar	1,488
Withheld third-party income	456
Other taxes collected	192
Total	6,382

Other countries / € million

Tax contribution ratio	36%
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Total paid into public treasury	
Own taxes	89
Taxes collected	197
Total	286

Other countries (€ million)	
Own taxes	89
Corporate Income Tax	64
Non-deductible VAT and similar	0
Company contributions on salaries	11
Local taxes	4
Energy taxes	7
Other own taxes	3
Taxes collected	197
VAT and similar	155
Withheld third-party income	18
Other taxes collected	24
Total	286

Comments

This category includes significant jurisdictions in terms of their tax contribution, including Germany, France, Greece, Hungary, Italy and Portugal.

Overall, the tax contribution remains stable.

Of note is the increase in energy taxes in France, due to business performance, as well as the increase in the collection of the Gas Tax in France.

Legal entities

Significant entities

Iberdrola Renovables France, S.A.S.
Iberdrola Renovables Deutschland GmbH
Iberdrola Renewables Portugal S.A.
Iberdrola Clientes Portugal, Unipessoal Lda.
Iberdrola Energie France, S.A.S.
Iberdrola Energie Deutschland GmbH
Iberdrola Clienti Italia, S.R.L.
Aalto Power, GmbH
C.Rokas Industrial Commercial Company, S.A.
Rokas Hidroelectric, S.A.
Iberdrola Australia, Ltd.
Iberdrola Renewables Australia PTY, Ltd.
Iberdrola Australia Development Holdings PTY

Summary table: total tax contribution (millions of euros)

2021	Own taxes						Total own taxes	Taxes collected			Total taxes collected	Total
€ million	Corporate Income Tax	Non-deductible VAT and similar	Company contributions on Salaries	Local taxes	Energy taxes	Other own taxes		VAT and similar	Withheld third-party income	Other taxes collected		
Spain	404	4	137	255	774	12	1,586	1,527	327	29	1,883	3,469
United Kingdom	75	0	38	140	0	88	341	230	71	78	379	720
United States of America	2	0	54	559	0	138	753	87	145	52	284	1,037
Brazil	118	0	54	3	0	4	179	1,770	74	35	1,879	2,058
Mexico	169	0	8	0	0	0	177	62	19	8	89	266
Other countries	64	0	11	4	7	3	89	155	18	24	197	286
Overall total	832	4	302	961	781	245	3,125	3,831	654	226	4,711	7,836

Summary table: total tax contribution (millions of local currency)

2021	Own taxes						Total own taxes	Taxes collected			Total taxes collected	Overall total
LOCAL CURRENCY MILLION	Corporate Income Tax	Non-deductible VAT and similar	Company contributions on Salaries	Local taxes	Energy taxes	Other own taxes		VAT and similar	Withheld third-party income	Other taxes collected		
Spain	404	4	137	255	774	12	1,586	1,527	327	29	1,883	3,469
United Kingdom	64	0	33	120	0	76	293	198	61	67	326	619
United States of America	2	0	64	661	0	163	891	103	172	62	336	1,227
Brazil	753	0	344	19	0	26	1,142	11,290	472	223	11,986	13,127
Mexico	4,055	0	192	0	0	0	4,247	1,488	456	192	2,135	6,382
Other countries	64	0	11	4	7	3	89	155	18	24	197	286

Taxes paid and collected by the Iberdrola group in each country by category

€ million	Own taxes						Total own taxes	Taxes collected			Total taxes collected	Total
	Corporate Income Tax	Non-deductible VAT and similar	Company contributions on Salaries	Local taxes	Energy taxes	Other own taxes		VAT and similar	Withheld third-party income	Other taxes collected		
Germany	49	0	1	0	0	0	50	20	2	1	23	73
Algeria	0	0	0	0	0	0	0	0	0	0	0	0
Australia	0	0	2	0	0	2	4	-15	5	0	-10	-6
Brazil	118	0	54	3	0	4	179	1,770	74	35	1,879	2,058
Bulgaria	0	0	0	0	0	0	0	0	0	0	0	0
Canada	1	0	0	0	0	0	1	0	2	0	2	3
Qatar	0	0	0	0	0	0	0	0	0	0	0	0
Cyprus	0	0	0	0	0	0	0	1	0	0	1	1
Costa Rica	0	0	0	0	0	0	0	0	0	0	0	0
Egypt	0	0	0	0	0	0	0	0	0	0	0	0
Spain	404	4	137	255	774	12	1,586	1,527	327	29	1,883	3,469
United States of America	2	0	54	559	0	138	753	87	145	52	284	1,037
France	0	0	4	2	0	0	6	29	1	2	32	38
Greece	5	0	1	0	6	0	12	0	1	1	2	14
Honduras	0	0	0	0	0	0	0	0	0	0	0	0
Hungary	1	0	0	1	0	0	2	8	0	0	8	10
Ireland	0	0	0	0	0	0	0	2	0	0	2	2
Italy	-1	0	2	0	0	0	1	29	3	9	41	42
Japan	0	0	0	0	0	0	0	1	0	0	1	1
Kenya	0	0	0	0	0	0	0	0	0	0	0	0
Latvia	0	0	0	0	0	0	0	0	0	0	0	0
Luxembourg	0	0	0	0	0	0	0	0	0	0	0	0
Mexico	169	0	8	0	0	0	177	62	19	8	89	266
Montenegro	0	0	0	0	0	0	0	0	0	0	0	0
Netherlands	0	0	0	0	0	0	0	0	0	0	0	0
Poland	0	0	0	1	0	0	1	2	0	0	2	3
Portugal	8	0	1	0	1	1	11	78	4	11	93	104
United Kingdom	75	0	38	140	0	88	341	230	71	78	379	720
Romania	1	0	0	0	0	0	1	0	0	0	0	1
Singapore	0	0	0	0	0	0	0	0	0	0	0	0
South Africa	0	0	0	0	0	0	0	0	0	0	0	0
Vietnam	0	0	0	0	0	0	0	0	0	0	0	0
Overall total	832	4	302	961	781	245	3,125	3,831	654	226	4,711	7,836

Direct tax contribution in country-by-country Income Tax

Corporate Income Tax has traditionally been considered the tax that shows the main contribution of companies to public coffers. Although far from reality, it is true that the Corporate Income Tax continues to be the tax to which most effort is dedicated by the various tax authorities, in terms of study, analysis and proposals for improvement in order to avoid the shifting of profits into low-tax jurisdictions. In relative terms, **Corporate Income Tax represents 27% of the total own taxes affecting the Iberdrola group.**

In order to provide maximum transparency, **Iberdrola voluntarily discloses its “Country-by-Country” Report (CbCR)** taking into account the Corporate Income Tax accrued and paid by country, also including other parameters contained in such report, upon the terms established by the OECD. The Group thus ensures full transparency in the provision of tax information to third parties.

In 2021, the Iberdrola group **paid a total of €832 million** in Corporate Income Tax, with a particularly significant contribution in countries such as Germany, Brazil, Spain, Greece, Mexico and the United Kingdom.

The **Corporate Income Tax** paid represents approximately **16% of its profit before Income Tax¹⁵**.

In terms of **accrual**, according to the data included in the consolidated annual accounts of the Iberdrola group, the **Corporate Income Tax expense** amounted to **€1,914 million** in financial year 2021, which is more than **30%** of its profit before Income Tax.

¹⁵ Excluding the effect of non-recurring revenues in Spain.



Tax jurisdiction	Income - Third Parties	Income - Related party	Income - Total	Pre-tax profit	Corporate income tax - paid	Corporate income tax - accrued (total)	Corporate income tax - accrued (current)	Stated capital + Undistributed results	Number of professionals (FTEs)	Tangible assets
Germany	292	146	438	128	49	44	33	795	97	1,571
Algeria	0	0	0	0	0	0	0	0	0	0
Australia	155	0	155	15	0	5	-4	380	120	1,048
Brazil	7,399	0	7,399	860	118	226	97	1,982	15,076	7,952
Bulgaria	0	0	0	-1	0	0	0	13	0	0
Canada	10	0	10	5	1	2	2	-215	0	0
Qatar	0	0	0	-2	0	0	0	0	16	0
Cyprus	5	0	5	3	0	0	0	4	1	19
Costa Rica	0	0	0	0	0	-2	-2	-2	0	0
Egypt	0	0	0	0	0	0	0	0	0	0
Spain	15,389	1,241	16,630	3,372	404	870	754	13,558	9,680	24,576
United States	5,964	3	5,967	611	2	178	10	11,547	7,349	26,167
France	178	54	232	-54	0	-25	0	535	147	1,025
Greece	63	0	63	33	5	7	7	152	100	207
Honduras	0	0	0	0	0	0	0	0	0	0
Hungary	32	0	32	16	1	1	1	155	10	137
Ireland	31	9	41	-13	0	0	0	7	12	33
Italy	320	94	414	-61	-1	0	0	180	124	27
Japan	2	0	2	-5	0	0	0	21	17	0
Kenya	0	0	0	0	0	0	0	0	0	0
Latvia	3	0	3	1	0	0	0	0	1	0
Luxembourg	0	0	0	10	0	3	0	94	0	0
Malta	0	0	0	0	0	0	0	0	0	0
Morocco	0	0	0	0	0	0	0	0	0	0
Mexico	3,582	-31	3,551	507	169	146	121	2,664	1,296	5,508
Montenegro	0	0	0	0	0	0	0	0	0	0
Norway	0	0	0	0	0	0	0	0	0	0
Netherlands	84	304	388	135	0	-6	0	46	0	0
Poland	16	0	16	7	0	0	1	38	4	126
Portugal	771	3	774	6	8	1	4	205	151	1,267
United Kingdom	6,296	56	6,352	720	75	468	76	8,222	5,577	16,938
Romania	19	0	19	16	1	-3	-1	85	5	60
Singapore	0	0	0	0	0	0	0	0	1	0
South Africa	0	0	0	-8	0	0	0	-10	0	0
Taiwan	0	0	0	-1	0	0	0	-1	0	0
Vietnam	0	0	0	0	0	0	0	24	4	25
Total	40,609	1,880	42,489	6,301	832	1,914	1,099	40,479	39,788	86,688

In the core jurisdictions (Spain, United Kingdom, United States of America, Mexico and Brazil), the Iberdrola group presents a high level of “linearity” in the ratio of the various parameters represented in 2021.

Analysis of effective rates

- **Spain:** No significant deviations occurred in 2021 between nominal rate and effective rate.
- **United Kingdom:** the spread between the nominal and effective rate is mainly due to the impact of the change in the tax rate applicable to deferred tax balances following the change in the tax rate to 25% from April 2023.
- **United States:** the effective rate is very similar to the nominal rate (federal plus state). The deviation is due (i) on the one hand, to tax credits associated with the renewables business (“PTCs”) as well as investment credits (“ITCs”); and (ii) on the other hand, to the restatement of deferred tax balances to the prior year-end state tax rate (“DT true-up”) as well as the restatement of the valuation according to the potential future application of tax credits (“valuation allowance”).
- **Brazil:** the effective rate is below the nominal rate mainly due to the (optional) application of the presumptive profit regime in the taxation of some of the companies, the payment of interest on equity and the existence of the SUDENE tax incentive.
- **Mexico:** changes in exchange rates, considering that dollarised accounts are presented, and the existence of certain accounting and tax differences (provisions, deferred income, inflationary effect, valuation of derivatives and recognition differences in fixed assets and the depreciation rates thereof) justify the difference between the nominal and effective rate.
- **Other countries:** the differential compared to nominal rates is due to accounting standards for capitalisation of tax loss carryforwards and the subsequent application thereof, considering that the tax consolidation regime does not apply in all cases.

