

Report on **tax** **transparency** of the Iberdrola Group

Financial Year 2022
Our commitment to society



Letter from the Chairman

I am pleased to present this new edition of the Tax Transparency Report, a document that Iberdrola has been voluntarily publishing for years now as an expression of our commitment to the best fiscal and tax practices.

For the Group, responsible fiscal behaviour, a cornerstone of the *Corporate Tax Policy*, is an essential component of our *Governance and Sustainability System*, in order to bring value to our shareholders, employees and society as a whole. Based on this approach, Iberdrola has cemented its position as the IBEX-35 company that publishes its tax information in the most detailed and accessible manner. This is corroborated by the most reputable certifiers and analysts of fiscal transparency and accountability.

The invasion of Ukraine and its impact on gas markets in 2022 highlighted the need to accelerate Europe's march towards energy independence, a goal that is achievable and fully compatible with the transition to a more decarbonised and competitive energy system through electrification with renewables, grids and storage.

Joint action by businesses, regulators and policy makers will be required to exploit this opportunity. These joint efforts are not uncommon in the tax area. There is a need for a coherent and coordinated tax system that recognises the different economic and social impact of fossil fuel-based energy activities from those of renewable energy. This is the only way to achieve the energy and environmental goals set by institutions like the United Nations and the European Union.



This Tax Transparency Report provides a detailed description of Iberdrola's contributions to improving the tax system in all of the countries in which we do business, in full cooperation with the tax authorities, as well as the tax contribution of the Group in quantitative terms. This contribution amounted to €7,458 million in 2022, representing 39% of the Group's profit before taxes, duties and other similar contributions¹, and is equivalent to 1.7 times the net profit obtained by the company globally.

If we add to this direct contribution the induced taxes from third parties based on our activities, the total amount for the year 2022 exceeds €15,300 million, an increase of €1,300 million compared to the previous year.

As a result, the €600 million paid each month by Iberdrola in taxes and duties during the 2022 financial year brings the Group's total direct contribution over the last 5 years to €39,000 million.

In sum, transparency, cooperation with the authorities, and a firm commitment to proactively and equitably contribute to the support of social services are the principles that guide Iberdrola's fiscal and tax activities, and which are reflected in each of the pages of this report.

Ignacio S. Galán

Chairman of Iberdrola

¹ Taxes divided by Profit before Income Tax, other taxes and company Social Security contributions



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1. Commitment to Sustainable Development Goals and ESG targets



Committed to the Sustainable Development Goals as an integral part of the Iberdrola Group's business strategy

Leaders in ESG + F

We integrate environmental, social and governance factors for socially responsible management

Committed to the Sustainable Development Goals, a driver of social transformation



Iberdrola's **includes the Sustainable Development Goals** ("SDGs") approved by the United Nations in September 2015 **within its business strategy and corporate governance**.

The Iberdrola Group's contribution to the SDGs can be viewed from three major perspectives:

We are driving the green economy and employment through SDGs 7, 9, 13 and 15



Iberdrola advocates driving the transition towards a new socio-economic model that is climate neutral, which is why the Group is putting the spotlight principally on SDG 7 (Affordable and clean energy) and SDG 13 (Climate action).



This effort has led it to become the top producer of wind power in the world and a leader in renewable energy at the global level, thanks to its investments of more than €130,000 million over the last 20 years.



For this purpose, it has proposed to accelerate its investments in renewable energy, digitalisation and electric mobility, contributing directly to SDG 9 (Industry, innovation and infrastructure).



Similarly, as part of its commitment to sustainable infrastructure, all the Group's new facilities projects have a comprehensive environmental plan in place, thereby contributing directly to compliance with SDG 15 (Life on land).

We deliver progress and well-being through our contribution to sustainable development.



We are protecting people's health and safety through SDGs 3, 6 and 17



In line with SDG 3 (Good health and well-being), Iberdrola reaffirms its commitment to improving the quality of life in the communities in which it conducts business, contributing to improving environmental conditions and through agreements with organisations engaged in research and the fight against diseases worldwide.



The company also works to optimise water management and seeks to use water according to best practices, striving to make rational and sustainable use of water resources to address the risks related to water scarcity, and to prevent water pollution, as fundamental factors in guaranteeing people's health.



In this area, Iberdrola exhaustively monitors the specific use and consumption of water, seeking to optimise production processes, among other measures, by using recycled water, reusing water in its cycles and conducting awareness-raising campaigns aimed at employees to achieve a more rational and responsible use of water in offices.

In this way, it is contributing directly towards SDG 6 (Clean water and sanitation) and is one of the utility companies with the best water productivity.

The Group allocates significant amounts to support the most disadvantaged groups. The social programmes and initiatives implemented through the Iberdrola Group's foundations contribute to the energy, cultural and social development of the communities in which it does business, following the partnership model proposed by SDG 17 (Partnerships for the goals), to which Iberdrola also contributes directly.

Legal Services as allies of the SDGs



Within Iberdrola's Legal Services area, we also strive to achieve sustainable development. Our targets include actions aimed at building a more inclusive, sustainable and resilient future for people and our planet.



To achieve this goal, we work each day mindful of the added value we can contribute to society at large, integrating SDG actions into our behavioural model and our way of doing things.



The tax contribution of the Iberdrola Group contributes to attaining SDG 1 (No poverty) and SDG 8 (Decent work and economic growth), to the extent that the taxes paid by Iberdrola in the countries and territories in which it does business provide resources to the public administrations so that they can contribute to achieving these Goals.



Meanwhile, through Iberdrola's legal and tax pro-bono activities, it contributes to achieving the targets associated with SDG 16 (Peace, justice and strong institutions) and SDG 17 (Partnerships for the goals), promoting the rule of law, guaranteeing equal access to justice for all, and contributing to international cooperation by forming partnerships.



We promote compliance with the SDGs



Iberdrola contributes to all the other SDGs. Its international Corporate Volunteering programme is in line with the 17 goals, although it mainly focuses on SDG 3 (Good health and well-being), SDG 4 (Quality education), SDG 7 (Affordable and clean energy), SDG 10 (Reduced inequalities) and SDG 13 (Climate action).



In addition to financial and business targets, Iberdrola also seeks to involve its professionals through incentives aimed at contributing to the SDGs.



Thanks to this commitment, Iberdrola has been selected as a leading organisation in the first edition of the OpenODS Index, which evaluates performance and transparency in the achievement of the Sustainable Development Goals.



The company tops the ranking of enterprises in this index, after achieving the highest score in all three phases —alignment, localisation and implementation, and monitoring— relating to implementation of the 2030 Agenda in the OpenODS System.

Leaders in ESG + F

Iberdrola carries out its activities with the goal of creating sustainable value for all of its Stakeholders: this is what we call our social dividend. We therefore incorporate into our strategy the three pillars used internationally to measure the impact and sustainability of investments: environmental, social, and governance (ESG) factors, as a substantial contribution to sustainable development.

For the last two decades, ESG factors have been an integral part of the Iberdrola strategy, to the extent that it has now become an established **leader in ESG + F, supporting environmental, social and governance aspects with its financial strength (F).**

The company has also redesigned its *Governance and Sustainability System* around ESG criteria, cementing its position at the forefront of best international corporate governance practices. The Group also encourages sustainability in the supply chain, incentivising its suppliers to adopt the best policies and practices in matters of sustainable management.

Taxation has an important role to play in ESG, particularly with regard to tax governance.

In 2022, Iberdrola launched **“ESG Information”, a new digital space** encompassing all significant information on its ESG performance and the main financial metrics, including a specific section on tax responsibility.

With this microsite, the company was recognised as the best European company in terms of ESG information disclosure, according to the global ranking of the League of American Communications Professionals (LACP). This space complements the other documents published in traditional format: Statement of Non-Financial Information – Sustainability Report, published since 2004, Integrated Report, since 2014, and Tax Transparency Report, since 2019 (relating to 2018).



Iberdrola has a comprehensive, relevant and ambitious set of ESG+F targets, of which the more noteworthy goals include:

E

Environment. Protecting the planet.

Our decarbonisation strategy is fully aligned with the goals of the Paris Agreement. Iberdrola's Climate Action Plan establishes the ambitious objectives of achieving carbon neutrality for scopes 1 and 2 by 2030 and net-zero emissions before 2040 for all scopes, including scope 3 (expressed in CO₂eq).

In terms of R&D, the promotion of innovative and sustainable technologies is the key strategy to achieve transformation in the electricity sector. We are also committed to promoting new uses of electricity, such as the production of green hydrogen, essential for reducing emissions from industrial processes and in industries where decarbonisation is challenging.

Furthermore, our biodiversity strategy includes initiatives aimed at promoting the conservation, restoration and planting of trees, as well as a 100% sustainable light vehicle fleet.

S

Social. Supporting communities.

As part of our social commitment and as an investment in society, our goals include driving employment and economic activity by creating 12,000 new jobs by 2025 and supporting our suppliers to generate 500,000 jobs by 2030 through the procurement of products and services.

With regard to diversity and inclusion, we are firmly committed to equal opportunities, pledging to increase the presence of women in significant leadership positions.

With regard to the development of the communities in which the Group does business, we expect that through our Foundations we will have a positive impact on 10 million people per year, with the aim of reaching 16 million beneficiaries by 2030 through the "Electricity for All" programme.

G

Governance. Goal-oriented governance.

In governance-related matters, we will pursue our commitment to proactively applying best practices, promoting gender diversity and appointing independent members to Iberdrola's Board of Directors.

+

We will also continue our efforts to ensure a decentralised management model, through the strengthened autonomy of the country subholding companies.

F

Finance. Green finance strategy.

We are committed to bringing our investments in line with the European taxonomy, by promoting financing through sustainable instruments.



2. Significant aspects from financial year 2022 with an impact on global tax contribution

2. Significant aspects from financial year 2022 with an impact on global tax contribution



High energy prices have prompted the need for national and supranational measures

Ready to lead the energy transition, with more than 20 years of experience in renewable energies

Strategic Plan 2023-2025 with record investments of €47,000 million

Sustained investment: More grids, more renewables, more storage and more smart solutions

European Commission: Extraordinary measures for extraordinary times

The exceptional increase in gas and CO₂ prices in 2021 and 2022, together with the war between Russia and Ukraine during the last year, has further exacerbated the major problem of reliance on fossil fuel imports, making it crucial to drive the necessary structural changes for a secure and self-sufficient energy system.

In March 2022, in response to the challenges and disruptions in the global energy market caused by the Russian invasion of Ukraine, the European Commission presented the REPowerEU Plan: Affordable, Secure and Sustainable Energy for Europe.

This Plan has three primary objectives intended to avoid dependence on Russian gas by 2030: (i) save energy, (ii) produce clean energy, and (iii) diversify our energy supplies. It also introduces retail energy price controls and offers countries the possibility of temporarily taxing windfall profits.

Council Regulation (EU) 2022/1854 of 6 October 2022 subsequently established emergency intervention measures to address high energy prices.

The Regulation essentially introduces four measures:

- A cap on electricity prices of €180/MWh for infra-marginal technologies (wind, solar, hydro and nuclear).
- A coordinated reduction in electricity demand.
- A compulsory community service (solidarity) contribution for the crude oil, natural gas, coal and refinery sectors, on 33 per cent of extraordinary profits as measured in the terms indicated in the Regulation. However, Member States may introduce equivalent national measures that contribute to the affordability of energy.
- Measures to support consumers.

Based on the Regulation, different EU Member States have adopted a range of measures in their electricity sectors. Spain, however, has introduced different measures such as (i) an electricity price cap of €67/MWh, much lower than the €180/MWh established in the EU Regulation, (ii) a mechanism for



adjusting the production costs of gas plants known as the “Iberian exception” (or the “Gas Cap”), and (iii) a temporary energy tax that also affects the electricity sector and is not levied on “extraordinary profits”, but rather on net turnover. This tax puts the electricity sector at a significant disadvantage in comparison with other sectors in Spain and with how other countries are addressing this issue.

NOW MORE THAN EVER

We are ready to promote a secure, clean and competitive energy system that will increase our energy autonomy and curb greenhouse gas emissions

We continue to lead the energy transition

With a 20-year head start on the current energy transition, **Iberdrola is present around the world, helping to consolidate a greener, more digital and sustainable global economy.**

The Group is strengthening its **business model, based on more renewables, more networks, more storage and more smart** solutions for customers, and we are **leaders in the fight against climate change.**

The war in Ukraine has generated a broad consensus that the dynamics of the gas market are at the root of the problem: measures have therefore been put in place at European level to try to reduce this dependence on gas and more generally on fossil fuels, which in 2022 still account for 75% of energy demand.

With packages like Repower EU, EU energy policy has been signalling that electrification is the solution: investment in more renewables, together with the necessary grid and storage infrastructure, will allow us to secure our energy supply cleanly and competitively. To achieve this, clear rules and fast-tracking of the necessary permits for the large-scale deployment of these energy sources are called for.

Record investment for a secure and sustainable energy future

The **Iberdrola Strategic Plan 2023-2025 contemplates record investments of €47,000 million in just three years to implement the different facets of the energy transition.**

At Iberdrola, we are very aware of the need for our strategy and operations to always be aligned with ESG+F factors for socially responsible management. In this way, we know that the €47,000 million of the Strategic Plan will also contribute to our aim of making a positive impact on the well-being of people and the preservation of the planet.



Grid-based growth and selective investment in renewables

Moving towards the smart grid of the 21st century

Electricity grids are at the heart of the energy transition as they enable new renewable capacity to be connected, ensuring reliable and quality supply and giving consumers access to all the advantages of digitalisation. Therefore, to support the development of electrification, in addition to increasing the generation capacity of renewables, it is essential to have the necessary **smart grids so that our clean energy reaches consumers safely and efficiently in any country in the world.**

This is why our new Strategic Plan allocates €27,000 million to this activity, enabling us to reach a regulated asset base of €56,000 million by 2025, a growth of 44% in just three years.

And, in renewable energy, we are going to install more than 12,000 additional MW with investments of €17,000 million. 46% of this amount will go towards strengthening our leadership in offshore wind.

By the end of the decade, we expect electrification to accelerate further in all our markets, leading us to surpass €65,000 million in grid assets and 100,000 MW of capacity, more than 80% renewable, thanks to new investments of between €65,000 and €75,000 million between 2026 and 2030.

Iberdrola, leading the way through its sustainable energy model. Global energy leader, in renewables and smart grids

We invest in caring for the environment and for people

We are committed to the **energy transition with a sustainable business model** built on a diversified portfolio of businesses and geographies. Furthermore, **90% of the Group's long-term investment plan is aligned with the green investment criteria included in the EU taxonomy.**

We drive the energy transition every day by creating value for society through our clean, reliable and smart business model.

Leaders in sustainable innovation

Iberdrola is the world's top private energy company in terms of R&D investment according to the European Commission. Innovation is a key strategic variable for the Group that permeates all of its businesses and activities, ensuring the company's sustainability, efficiency and competitiveness.

Our vision in terms of R&D consists of promoting the development of innovative and sustainable technologies, aligned with the fundamental vectors of the transformation of the energy sector:



decarbonising generation, through the large-scale integration of renewable energies, promoting smart grids, and the electrification of demand. In addition, Iberdrola is among the companies that do most to support start-ups in Europe.

Iberdrola has received important awards and recognitions for its commitment to digital transformation. The most recent are:

- The IDC Futurescape Excellence Award 2021, within the Best project to implement disruptive technologies (Blockchain, Artificial Intelligence, Robotics, 3D Printing, IoT, 5G) category, to the 'GEM Digital Space' project for implementing Artificial Intelligence in Iberdrola's Global Energy Management Processes.
- Iberdrola's Network Data Analysis Unit was awarded the Big Data Talent 2020 prize from the ENIIT Business School for its loss reduction project.
- The prize for the Best Customer Journey 2020 from the Association for the Development of Customer Experience (DEC) for the methodologies and tools used by Iberdrola for customer voice capture. The Customer Voice Programme was also a finalist in the 12th National Marketing Awards 2020, in the Innovation category, for improving the customer experience.
- Avangrid, the Group's subsidiary in the United States, was chosen as a finalist in the IDC Futurescape 2020 - Innovative Company awards in the category of Best Project to Implement 3rd Platform Technologies, for the use of Kubernetes and Azure technology to efficiently roll out retailer applications.

Excellence in relations with the tax authorities

We remain at the disposal of the tax authorities in the countries in which the Group has a presence

One of our main principles of conduct in the area of taxation is strict compliance with tax regulations wherever the Group operates. However, Iberdrola **is not satisfied with simply "complying"**, but rather, we constantly strive for excellence, **by focusing our efforts on maintaining the strictest standards at the highest levels and internalising a common goal: to proactively apply best practices.**

Iberdrola has been aware for years that the good tax governance approach that guides our conduct is a key element in contributing to the progress of society, which is why **it has long since left behind tax planning to make way for a new model based on compliance.**

This is why we are convinced that collaborative relations with tax authorities mark one of the cornerstones of tax compliance.

As part of its excellence in relations with tax authorities, Iberdrola participates in cooperative compliance programmes both globally and at local level in the countries in which it has a presence.

An example of this is its voluntary participation in 2022 in **the International Compliance Assurance Programme (ICAP)**, a cooperative compliance programme promoted by the OECD, and **currently the most advanced element of the cooperative relationship between multinational corporations and tax authorities.**



Ethical principles as the basis for successful business management

Iberdrola's corporate governance is inspired by and based on a commitment to ethical principles, transparency, and leadership in the application of the best international practices, representing an organisational tool in the pursuit of Iberdrola's purpose and values, its social interest and the social dividend, and as a guarantee of its project, identity, and independence. That is why our culture embodies values such as ethics and compliance as the foundation of successful business management.

Undergoing a constant process of review and improvement, it incorporates the principal recommendations of the international markets and the most advanced trends in this area, it is one of the hallmarks of its identity, making Iberdrola an international leader in good practices.

Iberdrola has published the first *Compliance System Transparency Report* in 2022, being the first IBEX-35 company to undertake a study of this nature. This report is a further step in the company's commitment to the implementation and continuous improvement of a robust ethics and compliance system and reaffirms a business model that respects the rights of customers, employees, shareholders and all its Stakeholders in general.

Iberdrola thus ratifies its leading position in the Corporate Transparency Index on Integrity, Compliance and Human Rights of IBEX-35 Companies published by Transparency International in March 2022.

Iberdrola has also been selected for the ninth consecutive year as one of the most ethical companies in the world, according to the 2022 World's Most Ethical Companies ranking prepared by the Ethisphere Institute, a leader in the definition of standards of best business practices and continues to be the only Spanish company in this ranking.

Our ethical values, coupled with a strong compliance culture, allow us to stay at the forefront of best compliance practices.



3. Overall information on the Iberdrola Group in 2022



Record investments of €10,730 million euros, up 13%

Net profit of €4,339 million: international growth helped to offset a 19% decline in profit in Spain

Total tax contribution of €7,458 million in 2022, 39% of the Group's profit before taxes

Key figures

- **Assets of €154,668 million.**
- **Record investments** of more than **€10,730 million**, an increase of 13% over the prior year, of which €3,000 million are in Spain.
- **EBITDA of €13,228 million, driven by the United States and Brazil.**
- **Net profit of €4,339 million, up 11.7%, due to good operating performance and despite a 19% decline in profit in Spain as a result of regulatory and tax measures and higher costs that the company has not passed on to customers.**
- **Record purchases in the amount of €17,800 million from more than 20,000 suppliers, giving visibility and certainty to a supply chain that supports 400,000 jobs worldwide.**
- **Supporting the market with 4,700 new jobs created worldwide by 2022, encompassing 90 nationalities.**
- **Consolidation of leadership in renewables.** Worldwide increase of 5.1% in renewable capacity in 2022, with approximately 40,000 MW of “green” capacity. **One of the utilities with the cleanest installed capacity in the world, running 80% emission-free.**
- **Reduction of CO2 emissions** to just 59 g/kWheq in Europe, 70% less than the industry average, and 88 g/kWheq globally.
- **The world's top private energy company in terms of R&D investment**, according to the main rankings, with an investment of more than €2,000 million in the last decade.
- **Leader in green finance**, with **€48,600 million²** in green/sustainable instruments, strengthening our **commitment to ESG standards as the world's largest private issuer of green bonds.**
- Selected once again as **one of the most sustainable utilities worldwide**, according to the **Global 100 Most Sustainable Corporations in the World index**, prepared annually by the publication Corporate Knights, a media and investment research company trusted for its track record in providing ESG information and analysis. Ranking in the Global 100 is a badge of honour for excellence in sustainability and demonstrates that Iberdrola is increasing investor confidence.
- **An equal opportunity leader, having been included in the Bloomberg Gender Equality Index (GEI) for the sixth consecutive year.** In line with Sustainable Development Goal 5 of the UN 2030 Agenda, in the area of gender equality, Iberdrola has strengthened equal pay for men and women

² Includes all signed financing, regardless of percentage consolidation and disbursement date, and subsequent events



and supports gender diversity not only within its Board of Directors, but also in its management positions, thus demonstrating its commitment to equality in the company's strategic plan.

Tax contribution, tax governance and best practices

- The **Iberdrola Group's tax contribution in figures:**
 - **Monthly** contribution of **more than €600 million, more than €20 million in taxes paid every day.**
 - **Approximately €39,000 million paid in the past five years.**
 - **Total annual** contribution of **€7,458 million, or 39% of its profits³, of which 44% is an effective cost to the Group.**
 - **The Group's tax contribution is 1.7 times its profit at the global level.** This means that for every €100 of profit the Group generates, €170 is paid to the various tax authorities.
 - **More than €1,000 million paid as Corporate Income Tax in 2022.**
 - In the case of **Spain**, tax payments represent more than **49% of the tax contribution ratio⁴, as the country with the highest tax burden in the Group.**
 - The **direct tax contribution**, together with **indirect** and **indicative** taxes, amounts to more than **€15,300 million**, an increase of **€1,300 million compared** to the previous year, which represents an **increase of approximately 10%⁵.**
- **Selected as the most transparent company in the Ibex 35 by Transparency International.**
- **One of the top IBEX-35 companies in terms of tax transparency**, according to the *Fundación Haz* ranking, having **obtained the first seal of Fiscal Responsibility** ('t for transparent') which recognises the Group's transparency and best practices in tax matters.
- **Fostering a culture of cooperative relations with tax authorities** through voluntary initiatives and programmes:
 - **Recognition by the Spanish Tax Administration**, once again this year, 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 State Tax Administration Agency.
 - **Voluntary participation in 2022 in the International Compliance Assurance Programme (ICAP)** promoted by the OECD, a multilateral and cooperative procedure for tax risk assessment and compliance.
- **First Spanish company to obtain certification of its Tax Compliance System from AENOR and, likewise, the first company to renew the certification in 2022 for a new three-year period.** Satisfactory tax compliance management system audit obtained for the fourth year running.

³ Profit before Income Tax, other taxes and company Social Security contributions

⁴ Taxes on profits before Corporate Income Tax, other taxes and Social Security contributions payable by the company

⁵ According to PWC report based on Iberdrola's 2021 activities



- **Recognition given to the professionals of the Legal Services for their performance in legal and tax matters.**
 - The General Secretary and of the Board has been recognised as the world's most influential lawyer in the renewable energy sector according to the Legal Power List compiled by the A Word About Wind association.
 - In turn, the 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.
- **Best in-house legal counsel** in Spain and Portugal in the Energy and Renewables sector at the Iberian Lawyers' Gold Awards by Inhousecommunity.
- **Legal Services awarded for the most innovative project developed in Spain.** Iberdrola's project for the digital transformation and cultural change of its Legal Services wins the *Premio Expansión Jurídico* award.
- Recognised **among the most innovative legal advisory services in Europe** at the Financial Times Innovative Lawyers Awards.
- **First company to join the *Fundación Pro Bono España*** as part of the ethical and professional responsibility required of Iberdrola's legal and tax professionals, marking a milestone in pro-bono practice in Spain.



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



Commitment to ethical principles, transparency and leadership in the application of best practices

Iberdrola's **Corporate Tax Policy** forms part of the Group's **Governance and Sustainability System**, a comprehensive set of regulations at the forefront of ESG, 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 a business catalyst, driving force and lever for social change.

Iberdrola's **Governance and Sustainability System is inspired by and based upon a commitment to ethical principles, transparency and leadership in the application of the best international practices in good governance**, and revolves around three major vectors: environmental, social and corporate governance (ESG).

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.

Iberdrola's "*raison d'être*", which also inspires the *Corporate Tax Policy*, is that, in order to achieve the Group's purpose, its entire strategy and actions must be inspired by and based on the following three "*values*":

- a) "**Sustainable energy**": because Iberdrola seeks to always be a model of inspiration, creating economic, social and environmental value in all of our surroundings, and with the future in mind.
- b) "**Integrating force**": because we have great strength and a deep sense of responsibility. This is why we work together, combining talents, for a purpose that is to be achieved by all and for all.
- c) "**Driving force**": because we make small and large changes a reality while being efficient and self-demanding, always seeking continuous improvement.

Leadership in corporate governance and transparency is one of Iberdrola's hallmarks, and these issues are also reflected in the *Corporate Tax Policy*.

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 20 December 2022. 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 companies⁶ in each of the countries, as well as by each of the head of business companies thereof.

Scope

The Corporate Tax Policy applies to all companies that make up the Group, as well those in which it has an interest that are not part of the Group and which Iberdrola effectively controls, within the legally established limits.

Without prejudice to the provisions of the preceding paragraph, listed country subholding companies and their subsidiaries, based on their own special framework of strengthened autonomy, may establish an equivalent policy, which must be in accord with the principles set forth in Iberdrola's *Corporate Tax Policy* and in the other environmental, social and corporate governance and regulatory compliance policies of the *Governance and Sustainability System*.

Consequently, the tax policies applicable to the country subholding companies are aligned with Iberdrola's Corporate Tax Policy.

Principles

The Iberdrola Group's excellence in the tax area, along with the 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.

3. Excellence in relations with the tax authorities: the strengthening of cooperative 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. Due diligence: the duty to regularly report to Iberdrola's management bodies on the main tax implications of the transactions or matters submitted for their approval.

5. Social dividend: the notion that the taxes paid by the companies of the Group in the countries and territories in which they do business are their main contribution to sustaining public expenditures and, accordingly, one of their contributions to society.

6. 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.

⁶ 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*



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 Iberdrola 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 unrelated to its own activities for the sole purpose of reducing the tax burden or preventing the competent tax authorities from identifying the person ultimately responsible for the activities or the ultimate owner of the assets or rights involved, and which have no connection whatsoever with 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 blacklist 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 being acquired. However, a specific procedure approved by Iberdrola's Board of Directors is established for this situation.

This procedure is also applicable in the case of creation or acquisition of entities residing in countries or territories not considered to be tax havens under Spanish law but included in the EU's grey list of non-cooperative jurisdictions with which Spain has not signed a treaty for the avoidance of double taxation.

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.



- Engage in transactions with related entities in an artificial way that could shift profits from one jurisdiction to another solely to drive tax bases down and minimise tax payments.

Excellence and a commitment to good tax practices are the foundations for the Iberdrola Group's tax strategy.

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, through its Chairman, the Chief Executive Officer and the members of the management team, 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. The chairman of the Board of Directors, the 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 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 special framework of 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 others⁷:

- 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*.
- Based on the information received from the 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.

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.

⁷ More information in the Tax governance, cooperative relations and best practices section



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.

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.

Monitoring and control takes place on three levels:

- The head of business companies 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 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 Iberdrola 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 must report on the tax consequences of transactions or matters to 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, 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 *Corporate Tax Policy* was updated again in 2022, its latest amendment, approved by the Board of Directors, taking place on 20 December 2022.

The main amendments implemented are related to bringing the Policy into line with the Group's governance structure, as well as inclusion of Iberdrola's explicit commitment to its Stakeholders in the area of tax transparency.

In this regard, in the amendment passed by the Board of Directors on 10 May 2022, a final paragraph is included in section "7. Transparency", which states:

"In addition, in compliance with the Company's commitment to transparency in relations and in communication with its Stakeholders, it shall disclose the most relevant information on the performance of the Group's companies in tax matters and its tax contribution to the maintenance of public expenditures in the main countries and territories in which it operates, endeavouring to ensure that the information is clear, useful and truthful."

In addition, on 8 November 2022, the Board of Directors passed a new amendment to adapt the Policy to the Group's governance structure.





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 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*, 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 within strict legal and compliance requirements, 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 Iberdrola 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.



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.

Iberdrola, 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 SDGs**.

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 Corporate 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. Corporate Income Tax is not the only tax that Iberdrola pays, although it is one of the most significant, and this year it represents 33% of its taxes charged to the income statement.

However, in quantifying the taxes that a company pays, there continues to be a partial trend among some commentators to focus solely on the Corporate 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 Corporate 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 Corporate Income Tax for the Companies of the Iberdrola Group are by no means low, amounting to more than €1,000 million in 2022.

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, and give 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 the Iberdrola Group worldwide will amount to more than €500 million in 2022, which represents 16% of the taxes charged to the income statement, including most notably the Windfall Taxes in countries like Greece and Romania. This is without taking into account the new water charge (*Canon hidroeléctrico*) approved in Spain in April 2022, which will increase taxation on energy generated through water, a renewable energy that should be incentivised.

All of this is paradigmatic for a company that carries out its activities based on respect for and protection of the environment, 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.

To top it all, in December 2022 the Spanish government approved a new temporary energy tax on the turnover of energy companies, including electricity companies, and not just on “windfall profits”, which is particularly striking in a year in which company profits in Spain fell by 19%. However, Iberdrola contends that this tax contravenes the Spanish Constitution and is incompatible with EU law. Therefore, assisted by its internal and external advisors, it has brought the necessary legal actions to legitimately defend its shareholders’ interests, seeking the repeal of that tax and recovery of the amounts paid to the tax authorities.

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.

Also of note is the tax contribution in terms of local taxes, which in 2022 amounted to more than €1,100 million globally, with particularly significant contributions in Spain and the United States.

- 3. The Group pays its taxes in the territories in which it operates, subject to strict compliance with tax rules and in close connection with its activities.** On no account does Iberdrola artificially transfer profits from one jurisdiction to another solely to drive tax bases down and minimise tax payments. Furthermore, the Group lawfully applies the mechanisms to avoid double taxation of profits and income. Therefore, considering that these mechanisms are at the core of global tax systems, it seems that judging their fair application in international groups alters the relevance of their tax contribution and undervalues the business and wealth generated in these territories.



- 4. 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.

- 5. 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 €176 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 Group's efforts in other economic areas that contribute to the general interest as well as its social commitment.

- 6. 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 2022, they amounted to over €4,200 million.

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 more than €23,500 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 €37,000 million, up 11.9% on the previous year, of which €12,700 million are in Spain, while its global workforce is close to 40,000 people, with the Company generating close to 395,000 direct, indirect and induced jobs worldwide⁸.

⁸ According to PWC report based on Iberdrola's 2021 activities



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 €2,000 million in the past decade.

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.

Values like ethics, compliance culture, excellence and transparency are part of the Group's commitment to responsible tax practices.



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 and EU 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 2022 **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.

The Iberdrola Group is governed by strict compliance with tax laws and regulations in each of the countries and territories in which it operates.

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.

Finally, in December 2022, the EU Member States agreed to implement *Pillar 2* minimum taxation and passed Directive 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union.

The publication of the model rules and approval of the proposed Directive regarding *Pillar 2* is a significant milestone that aims to change 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 legal certainty and security necessary 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. Mechanisms should also be put in place prior to the implementation of the rules to facilitate their practical application and their coordinated adaptation by countries. Finally, this should also not lead to a substantial increase in formal and compliance obligations.

Cross-border mechanisms subject to reporting

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 complies with the reporting obligations established by the regulations in this regard.

Shell companies

In December 2021, the European Union presented a proposed Directive to prevent the misuse of shell companies for tax purposes. The proposal requires disclosure of certain information on the economic and material substance of entities for the purpose of considering the application of specific tax benefits.



In principle, it does not seem to affect a group such as Iberdrola, which operates in the industrial sector, has no presence in tax havens, and does not use hybrid mechanisms or companies with little substance. However, although the Directive was not ultimately adopted in 2022, Iberdrola is committed to complying in due time and form with any applicable reporting obligations.

Public Country-by-Country Report

In November 2021 the European Parliament formally adopted the Directive on the public Country-by-Country Report. The Directive requires large multinational groups with a presence in the EU to disclose certain corporate tax information, in line with BEPS Action 13 on Country-by-Country Reporting.

The Directive was ultimately transposed into Spanish law through Final Provision Six of Law 28/2022 of 21 December on the encouragement of the start-up ecosystem, which amends Law 22/2015 of 20 July on the Auditing of Accounts.

In advance of the mandatory publication of the Country-by-Country Report, and in the application of best practices, Iberdrola has been publishing this information over the past four years in the Statement of Non-Financial Information.

The approval of the Directive confirms the growing need for large companies to publish more information on their taxation, and Iberdrola, firmly committed to transparency with its Stakeholders, will comply appropriately and responsibly with its reporting obligations in this area.

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.

Work continued in 2022 on measures aimed at transforming the economy in this area. Thus, in June 2022 the European Council endorsed the general guidelines on the legislative proposals of the Fit for 55 package, an important step towards achieving the EU's climate targets in the main sectors of the economy.

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.

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. In addition, the Chairman of the Board of Directors and the CEO and the management team assume the duty of strategic supervision, organisation and coordination through the dissemination, implementation and monitoring of the overall 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.

Government cooperation

Finally, and as a significant element of the cooperative relationship that the Group fosters, **in 2022 Iberdrola voluntarily participated in the International Compliance Assurance Programme (ICAP)**, an OECD initiative that seeks to improve cooperation between tax administrations at global level to supervise transfer pricing-related tax risks in multinational groups⁹.

⁹ See expanded information in the section “11. Tax governance, cooperative relations and best practices”





8. Tax havens and non-cooperative jurisdictions



The Iberdrola Group has no presence in countries or territories classified as tax havens.

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 blacklist as non-cooperative.

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 **blacklist** 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 **blacklist** 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 blacklist 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 blacklist, 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 **blacklist** 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 Iberdrola. 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.

There were no transactions involving the acquisition of companies based in tax havens in 2022, for which reason no structures are currently maintained in tax havens or territories included in the EU's blacklist of non-cooperative jurisdictions.

Finally, although it is not considered a tax haven or a non-cooperative jurisdiction, the Iberdrola Group pays special attention to the state of Delaware (United States of America) due to the interest it arouses. 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 short, **the Iberdrola Group has no presence in countries or territories classified as tax havens, and the incorporation of any group company is in any case based on objective business criteria.**



9. 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 2022 varied depending on the tax laws of each country.

Administrative proceedings

1. Spain

In June 2020 the tax inspectorate of the Spanish Tax Administration Agency 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 consolidation group of the common tax system (no. 2/86). The audit was subsequently expanded to cover financial years 2018 to 2020, also partially, so as to fully regularise certain assessments signed on a contested basis in relation to previous financial years.

A number of assessments were signed on a contested and non-contested basis in 2021 relating to transfer pricing matters for the period 2012 to 2014 and other assessments were signed on a contested basis relating to other Corporate Income Tax matters (the same as those discussed in the general audit procedure for the years 2008-2011).

In 2022, the audit procedures initiated in June 2020 have run their course and the remaining settlement proposals and assessments resulting from these procedures have been carried out, some of them non-contested, others in conformity and the contested.

The Corporate Income Tax assessments signed on a contested basis in 2022 for the years 2015 to 2020 have essentially the same disputed adjustments as those signed in 2021, i.e. those that were disputed in the general audit procedure for the 2008-2011 period.

With regard to Value Added Tax, the assessments signed on a contested basis for 2015 to 2017 include disputed adjustments arising from the inclusion in the denominator of the pro rata of capital gains arising in portfolio transfers or corporate restructuring transactions, and the tax authorities' failure to recognise the refund of VAT on unpaid debts, mainly by individuals, more than one year old and with a taxable base of less than €300, requested by the companies Curenergía Comercializador de Último Recurso, S.A.U. and Iberdrola Clientes, S.A.U. relating to those years. This request is based on the view that the Spanish rules on the handling of VAT on unpaid invoices are contrary to EU law.

On 17 December 2021 and 29 July 2022, administrative claims were filed with the Central Tax Appeal Board (*Tribunal Económico Administrativo Central*) against the settlement agreements resulting from the assessments signed on a contested basis referred to in the previous paragraphs.



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 Group has several ongoing audits with regard to other tax items.
- In the United Kingdom, Scottish Power has been assigned the status of low-risk taxpayer by the tax authorities (HMRC). 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. The Tax Tribunal delivered its judgement in February 2022, and as the judgement was disputed, an appeal was lodged to the Upper Tribunal in May 2022.
- In Mexico, Income Tax audits were commenced in 2020 and 2021 by the Mexican tax authority (SAT) for Iberdrola Ingeniería y Construcción SA de CV (2017), Iberdrola Energía Monterrey SA de CV (2017), Iberdrola México SA de CV (2018) and Iberdrola Energía Escobedo SA de CV (2018). The inspection also covered Sales Tax (2018) for the last company.

As far as the first two proceedings are concerned, the corresponding comment letters were received in the closing months of 2022. At the date of preparation of these financial statements, both companies have applied to the Taxpayer's Ombudsman's Office (Prodecon) to initiate proceedings for a final settlement, which are pending the SAT's reply.

In the other two actions, the aforementioned final settlement procedure has been exhausted, and it is still awaiting the SAT's notification of the settlement notices, which will be challenged by appeal for reversal in the first instance.

It should also be noted that in November and December 2022 the SAT announced the commencement of Income Tax audits for 2020 for Iberdrola Energía Noroeste SA de CV, Iberdrola Energía Altamira SA de CV and Iberdrola Energía Tamazunchale SA de CV.

- Finally, Brazil is characterised as a jurisdiction with a high level of litigation and a multitude of ongoing tax audits, which is a result of the country's tax and administrative structure and the routine practices of the tax authorities. However, these proceedings are generally resolved at a very low amount in favour of the tax authorities.

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 assessments signed by Iberdrola on a contested basis in 2016, corresponding to the general verification procedure followed with respect to the common territory tax consolidation 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 certificates and settlements), while ruling unfavourably in the decisions on income tax.



On 7 July 2020 Iberdrola filed administrative appeals against the latter rulings with the National High Court. The corresponding submissions were presented in the proceedings throughout 2021, and the dates for the vote and judgment have not yet been set.

The main adjustments included in the settlement agreements arising from the assessments signed on a contested basis relate 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 claims filed arising from certain contested assessments signed in limited verification proceedings regarding Income Tax 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. The corresponding submissions were presented in the proceedings throughout 2021, and the date for the vote and judgment have not yet been set.

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 deductible for the purpose of calculating income tax (both in income tax and employee contribution tax) for the subsidiaries Neoenergia Pernambuco, Neoenergia Coelba, Neoenergia Cosern, Neoenergia Elektro, Itapebi and Termopernambuco. Throughout financial year 2022, several favourable decisions have been handed down in the second instance on this matter, involving several of the years disputed by the Brazilian tax authorities with regard to the companies Neoenergia Pernambuco and Neoenergia Cosern, with the final decision of the Supreme Court pending on the merits of the case;
- 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, S.A. 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, Termopernambuco, Neoenergia Pernambuco and Neoenergia 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 Neo Pernambuco y Neo Coelba entities; and
- the municipality's questioning of the street lighting service contribution (COSIP), arguing that the companies Neo Coelba y Neo Pernambuco had underpaid during the period from January 2018 to December 2019.



10. Tax governance, cooperative relations and best practices



The Iberdrola Group is at the forefront of good governance, tax transparency, and early implementation of best practices.

The preparation of this Report and its contents are fully consistent with the culture and values of all the professionals who make up the tax area of the Iberdrola Group

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.

The Iberdrola Group's commitment to transparency and its firm belief that it must involve Stakeholders through the dissemination of significant information relating to taxation has led us to reflect our explicit and unwavering commitment to transparency in the *Corporate Tax Policy*, considering it to be yet another element of the Group's tax strategy.

Our behavioural model is based on the principles set out in the *Purpose and Values of the Iberdrola Group* and in the *Code of Ethics*, and also includes principles such as creative leadership, engagement, conviction, adaptation, and flexibility, all of which allows us to be trusted business partner.

We are aware that the content of this Report is subject to analysis and scrutiny by our Stakeholders, and we therefore strive and commit ourselves to include more content each year and to introduce improvements that we believe may be useful.

Furthermore, in view of the usefulness and interest of this report, in 2022 Neoenergia published for the first time, on a voluntary basis, its own *Relatório de Transparência Fiscal. Nosso compromisso com a sociedade* (Tax Transparency Report. Our commitment to society) with significant tax information in Brazil for financial year 2021.

The transparency reports prepared by the Iberdrola Group are public and are available on the corporate website.

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

Social commitment

Our investment in society

We focus our energy on what really matters

Iberdrola is firmly convinced of the role it must play in society to improve opportunities for all groups; employees, shareholders, investors, customers and, in essence, **people as a whole**. 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 and inclusion, in areas such as sports, education, cooperation, and assistance to the most underprivileged groups.

The work of the Foundations, aligned with the UN Sustainable Development Goals, is crucial for delivering on our corporate commitment

Through its Foundations, the Iberdrola Group promotes social initiatives with the aim of contributing to the development of the local communities in which it has a presence. 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.

During financial year 2022, the Iberdrola Group's Foundations allocated approximately €13.5 million to programmes supporting the communities in which the company operates in the fields of training and research, social action, art and culture, biodiversity, and in the institutional area.

1

Global

- At global level, the Iberdrola Group's **International Corporate Volunteering Programme** stands out as an initiative 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. The people who make up Iberdrola's Legal Services also participate significantly in this programme.
- Iberdrola's International Corporate Volunteering Programme is in **line with the SDGs**, in particular SDG 3 (health and well-being), SDG 4 (quality education), SDG 7 (affordable and clean energy), SDG 10 (reduced inequalities) and SDG 13 (climate action).
- In 2022 the Iberdrola Group celebrated its 11th annual **International Volunteering Week**. Under the theme "Together we build the world we want", during the week of 1 to 9 October, we rallied more than 7,000 volunteers —40% more than the previous year— to carry out a series of community service initiatives related to environmental protection, the fight against climate change, the inclusion of vulnerable groups and social assistance.
- This year, more than **90 solidarity initiatives were organised in countries like Spain, the United Kingdom, Brazil, Mexico, Portugal and Japan**, based on Iberdrola's commitment to care for the environment and support vulnerable



groups, including reforestation, recycling, beach and seabed clean-ups and water conservation, among others, as well as donations of food, clothing, hygiene products and school kits for children at risk of exclusion.

- One of the lines of action of this initiative is the **Volunteers for Ukraine** programme, set up to channel the solidarity of the Group's professionals and to transfer their aid in the most efficient way to the people affected. Under this programme, Iberdrola has sent more than eight tonnes of humanitarian material to Ukraine, donated by its employees in Spain. The Group has also shipped a first batch of 20 generators to the country to ensure the operation of special services including hospitals, shelters and water treatment plants. Iberdrola is also raising funds, doubling the amounts donated by its employees, which will be delivered to the United Nations High Commissioner for Refugees (UNHCR) to provide shelter, immediate food and emergency care to the thousands of people who are leaving Ukraine and congregating at the borders.

2

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 support training and research by awarding scholarships, environmental preservation with projects to protect nature, cultural development, paying special attention to the protection, conservation and maintenance of artistic and cultural heritage, cooperation and community service (solidarity), through social and labour inclusion initiatives for the most vulnerable groups, all to support the **training a new generation of people capable of driving the transformation towards a sustainable energy model**.

3

United Kingdom

- **Scottish Power** makes regular contributions to community organisations and **participates in activities to help the communities in which it operates, engaging every day in activities that have a positive impact on society**.
- Through the **Scottish Power Foundation**, the Group has helped support dozens of inspiring projects that benefit thousands of people across the United Kingdom.
- Scottish Power employees make significant donations from their payroll to cooperative programmes, including the partnership with Cancer Research UK, for which more than £35 million has been raised since the programme began, as well as other charities chosen by the employees.



4

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 partners in programmes like the Connecticut Neighbourhood Assistance Act (NAA) Tax Credit Program, aimed at funding municipal organisations to invest in community development programmes.
- 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 to improve the lives of people in the communities they serve.

5

Brasil

- 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.
- Of special note is the *Programa SER (Saúde, Educação e Renda)* initiative, the purpose of which is to contribute to improving the quality of life and have a direct impact on the Municipal Human Development Index (*Índice de Desenvolvimento Humano Municipal*) (IDHM) of the Brazilian territories in which the Group has a presence, having benefited around 800 families in 14 communities located in the north-east of Brazil since the initiative was launched.
- *Programa SER* contributes directly to the SDGs, especially SDG 2 (zero hunger and sustainable agriculture), SDG 4 (quality education), SDG 6 (clean water and sanitation) and SDG 8 (decent work and economic growth).

6

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.
- Through its social action, Fundación Iberdrola México contributes to fulfilling the following SDGs: 1 (no poverty), 3 (good health and well-being), 5 (gender equality), 7 (affordable and clean energy), 10 (reduced inequalities) and 17 (partnerships for the goals).
- In Mexico, **Iberdrola allocated 0.51% of its profit** mainly **to support disadvantaged** sectors, while also contributing through its tax returns to training and research activities, biodiversity and climate change.



Sustainable value chain

We ensure a fair, transparent and ethical value chain

Our suppliers are a fundamental part of the performance of activities within the Iberdrola Group and strategic players in the transition towards a decarbonised economy.

As our business partners, we strive to ensure a fair, transparent and ethical value chain, and we involve our suppliers from the first contact with the Group, always with a proactive attitude towards their needs and supporting them in the development of new capabilities.

Iberdrola's strategy is based on promoting the growth of local suppliers for its strategic contracts, leading to the creation of indirect jobs and supporting a strong industrial fabric in the regions in which it operates.

Furthermore, the Group's procurement volume serves as a driver of growth in the countries in which Iberdrola makes purchases, benefiting the business, industrial, and social development of these countries through the creation of employment in the companies that provide services and in their ancillary industries. Iberdrola's activity provides employment for an estimated 400,000 professionals throughout its partner companies, in addition to the Group's own employees. This figure will rise to 500,000 jobs (direct, indirect and induced) by 2025.

Pro-bono legal and tax services

The added value we contribute to society

At the Iberdrola Group's Legal Services, we are aware of the social role we can play in the legal and tax areas, as well as the responsibility of the people who make up the team to work towards a fairer society.

For this reason, in line with the Group's social commitment, **in 2022 a pro-bono programme was launched at global level, the Iberdrola "Pro Bono Jurídico" programme.**

The main goal of the Programme, which is applied in all the countries where the Group operates, is to contribute to the development of society, extending the qualified value of our legal professionals to the third sector and promoting their participation in pro-bono activities, making training, guidance and legal and tax advice services available to NGOs and organisations without resources, to cover their legal needs.

In 2022, **Iberdrola was also the first company to join the Fundación Pro Bono España, marking a milestone in pro-bono practice in Spain.** Fundación Pro Bono España channels the demand for pro-bono legal services, acting as an intermediary between social organisations in need of legal assistance and lawyers with the capacity to help. Since its creation in 2018, it has been working to promote pro-bono practice and raise awareness among lawyers of the social dimension of the legal profession. With a network of more than 40 law firms and several partner universities, Iberdrola is now the first corporate member.



This initiative represents part of the ethical and professional responsibility required of legal professionals and is a further contribution by Iberdrola to fulfilling its sustainability commitments in line with ESG criteria. It also addresses the concerns of Iberdrola's professionals, which have intensified in the current social context.

In line with the United Nations SDGs, the aim is to promote access to justice for the neediest, and to strengthen the commitment to the global agenda through law as a tool that transforms and multiplies the social impact.

Initiatives like these pro bono services make all the members of the team feel proud to belong to Legal Services at a leading company like Iberdrola.

Taxation and sustainable development

Taxes paid by the Group contribute to achieving the SDGs

Iberdrola is aware of the significance of its tax contribution to attaining the UN Sustainable Development Goals, fundamentally because the taxes paid by the Group in the countries and territories in which it does business provide resources to government administrations so that they may work towards said Goals.

Furthermore, Iberdrola believes that taxation is also a significant factor for the Group's sustainable strategy, to the extent that tax governance, best practices, cooperative compliance, and transparency in reporting tax information, as a significant contribution to sustainable development, are key elements of the ESG criteria applied internationally to measure the impact and sustainability of investments.

Contribution to the SDGs



Iberdrola believes that the taxes paid by the Group's companies in the countries and territories in which they operate constitute its main contribution towards sustaining public expenditure and, therefore, one of its contributions to society and, among other things, to the achievement of UN SDGs 1 (No poverty) and 8 (Decent work and economic growth), insofar as it makes resources available to government administrations so that they can be used for measures that help to achieve these goals.

There can be no doubt that taxation has a direct impact on equity and economic growth. Iberdrola therefore advocates fair and equitable tax systems that incorporate incentives that contribute to achieving the UN SDGs, including tax relief for non-profit activities and sponsorships and other incentives related, for example, to R&D or sustainable remuneration, that reward good tax governance and the application of best practices, while penalising irresponsible tax conduct.

Aware that its tax contribution helps to achieve the SDGs, the Iberdrola Group is firmly committed to paying the taxes that may be due in accordance with the laws of all countries and territories in which it has a presence, for which reason it includes this commitment in its tax strategy as one of the cornerstones



for its conduct. Furthermore, the Group has no presence in tax havens, does not use structures of an artificial or opaque nature, nor does it artificially transfer profits to low-tax territories that could reduce its tax contribution and, therefore, impair the pursuit of sustainable development and undermine one of its main contributions to society at large.



Iberdrola is also convinced that through its pro-bono legal and tax services it contributes to achieving the targets relating to SDG 16 (Peace, justice and strong institutions) and SDG 17 (Partnerships for the goals), insofar as through this initiative it promotes the rule of law, seeks to guarantee equal access to justice for all, and contributes to international cooperation by forming partnerships.



Lastly, it is clear that environmental taxation has a major role to play in achieving the UN SDGs by promoting the use of clean energy, which is why society has a unique opportunity to use these taxes to contribute to the energy transition and sustainable economic development.

Taxation and ESG

Bringing a culture of sustainability into the tax field

Iberdrola believes that taxation plays an important and direct role in ESG matters, particularly with regard to tax governance (G), and therefore it applies best practices in the area of responsible tax governance.

For years, Iberdrola's *Governance and Sustainability System* has positioned Iberdrola as one of the leading companies in this field, addressing shareholder rights, the structure of the governing bodies, corporate policies, the *Compliance System*, climate governance, cybersecurity, and the promotion of socially responsible practices in the supply chain.

These aspects are also reflected in the Group's tax strategy contained in the *Corporate Tax Policy*.

Iberdrola's Board of Directors is responsible for the ongoing design, evaluation, and review of the *Corporate Tax Policy*, as well as formulating the tax strategy and approving investments or transactions that are particularly relevant for tax purposes due to the significant amount or nature thereof, for which reason the management decision-making bodies are duly involved in the company's tax affairs.

We also ensure that the Corporate Tax Policy is complied with at all levels, through a tax reporting system aligned with the Group's corporate and governance structure.

Iberdrola has guidelines for conduct that make up **Iberdrola's Tax Compliance System**, which is in line with international best practices in the area of tax governance and risk management.

The System comprises, inter alia, rules of conduct, guidelines for decision-making, and protocols for ensuring due diligence in our activities and for promoting excellence in risk management.

This system is duly certified by external agencies and subject to ongoing review for improvement, with external experts auditing it annually.

We work each day to strengthen our social dividend and to ensure that our business generates more value in the communities in which we operate.



Stakeholder engagement

At the heart of our decisions

Constantly strengthening relations with our Stakeholders

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 20 December 2022.

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

- Encourage the engagement of the Stakeholders in Iberdrola'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 Iberdrola interacts.
- Build trust among Stakeholders in order to build long-lasting, stable and robust relationships.
- Encourage the recognition by all of its Stakeholders of Iberdrola'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 Iberdrola does business.

Iberdrola has eight priority categories of Stakeholders:





With respect to shareholder engagement, we believe that two-way interaction fosters their sense of belonging and encourages their engagement in Iberdrola's corporate life.

Iberdrola is also spearheading this field, as the first Spanish company and one of the first worldwide to formalise a *Shareholder Engagement Policy*, which is one of the cornerstones of the corporate governance strategy.

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

- Ensuring responsible tax practices.
- Understanding the tax contribution as part of the social dividend and as an element in helping to achieve the SDGs.
- 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 relations with the tax authorities in the jurisdictions in which the Iberdrola Group has a presence, based on mutual trust.
- Listening and engaging in dialogue, through participation in and attendance at specialised forums and committees so as to achieve effective two-way communication.
- 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.

A culture of value creation through Stakeholder engagement

As part of its relations with Stakeholders, Iberdrola considers their participation to be essential, involving them through the disclosure of relevant tax information and through the members of the Tax Division, **involved in forums, committees and specialised studies on tax matters**. Iberdrola also actively participates in regulatory development consultation procedures.

In this way, the Iberdrola Group:

Global

- Voluntarily publishes the *Report on Tax Transparency of the Iberdrola Group: Our Commitment to Society*, annually, starting in 2019 for financial year 2018.
- Cooperates with tax authorities, among others, in multilateral cooperative compliance programmes through the International Tax Compliance Assurance Programme (ICAP), promoted by the OECD.
- Takes part in the preparation of the Statement of Non-Financial Information by publishing significant tax information aligned with the GRI-207 standard on taxation.



Spain

- Plays an active role of the taxation working groups of both the Spanish Confederation of Business Organisations (*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 tax governance initiatives organised by professional firms, associations and groups.
- 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 annual Continuing Professional Development (CPD), including attendance at the Industry & Commerce Indirect Tax Conference (CIOT), participating in the Tax in Industry Quarterly Forums and attending 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

- Voluntarily publishes the *Relatório de Transparência Fiscal: Nosso compromisso com a sociedade*, starting in 2022, for financial year 2021.
- 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.

We build trust and safeguard the Group's tax reputation by ensuring responsible tax practices.

Tax transparency

Iberdrola believes that transparency is fundamental for generating confidence and credibility, both in the markets and in investors, as well as in the workforce and the rest of the Stakeholders. That is why, as established in the *General Sustainable Development Policy*, Iberdrola undertakes to:

- Disseminate truthful, sufficient, useful and reliable information regarding the significant activities of the Group and of the Foundations linked thereto.
- Encourage transparency, assuming a commitment to annually prepare and publish financial and non-financial information, following generally accepted methodologies and submitting the information to independent external assurance.
- Facilitate complete and truthful information regarding the taxes that the Group's companies pay in the countries and territories in which they operate.

Moreover, to strengthen its commitment to transparency, **Iberdrola does not confine itself to publishing the information legally required** by the authorities of the countries or territories in which it has a presence but **goes further and makes it a rule to voluntarily publish additional** information in the Group's various official reports, as reflected in the *General Sustainable Development Policy*.

To meet this commitment, Iberdrola publishes or includes information on tax matters, inter alia, in the reports described below.

Tax transparency reports

To demonstrate its absolute commitment to responsibility in tax matters, the disclosure of information to all of its Stakeholders and good practices, and in the pursuit of excellence and ongoing improvement in transparency, Iberdrola voluntarily prepares and publishes this *Tax Transparency Report. Our commitment to society*, each year which incorporates overall tax information relevant to all Stakeholders, in keeping with the highest good governance standards. The report is public and can be consulted on the Iberdrola Group's corporate website.

In addition, the *Relatório de Transparência Fiscal: Nosso compromisso com a sociedade* (Tax Transparency Report. Our commitment to society) was published by Neoenergia for the first time in 2022. In addition to providing detailed information on the tax contribution in Brazil, the publication reinforces Neoenergia's commitment towards society by ensuring ethical principles of corporate governance in compliance with Brazilian legislation and international best practices. Likewise, the report is public and available on Neoenergia's corporate website.



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 2022, as well as the social dividend generated by the Group, and its contribution to the United Nations SDGs.

Iberdrola thus satisfies the growing demand by society at large 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 is prepared following the reporting requirements and recommendations of the consolidated set of Global Reporting Initiative (GRI) Standards for preparing sustainability reports.

Iberdrola presents 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 207-1 APPROACH TO TAX

Requirement

- i. Whether the organisation has a tax strategy, and if so if publicly available.
- ii. Governance body or executive-level position that formally reviews and approves the tax strategy and the frequency of reviews.
- iii. Approach to regulatory compliance.
- iv. How the approach to tax is linked to the business and sustainable development strategies of the organisation.

Application

Iberdrola's *Corporate Tax Policy* sets out its tax strategy and is public and accessible through the corporate website.

Taxation is not a static area. The *Corporate Tax Policy* is constantly being reviewed. This power is vested in the Board of Directors.

Compliance with applicable laws is a fundamental principle of the *Corporate Tax Policy*. 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.

In addition to the provisions of the preceding section, the responsible tax practices of the companies of the Iberdrola Group are enshrined in the *General Sustainable Development Policy*.

The group companies 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.



GRI 207-2

TAX GOVERNANCE, CONTROL, AND RISK MANAGEMENT

Requirement

a. Tax governance and control framework

Application

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.

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

The implementation of the *Corporate Tax Policy* 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.

Monitoring and control of the *Corporate Tax Policy*

- i. The head of business companies report to the country subholding companies regarding the level of compliance with the *Corporate Tax Policy*.
- 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 *Corporate Tax Policy*. 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 *Corporate Tax Policy*.

b. Mechanisms for reporting concerns about unethical or unlawful behaviour.

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.

c. Assurance of disclosures on tax.

Review by internal experts and independent external third party experts.



GRI 207-3

STAKEHOLDER ENGAGEMENT AND MANAGEMENT OF CONCERNS RELATED TO TAX

Requirement

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.

Application

Iberdrola, S.A. adheres to the Code of Good Tax Practices of the Forum of Large Businesses (Foro de Grandes Empresas) of the Spanish Tax Administration Agency (*Agencia Estatal de Administración Tributaria*).

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.

The Group is also committed to compliance with the OECD Guidelines for Multinational Enterprises in tax matters.

- i. Voluntary submission to the Spanish Tax Administration Agency of the Annual Tax Transparency Report for companies adhering to the Good Tax Practices Code.
- ii. Voluntarily preparation and publication of the annual *Report on Tax Transparency of the Iberdrola Group. Our commitment to society*.
- 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.

GRI 207-4

COUNTRY-BY-COUNTRY REPORTING

Requirement

Financial, economic and tax information on each jurisdiction in which the organisation operates.

Application

Iberdrola includes in the Statement of Non-Financial Information the Country by Country Report for the previous year presented on 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.

ESG+F Digital Space

To expand the information contained in the main sustainability reports that are published, facilitate consultation thereof, and improve the visibility and accessibility of the information, Iberdrola has for the first time designed a specific space on the corporate website that includes relevant ESG+F information.

This space streamlines navigation and allows specific queries to be made on the most significant issues. Several functionalities have also been implemented, including download tools that allow quantitative information to be retrieved in Excel format, as well as illustrative best practice case studies from around the world.

As far as tax information is concerned, a specific section devoted to responsible tax practices can be found on this website in section “5. Governance”. This space includes information on responsible tax conduct, tax governance, global tax contribution, etc. In addition, links are provided to the *Corporate Tax Policy*, the Tax Transparency Report and the tax information contained in the Statement of Non-Financial Information.

Tax governance

Corporate and governance structure

The governance structure of the Group is described in the *Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation*, the purpose of which is to define the corporate and governance structure of the Iberdrola Group.

In this respect, the Group is configured on the basis of the separation between the function of strategic definition and supervision, on the one hand, and that of day-to-day administration and effective management, on the other, providing itself in this respect with a decentralized structure inspired by the principle of subsidiarity and respect for the autonomy of the companies that comprise it, which do business in accordance with the highest ethical standards and in compliance with the good governance recommendations generally recognised in international markets, adjusted to their needs and particularities.

This is why, on the one hand, the management duties are attributed to the head of business companies and, on the other, strategic, supervision and control duties are attributed to Iberdrola S.A., which exclusively performs the duties of a holding company, and to the country subholding companies, which strengthen the strategic organisation and coordination function in each country.

Iberdrola, S.A (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*, the *Code of Ethics* and the *Corporate Tax Policy*, and see the social dividend as the contribution of direct, indirect or induced value that their 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 of Iberdrola, S.A, through its Chairman, its Chief executive officer and the members of 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 22 February 2022 to present the *Report on Tax Transparency of the Iberdrola Group. Our commitment to society*, for financial year 2021. The Global Head of Taxation also appeared on 21 February 2023 to present the Report for financial year 2022.

2. Iberdrola's Audit and Risk Supervision Committee

Iberdrola's Audit and Risk Supervision Committee has the following duties, among others, in the tax area¹⁰:

- prior to the preparation of the annual accounts and to the filing of the Income Tax return, obtain from the Company's tax director, for transmittal to the Board of Directors, 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 2022 the Global Head of Taxation appeared before the Company's Audit and Risk Supervision Committee on 21 February and 22 July to report, respectively, on the level of compliance with the *Corporate Tax Policy* and tax standards applied during financial year 2021 and during the first half of 2022, respectively.

The main issues related to tax strategy and risk discussed in the relevant appearances during 2022 financial year were as follows:

- Level of compliance with the *Corporate Tax Policy* and tax standards applied during financial year 2021 and during the first half of the financial year 2022.
- 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 2021 and the first half of financial year 2022. Tax rating of transactions based on tax risk.
- Review of the content of the *Report on Tax Transparency of the Iberdrola Group. Our commitment to society*, for financial year 2021. Analysis of new developments and key figures.
- Global tax contribution of the Iberdrola Group.

¹⁰ Regulations of the Audit and Risk Supervision Committee



- Tax governance:
 - Update of the *Corporate Tax Policy*
 - Management of tax risks. The three lines model in the tax area.
 - Cooperative relations:
 - Voluntary submission to the Tax Agency of the “Annual Tax Transparency Report for companies adhering to the Good Tax Practices Code” for the 2020 financial year. Acknowledgement of the letter of congratulations received from the Central Delegation of Large Taxpayers of the Spanish Tax Administration Agency.
 - Voluntary participation in the International Compliance Assurance Programme (ICAP) promoted by the OECD.
- Other particularly significant matters:
 - *Tax compliance management systems. UNE 19602 standard*
 - Announcement of the satisfactory result of the audit for the 2021 financial year carried out by AENOR.
 - Acknowledgement of the satisfactory independent expert report by an external consultant.
 - Planning of the audit of the *System* for the 2022 financial year planned in the fourth quarter of 2022.
 - Tax transparency seal awarded by Fundación HAZ.
 - Significant tax-related regulatory changes at the global level.

An appearance for the 2022 financial year took place on 20 February 2023.

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.

The audit committees perform their duties with full autonomy, without prejudice to the establishment of an appropriate framework for cooperation and exchange of information on the performance of their duties with the audit committees that may exist at group companies that are direct or indirect subsidiaries of Iberdrola, as well as with Iberdrola’s Audit and Risk Supervision Committee.

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 must 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 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 environmental, social and corporate governance and regulatory compliance policies.

In compliance with the *Regulations of the Sustainable Development Committee*, the Global Head of Taxation appeared on 21 February 2022 to present the *Report on Tax Transparency of the Iberdrola Group. Our commitment to society*, for financial year 2021.

An appearance for the 2022 financial year took place on 20 February 2023.

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*. To accomplish this, it has broad powers, budgetary autonomy and independence of action.

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 2022 financial year the Global Tax Division attended the meetings of the Compliance Office held on 21 April and 29 September.



Prevention and management of tax risks.

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 in 2020 by the Institute of Internal Auditors (II), which updates the Three Lines of Defence model and 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.

In general terms, 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 Model in the Tax area

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

The updated model is more flexible and adaptable, addressing criticisms of the previous model, including an excessive focus on defending against risk, rather than focusing on value creation and risk management.

The changes made in the updated model include, among others, that first and second line roles can be mixed or separated and that some second-line roles can be assigned to specialists with additional expertise, who in any case need not be external and independent from the area in question, given that these roles form part of their duties.

In line with the above, the application of the model in the tax area is as follows:

- Given the specialisation and complexity of the subject matter, the Tax Division's structure, distribution of functions and size are well suited to grouping together first and second line roles.
- The **first line** is exercised within the Tax Division and is carried out by appropriately trained and skilled experts in the field, through decision-making and enforcement of tax compliance.
- The second line is likewise formed within the Tax Division, given that it has greater experience and specialised units tasked with managing, overseeing, supporting, assisting, monitoring, checking and questioning the performance of the first line roles.

The **second line** is in turn complemented and strengthened by the Group's Legal Services when necessary, as well as by external advisors.

For its part, 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 role of the Group's Internal Audit area, as the **third line**, 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**, issued for a three-year period.

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 **Iberdrola'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 2022 Iberdrola was likewise the first company to renew its AENOR certification for a three-year period.

In the 2019–2022 period, in the ongoing search for excellence, Iberdrola's Tax Compliance System has been under constant review so as to incorporate improvements in risk management and good tax practices, and **Iberdrola has received satisfactory** AENOR audits, with no non-conformities or significant recommendations having been detected, thus maintaining its certification.

Improvements made in 2022 include satisfactory evaluation reports on the performance of the system, which was particularly valued by the certifier.

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**.



- The **organisation's commitment to continuous improvement**.
- **The monitoring of the System** and work towards implementing continuous improvements, which are pioneering in the sector.
- The organisation's **transparency** with regard to its relationship with the Tax Administration and other Stakeholders. The publication of this Report, the only one of its kind in the sector, is particularly relevant and well-considered.
- **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.
- The Group's **document management work**, designed to keep information organised and available at all times.
- Efforts deployed in terms of communication and training.

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.

The renewal 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.

Tax compliance

Outstanding management of processes and resources

Iberdrola's **responsibility in tax matters**, as the foundation of good practices in corporate taxation in the international context, is **primarily based on compliance, transparency and cooperative relations**.

In addition, **the Iberdrola Group is committed to quality**, understood as the excellent management of all processes and resources as an essential lever for creating value for people: shareholders, customers, employees, and the other Stakeholders of the company.

Quality is one of Iberdrola's core values, and both the mission and vision and the Company's Strategic Plan are duly considered when developing and updating the *Quality Policy*, which is approved by the Board of Directors.

The Group's strategic quality guidelines, applied to tax matters, focus on four pillars:

- Improving customer satisfaction, both external and internal.
- Driving operational excellence.
- Promoting management systems.
- Focusing on our Stakeholders.

We therefore **prioritise responsible tax practices and embrace tax compliance as part of our culture**.



The commitment to tax compliance forms part of the Group's tax strategy, and is reflected in the *Corporate Tax Policy* as its main purpose and as one of our main principles of conduct

A significant aspect of tax compliance relates to the tasks associated with tax compliance, for example, the preparation, management and filing of tax returns with the various tax authorities and similar bodies.

The Iberdrola Group processes thousands of tax returns, tax receipts and similar instruments worldwide, and one of its commitments, in all cases, is to meet its tax obligations promptly and properly with respect to the taxes it pays to government administrations.

To this end, the Iberdrola Group has an appropriate and properly-sized structure of material and human resources, and is committed to recruiting the best talent and relying on technology to improve its tax compliance processes, ensuring the ongoing pursuit of operational and management excellence in the tax area.

Cooperative relations

Convinced that cooperative relations are one of the foundations of tax compliance

The evolution of tax governance, leaving behind tax planning to make way for the compliance model, is based on cooperation with the tax authorities, understood as reciprocal collaboration in the levying of taxes.

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 Iberdrola Group's tax strategy, as reflected in the *Corporate Tax Policy*, contemplates **cooperation with the Tax Administrations** in all territories in which the Group operates as a principle of conduct by **fostering a relationship based on respect for the law, loyalty, trust, professionalism, collaboration, reciprocity, and good faith.**

In addition, and in applying the principles of conduct, the Corporate Tax Policy establishes a commitment to the application of best practices in relations with the tax authorities:



Cooperate with the competent tax authorities in the detection of and search for solutions regarding fraudulent tax practices of which the Iberdrola is aware that may occur in the markets in which the companies of the Group have a presence.



Provide significant tax-related information and documents that may be requested by the competent tax authorities in the exercise of their powers, as soon as practicable and with the required scope.



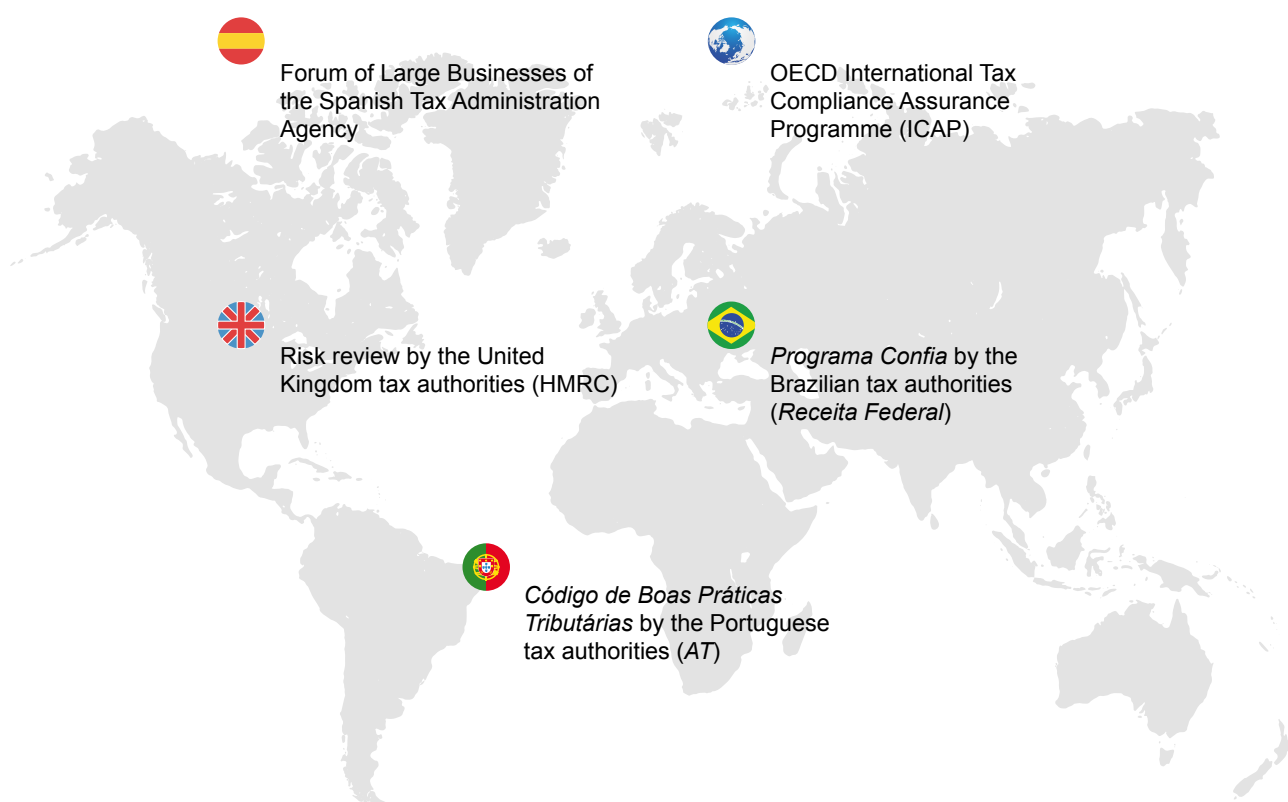
Notify the appropriate body of the tax authority and sufficiently discuss therewith all significant issues of fact of which it has notice, in order to commence the appropriate investigative proceedings, if any, and to promote agreements and consents during the course of inspection proceedings, to the extent reasonably possible and without impairing good corporate management.

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*), of the Spanish Tax Administration 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*.

The programmes and actions in which the Iberdrola Group participates to promote and preserve the cooperative relations at global level include:





Respect for the law, fidelity, trust, professionalism, reciprocity and good faith are the basis for our relations with the tax authorities.

Forum of Large Businesses of the Spanish Tax Administration Agency

The Forum of Large Businesses 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.

The Forum was set up on 10 July 2009 at the behest of the Spanish State Tax Administration Agency (“AEAT” or “Tax Agency”) and Iberdrola has been a member since it was launched.

1. Working groups of the Forum of Large Businesses

In the framework of the Forum of Large Businesses, 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 following working groups:

- Cooperative relations.
- Special taxes.
- Transfer Pricing – this group has concluded its work and the Working group on Analysis of Tax Regulations and Reduction of Conflict has been created to replace it.
- Analysis of tax regulations and reduction of conflict
- Immediate Supply of Information (SII).

In financial year 2022 Iberdrola attended the general meetings of the Forum of Large Businesses held on 21 June and 15 November and all of the working group meetings.

In addition, during financial year 2022 the Iberdrola Group’s Global Head of Taxation continued to act 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 fiscal 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 has voluntarily submitted to the Spanish Tax Administration the “Annual Tax Transparency Report for companies adhering to the Good Tax Practices Code” since it was first prepared and for 2015, 2016, 2017, 2018, 2019, 2020 and 2021, and is in the process of preparing the report for 2022.

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 2020 on 22 October 2021 and held a meeting with representatives of the Spanish Tax Administration Agency on 10 June 2022 in order for them to more fully understand and evaluate the contents of the report. The additional information requested was then included.

On 14 June 2022 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 2020 and thanking it for the transparency provided.

The Iberdrola Group’s Annual Report on Tax Transparency for financial year 2021 was submitted on 25 October 2022.

In connection with the improvements to the Report for financial year 2021, Iberdrola has voluntarily included a new specific section regarding the cooperative relationship and tax governance, which includes information on cooperative compliance programmes, good tax practices, reporting procedures, tax transparency, etc. This initiative was positively received by the Tax Agency.

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.



Multilateral cooperative procedure: *International Compliance Assurance Programme (ICAP)*

ICAP is a voluntary risk assessment programme to facilitate open and cooperative multilateral commitments between groups of multinational companies wishing to participate actively and transparently and the tax authorities of the jurisdictions in which they have a presence.

This is an OECD initiative aimed at greater cooperation between tax authorities in the supervision of tax risks in multinational groups relating to transfer pricing, providing a faster, clearer and more effective way to improve multilateral tax certainty.

By allowing multinational groups to obtain a certification of their risk profile, the ICAP programme should reduce the resource burden for both multinational enterprise groups and tax administrations and result in fewer disputes requiring settlement through mutual agreement procedures.

Today, **the ICAP Programme is the most advanced element of the cooperative relationship between multinational enterprises and tax authorities.**

The Spanish State Tax Administration Agency participates in the ICAP Programme and regards the signing of bilateral or multilateral Preliminary Assessment Agreements as a line of work that should be strengthened, as outlined in the Tax Agency's Strategic Plan 2020-2023.

In this regard, **Iberdrola has voluntarily participated in the ICAP Programme in 2022.**

In addition to the Spanish Administration, the tax authorities of the United Kingdom, the United States, Germany, Italy and Ireland also participated in the programme, in coordination with the Tax Agency.

In this regard, multilateral and bilateral meetings were held on 30 June and 1 July 2022 at Iberdrola's Innovation and Training Campus in Madrid with the various administrations to review the Iberdrola Group's transfer pricing policies at the global level.

As of the date of publication of this Report, Iberdrola's participation in the Programme has not concluded, and conversations are ongoing with the various tax administrations to address the requests for information received.

Risk review by the United Kingdom tax authorities (HMRC)

The commitment to applying good tax practices and cooperating with the tax authorities has also been extended to the other countries in which the Iberdrola Group operates, such as the United Kingdom.

As a member of the group of large taxpayers in the United Kingdom, Scottish Power actively participates in the collaborative relationship programme with HMRC, based on the figure of a Client Relationship Manager (CRM) as the liaison between the tax authorities and the taxpayer, and on the annual rating of the taxpayer's risk profile. For Scottish Power, as has been the case in recent years, the rating is "low risk".

Programa de Conformidade Cooperativa Fiscal (Confia)

In application of the highest standards of cooperation and tax transparency, Neoenergia is a member of the *Receita Federal* (Brazilian tax authorities) programme.



As part of the collaboration framework, Neoenergia was invited by *Receita Federal* to voluntarily participate in setting up a programme to establish new parameters for the interaction between taxpayers and the tax authorities, focusing on voluntary cooperation and mutual trust, called the *Programa de Conformidade Fiscal Cooperativa (Confia)*.

Neoenergia, through its Tax team, has attended the meetings of the *Fórum de Diálogo Confia* since its creation, having participated in the Forum meeting held on 10 November 2022.

Código de Boas Práticas Tributárias by the Portuguese tax authorities

Iberdrola has adhered to the Portuguese Code of Best Practices – similar to the Code of Best Practices of the State Tax Administration Agency.

In addition, in 2022 Iberdrola Clientes Portugal and other companies forming part of the Group applied for access to the *Fórum de Grandes Empresas de la Autoridade Tributária e Aduaneira* (AT).

As of the date of publication of this Report, Iberdrola is awaiting the decision on its application for membership in the *Fórum de Grandes Empresas* in Portugal.

We strengthen cooperative relations through collaboration and voluntary participation in initiatives promoted by tax authorities.

Other initiatives and recognitions

Transparency initiatives and best practices

- **Tax transparency ranking and transparency seal awarded by *Fundación HAZ***

In 2022 Iberdrola was recognised, for yet another year, as one of the top IBEX-35 companies in terms of transparency according to the Fundación HAZ rating.

It has also participated in the “t for transparent” initiative launched by the Foundation in 2022, a certification from an independent institution that assures compliance with transparency standards (similar to ISO/UNE).

Accordingly, the Seal of Fiscal Transparency was awarded the highest level “t***” rating by the Foundation, as more than 90% of the proposed measurement indicators were met.

In this case, the certifier underscores that Iberdrola is one of the companies that makes the greatest effort to report on its responsible tax practices.



- **Studies on responsible tax practices**

Iberdrola regularly and actively takes part in independent external studies on the tax transparency and the contribution of large enterprises at domestic and international level.

In 2022 Iberdrola participated in initiatives to analyse and disseminate significant tax information and the tax contribution of IBEX-35 and EU companies.

It also regularly works with the State Tax Administration Agency, law firms and professional services firms in activities related to transparency and responsible tax practices.

- **Legal working group for the development of green hydrogen**

Green hydrogen has a key role to play in driving a climate-neutral economy. To contribute to this initiative, Iberdrola has set out to lead more than 60 projects in different countries around the world.

To this end, Iberdrola has created a new green hydrogen business unit within the company, with which it aims to position itself as a world leader in this technology.

To complement the new technological challenge posed by the production and supply of hydrogen from clean energy sources, Iberdrola's Legal Services have set up a working group, involving professionals from all jurisdictions in which the Group has a presence, to assure a clear regulatory framework that provides legal certainty to the Group and through which best practices in this area can be shared and synergies can be generated.

Recognitions

- **Legal Power List by the A Word About Wind association**

The General Secretary and of the Board of Iberdrola has been recognised as the world's most influential lawyer in the energy sector according to the Legal Power List compiled by the A Word About Wind association.

- **Global Counsel Awards**

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.

- **Top 100 Mujeres Líderes en España**

Top 100 Mujeres Líderes en España (Top 100 Women Leaders in Spain) is an organisation whose main objective is to give visibility to female talent in order to build a society based on equality. In its 2022 edition, the Iberdrola Group's Global Head of Taxation has been nominated as one of the Top 100 Women Leaders in Spain in the category of female executives.



- **Iberian Lawyers' Gold Awards by Inhousecommunity**

In 2022, Iberdrola's Legal Services were recognised as best in-house legal counsel in Spain and Portugal in the Energy and Renewables sector at the Iberian Lawyers' Gold Awards by Inhousecommunity.

- **Expansión Jurídico Awards**

In 2022 Iberdrola's Legal Services received an award for its digital transformation and cultural change project as the most innovative project developed in Spain.

- **Financial Times Innovative Lawyers Awards**

Iberdrola's Legal Services was also recognised as one of the most innovative legal services in Europe at the Financial Times Innovative Lawyers Awards.

Whistleblower channels

The Iberdrola Group has established ethics mailboxes 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.

These channels allow customers, suppliers and 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.





11. Country-by-country tax contribution



Overall tax contribution data

€39,000 million in taxes in 5 years

Total tax contribution of €7,458 million

Tax contribution 1.7 times profit at the global level

+ €600 million paid in tax each month

+ €20 million paid in tax each day

+ €1,000 million in Income Tax

Spain is the country with the highest tax burden for the Group, accounting for 49% of its profit

- In the last **five years**, the Iberdrola Group has paid **more than €39,000 million** to government administrations worldwide.
- The **total tax contribution** for financial year **2022** amounts to **€7,458 million**, representing **€600 million of taxes paid per month and more than €20 million per day**, with **39%** of profits¹¹ going to taxes worldwide. The Group's 44% tax contribution represents an effective cost.
- The Group's tax contribution is 1.7 times its profit at the global level. This means that for every €100 of profit the Group generates, €170 is paid to the various tax authorities.
- In addition, **€176 million** was collected in Spain in **other regulatory payments** (subsidised electricity rate and energy efficiency).
- In the case of Spain, tax payments represent more than **49%** of the tax contribution ratio¹².
- **Income Tax** is a very significant tax (**€1,064 million**). It represents **33%** of the taxes paid by the Iberdrola Group.
- Of note is the amount of **energy taxes at the global level, with contributions amounting to more than €500 million**, which represents **16%** of the global contribution.
- The overall **exchange rate** effect in 2022 is significant, with a generalised appreciation of currencies against the euro.

€39,000

million paid in the last
five years

€7,458

million in
2022

+ €600

million paid in tax
each month

+ €20

million paid in tax
each day

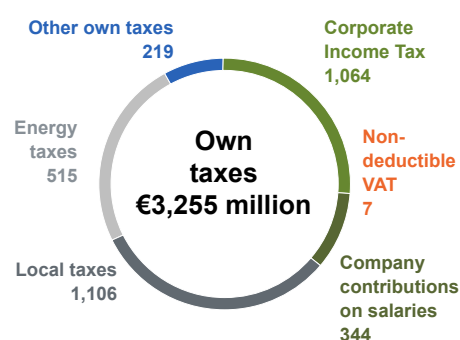
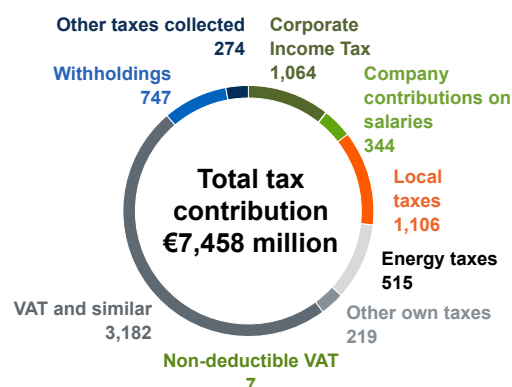
¹¹ Profit before Corporate Income Tax, other taxes and Social Security contributions payable by the company

¹² Taxes on profits before Corporate Income Tax, other taxes and Social Security contributions payable by the company



The total direct tax contribution in 2022 amounted to **€7,458 million**, distributed among the following categories (in millions of euros):

€ MILLION	2022
Own taxes	3,255
Corporate Income Tax	1,064
Non-deductible VAT and similar	7
Company contributions on salaries	344
Local taxes	1,106
Energy taxes	515
Other own taxes	219
Taxes collected	4,203
VAT and similar	3,182
Withheld third-party income	747
Other taxes collected	274
Total	7,458



1 Own taxes

- Own **taxes** (charged to the profit and loss account) in 2022 amounted to **€3,255 million**
- This includes **Income Tax (33%)**, **local taxes (34%)** and **energy taxes (16%)**

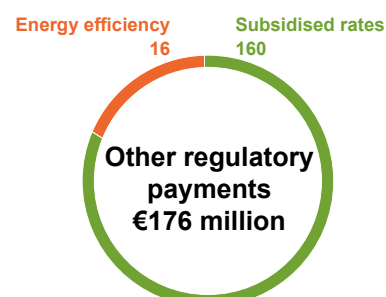
2 Taxes collected

- **Taxes collected** in 2022 amounted to **€4,203 million**
- This includes **VAT and similar taxes**, which account for **76%** of total taxes collected



3 Other regulatory payments

- Iberdrola also makes other **payments** to **regulatory bodies**, including in the form of subsidised electricity rates (*bono social*) and the contribution to the National Energy Efficiency Fund, in the amount of **€176 million**



Total payments to public entities: €7,634 million



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	
€ MILLION	2022	2021	2022	2021	2022	2021
Spain	1,740	1,586	845	1,883	2,585	3,469
United Kingdom	197	341	477	379	674	720
United States of America	870	753	363	284	1,233	1,037
Brazil	180	179	2,090	1,879	2,270	2,058
Mexico	150	177	117	89	267	266
Other countries	118	89	311	197	429	286
Total	3,255	3,125	4,203	4,711	7,458	7,836

The tax contribution in 2022 is lower than in the previous year. However, it remains close to the average contribution levels of recent years, amounting to approximately €7,700 million per year.

While the amount of taxes charged to the income statement (effective cost for the Iberdrola Group) increased compared to the previous year, taxes collected on behalf of third parties decreased.

The increase in own taxes, charged to the income statement, is mainly recorded in Income Tax and Local Taxes. In this regard, the increase in the Corporate Income Tax contribution is mainly due to the tax effect in Spain of the revenues derived from judgements handed down in Iberdrola's favour.

The amount of taxes collected on behalf of third parties during the year decreased, mainly due to tax refunds received from different administrations corresponding to overpayments of taxes from previous years, stemming from the way taxes are levied, and changes in the tax rates applicable to indirect taxes such as VAT and other similar taxes. There was also an increase in withholdings, mainly due to greater dividends paid out.

In addition, Iberdrola makes other payments to regulatory entities that are not technically classified as taxes, but which also help to contribute to the sustainability of public finances. Therefore, the Iberdrola Group makes additional contributions and pays concessions in various parts of the world.

In Spain, the contributions to finance the "Subsidised Electricity Rate" and Energy Efficiency, which in 2022 amounted to €176 million, with a significant increase in the contribution to the subsidised rate, as a result of amendments to legal provisions, which, among other measures, expands the group of consumers with access to this measure and increases the applicable discount.

It should also be noted that the overall exchange rate effect in 2022 is significant, with a generalised appreciation of currencies against the euro.



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	
Local Currency (LC) (million)	2022	2021	2022	2021	2022	2021
Spain	1,740	1,586	845	1,883	2,585	3,469
United Kingdom	168	293	407	326	574	619
United States of America	916	891	380	336	1,296	1,227
Brazil	976	1,142	11,359	11,986	12,335	13,127
Mexico	3,177	4,247	2,483	2,135	5,661	6,362
Other countries	118	89	311	197	429	286

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	2022	2021
GBP / EUR	0.85	0.86
USD / EUR	1.05	1.18
BRL / EUR	5.44	6.38
MXN / EUR	21.18	23.99

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 ¹³	Tax contribution ratio % ¹⁴
Spain	1,740	49%
United Kingdom	197	19%
United States of America	870	47%
Brazil	180	17%
Mexico	150	35%
Other countries	118	31%
Total	3,255	39%

According to the information provided, **Iberdrola allocates approximately 39% 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 49% and 47% of profit before taxes is allocated to the payment of all classes of taxes, respectively.

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

¹³ Includes Income Tax, company Social Security contribution, other taxes and non-deductible VAT

¹⁴ Ratio between payment of taxes and profit before taxes (Income Tax, other taxes and company Social Security contribution) in each country



Spain

Tax contribution ratio	49%
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Comments

Total paid into public treasury	
Own taxes	1,740
Taxes collected	845
Total	2,585

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

The amount of Corporate Income Tax paid is significant, accounting for 45% of the total taxes charged to the income statement.

This amount is higher than the previous year, mainly due to the tax effect of the revenues resulting from judgements handed down in favour of Iberdrola.

The amount of energy taxes is high, particularly since the approval of Law 15/2012 of 27 December on tax measures for energy sustainability. However, a decrease was recorded compared to the previous year, mainly due to the cancellation of the water tax and the suspension of the tax on the value of electricity production.

There was also a decrease in VAT and Electricity Tax collected, mainly due to the reduction in the applicable tax rates. Likewise, in 2022, significant VAT refunds were received, derived from the way in which the tax itself is levied.

Spain (€ million)	
Own taxes	1,740
Corporate Income Tax	783
Non-deductible VAT and similar	7
Company contributions on salaries	138
Local taxes	326
Energy taxes	475
Other own taxes	11
Taxes collected	845
VAT and similar	449
Withheld third-party income	367
Other taxes collected	29
Total	2,585

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 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 Energía España, S.A.U.
 Iberdrola Energía Sostenible España, S.L.
 Iberdrola Ingeniería y Construcción, S.A.U.
 Iberdrola Inmobiliaria, S.A.U.
 I-DE Redes Eléctricas Inteligentes, S.A.U.



United Kingdom

Tax contribution ratio	19%
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Comments

Total paid into public treasury	
Own taxes	197
Taxes collected	477
Total	674

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 in 2022 is moderate.

The amount of taxes charged to the income statement decreased compared to the previous year, mainly due to Corporate Income Tax and Other own taxes.

The decrease in the amount of Corporate Income Tax is mainly due to an extraordinary payment being made under this heading in 2021, resulting in a refund in financial year 2022.

An increase in VAT receipts has been recorded, mainly as a result of the energy price situation.

United Kingdom (€ million)	
Own taxes	197
Corporate Income Tax	-27
Non-deductible VAT and similar	0
Company contributions on salaries	43
Local taxes	142
Energy taxes	0
Other own taxes	39
Taxes collected	477
VAT and similar	311
Withheld third-party income	76
Other taxes collected	90
Total	674

Legal entities

Significant entities

Scottish Power Investments, Ltd.
 Scottish Power, Ltd.
 Scottish Power UK, Plc
 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	168
Corporate Income Tax	-23
Non-deductible VAT and similar	0
Company contributions on salaries	37
Local taxes	121
Energy taxes	0
Other own taxes	33
Taxes collected	407
VAT and similar	265
Withheld third-party income	65
Other taxes collected	76
Total	574



United States of America

Tax contribution ratio	47%
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Comments

Total paid into public treasury	
Own taxes	870
Taxes collected	363
Total	1,233

The United States of America is a country with a classical structure and a large variety of tax jurisdictions.

The exchange rate effect in the United States in 2022 is significant.

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.

An increase in the Corporate Income Tax contribution is recorded in 2022 as a result of non-recurring refunds received in 2021.

In addition, the tax contribution from the Sales Tax will increase in 2022, mainly due to the energy price situation.

There were also increases in the contribution in items such as social contributions and withholdings, justified, among others, by the increase in the workforce and salary increases.

United States of America (€ million)	
Own taxes	870
Corporate Income Tax	14
Non-deductible VAT and similar	0
Company contributions on salaries	67
Local taxes	630
Energy taxes	0
Other own taxes	159
Taxes collected	363
VAT and similar	117
Withheld third-party income	180
Other taxes collected	66
Total	1,233

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	916
Corporate Income Tax	15
Non-deductible VAT and similar	0
Company contributions on salaries	71
Local taxes	662
Energy taxes	0
Other own taxes	168
Taxes collected	380
VAT and similar	123
Withheld third-party income	189
Other taxes collected	68
Total	1,296



Brazil

Tax contribution ratio	17%
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Comments

Total paid into public treasury	
Own taxes	180
Taxes collected	2,090
Total	2,270

Brazil (€ million)	
Own taxes	180
Corporate Income Tax	98
Non-deductible VAT and similar	0
Company contributions on salaries	72
Local taxes	4
Energy taxes	0
Other own taxes	6
Taxes collected	2,090
VAT and similar	1,961
Withheld third-party income	73
Other taxes collected	56
Total	2,270

Brazil (BRL million) - Local currency	
Own taxes	976
Corporate Income Tax	536
Non-deductible VAT and similar	0
Company contributions on salaries	385
Local taxes	23
Energy taxes	0
Other own taxes	32
Taxes collected	11,359
VAT and similar	10,661
Withheld third-party income	396
Other taxes collected	302
Total	12,335

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

Although the tax contribution expressed in local currency has increased, the exchange rate effect has an apparent negative effect on the tax contribution ratio. This ratio was also lower than in the previous year as a result of the reverse merger of the Brasília business, which triggered the release of deferred taxes via accounting income.

Taxes collected are very significant, although they have decreased due to the lower rates applicable to the *ICMS - Imposto sobre Circulação de Mercadorias e Serviços* (Tax on the Circulation of Goods and Services).

There has also been an increase in social contributions as a result of wage increases.

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.
 Neoenergia Renováveis, S.A.



Mexico

Tax contribution ratio	35%
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Comments

Total paid into public treasury	
Own taxes	150
Taxes collected	117
Total	267

Mexico (€ million)	
Own taxes	150
Corporate Income Tax	141
Non-deductible VAT and similar	0
Company contributions on salaries	9
Local taxes	0
Energy taxes	0
Other own taxes	0
Taxes collected	117
VAT and similar	93
Withheld third-party income	22
Other taxes collected	2
Total	267

Mexico (MXN million) - Local currency	
Own taxes	3,178
Corporate Income Tax	2,984
Non-deductible VAT and similar	0
Company contributions on salaries	193
Local taxes	0
Energy taxes	0
Other own taxes	0
Taxes collected	2,483
VAT and similar	1,968
Withheld third-party income	464
Other taxes collected	51
Total	5,661

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 in 2022 is significant.

A reduction in Corporate Income Tax was recorded, mainly as a result of the closure of the Monterrey plant and recoveries from previous years.

Furthermore, there is an increase in VAT collection, considering that in 2021 there were significant refunds of credit balances, and these refunds will be lower in 2022.

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.



Other countries

Tax contribution ratio	31%
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Comments

Total paid into public treasury	
Own taxes	118
Taxes collected	311
Total	429

Other countries (€ million)	
Own taxes	118
Corporate Income Tax	55
Non-deductible VAT and similar	0
Company contributions on salaries	15
Local taxes	4
Energy taxes	40
Other own taxes	4
Taxes collected	311
VAT and similar	251
Withheld third-party income	29
Other taxes collected	31
Total	429

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

The tax contribution in these countries in 2022 has increased, in line with the performance and expansion of businesses.

In 2022 the increase in the VAT contribution in Italy and Portugal is noteworthy.

A significant increase was recorded in Italy, explained by business performance and the lower balance to be offset from previous years.

Similarly, Portugal's increase in contribution stems from increased sales.

In France, the VAT contribution fell due to the collection of significant refunds.

Finally, the increase in the contribution in countries like Greece and Romania is significant and can be explained by the approval of Windfall Tax measures.

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, S.A.S.
 Aalto Power, GmbH
 C.Rokas Industrial Commercial Company, S.A.
 Rokas Hidroelectric, S.A.
 Iberdrola Australia, Ltd.
 Iberdrola Renewables Australia PTY, Ltd.



Summary table: total tax contribution (millions of euros)

2022	Own taxes						Taxes collected					Total
€ million	Corporate Income Tax	Non-deductible VAT and similar	Company contributions on Salaries	Local taxes	Energy taxes	Other own taxes	Total own taxes	VAT and similar	Withheld third-party income	Other taxes collected	Total taxes collected	
Spain	783	7	138	326	475	11	1,740	449	367	29	845	2,585
United Kingdom	-27	0	43	142	0	39	197	311	76	90	477	674
United States of America	14	0	67	630	0	159	870	117	180	66	363	1,233
Brazil	98	0	72	4	0	6	180	1,961	73	56	2,090	2,270
Mexico	141	0	9	0	0	0	150	93	22	2	117	267
Other countries	55	0	15	4	40	4	118	251	29	31	311	429
Overall total	1,064	7	344	1,106	515	219	3,255	3,182	747	274	4,203	7,458

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

2022	Own taxes						Taxes collected					Total
LOCAL CURRENCY (millions)	Corporate Income Tax	Non-deductible VAT and similar	Company contributions on Salaries	Local taxes	Energy taxes	Other own taxes	Total own taxes	VAT and similar	Withheld third-party income	Other taxes collected	Total taxes collected	
Spain	783	7	138	326	475	11	1,740	449	367	29	845	2,585
United Kingdom	-23	0	37	121	0	33	168	265	65	76	407	574
United States of America	15	0	71	662	0	168	916	123	189	68	380	1,296
Brazil	536	0	385	23	0	32	976	10,661	396	302	11,359	12,335
Mexico	2,984	0	193	0	0	0	3,178	1,968	464	51	2,483	5,661
Other countries	55	0	15	4	40	4	118	251	29	31	311	429



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

€ MILLION	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	Total own taxes	VAT and similar	Withheld third-party income	Other taxes collected		
Germany	40	0	2	0	0	0	42	21	2	1	24	66
Algeria	0	0	0	0	0	0	0	0	0	0	0	0
Australia	0	0	3	0	0	3	6	-29	14	1	-14	-8
Brazil	98	0	72	4	0	6	180	1,961	73	56	2,090	2,270
Bulgaria	0	0	0	0	0	0	0	0	0	0	0	0
Canada	0	0	0	0	0	0	0	0	1	0	1	1
Qatar	0	0	0	0	0	0	0	0	0	0	0	0
Cyprus	1	0	0	0	0	0	1	1	0	0	1	2
North Korea	0	0	0	0	0	0	0	0	0	0	0	0
Costa Rica	2	0	0	0	0	0	2	0	0	0	0	2
Egypt	0	0	0	0	0	0	0	0	0	0	0	0
Spain	783	7	138	326	475	11	1,740	449	367	29	845	2,585
United States	14	0	67	630	0	159	870	117	180	66	363	1,233
France	0	0	5	1	0	1	7	-12	1	9	-2	5
Greece	7	0	1	1	19	0	28	0	2	1	3	31
Honduras	0	0	0	0	0	0	0	0	0	0	0	0
Hungary	1	0	0	1	0	0	2	7	0	0	7	9
Ireland	0	0	0	0	0	0	0	-4	1	0	-3	-3
Italy	-1	0	2	0	0	0	1	98	3	9	110	111
Japan	0	0	0	0	0	0	0	0	0	0	0	0
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
Morocco	0	0	0	0	0	0	0	0	0	0	0	0
Mexico	141	0	9	0	0	0	150	93	22	2	117	267
Montenegro	0	0	0	0	0	0	0	0	0	0	0	0
Norway	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	1	0	0	1	0	0	2	0	1	0	1	3
Portugal	3	0	2	0	0	0	5	169	4	10	183	188
United Kingdom	-27	0	43	142	0	39	197	311	76	90	477	674
Romania	1	0	0	0	21	0	22	0	0	0	0	22
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
Taiwan	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
Total	1,064	7	344	1,106	515	219	3,255	3,182	747	274	4,203	7,458



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 33% 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 2022, the Iberdrola Group **paid a total of €1,064 million** in Corporate Income Tax, with a particularly significant contribution in countries such as Germany, Brazil, Spain and Mexico.

The Corporate **Income Tax** paid represents approximately **17% of its profit before Income Tax**. The ratio of Income Tax paid is **particularly significant in Spain, where it amounts to 30% of profit.**

In terms of **accrual**, according to the data included in the consolidated annual accounts of the Iberdrola Group, the **Income Tax expense** amounted to **€1,161 million** in financial year 2022, which is more than **18%** of its profit before Income Tax.

