



# Introduction to the Governance and Sustainability System

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## 1. The identity of IBERDROLA, S.A.

1. IBERDROLA, S.A., with a registered office in Biscay, is an international, independent company that is publicly traded and listed on the stock market, and which holds equity interests in leading companies engaged in the production, transmission, distribution and supply of electricity in various geographic areas. As such, it constitutes a historical, business, corporate and institutional reality of tremendous size and unquestionable value and significance, a reference point for diverse Stakeholders and closely linked to the environmental, social and economic surroundings in which it does business.

References in the Governance and Sustainability System to **IBERDROLA, S.A.** or the “**Company**” are made to this company individually.

2. The origin of the various companies owned by the Company or the various companies in which it holds an interest has a long history, starting on both sides of the Atlantic. It goes back to 1840 in the United States of America with the organisation of “Hartford City Light Co”, which was in charge of lighting cities by gaslight, and to 1901 on the other side, in Spain and in the United Kingdom, with the founding of “Hidroeléctrica Ibérica, S.A.” in Bilbao in order to meet the growing demand for electric power in the main industrial regions in the north of Spain, and “Clyde Valley Electrical Power Co.” in Glasgow to generate and sell electricity to engineering companies in the area.
3. The Company and the companies in which it holds a majority interest focus their activities on the energy sector, an essential item for millions of users and customers, through the use of environmentally-friendly sources and technologies, and promoting the energy transition and digital transformation.
4. The development of the Company’s corporate object and all its business activities is focused on the achievement of a purpose and certain values, which define its identity and corporate philosophy, and which comprise and form its essence and way of being.

The Company’s purpose, its *raison d’être*, is to “*continue building together each day a healthier, more accessible energy model, based on electricity*”, which contributes to the achievement of the Sustainable Development Goals (SDGs) approved by the United Nations (UN) (especially those relating to universal access to electricity, the supply of affordable and clean energy and climate action), and which satisfies the most stringent standards and requirements in terms of environmental protection, climate action, social commitment, good governance and compliance, within the general framework of respect for and protection of human rights, the social market economy, sustainability and generally accepted ethical principles in its sphere of activity.

Its corporate values, which distinguish its *way of being*, are summarised in those synthesised as “*sustainable energy*”, “*integrating force*” and “*driving force*”, fundamental ideas, viewpoints and guidelines that, along with the purpose described above, constitute the ideological and axiological foundation of the Company and its business enterprise.

5. By formulating its purpose and values, accepting the mandate expressed by its shareholders through successive amendments to its by-laws, the Company stands as a business reality that transcends its nature as purely and merely a commercial company, without negating it, and asserts itself as a company whose purpose is not limited to the achievement of economic benefits, but which instead, guided by its own distinctive *raison d’être*, aspires to the creation of sustainable business value, to the achievement of more than just financial results and benefits, which can remunerate not only the contributors of capital but also all its other Stakeholders, and which engages in its activities through the *social dividend*, which is given formal weight by its *By-Laws*.
6. With this projection, the Company conceives of the corporate interest in its own and different way, as the interest common to all shareholders of an independent company focused on the creation of shared sustainable value in accordance with and based on its distinctive purpose and values and the commitments also assumed in its *Code of Ethics*, which is based thereon.

Similarly, the Company does not consider the holders of its equity interests as mere shareholders but as participants identified with its enterprise; and thus holders of an investment that is focused on long-term sustainable profits and yet compatible with and deriving from the implementation of its purpose and the practice of and respect for its values.

Likewise, the Company does not view its Stakeholders as third parties unrelated to its identity, as they are equally necessary players for the achievement of its enterprise, members of an *integrated company*, to whom it opens up and joins, and with whom it shares the value created, through the *social dividend*.

7. Given its size and significance as well as the basic and essential nature of the energy it produces and distributes for the economy and society, the Company’s business activities and the scope and dimension of its purpose and values are not limited even by the broad framework of all of its Stakeholders, but rather transcends and extends to the countries and territories in which it has a presence and in which it does business.

From this perspective, the Company recognises and reaffirms its desire to be an active player and driving force, and in fulfilling its purpose and values to assume its leadership role in the creation of a balanced and advanced society, in the collective effort to achieve its global and sustainable development and progress.

8. The Company’s identity is also based on its own internal rules, which are configured around three main vectors: its environmental performance and its reaction to climate change, its social commitment, and the application of best corporate governance practices; and which have been conscientiously and progressively developed as an instrument of organisation for all of its members to achieve its purpose and the corporate interest and *social dividend*, as well as the realisation of its values, and to guarantee its enterprise, identity and independence.
9. In sum, the Company aspires to identify itself as an *institutional company* that enriches its purely corporate and private dimension, that opens up and commits itself to its Stakeholders, and that adds to its formal legitimacy the material legitimacy provided thereto by the plural and comprehensive (economic, social, environmental, and governance) business activities that it undertakes and carries out.

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## 2. IBERDROLA, S.A. and the companies of the Iberdrola Group

10. The Company and the companies making up its group (collectively, “Iberdrola”, the “Iberdrola Group” or the “Group”) are currently present in Spain, Portugal, other Member States of the European Union, the United Kingdom, the United States of America, Australia, Mexico and Brazil, among other countries.
11. The Iberdrola Group does not have its own legal personality separate from that of each of the companies that comprise it, nor does it have its own management bodies or positions.

References in the Governance and Sustainability System to “Iberdrola”, to the “Iberdrola Group” or to the “Group” refer to the Company and to the companies belonging to the group of which the Company is the controlling entity, within the meaning established by law, which operate autonomously under a common purpose and values, in a coordinated manner and within a corporate and governance structure designed on three levels (holding company, subholding companies and head of business companies, as described below) to best further the corporate object and the achievement of the corporate interest of each of the companies that comprise it.

12. As regards the corporate organisation of the Iberdrola Group, the Company is a holding company owning the equity stakes in the country subholding companies, which in turn group together the equity stakes in the head of business companies. The governance model is governed by certain principles that differentiate the functions of strategy, supervision, organisation and coordination (attributed to the holding company), strengthening and further developing these three latter functions in relation to the territories or countries or the businesses (through the country subholding companies), and those of day-to-day administration and effective management of the businesses (the purview of the head of business companies).
13. This corporate and governance structure of the group of companies making up Iberdrola operates jointly with the Group’s Business Model, which allows the global integration of the businesses, seeks to achieve maximum operational efficiency of the various units, and ensures the dissemination, implementation and monitoring of the general strategy, the basic management guidelines established for each of the businesses, and best practices.

The Group’s Business Model combines a decentralised decision-making structure, inspired by the principle of subsidiarity, with robust coordination mechanisms that ensure the global integration of the businesses carried out by the companies making up Iberdrola, all based on an effective checks-and-balances system, which prevents management power from being concentrated within a single governance body or a single person.

14. The shares of the Company and of the country subholding companies “Neoenergia S.A.” and “Avangrid, Inc.” are listed on the stock market and have minority shareholders. Within a special framework of strengthened autonomy enjoyed by these two listed country subholding companies, the Company ensures that the legitimate interests of the shareholders thereof other than the Company have sufficient protection and adequately co-exist with the general interests of the other companies of Iberdrola and with the interests of the shareholders of the holding company.

## 3. The Governance and Sustainability System and the Compliance System

15. The Company was a pioneer in the development of its own internal system to ensure, in the exercise of the corporate autonomy supported by law, the preservation of its identity, the realisation of its purposes and values and the achievement of its business ends and objectives.
16. This internal system, initially configured as a Corporate Governance System, has evolved, at the forefront of the best international practices in this area and in response to environmental, social and corporate governance (“ESG”) requirements and objectives, towards a broader system, referred to as Governance and Sustainability, expressing the idea that the Company’s identity, the preservation of its philosophy, and the development of its purpose and values cannot be achieved without a decisive social commitment, without positioning at the forefront on environmental performance, and without a stringent demand to respect and observe good corporate governance.

Thus conceived, the Company’s Governance and Sustainability System in fact constitutes a distinctive feature of the Company as a *comprehensive and institutional company*, as well as the regulatory framework that supports and ensures its purpose, conduct and development.

This Governance and Sustainability System, which is approved by the Company, covers the other companies of the Group, to the extent that the various policies that apply and the subsequent amendments thereof are formally adopted by the country subholding companies and head of business companies as their own or they approve their own policies with content that is consistent with the policies of the Company. This ensures the consistency of the internal rules of the group of companies making up the Group, while respecting the autonomy of the management bodies, and particularly the special framework of strengthened autonomy of the listed country subholding companies.

The Company also has a Compliance System, which is intended to ensure that the Company acts in accordance with ethical principles, the law, and internal rules, particularly the Governance and Sustainability System, to contribute to the full realisation of the *Purpose and Values of the Iberdrola Group* and the corporate interest, and to prevent, manage and mitigate the risk of regulatory and ethical breaches that may be committed by the directors, professionals or suppliers thereof within the organisation. The Company’s Compliance Unit proactively and autonomously oversees the implementation and effectiveness of its Compliance System, which is under continuous review in order to adopt the most advanced international practices and new requirements in this area.



For their part, the country subholding companies and the head of business companies have their own compliance systems, the application and effectiveness of which must be proactively and autonomously monitored by their respective compliance units, without prejudice to the appropriate coordination carried out at all levels of the Group.

17. The Company's Governance and Sustainability System is based on the *By-Laws*, a body of provisions approved by the shareholders at the General Shareholders' Meeting which represents the maximum expression of the corporate autonomy of the Company and which constitutes the primary source of its internal system of rules.

The *By-Laws*, and particularly the preliminary title thereof, expand upon the usual text of these corporate rules and set out the purpose and values of the Company, the definition of its enterprise, its particular concept of the corporate interest – focused on the creation of shared sustainable value, the commitment to the social dividend and engagement with its Stakeholders and its commitment to social leadership – and the determination of the essential basis and of the most significant foundations and aspects of its business, corporate and institutional organisation; in other words, they ultimately draw the guiding lines that define the fundamental features of the Company's identity and individuality and of its business enterprise.

18. The *By-Laws* are based on and should be interpreted in accordance with the specific provisions of the *Purpose and Values of the Iberdrola Group*, the corporate philosophy that sustains all of the companies forming Iberdrola, informs its focus and organisation, guides its strategy, and governs the activities of the Group's companies, as well as the initiatives and decisions thereof.
19. The *Purpose and Values of the Iberdrola Group* is also the basis for the *Code of Ethics*, which further develops and gives concrete shape to the text thereof, is applicable to the directors, professionals and suppliers of the Company and of the other companies comprising Iberdrola, and seeks to foster a culture based on ethics and on a commitment to sustainable development, shared by all those participating in the chain of value creation.
20. As a regulatory instrument, the corporate policies are characterised by their function of linking and solidifying ideas and values into modes, patterns and standards of conduct, rationalising management decisions in various areas and on various issues that so require due to the nature thereof. To that same extent, they entail a positive limitation of the discretion that the directors and professionals of the Company must have in the performance of their duties. As a result thereof they define secure guidelines for conduct, which, if adhered to, can lead to the *prima facie* presumption of conformance and suitability of the corresponding actions to the purpose, the values and the corporate interest of the Company, to the realisation and fulfilment of which they contribute.
21. Consistent with its purpose and values and its resulting commitment to contributing to the achievement of the Sustainable Development Goals (SDGs) approved by the United Nations (UN) and ESG requirements, the Company's Governance and Sustainability System differentiates corporate policies between what can be referred to as general or structural policies (such as the *General Sustainable Development Policy* and the *Stakeholder Engagement Policy*) and those of a more specific or particular nature.
22. Environmental policies, aligned with the goals and the path established by the Paris Agreement and the United Nations (UN) 2030 Agenda for Sustainable Development, constitute the Company's response to environmental challenges such as climate change and biodiversity loss, while helping to identify and take advantage of the opportunities arising from the energy and ecological transition. In line with the *Purpose and Values of the Iberdrola Group* and its sustainable development strategy, they reflect the Company's commitment to combating climate change, to green recovery and to the environment in all its other manifestations, while seeking to generate value for its customers, its shareholders and its other Stakeholders.
23. Along these lines, the policies regarding its social commitment reflect the link of the Company and of the other companies of Iberdrola to human rights, the development of professional relationships based on diversity, inclusion and a sense of belonging, which are essential for the promotion of equal opportunity and ensure non-discrimination in the management of people, all within the framework of the Company's sustainable development strategy.
24. In addition, of particular significance in the Company's internal rules and regulations are the corporate governance and compliance policies and rules, which include best practices in these areas and position the Company at the forefront thereof, and which fall into four categories: (i) corporate governance and regulatory compliance policies; (ii) risk policies; (iii) rules on governance of the corporate decision-making bodies and on other internal functions and committees; and (iv) market abuse prevention rules.
25. Within the framework of the law, ethical principles and the *By-Laws*, the corporate governance and regulatory compliance policies define the directives and guidelines for conduct in which the *Purpose and Values of the Iberdrola Group* and its sustainable development strategy take shape and which guide the conduct of the shareholders, directors and professionals of the Company and of the other companies of Iberdrola to which they apply. These policies, inspired by the business and ethical ideas, principles and values making up the Company's ideological and axiological foundation, contain the detailed guidelines and directives on conduct ensuring that the Company's strategy is consistent therewith, favouring the strengthening and enrichment of the reality and identity of both the companies comprising Iberdrola and the communities in which it does business. They also reflect the Company's firm commitment to the *Purpose and Values of the Iberdrola Group*, to ethical principles, and to the ongoing monitoring and penalisation of improper conduct and acts that are illegal or contrary to law or to the Governance and Sustainability System.
26. In turn, the risk policies are intended to establish the basic principles and general framework for the control and management of risks facing the Company and the other companies of Iberdrola, particularly including both corporate risks and the specific risks of the various businesses.





27. The governance rules of the corporate decision-making bodies and of other functions and internal committees include regulations and procedures that establish, among other things, the composition, powers and rules of operation of the main decision-making and management structures of the Company, as well as the duties and obligations of their members in accordance with its nature and characteristics as a listed holding company.
28. Finally, in view of the presence of the Company and of certain Iberdrola companies in the securities markets and the trading thereon of their financial instruments and securities, the Governance and Sustainability System includes a set of rules that seek to ensure the equal treatment of all investors and the protection thereof against the improper use of inside information or other conduct constituting manipulation and abuse of the market.
29. Consistent with the text described above, the Governance and Sustainability System is formally organised in five books: (i) book one, which contains the *By-Laws*; (ii) book two, referring to the purpose, which includes the *Purpose and Values of the Iberdrola Group*, the *Code of Ethics*, the *General Sustainable Development Policy* and the *Stakeholder Engagement Policy*; (iii) book three, on the environment and climate action, which groups together the environmental policies; (iv) book four, referring to the social commitment, which contains the social policies; and (v) book five, on corporate governance, which contains the corporate governance and regulatory compliance policies, the resilience, innovation and transformation policies, the risk policies and the governance rules of the corporate decision-making bodies and of other functions and internal committees and market abuse prevention rules.
30. The Company aspires for its Governance and Sustainability System to enjoy the highest possible levels of compliance and dissemination, with a particular emphasis on taking advantage of the most advanced, environmentally-friendly technologies and on the principles of regulatory transparency. Therefore, the full text or a summary of the documents that make it up are available in Spanish and English on the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com)). They are also published in accessible formats so that they can be consulted using the most frequently utilised electronic devices, including smart phones, tablets and computers.
31. The Governance and Sustainability System is subject to a process of constant revision to ensure that it is always suitable and conforms to the facts and circumstances requiring any such revision, as well as to ensure that it includes the best guidelines and practices in this area.

In this work to further improve and continually update the Governance and Sustainability System, the Company draws on the external advice of the law firms "CMS Albiñana & Suárez de Lezo", "Cortés, Abogados", "Cuatrecasas, Gonçalves Pereira", "Garrigues" and "Uría Menéndez".

In Bilbao, on 20 February 2024.

The Board of Directors of IBERDROLA, S.A.