Introduction to the Governance and Sustainability System

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I. Iberdrola’s Identity

1. The origin of Iberdrola, S.A. ("Iberdrola" or the "Company") goes back to 1901, when it was organised in Bilbao under the name Hidroeléctrica Ibérica, S.A. in order to meet the growing demand for electric power in the principal industrial regions of the north of Spain.

2. It is currently an international, independent company domiciled in Biscay, and listed on the securities market, which constitutes an 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 economic, social and environmental surroundings in which it does business.

3. Iberdrola focuses its activities on the energy sector, heading up a leading group in the production, transmission, distribution and supply of electricity, an essential item for millions of users and customers, through the use of environmentally-friendly energy sources, and promoting digital transformation.

4. Iberdrola directs the development of its corporate object and all its business activities to 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. Iberdrola’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 (especially those relating to universal access to electricity, the supply of affordable and clean energy and the fight against climate change), and which satisfies the most stringent standards and requirements in terms of environmental protection, social commitment and good governance (ESG), within the general framework of respect for and protection of human rights, the social market economy and generally accepted ethical principles in its sphere of activity.

5. By formulating its purpose and values, accepting the mandate expressed by its shareholders through successive amendments to its by-laws, Iberdrola 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 other Stakeholders and the communities in which it is present, and which engages in its activities through the social dividend, which is given formal weight by its By-Laws.

6. With this projection, Iberdrola 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 on the commitments also assumed in its Code of Ethics, which is based thereon.

7. Similarly, Iberdrola does not consider the holders of its equity interests as mere shareholders but as participants identified with the enterprise of the company in which they are present; 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.

Furthermore, consistently with the foregoing, Iberdrola does not view its Stakeholders as third parties unrelated to its identity, as they are equally necessary players for the achievement of its enterprise, components of an integrated company, effectively integrated with all of them, to whom it opens up and joins, and with whom it shares the value created, through the social dividend.

8. Iberdrola’s identity is also based on its own internal rules, which are developed around three main vectors: its environmental and anti-climate change performance, 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 corporate interest and social dividend, as well as the realisation of its values, and to guarantee its enterprise, identity and independence.

9. In sum, Iberdrola aspires to be an institutional company that enriches its purely corporate and private dimension, that opens up to and commits itself to its Stakeholders and the communities in which it has a presence, 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.
II. The Iberdrola group

10. Iberdrola leads, as the holding company, a group of companies present in Spain, Portugal, other EU member States, the United Kingdom, the United States of America, Australia, Mexico and Brazil, among other countries, structured into three levels that differentiate the functions of strategy, supervision and control of the overall group (attributed to the holding company), those of organisation and coordination of the businesses in relation to the countries and/or the businesses (corresponding to the country subholding companies), and those of day-to-day administration and effective management of each of such businesses (the purview of the head of business companies).

11. The corporate and governance structure of the Iberdrola group 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 them, and best practices.

This Business Model of the Group combines a decentralised decision-making structure, inspired by the principle of “subsidiarity”, with robust coordination mechanisms that ensure the global integration of the group’s businesses, above 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.

12. The Iberdrola group has minority shareholders not only within the holding company, but also within two of its country subholding companies: the Brazilian company Neoenergia S.A. and the U.S. company Avangrid, Inc., which are also listed on the securities market. Within a special framework of strengthened autonomy enjoyed by these two listed country subholding companies, Iberdrola ensures that the legitimate interests of the shareholders of said companies other than Iberdrola have sufficient protection and adequately co-exist with the general interests of the group and with the interests of the shareholders of the holding company.

III. Iberdrola’s Governance and Sustainability System

13. A distinctive feature of Iberdrola is to be a pioneer in the development of its own internal system to ensure through its rules, 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.

14. 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 ESG requirements and objectives, towards a broader system, referred to as Governance and Sustainability, expressing the idea that Iberdrola’s identity, the preservation of its philosophy, and the development of its purpose and values cannot be achieved without the Group’s decisive social commitment, without its positioning at the forefront on environmental performance and against climate change, and without a stringent demand to respect and observe good corporate governance.

Thus conceived, Iberdrola’s Governance and Sustainability System in fact constitutes the internal organisation of Iberdrola as a comprehensive and institutional company, the regulatory framework that supports and ensures its purpose, conduct and development.

15. The 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 Iberdrola 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, the definition of Iberdrola’s 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 Iberdrola’s identity and individuality and of its business enterprise.

16. 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 the Iberdrola group, informs its focus and organisation, guides its strategy, and governs the activities of all the companies of which it is comprised, as well as the initiatives and decisions thereof.

17. 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 its directors, professionals and suppliers, 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 by the Group.

18. 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 Iberdrola 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 Iberdrola, to the realisation and fulfilment of which they contribute.

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19. Consistent with its purpose and values and its resulting commitment to contributing to the achievement of the Sustainable Development Goals (SDGs) and ESG requirements, Iberdrola’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.

20. Environmental policies, aligned with the goals and the path established by the Paris Agreement and the United Nations 2030 Agenda for Sustainable Development, constitute Iberdrola’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 Iberdrola’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, shareholders and its other Stakeholders.

21. Along these lines, the policies regarding its social commitment reflect the group’s link 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.

22. For their part, the corporate governance policies and rules, which include best practices in this area and position Iberdrola at the forefront of the field, 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.

23. Within the framework of the law 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 group. These policies, inspired by the business and ethical ideas, principles and values making up Iberdrola's ideological and axiological foundation, contain the detailed guidelines and directives on conduct ensuring that the group’s strategy is consistent therewith, favouring the strengthening and enrichment of the reality and identity of both the Iberdrola group and the communities in which it does business.

24. The risk policies are intended to establish the basic principles and general framework for the control and management of risks facing the Company and its group, particularly including both corporate risks and the specific risks of the various businesses of the Iberdrola group.

25. The governance rules of the corporate decision-making bodies and of other functions and internal committees include regulations, codes and procedures that establish, among other things, the composition, powers and rules of operation of the main decision-making and management structures of Iberdrola, as well as the duties and obligations of their members.

26. Finally, in view of the presence of Iberdrola and its Group in the securities markets and the trading thereon of its financial instruments and securities, the Governance and Sustainability System also 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.

27. 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 risk policies, the governance rules of the corporate decision-making bodies and of other functions and internal committees and the market abuse prevention rules.

28. Iberdrola 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). 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.

29. 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, and includes the best guidelines and practices in this area.

   In this work to further improve and continually update the Governance and Sustainability System, Iberdrola 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 26 April 2022.
The Board of Directors of Iberdrola, S.A.

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