

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

Financial Year 2019

Our commitment to society





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*East Anglia One,
offshore wind farm (United Kingdom)*





1. Letter from the Chairman & CEO



Ignacio Galán
Chairman & CEO
of Iberdrola

It is with great satisfaction that I submit to you this Tax Transparency Report, which Iberdrola has voluntarily prepared for the second year.

Following in the wake of the report published last year, this report delves into the communication of tax information relevant to all stakeholders that interact with the companies of the Iberdrola Group, following the highest good governance standards in this area.

A noteworthy new development this year is the voluntary inclusion of information regarding the 2019 “Country-by-Country” report (CBCR 2019) of the Iberdrola Group¹. This makes available to society in general the same information that is provided to government tax authorities, which has a bearing on the path of tax responsibility that characterises our group.

Tax transparency is thus inextricably linked with Iberdrola’s comprehensive focus on corporate social responsibility and its alignment with the achievement of the Sustainable Development Goals (SDGs) approved by the United Nations.

Fully aware of its essential contribution to sustaining public expenditures, the group seeks to turn its contribution to the public treasuries into responsible tax practices through measures such as reasonable decision-making, strengthened cooperation with government tax authorities and transparency in the tax information provided to third parties.

I am also pleased to note that in 2019 Iberdrola was the first Spanish company to obtain the AENOR certificate for its tax compliance management system in accordance with the requirements of UNE Standard 19602. 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.

As can be seen in this report, responsibly carrying out our activities, commitment to society and transparency inspire our day-to-day approach to taxation.

¹ Voluntarily includes information regarding the distribution of profits, taxes and economic activities by tax jurisdiction from the “Country-by-Country” report of the Iberdrola Group for financial year 2019.



2. Overall Information on the Iberdrola Group 2019



**One of the 3 largest electric companies worldwide by stock exchange value.
Included on the Stoxx Europe 50 index, which covers the principal companies of Europe in all industries.**

Assets worth 122,369 million euros.

Net profit of 3,406 million euros.

Gross investments of 8,158 million euros.

EBITDA of 10,104 million euros.

The Iberdrola Group's direct tax contribution in 2019 was **8,156 million euros**, an increase of more than 200 million euros over its contribution for the previous year.

The **Iberdrola Group** allocates more than **43 %** of its profits² to the payment of taxes worldwide.

In the case of **Spain**, tax payments represent more than **50 %** of the tax contribution ratio³.

Direct tax contributions, together with indirect and indicative taxes, represent an amount of more than 14,000 million euros.

Leadership in the inclusion of female members on the Board of Directors, by number (43 % of total at year-end 2019 and 36 % in 2018) and because of the importance of their positions (including the vice-chair and various committee chairs).

Commitment to the Sustainable Development Goals.

² Profit before Corporate Income Tax, other taxes and company Social Security contributions.

³ Taxes divided by Profit before Corporate Income Tax, other taxes and company Social Security contributions.



3. *Corporate Tax Policy* Guidelines: the Iberdrola Group's Tax Strategy



The *Corporate Tax Policy* of IBERDROLA, S.A. ("**Iberdrola**" or the "**Company**"), which forms part of the group's corporate governance and regulatory compliance policies, was approved by the Board of Directors in 2010 and is subject to ongoing updates, its latest amendment taking place on 18 December 2018. This policy is the cornerstone for the conduct of the group and of the professionals who guide and supervise tax practices. The basis for the Company's tax strategy is excellence and commitment to good tax practices. This policy has also been adopted by the country subholding companies⁴, as well as by each of the head of business companies.

Principles

The Iberdrola Group's tax **excellence** 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 decisions on tax matters are made based on a reasonable interpretation of applicable legal provisions.
2. **Excellence in the management of tax risks:** the prevention and reduction of significant tax risks requires taxes to bear an appropriate relationship to the actual structure and location of activities, human and material resources, and business risks of the group.
3. **Excellence in relations with the tax authorities:** strengthening relations with the tax authorities in each of the territories in which the group operates is based on respect for the law, fidelity, trust, professionalism, collaboration, reciprocity and good faith.
4. **Tax transparency:** stakeholders' growing demand for tax information from multinational companies requires the maintenance of maximum standards of tax transparency. This report, which represents an improvement in the group's tax transparency, is proof of this.

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



Good Tax Practices

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

With these aims, tax practices require the following:

Iberdrola DOES:

- Comply with all legal and regulatory obligations, by means of a reasonable interpretation of legal provisions.
- Act with integrity in all tax-related decisions, following the recommendations of the good tax practices codes approved in the various countries in which the group does business.
- Cooperate with the tax authorities in the detection of and search for solutions regarding fraudulent tax practices of which the Company is aware.
- Provide significant tax-related information and documents that are requested by the competent tax authorities as soon as practicable and with the required scope.

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

Iberdrola DOES NOT:

- Use artificial or opaque structures for the sole purpose of reducing the tax burden and that are unconnected to the group's economic activity.
- Create or acquire companies registered in countries or territories that Spanish legal provisions deem to be tax havens or that are included in the EU 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. However, a specific procedure approved by the Company is established for this situation.
- Artificially transfer profits from one jurisdiction to another solely to minimise tax payments.



Implementation of the Iberdrola Group's corporate governance in the tax area

The Iberdrola Group's Corporate Governance 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:** the Board of Directors of Iberdrola coordinates the general management strategies and guidelines of the Iberdrola Group within legal limits, acting in furtherance of the interests of each and every one of the companies forming part thereof. Based on the foregoing, the Board of Directors, through its Chairman & CEO and the entire management team, promotes observance of the tax principles and good practices contained in the tax policy approved by the companies forming part of the group with activities that have a significant impact on taxation, without prejudice to the strengthened autonomy applicable to the listed country subholding companies.
2. **At the country subholding companies:** the country subholding companies, respecting the tax principles and good practices set out in the *Corporate Tax Policy*, are responsible for determining, coordinating and supervising compliance, in the respective countries in which they operate, with the standards that must be followed in the application of those taxes that, due to the nature thereof, affect more than one company of the group.
3. **At the head of business companies:** finally, the head of business companies are responsible for complying with tax obligations, in all cases respecting the tax principles and good practices of the *Corporate Tax Policy* and the standards established by the country subholding companies.

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.

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.

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.



This monitoring and control takes place on three levels:

- The head of business companies shall report to the country subholding companies regarding the level of compliance with the *Corporate Tax Policy*.
- The audit and compliance committees (ACC) of the country subholding companies shall report to Iberdrola's Audit and Risk Supervision Committee on the level of compliance with the *Corporate Tax Policy*.
- In accordance with the provisions of its regulations, Iberdrola's Audit and Risk Supervision Committee shall provide to the Board of Directors information on the tax policies and standards applied by the Company during the financial year and, in particular, on the group's level of compliance with the *Corporate Tax Policy*.

For its part, the competent tax division shall report on the tax consequences of transactions or matters that must be submitted for approval of the management bodies of the different companies of the group when they constitute a significant factor.

Ongoing review of the *Corporate Tax Policy*

Taxation is no static matter; rather, it is subject to ongoing review, which requires the Iberdrola Group to be fully apprised of any changes that occur.

This means that like the rest of the Corporate Governance System, the *Corporate Tax Policy* is subject to a constant process of revision to continuously incorporate best practices in this area, adjusting to continuous changes in the environment and, more specifically, to the increased tax demands driven by the globalised environment and to the tax excellence that the group imposes on itself in order to meet the highest standards of tax transparency.

The Global Tax Division must 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 is responsible for ensuring compliance with the *Corporate Tax Policy* in their respective areas of activity, adopting the aforementioned objective standards and the required procedures.





4. 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 as one of their contributions to society in general and to the achievement of the Sustainable Development Goals (SDGs).

Iberdrola's tax practices are inspired by the *Purpose and Values of the Iberdrola Group*⁵, and are based on a commitment to ethical principles, good corporate governance and transparency, with Iberdrola being recognised for the third consecutive year as one of the **leading IBEX-35 companies in tax transparency** by *Fundación Compromiso y Transparencia* (Foundation for Commitment and Transparency). Good tax governance requires responsible tax practices with a commitment to society in general and to transparency, elements that inspire our day-to-day activities in this area, showing that it is possible to maintain an optimal balance among the various legitimate expectations of the stakeholders.

The Iberdrola Group has a legitimate obligation to maximise financial return for its shareholders, which leads, always on the basis of strict compliance with the law, to ensure the maximum possible profit and increase yields for its shareholders and the financial community, while respecting the legitimate interests of the other stakeholders. As a listed company, Iberdrola has a highly fragmented Shareholder base with more than 600,000 shareholders, distributed across institutions, pension funds and individuals who trust in the Company as a means to secure them a future income. Iberdrola therefore has an obligation to return the trust of these shareholders in the Company in the form of a financial dividend. But the group's strategy is far broader than the mere achievement of financial profitability, as the financial dividend is only one component of the social dividend generated by its activities, which is the sum of the economic, social and environmental impacts in the areas in which the Company does business and whose maximisation is a priority aim of the group.

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, with 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 from distorting the extraordinary role that Iberdrola plays through its tax contribution.

⁵ Approved by the Board of Directors of Iberdrola, S.A. on 19 February 2019.

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

1. **Corporate Income Tax is not the only tax that Iberdrola pays.** As stated above, there is a tendency to quantify the taxes that a company pays by focusing exclusively on Corporate Income Tax, and this is incorrect. Iberdrola is affected by more than 100 different taxes worldwide. Therefore, taking 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, as well as being clearly erroneous.

In any case, the absolute figures relating to the Iberdrola Group's Corporate Income Tax are far from low, amounting to 797 million euros in 2019.

2. **Existence of other taxes.** The Iberdrola Group contributes via many other forms of taxation (tariffs, 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, which, in addition to complicating the taxation outlook, generate different tax categories that sometimes overlap with each other, giving rise to cases of double taxation or to situations that could be understood as removed from the paradigm of what tax fairness should be, inspired by the principle of equality, in relation to other sectors of activity.

In this regard, the energy taxes paid by Iberdrola in Spain alone amounted to 729 million euros in 2019, representing 25 % of profit before taxes⁶ in Spain, of which 402 million euros correspond to taxes introduced by Law 15/2012. The foregoing is paradigmatic for a company with activities based on respect for and protection of the environment, complying with or improving upon the standards established in such environmental laws and regulations as may apply, minimising the impact that its activities might have thereon and encouraging actions that contribute to the protection thereof, engaging in and sponsoring research and development projects that promote de-carbonisation of the economy.

Good environmental tax practices undoubtedly represent a very important contemporary instrument for changing the conduct of the economic actors that generate from different sources of energy, precisely to build a better future. Iberdrola contributes to this by creating sustainable value with high-quality service for people, in an efficient, safe and environmentally friendly manner. The group promotes tax practices supporting the "polluting party pays" principle, which would give rise to environmental taxation focused on achieving environmental goals. However, the group believes that these aims are secondary in the current Spanish energy tax framework, which continues to improperly classify certain taxes as environmental, and which in reality strictly prioritises the collection of taxes over environmental goals.

⁶ Profit before Corporate Income Tax, taxes and company Social Security contributions.

In this context, it should be noted that the group has a legitimate dispute over various forms of taxation that specifically affect electricity production and which the legislature justifies to a greater or lesser extent on allegedly environmental grounds. However, the structure of these taxes is not intended to reduce atmospheric pollution or to change the activities of the taxpayer. These taxes are not even collected for environmental purposes, and when they are, those purposes do not tend to coincide with the taxable event giving rise to the tax (but are instead general environmental purposes).

3. Iberdrola lawfully applies the regulations in force 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, with an activity that guarantees the absolute protection of the environment and uses the most cutting-edge technologies, which means that it sometimes has access to tax incentives. When this happens, the group applies them lawfully. The group therefore applies those rules that permit tax incentives in line with applicable law in each case, but this should not lead to the mistaken opinion that there is any avoidance of its tax obligations; rather, entirely to the contrary, i.e. the group is contributing to investment and business development for the creation of wealth and employment in accordance with the legal parameters established in each case. Moreover, in the case of the Iberdrola Group, this investment is fundamentally directed at generating clean energy and smart grids, both essential elements in the active fight against climate change.

4. Other payments are also made to regulatory entities that, although not technically classified as taxes, also help to contribute to supporting public finances. This is the case, for example, of subsidised rates (*bono social*) and the contributions to the Spanish National Energy Efficiency Fund (*Fondo Nacional de Eficiencia Energética*), which involved the contribution of an additional 66 million euros to the government this year, and the payment of concessions in various parts of the world, which contribute to increased tax collection in the various countries in which the companies of the Iberdrola Group do business. All of the foregoing is without including the efforts that the group makes in other economic areas that further the general interest.

5. The group pays the tax authorities numerous taxes, which, as they represent tax obligations, are not included in the income statement, as they are taxes withheld from or passed on to third parties; in 2019, they amounted to a total of 5,215 million euros.

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 GDP⁷ worldwide is approximately 31,127 million euros, of which 11,970 million euros are in Spain, while its global workforce amounts to 34,078 people, with the Company generating close to 400,000 direct, indirect and induced jobs worldwide.

For example, this effort is very significant in **research and development**, far above average both for companies in its sector and for the Spanish business sector, as well as on a global level. Iberdrola is the most innovative utility in Spain, the 2nd in Europe and the 3rd in the world, with investment amounting to 280 million euros in 2019.

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.

⁷ According to PWC report based on Iberdrola's 2018 activity.



Castro,
hydroelectric power plant (Spain)



5. Iberdrola and International Tax Practices: OECD, BEPS and EU



Iberdrola makes an express commitment to apply the OECD guidelines for multinational enterprises in the area of taxation.

The group is fully aligned with the principles and actions proposed by the OECD.

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.

The Iberdrola Group is aligned with the principles and actions proposed by the OECD's **BEPS** (Base Erosion Profit Shifting) **Plan**, which is currently a basic tool in the fight against international tax fraud. In 2019, the group also **made an express commitment to the OECD guidelines for multinational enterprises in the area of taxation**. As such, Iberdrola:

- **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 artificially benefit from advantageous tax regimes. All the tax benefits 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 hybrid structures.

At the OECD level, an *Inclusive Framework* approved by the G-20 was adopted in 2019 to develop “Pillar 1” and “Pillar 2” in order to achieve a consensus-based solution by the end of 2020. “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. The Iberdrola Group believes that this formula is fully in accordance with a fair and properly distributed tax system, such that the taxation of a multinational group should comply with the required sufficiency standards. This is why the mechanism is well received by the group, provided that there is a maximum reduction of the formal obligations of multinational groups and those measures that the various countries want to establish to incentivise economic activity are guaranteed, especially when these measures are required within an expansive environment.

Furthermore, in 2018 the European Union approved *Council Directive 2018/822* as regards mandatory automatic exchange of information in the field of taxation in relation to potentially aggressive tax-planning cross-border arrangements, the transposition of which into the Spanish legal system remains pending. This directive has great importance as an anti-avoidance mechanism on an international level. In advance of the transposition thereof and as part of its tax risk control and management mechanisms, the Iberdrola Group has 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, and transactions giving rise to round-tripping of funds, flows of goods and services or holdings via interposed entities without any commercial function. 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.

*Black Law,
wind farm (United Kingdom)*





6. Transfer Pricing

The group's transfer pricing policy is fully aligned with the transfer pricing guidelines of the OECD.

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. It is for this reason that 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. All the related-party transactions in the group are duly documented on the terms established by the regulations 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).

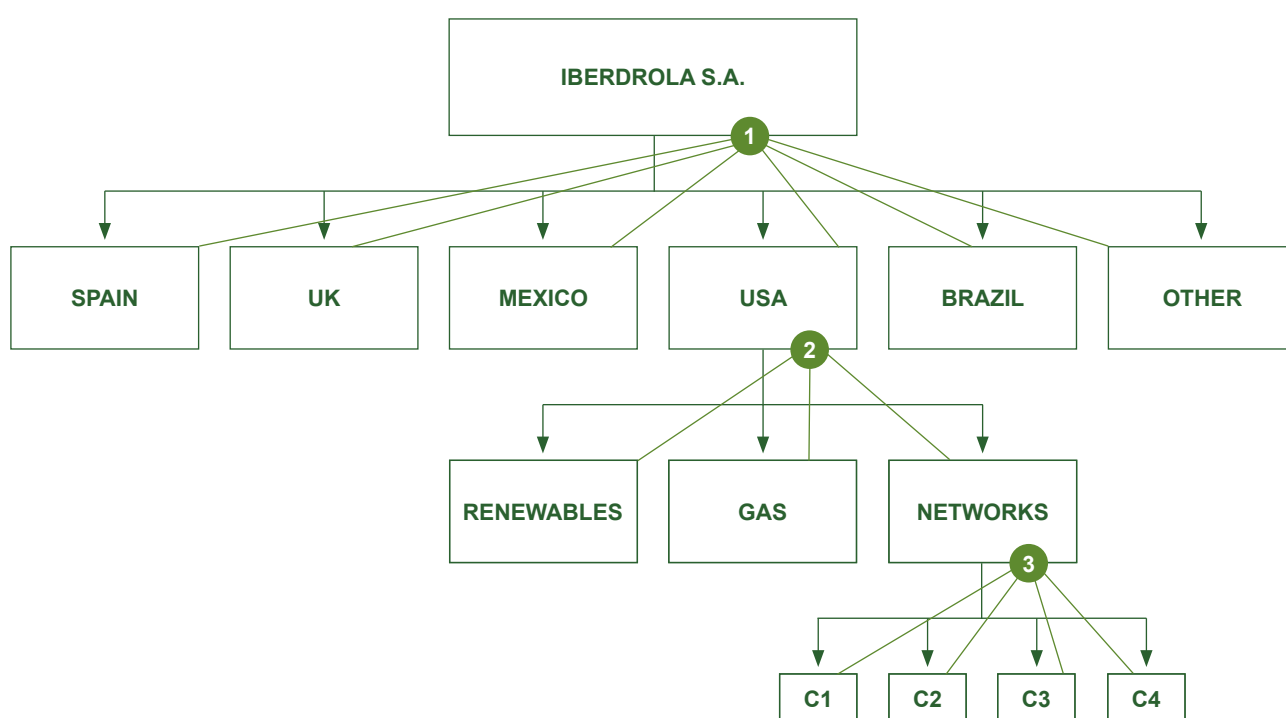
Additionally, in the case of "Neoenergia S.A.", the group's country subholding company in Brazil, there is a Related Parties Committee whose function is to approve the execution of contracts or transactions that said company or any of its subsidiaries sign with related parties, in order to ensure the 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.

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.

Intragroup services

The **support services** provided by Iberdrola to its Spanish and foreign subsidiaries are among the most significant transactions between the companies of the group. These services cover various kinds of deliverables to subsidiaries, such as human resources, systems, research and development support, quality, telephony, financial and legal services. These services are generally provided and invoiced on a “cascading” basis, top-down, from the service-provider companies, at the holding company, country holding company or head of business company level, to the corresponding customer companies.



Group companies are invoiced for corporate services following **standards that are objective, transparent and consistent** with the arm’s length principle, avoiding any discrimination, subsidy or competitive advantage.





7. Tax Havens and Non-Cooperative Jurisdictions



The Iberdrola Group has prohibited the organisation or acquisition of companies residing in tax havens or jurisdictions included on the European Union blacklist as non-cooperative.

There is a special procedure for the organisation or acquisition of companies residing in jurisdictions included on the European Union grey list.

Companies of the Iberdrola Group are 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. Additionally, 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. The group does 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, among the companies in which it has a controlling interest.

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

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



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

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





8. Government Cooperation

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

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

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

Iberdrola also commits to:

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

Applying the highest standards of tax transparency, Iberdrola has adhered to and complies with the *Good Tax Practices Code* approved on 20 July 2010 by the full Forum of Large Businesses (*Foro de Grandes Empresas*), established on 10 July 2009 at the behest of the Spanish Tax Administration Agency (*Agencia Estatal de Administración Tributaria*). Iberdrola's commitment to compliance with and further development and implementation of the code will extend 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*.

As part of its cooperative relationship, Iberdrola has submitted to the Spanish Tax Administration the *Annual Tax Transparency Report for companies adhering to the Good Tax Practices Code* for 2015, 2016, 2017 and 2018.

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



9. Ongoing 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. It should also be taken into account that it is lawful to have disputes with regulatory entities regarding interpretation. The open audits at financial year-end 2019 vary depending on the tax laws of each country.

In the case of Spain, there were no pending audits at financial year-end 2019, although there were various audits during the year that concluded with the signing of certificates showing agreement and showing disagreement. The certificates of agreement entailed the payment of immaterial sums for the group, while the certificates of disagreement resulted in no payment.

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

- In the United States of America, the most significant ongoing audit is related to income tax in the State of New York. Additionally, given its status as a "major taxpayer" at federal and state level, the Avangrid Group has around 28 ongoing audits with regard to other tax items.
- In the United Kingdom, ScottishPower has been assigned the classification of "low risk" taxpayer by the tax authority (HMRC). The only important issue under discussion relates to the deductibility of certain payments made at the instruction of the electricity regulator (OFGEM).
- Finally, Brazil is a highly litigious jurisdiction, and there are a large number of pending audits in that country, which is due to the country's tax and administrative structure and the customary actions of the tax authorities. However, these actions are not expected to have significant impacts for the group, and in general, a very small number of these proceedings are ultimately decided in favour of the Brazilian tax authorities.

It should be noted that all the group's significant tax decisions have been analysed by its internal and external advisors, both for this and for previous financial years, and they have determined that said actions have been in accordance with the law and based on reasonable interpretations of tax regulations.

Tax litigation in Spain

In the corporate tax context in the case of Spain, the group currently has a decision pending from the Central Tax Appeal Board (*Tribunal Económico Administrativo Central*) relating to claims filed arising from certificates of disagreement signed for financial years 2008 to 2011.

The group's main tax litigation matters arising from said certificates relate to the tax deductibility of the financial goodwill arising from the acquisition of ScottishPower, the elimination of the exemption for certain dividends of ScottishPower 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 the possible existence of a transaction involving a change of debtor in certain bond issues, based on circumstances established in section 15.1 of the General Tax Act (*Ley General Tributaria*).

The group also has a decision pending from the Central Tax Appeal Board relating to claims filed arising from certificates of disagreement signed in limited verification proceedings regarding financial years 2012 to 2014. The dispute with the tax authority focuses on whether or not to apply the time standard established in numerous judgements of the Supreme Court regarding revenues obtained



by the group deriving from payments made by application of rules contrary to law.

As regards energy taxation, the group has challenged various state and autonomous community taxes on the grounds that they are contrary to the Spanish Constitution or to European Union law.

In this regard, it is worth noting that as a result of a various preliminary issues raised by the Spanish Supreme Court, the Court of Justice of the European Union has analysed the compatibility with EU law of the hydraulic fee and of the taxes on production of spent nuclear fuel and nuclear waste and on the storage of nuclear waste, all introduced by Law 15/2012, finding that both taxes were in accordance therewith (the potential submission by the Spanish Supreme Court of an issue of unconstitutionality before the Constitutional Court is pending). A decision is currently pending from the Court of Justice of the European Union with respect to a preliminary issue regarding the compatibility with European Union Law of the electric power production value tax, also contained in Law 15/2012.

Tax litigation in other countries

In general, there is no significant tax litigation in the various jurisdictions in which the group does business (other than Spain), 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.





10. UNE Standard 19602

UNE Standard 19602, which establishes a standard of reference, as well as guidelines and requirements that a tax compliance management system must have, was approved in February 2019. 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 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.

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

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.

The certification confirms that Iberdrola has a robust tax risk prevention model in line with good corporate governance tax practices, which is duly monitored, updated and aligned with applicable legal requirements.



11. "Country-by-Country" Tax Contribution

a. Overall tax contribution data.

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

The group has an economic presence across some 30 countries.

The total direct tax contribution in 2019 amounted to **8,156 million euros**, distributed among the following categories (in millions of euros):

| | |
|-----------------------------------|--------------|
| Own taxes | 2,941 |
| Corporate Income Tax | 797 |
| Non-deductible VAT and similar | 5 |
| Company contributions on salaries | 299 |
| Local taxes | 920 |
| Energy taxes | 733 |
| Other own taxes | 187 |
| Taxes collected | 5,215 |
| VAT and similar | 4,325 |
| Withheld third-party income | 672 |
| Other taxes collected | 218 |
| Overall total | 8,156 |

b. "Country-by-country" direct tax contribution.

The distribution of just the direct tax contribution by country in comparison with 2018 is as follows:

| Taxes paid into the public treasury €MM | Taxes charged to the income statement | | Taxes collected | | Total | |
|---|---------------------------------------|--------------|-----------------|--------------|--------------|--------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Spain | 1,500 | 1,770 | 2,029 | 1,872 | 3,529 | 3,642 |
| United Kingdom | 357 | 377 | 282 | 235 | 639 | 612 |
| United States of America | 665 | 627 | 298 | 277 | 963 | 904 |
| Brazil | 177 | 164 | 2,393 | 2,269 | 2,570 | 2,433 |
| Mexico | 221 | 136 | 37 | 23 | 258 | 159 |
| Other | 21 | 22 | 176 | 167 | 197 | 189 |
| Total | 2,941 | 3,096 | 5,215 | 4,843 | 8,156 | 7,939 |

This means that the direct tax contribution in 2019 exceeded that made in 2018 by more than 200 million euros.

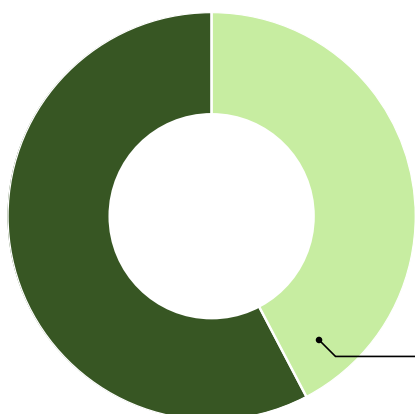
Taking into account only the taxes recorded with a charge to the income statement, the tax contribution ratios are as follows:

| | Taxes charged to the income statement (€MM) ⁽¹⁾ | % Tax contribution ratio ⁽²⁾ |
|---------------------------------|--|---|
| Spain | 1,500 | 50.5 % |
| United Kingdom | 357 | 34.3 % |
| United States of America | 665 | 50.6 % |
| Brazil | 177 | 25.4 % |
| Mexico | 221 | 33.4 % |
| Other | 21 | 11.4 % |
| Total | 2,941 | 42.8 % |

⁽¹⁾ Includes Corporate Income Tax, company Social Security contribution, other taxes and non-deductible VAT.

⁽²⁾ Ratio between payment of taxes and profit before taxes (Corporate Income Tax, other taxes and company Social Security contribution) in each country.

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



This information is particularly significant in the case of Spain and the United States of America, where more than 50 % of profit before taxes is allocated to the payment of all classes of taxes.

Total Iberdrola 42.8 %
€2,941 MM

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

Spain / €MM

| | |
|-------------------------------|---------------|
| Tax contribution ratio | 50.5 % |
|-------------------------------|---------------|

| | |
|--|--------------|
| Total paid into public treasury | |
| Own taxes | 1,500 |
| Third-party taxes | 2,029 |
| Overall total | 3,529 |

| | |
|--------------------------------|--------------|
| Own taxes | |
| Corporate Income Tax | 367 |
| Non-deductible VAT and similar | 5 |
| Taxes on salaries: company | 139 |
| Local taxes | 256 |
| Energy taxes | 729 |
| Other own taxes | 4 |
| Overall total | 1,500 |

| | |
|-----------------------------|--------------|
| Third-party taxes | |
| VAT and similar | 1,712 |
| Withheld third-party income | 288 |
| Other third-party taxes | 29 |
| Overall total | 2,029 |

Remarks

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

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

The amount of energy taxes is very high, particularly since the approval of *Law 15/2012 of 27 December, on tax measures for energy sustainability*. However, the amount has decreased from the prior year, due in part to the temporary suspension of the Electric Power Production Value Tax (*Impuesto sobre el valor de la producción de energía eléctrica*).

The reduction in the amount of Corporate Income Tax paid in Spain is significant, due in part to the extraordinary payment arising from the recovery of State aid corresponding to financial goodwill in 2018.

The other variations in data in comparison with the prior financial year are due to the normal evolution of business.

Legal entities

124

Most significant entities:

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

United Kingdom / €MM

| | |
|-------------------------------|---------------|
| Tax contribution ratio | 34.3 % |
|-------------------------------|---------------|

| | |
|--|------------|
| Total paid into public treasury | |
| Own taxes | 357 |
| Third-party taxes | 282 |
| Overall total | 639 |

| | |
|--------------------------------|------------|
| Own taxes | |
| Corporate Income Tax | 101 |
| Non-deductible VAT and similar | 0 |
| Taxes on salaries: company | 36 |
| Local taxes | 135 |
| Energy taxes | 0 |
| Other own taxes | 85 |
| Overall total | 357 |

| | |
|-----------------------------|------------|
| Third-party taxes | |
| VAT and similar | 141 |
| Withheld third-party income | 65 |
| Other third-party taxes | 76 |
| Overall total | 282 |

Remarks

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

There is a noteworthy increase in Corporate Income Tax due to an increase in profits and the change in the frequency of payments on account, as well as a reduction in energy taxes due to the sale of the generation business.

Legal entities

36

Most significant entities:

Scottish Power, Ltd.
 Scottish Power UK, Plc
 ScottishPower Investments, Ltd.
 ScottishPower Overseas Holdings, Ltd.
 SPW Investments Ltd.
 ScottishPower Renewables, Ltd.
 ScottishPower Renewables UK, Ltd.
 ScottishPower Energy Management, Ltd.
 ScottishPower Energy Retail, Ltd.
 ScottishPower Generation, Ltd.
 SP Distribution, Plc
 SP Transmission, Plc

United States of America / €MM

| | |
|-------------------------------|---------------|
| Tax contribution ratio | 50.6 % |
|-------------------------------|---------------|

| | |
|--|------------|
| Total paid into public treasury | |
| Own taxes | 665 |
| Third-party taxes | 298 |
| Overall total | 963 |

| | |
|--------------------------------|------------|
| Own taxes | |
| Corporate Income Tax | 2 |
| Non-deductible VAT and similar | 0 |
| Taxes on salaries: company | 49 |
| Local taxes | 525 |
| Energy taxes | 0 |
| Other own taxes | 89 |
| Overall total | 665 |

| | |
|-----------------------------|------------|
| Third-party taxes | |
| VAT and similar | 80 |
| Withheld third-party income | 171 |
| Other third-party taxes | 47 |
| Overall total | 298 |

Remarks

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

After the tax reform in financial year 2018, the federal tax rate is 21 %.

There are certain federal and state tax incentives that apply to the Avangrid Group.

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

Legal entities

155

Most 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

Brazil / €MM

| | |
|-------------------------------|---------------|
| Tax contribution ratio | 25.4 % |
|-------------------------------|---------------|

| | |
|--|--------------|
| Total paid into public treasury | |
| Own taxes | 177 |
| Third-party taxes | 2,393 |
| Overall total | 2,570 |

| | |
|---------------------------------------|------------|
| Own taxes | |
| Corporate Income Tax | 102 |
| Non-deductible VAT and similar | 0 |
| Taxes on salaries: company | 63 |
| Local taxes | 3 |
| Energy taxes | 0 |
| Other own taxes | 9 |
| Overall total | 177 |

| | |
|------------------------------------|--------------|
| Third-party taxes | |
| VAT and similar | 2,231 |
| Withheld third-party income | 121 |
| Other third-party taxes | 41 |
| Overall total | 2,393 |

Remarks

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

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

As regards Corporate Income Tax, the federal rate is 34 %, but there are certain incentive measures such as payment for presumed profit and the SUDENE incentives, which reduce effective taxation.

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

The increase in VAT collections due to the increase in billing is noteworthy in this regard.

Legal entities

100

Most significant entities:

Neoenergia S.A.

Neoenergia Investimentos, S.A.

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

Companhia Energética de Pernambuco, S.A.

Companhia Energetica 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.

NC Energia, S.A.

Mexico / €MM

| | |
|-------------------------------|---------------|
| Tax contribution ratio | 33.4 % |
|-------------------------------|---------------|

| | |
|--|------------|
| Total paid into public treasury | |
| Own taxes | 221 |
| Third-party taxes | 37 |
| Overall total | 258 |

| | |
|--------------------------------|------------|
| Own taxes | |
| Corporate Income Tax | 214 |
| Non-deductible VAT and similar | 0 |
| Taxes on salaries: company | 7 |
| Local taxes | 0 |
| Energy taxes | 0 |
| Other own taxes | 0 |
| Overall total | 221 |

| | |
|-----------------------------|-----------|
| Third-party taxes | |
| VAT and similar | 17 |
| Withheld third-party income | 18 |
| Other third-party taxes | 2 |
| Overall total | 37 |

Remarks

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

The group's investment process in Mexico means that VAT payments under this item in the already operating businesses are combined with significant recoveries of tax paid in the investment-phase businesses.

There was an increase in Corporate Income Tax in 2019, mainly due to the increase in provisional payments (on account) based on the profit margin from the prior year.

Legal entities

43

Most 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.
Iberdrola Renovables Centro, S.A. de C.V.
Iberdrola Renovables Noroeste, S.A. de C.V.
Iberdrola Renovables del Bajío S.A. de C.V.
Enertek, S.A. de C.V.
Desarrollos Inmobiliarias Laguna del Mar, S.A. de C.V.
Enermón S.A. de C.V.
Iberdrola Ingeniería y Construcción México, S.A. de C.V.

Other / €MM

| | |
|-------------------------------|---------------|
| Tax contribution ratio | 11.4 % |
|-------------------------------|---------------|

Total paid into public treasury

| | |
|--------------------------|------------|
| Own taxes | 21 |
| Third-party taxes | 176 |
| Overall total | 197 |

Own taxes

| | |
|---------------------------------------|-----------|
| Corporate Income Tax | 11 |
| Non-deductible VAT and similar | 0 |
| Taxes on salaries: company | 5 |
| Local taxes | 1 |
| Energy taxes | 4 |
| Other own taxes | 0 |
| Overall total | 21 |

Third-party taxes

| | |
|------------------------------------|------------|
| VAT and similar | 144 |
| Withheld third-party income | 9 |
| Other third-party taxes | 23 |
| Overall total | 176 |

Legal entities

39

Most significant entities:

Iberdrola Energie Deutschland, GmbH
 Iberdrola Renovables Offshore Deutschland, GmbH
 Iberdrola Renovables Deutschland GmbH
 Baltic Eagle GmbH
 Iberdrola Canadá Energy Services, Ltd.
 Iberdrola Renewables Canadá, Ltd.
 Iberdrola Energie France, S.A.S.
 Ailes Marine, S.A.S.
 Iberdrola Renovables France, S.A.S.
 C. Rokas Industrial Commercial Company, S.A.
 PPC Renewables Rokas, S.A.
 Rokas Aeoliki Thraki III, S.A.
 Rokas Construction, S.A.
 Rokas Hydroelectric, S.A.
 Iberdrola Clienti Italia, S.R.L. (Antes Iberdrola Energia Italia, S.R.L.)
 Iberdrola Renovables Italia, S.p.A.
 Iberdrola Clientes Portugal, Unipessoal Ltda.
 Ibertâmega - Sistema Electroprodutor Do Tâmega, S.A.
 Iberdrola Suporte Projecto Tâmega, Unipessoal Lda.
 Eonergi Energía Eólica, S.A.
 Iberdrola Renewables Portugal, S.A.

Summary table: total tax contribution (millions of euros).

| | Own taxes | | | | | | Total own taxes | Taxes collected | | | Total taxes collected | Total net contribution |
|---------------------------------|----------------------|--------------------------------|-----------------------------------|-------------|--------------|-----------------|-----------------|-----------------|-----------------------------|-----------------------|-----------------------|------------------------|
| | Corporate Income Tax | Non-deductible VAT and similar | Company contributions on salaries | Local taxes | Energy taxes | Other own taxes | | VAT and similar | Withheld third-party income | Other taxes collected | | |
| Spain | 367 | 5 | 139 | 256 | 729 | 4 | 1,500 | 1,712 | 288 | 29 | 2,029 | 3,529 |
| United Kingdom | 101 | 0 | 36 | 135 | 0 | 85 | 357 | 141 | 65 | 76 | 282 | 639 |
| United States of America | 2 | 0 | 49 | 525 | 0 | 89 | 665 | 80 | 171 | 47 | 298 | 963 |
| Brazil | 102 | 0 | 63 | 3 | 0 | 9 | 177 | 2,231 | 121 | 41 | 2,393 | 2,570 |
| Mexico | 214 | 0 | 7 | 0 | 0 | 0 | 221 | 17 | 18 | 2 | 37 | 258 |
| Other | 11 | 0 | 5 | 1 | 4 | 0 | 21 | 144 | 9 | 23 | 176 | 197 |
| Overall total | 797 | 5 | 299 | 920 | 733 | 187 | 2,941 | 4,325 | 672 | 218 | 5,215 | 8,156 |

Taxes paid and collected by the Iberdrola Group in each country by category (millions of euros).

| | Own taxes | | | | | | Total own taxes | Taxes collected | | | Total taxes collected | Total net contribution |
|--------------------------|----------------------|--------------------------------|-----------------------------------|-------------|--------------|-----------------|-----------------|-----------------|-----------------------------|-----------------------|-----------------------|------------------------|
| | Corporate Income Tax | Non-deductible VAT and similar | Company contributions on salaries | Local taxes | Energy taxes | Other own taxes | | VAT and similar | Withheld third-party income | Other taxes collected | | |
| Germany | 0 | - | 1 | - | - | - | 1 | 16 | 1 | 1 | 18 | 19 |
| Algeria | - | - | 0 | - | - | - | 0 | - | 0 | 0 | 0 | 0 |
| Australia | - | - | - | - | - | - | 0 | - | 0 | - | 0 | 0 |
| Brazil | 102 | - | 63 | 3 | - | 9 | 177 | 2,231 | 121 | 41 | 2,393 | 2,570 |
| Bulgaria | - | - | 0 | 0 | - | - | 0 | 0 | 0 | - | 0 | 0 |
| Canada | 1 | - | 0 | 0 | - | - | 1 | - | 1 | 0 | 1 | 2 |
| Cyprus | 0 | - | 0 | - | 0 | - | 0 | 1 | 0 | 0 | 1 | 1 |
| Costa Rica | - | - | - | 0 | - | - | 0 | 0 | 0 | - | 0 | 0 |
| Egypt | - | - | - | - | - | - | 0 | - | 0 | - | 0 | 0 |
| Spain | 367 | 5 | 139 | 256 | 729 | 4 | 1,500 | 1,712 | 288 | 29 | 2,029 | 3,529 |
| United States of America | 2 | - | 49 | 525 | 0 | 89 | 665 | 80 | 171 | 47 | 298 | 963 |
| France | - | - | 2 | 0 | - | 0 | 2 | 14 | 1 | 1 | 16 | 18 |
| Greece | 10 | 0 | 1 | 0 | 3 | 0 | 14 | 3 | 1 | 1 | 5 | 19 |
| Hungary | 1 | - | 0 | 1 | - | 0 | 2 | 9 | - | 0 | 9 | 11 |
| Ireland | - | - | 0 | - | - | - | 0 | 0 | 0 | 0 | 0 | 0 |
| Italy | - | - | 1 | - | - | 0 | 1 | 0 | 3 | 10 | 13 | 14 |
| Kenya | - | - | - | - | - | - | 0 | 1 | 0 | - | 1 | 1 |
| Latvia | 0 | - | 0 | - | - | - | 0 | 0 | 0 | 0 | 0 | 0 |
| Luxembourg | 0 | 0 | 0 | 0 | - | - | 0 | 0 | 0 | 0 | 0 | 0 |
| Mexico | 214 | 0 | 7 | 0 | - | 0 | 221 | 17 | 18 | 2 | 37 | 258 |
| Montenegro | 0 | - | 0 | - | - | - | 0 | - | 0 | - | 0 | 0 |
| Netherlands | 2 | 0 | - | - | - | - | 2 | 0 | 0 | - | 0 | 2 |
| Poland | - | - | 0 | - | - | - | 0 | 0 | 0 | - | 0 | 0 |
| Portugal | -3 | 0 | 0 | 0 | 1 | 0 | -2 | 100 | 2 | 10 | 112 | 110 |
| Qatar | - | - | - | - | - | - | 0 | - | 0 | - | 0 | 0 |
| United Kingdom | 101 | - | 36 | 135 | - | 85 | 357 | 141 | 65 | 76 | 282 | 639 |
| Romania | - | - | 0 | 0 | - | - | 0 | - | 0 | 0 | 0 | 0 |
| South Africa | 0 | - | 0 | - | - | - | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall total | 797 | 5 | 299 | 920 | 733 | 187 | 2,941 | 4,325 | 672 | 218 | 5,215 | 8,156 |



c. Direct tax contribution in the "Country-by-country" Corporate 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 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.

Therefore, Iberdrola 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.

The Iberdrola Group made a **total payment** for Corporate Income Tax in 2019 in the amount of **797 million euros**.

This means that the Corporate Income Tax paid represents 17 % of its profit before Corporate Income Tax.

In terms of **accrual**, according to the data included in the consolidated annual accounts of the Iberdrola Group, the **Corporate Income Tax expense** amounted to **923 million euros** in financial year 2019, which is 19 % of its profit before Corporate Income Tax.

In the case of **Spain**, the Corporate Income Tax payment in 2019 represents **21 %** of profit before Corporate Income Tax.

| Tax jurisdiction | Revenues - Third party | Revenues - Related party | Revenues - Total | Pre-tax profit | Corporate Income Tax - Paid | Corporate Income Tax - Accrued | Capital Declared | Retained earnings | Number of professionals | Tangible assets |
|--------------------------|------------------------|--------------------------|------------------|----------------|-----------------------------|--------------------------------|------------------|-------------------|-------------------------|-----------------|
| GERMANY | 253,472,539 | 43,104,010 | 296,576,548 | 140,455,366 | 845 | 32,216,277 | - | 529,207,059 | 59 | 1,509,253,548 |
| ALGERIA | - | - | - | - | - | - | - | 7,733,245 | - | - |
| AUSTRALIA | 391 | 391 | - | 384,017 | - | 16 | - | 291,632 | 1 | 13,845,339 |
| BRAZIL | 7,089,924,194 | - | 7,089,924,194 | 622,954,151 | 102,183,351 | 65,166,908 | - | 2,307,592,448 | 11,767 | 7,791,353,460 |
| BULGARIA | - | - | - | 969,077 | - | - | - | 13,822,176 | - | - |
| CANADA | 6,181,575 | 8,777 | 6,190,352 | 1,134,782 | 655,640 | 618,677 | - | 136,704,790 | 5 | 16,248,767 |
| CYPRUS | 4,521,646 | - | 4,521,646 | 2,771,746 | 27,500 | - | - | 3,145,344 | 1 | 20,964,078 |
| COSTA RICA | - | - | - | - | - | - | - | 9,255,836 | - | - |
| EGYPT | - | - | - | - | - | - | - | 237,282 | - | - |
| SPAIN | 14,828,533,624 | 975,108,257 | 15,803,641,884 | 1,774,281,328 | 366,583,159 | 409,478,945 | 4,771,554,000 | 11,421,611,507 | 9,571 | 23,822,514,296 |
| FRANCE | 52,335,312 | 6,568,946 | 45,766,366 | 15,807,063 | - | 1,030,380 | - | 860,199 | 68 | 100,966,124 |
| GREECE | 56,640,375 | - | 56,640,375 | 29,767,274 | 9,665,179 | 6,523,044 | - | 131,804,894 | 84 | 158,813,645 |
| HUNGARY | 38,462,651 | 213,748 | 38,676,398 | 20,956,774 | 1,481,928 | 1,417,336 | - | 180,932,003 | 10 | 175,979,576 |
| IRELAND | 2,753,041 | 37,979 | 2,715,062 | 3,324,022 | - | - | - | 1,737,493 | 4 | 4,112,369 |
| ITALY | 213,046,642 | 14,083,770 | 198,962,872 | 35,138,781 | - | 812,835 | - | 45,404,782 | 67 | 1,085,629 |
| KENYA | - | - | - | - | - | - | - | 1,819,894 | - | - |
| LATVIA | 6,847,721 | - | 6,847,721 | 2,007,535 | 102,495 | 228,745 | - | - | 1 | - |
| LUXEMBOURG | 581,346 | - | 581,346 | 11,870,317 | 18,338 | 45,268 | - | 83,763,432 | - | - |
| MEXICO | 2,460,051,600 | 2,386,639 | 2,457,664,960 | 645,464,121 | 214,315,433 | 147,880,580 | - | 2,543,227,730 | 1,292 | 5,266,831,714 |
| MONTENEGRO | - | - | - | - | 41,245 | - | - | 2,808,241 | - | - |
| NETHERLANDS | 0 | 331,572,965 | 331,572,965 | 26,078,540 | 2,602,096 | 2,269,701 | - | 2,658,322,793 | - | - |
| POLAND | - | - | - | - | - | - | - | 6,803,510 | - | - |
| PORTUGAL | 856,408,261 | 100,681 | 856,508,943 | 16,816,288 | 3,185,450 | 1,259,979 | - | 221,245,319 | 89 | 790,512,248 |
| QATAR | 140,130 | 1,295 | 141,426 | 1,719,680 | - | - | - | 665,990 | 9 | 221,154 |
| ROMANIA | 10,430,275 | 144,537 | 10,574,812 | 4,109,157 | - | 201 | - | 56,810,562 | 5 | 51,172,464 |
| RUSSIA | - | - | - | - | - | - | - | 7,642 | - | - |
| SOUTH AFRICA | 10,244 | 10,244 | 0 | 563,035 | 15,996 | - | - | 2,989,781 | - | 4,627,088 |
| UNITED KINGDOM | 5,879,876,476 | 39,639,100 | 5,919,515,576 | 755,742,278 | 101,342,993 | 91,813,842 | - | 6,642,258,147 | 5,473 | 15,509,191,616 |
| UNITED STATES OF AMERICA | 5,546,052,382 | 856,711 | 5,546,909,094 | 797,422,723 | 1,352,608 | 46,761,388 | - | 8,782,372,624 | 6,613 | 22,723,746,563 |
| | 37,306,270,424 | 1,367,662,112 | 38,673,932,540 | 4,793,926,704 | 797,203,355 | 710,314,515 | 4,771,554,000 | 35,455,275,232 | 35,120 | 77,961,439,679 |



In the core jurisdictions (Spain, United Kingdom, United States of America, Mexico and Brazil), the Iberdrola Group presents in 2019 (like in prior years) a high level of "linearity" in the ratio of the various parameters represented.

The most significant deviations are the following:

- The ratio of professionals in Brazil is high due to the lower amount of subcontracted work, above all in the regulated business, compared to other jurisdictions (maintenance, measurement, new construction, etc.).
- In Mexico, the efficiency of the business (few material and human resources generate high profitability) is noteworthy, while the volume of taxes paid and accrued is high, which is due to the high nominal rate of the income tax (30 %) and the absence of other types of taxes.
- In the United States of America, of note is the percentage volume of Corporate Income Tax paid, which is practically residual, with revenue or profits standing at around 15 % of the group's total revenue or profits. This is because the group's activities in generation from renewable sources and the specific rules on tax incentives for these activities (accelerated depreciation and tax credits through Production Tax Credits and Investment Tax Credits) create a large volume of tax credits that reduce (federal and state) corporate income taxes to minimal levels until such credits are used and depleted. The tax characteristics of the investments in the United States of America derive from significant volume, with a high employment generation rate and production of electricity from renewable and sustainable sources, that allow for the generation of tax credits (in some cases temporary) that reduce the taxes paid during this financial year and give rise to a lower level of Corporate Income Tax paid.

*Aldeadávila,
hydroelectric power plant (Spain)*



