



Procurement and Supplier Management activity report

*“Contribution to Iberdrola
group’s sustainability”*

2022-2023

Message from the Procurement and Services Director



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Procurement and Services Director

Volatile environment, we increase our resilience

The 2020-2022 period marked a turning point in global supply chain management. These have been years in which, thanks to the efforts made in the past, we have been able to nimbly manage and provide solutions to the supply chain disruptions that have impacted our activity: pandemic, unavailability of certain components, war and geopolitical conflicts... all of which have led to an escalation in raw material prices, inflation and higher labour costs for our suppliers.

These macroeconomic and geopolitical factors have reinforced our commitment to professional procurement and supply chain risk management. Of particular note is the increase in cyber risk that may come from our suppliers, for which we are developing a specific action plan.

Record investment plan, need to secure key supplies

In this context, the Iberdrola group continues to make progress on its investment plan of €47 billion during the 2023-2025 period and consolidates its business model, based on more renewable energy, networks, storage and smart solutions for customers. This will further help to drive the energy transition, employment and net zero emissions.

In addition, the opportunities offered by this green transition have attracted leading companies from other sectors to the renewables sector, such as oil and gas, and investment funds interested in entering such an attractive sector, where Iberdrola

has been a pioneer and is a leader today. This movement, which is positive for the fight to reduce emissions, increases the demand for specialised equipment and services, creating further tension in these markets.

Executing this level of investment in a context of increased volatility and demand pressure is a challenge for the procurement function, as we must ensure that we have reliable sources for the strategic supplies required for the development of the plan. In 2023, we are taking specific actions to secure the supply of key equipment for the investment plan to 2025 and, in some categories, up to 2030.

This year we have made progress in the strategy of reducing dependence on certain countries with high risks associated with geopolitical and social conflicts and we continue with our historical commitment to our local suppliers. Accordingly, and among other initiatives, we are collaborating to promote the installation of photovoltaic module manufacturing plants in Europe, which will start supplying equipment in 2024.

Driving ESG in our supply chain

All of this increases our commitment to the highest level by driving sustainability in our supply chain, as we have once again incorporated this strategic goal in the long-term remuneration of the management team, raising the level of demand for the 2023-2025 period to 85% of our main suppliers.

In addition, Procurement is actively supporting initiatives such as the First Movers Coalition and Steel Zero, which involve specific commitments to decarbonise production processes and imply a higher level of demand and excellence in our supply chain.

Finally, 2023 is a key year in which we expect new regulatory obligations to materialise, such as the EU Due Diligence Directive for which we have been preparing for some time now.

Procurement is an important lever for the Group to promote the energy transition, job creation and decarbonisation

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01.

Introduction

1. Introduction

Mission

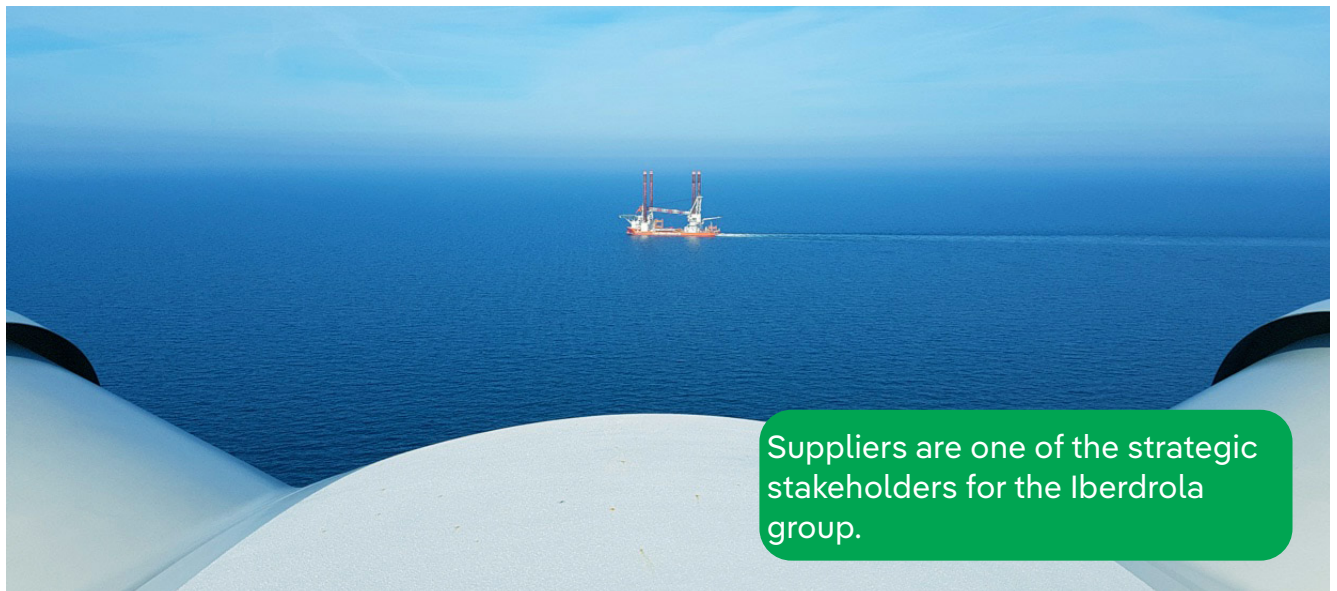
The Iberdrola group's Procurement Division is part of the Procurement and Services Division, together with the Insurance and General Services function.

The Procurement Division's mission is the corporate and centralised execution of purchasing equipment and material (except power and fuel), as well as construction and service contracts, in order to meet the strategic goals set by the Board of Directors in terms of cost efficiency, strategic alignment, internal Group regulation, sustainability, ethics, and compliance with current legislation.

In its day-to-day undertakings, the Purchasing and Services Division strives to create value for its stakeholders by assuming and promoting the Group's values and commitments regarding the ethics and social responsibility issues in the Group's [Code of ethics](#) and the Governance and Sustainability System.

The procurement process involves mechanisms to ensure transparent management, integrity, and responsibility throughout the supply chain. This has enabled the company to take on globalisation and internationalisation processes with the confidence that the values and commitments to ethics and responsibility are transmitted to suppliers, regardless of their global location or area of activity.

When responding to internal and external demands, the Procurement Division is proactive in developing new capabilities and interacting with suppliers from their first contact with the Group. Suppliers are one of the strategic stakeholders for the Iberdrola group.



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02.

Procurement in the Iberdrola group

2. Procurement in the Iberdrola group

Values of the Procurement function

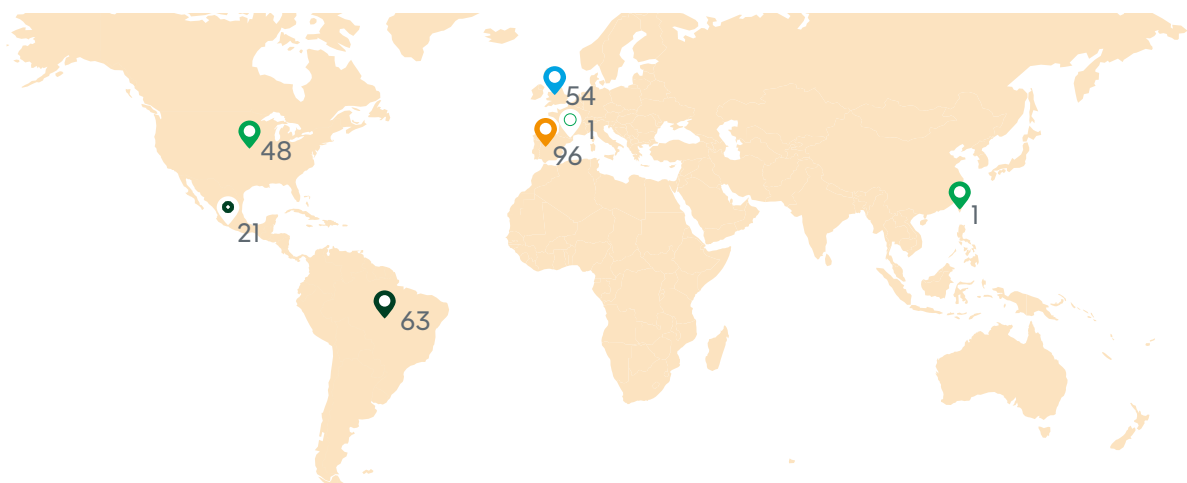
The Procurement function at Iberdrola is centralised, allowing for synergies and the application of best practices in purchasing throughout the Group and is based on these four core values:



The organisation of Procurement

The Procurement organisation is comprised of a centralised management and over 284 professionals strongly rooted in the local community. This enables us to benefit from the talent and proximity to operations of the business areas and corporate fabric of the countries in which we work.

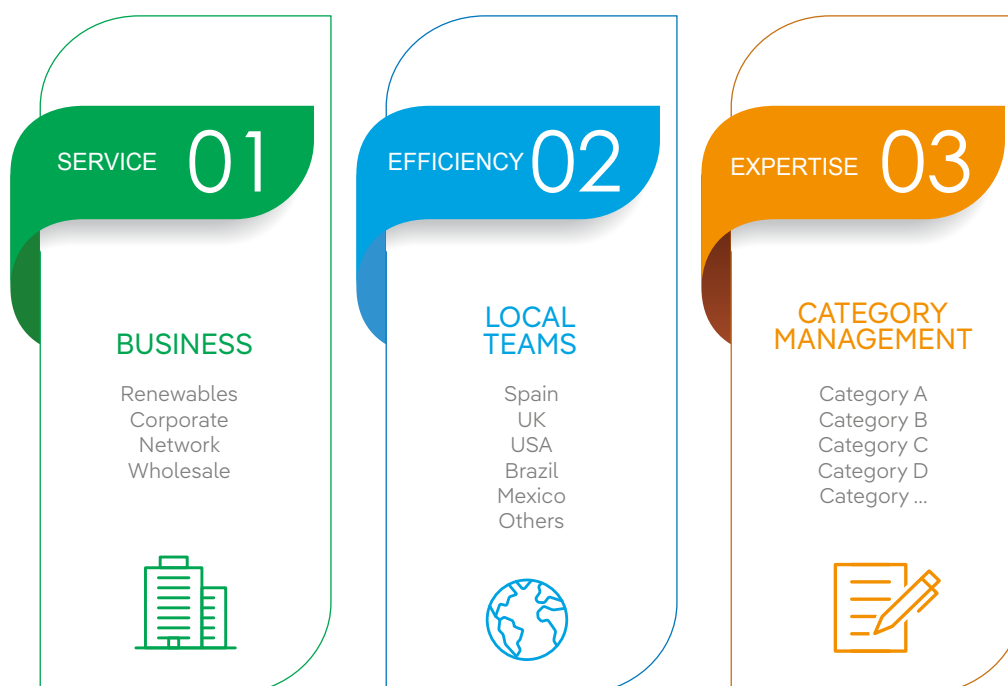
Geographical distribution of Procurement staff December 2022



284 Total

The Procurement team is organised based on the management of purchasing categories, in which specialisation by products and services allows for greater knowledge of the product and the market, a better relationship with suppliers for collaboration and innovation and improves purchasing efficiency, both internally and in terms of savings. Purchasing categories allow better alignment with the strategies and needs of the businesses, contributing value to both their growth and efficiency.

Procurement Management



The Procurement Division is **coordinated** at a global level, which allows for the **identification of synergies** and the **strategic alignment** of purchasing decisions.

Priorities of the Procurement Division

The current priorities of the Procurement Division are:

- **Security of supply:** The current environment of high volatility, high costs in energy and raw materials, high levels of inflation, rising wage costs and high demand for strategic elements linked to the energy transition makes it even more necessary to establish purchasing strategies that guarantee the availability of equipment and services that are critical for the development of the Company's anticipated investment plan. In this regard, the Procurement departments of the businesses and countries have agreed annual targets to reach long-term alliances or agreements with strategic suppliers and to ensure the availability of critical equipment and services to cover the needs of the current investment plan.
- **Supply chain development:** As a complement to the previous target of securing the supply chain, and the goal to improve competitiveness and transparency, it is important for Procurement to carry out proactive actions to search for suppliers that complement existing ones. This is especially important for Iberdrola's newest products, such as green hydrogen, or for those where there is a demand and supply imbalance.

- **Sustainability:** Sustainability is in Iberdrola's DNA. Transferring it to our supply chain is one of our key activities as a leading company in the market. The Procurement divisions of the businesses and countries have annual targets for improving their suppliers' sustainability.
- **Supply Chain Risk Mitigation and Resilience:** Measuring and mitigating the various risks (credit, cyber, reputational, operational...) of the supply chain is a key function that, coupled with supply security and supplier development goals, enables Procurement to deliver value to the business.
- **Efficiency:** Savings are one of the main values added by a centralised procurement organisation. By optimising procurement costs, Net Operating expenses can be improved and the cost of investments reduced. The procurement divisions of the businesses and countries have annual savings targets.
- **Competitiveness:** The growth of the renewable, network, and commercial business is subject to increasing competition. Procurement is a key element in selecting the right suppliers and optimising costs. The Procurement divisions of the businesses and countries have annual targets to contribute to the growth of their respective businesses.
- **Internal Customer Satisfaction:** Procurement negotiates and optimises contracts for the different businesses and corporate areas. Internal customer satisfaction is measured every year. Given that one of their recurring concerns is the duration of the procurement process, the Procurement divisions of the businesses and countries have annual targets for improving both deadlines and the internal customer satisfaction index.
- **Digital Transformation:** Procurement is responsible for taking advantage of the digital tools available to optimise its processes and contribute to the other objectives. In this regard, targets are set for procurement systems (IBuy etc.) process automation and robotisation, and optimisation of data use through business intelligence tools.
- **Governance and compliance:** The Procurement process must be robust and ensure compliance with the guidelines established in Iberdrola's corporate policies. Procurement support systems make it possible to increase guarantees that the process complies with the established procedures and to identify deviations to take corrective actions.

Each year, how high the bar is for the heads of the various procurement organisations related to these priorities is decided. These targets are linked to the Procurement team's variable remuneration.

Key figures: volumes, countries, supplies, suppliers

Iberdrola's turnover for purchases of equipment, materials, and contracting of works and services, and its geographical breakdown for the 2022 fiscal year, is shown in the following table:

GENERAL SUPPLY OF EQUIPMENT, MATERIALS, WORKS AND SERVICES (€ MILLION)	2022 ¹	2021	2020
Spain	2,711	2,405	2,070
United Kingdom	1,334	1,225	1,484
United States	3,360	3,031	2,790
Brazil	2,143	1,400	1,283
Mexico	439	395	507
Iberdrola Energía Internacional (IEI)	1,546	967	360
Total	11,533	9,424	8,494

1. Volume invoiced in the year. Amount awarded in 2022: €17,796 billion.

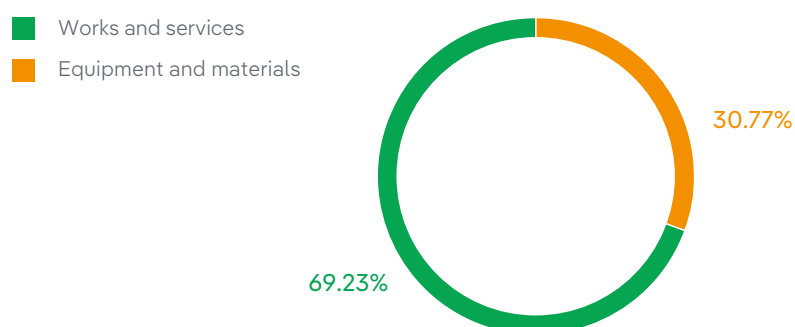
In 2022, the volume of purchases has grown by 22% to €11,533 million as a result of the increase in the volume invoiced with suppliers related to offshore wind projects in Europe and the United States, photovoltaic in Spain and the United States, onshore wind in Spain, the United States and Australia, as well as investments in electricity distribution networks in Spain, the United States, the United Kingdom and Brazil.

In 2022, the Group's main suppliers were, in alphabetical order:

- EEW Special Pipe Constructions GHBH
- Eiffage
- Elecnor
- General Electric
- Longi Solar Technology
- Siemens
- Siemens Gamesa
- Trina
- Van Oord
- Vestas

None of the main suppliers accounts for 3% of the total turnover in the year.

Distribution of purchases by supply type in 2022:



During the year there have 2022 been no significant changes in the company's supply chain.

Contributing to society: Local purchases

Iberdrola follows a strategy of developing local suppliers for its strategic purchases, which has allowed for the creation of indirect jobs and the maintenance of a strong industrial fabric in the geographies in which it operates.

At the end of 2022, purchases from local suppliers² amounted to 87% of the total, broken down as follows:

% OF GENERAL SUPPLIES PURCHASED FROM LOCAL SUPPLIERS	2022	2021	2020
Spain	84	84	82
United Kingdom	81	89	91
United States	94	96	97
Brazil	100	99	100
Mexico	60	71	63
Iberdrola Energía Internacional (IEI)	74	60	65
Iberdrola group	87	88	89

Contributing to society: Job creation

These high volumes of purchases drive growth in the countries where the Company enters into contracts, encouraging business, industrial and social development in those regions, by creating jobs for the service providers and in their auxiliary industries. Including indirect and induced impact, Iberdrola generates a total employment impact of almost 400,000 jobs worldwide.

Procurement process transparency

The Procurement Division guarantees equal opportunities, applying criteria of objectivity and impartiality in its relationships with suppliers, and promoting competition in the supplier's selection processes under a general framework of management efficiency.

In order to achieve greater transparency in the process, the call for and receipt of bids and negotiation with suppliers is allocated exclusively to the Procurement Division or, if appropriate, the Purchasing Business Manager.

There are annual Transparency indicators that include issues such as finalising negotiations through competitive and transparent closing mechanisms ("closed envelope" and/or electronic auctions). Indicators are also established to monitor tendering concurrency level, such as the percentage of purchases made from a single supplier and the average number of suppliers participating in the different stages of the Group's tenders.

In 2022, these indicators decreased by 8.4% in the case of Transparency and 6.7% in the case of Concurrency. It should be noted that these indicators have increased by 0.6% and 0.1% respectively for the main tender processes (over €1 million) which represent 90% of the volume awarded in the year. These are considered acceptable values in global terms.

Periodically, the procurement process is audited internally and by third parties, and there were no non-conformities detected in this year. Recommendations and areas for improvement that arise during these reviews are analysed and implemented to constantly improve the related procedures.

2. Based on a supplier's Company Tax ID, it is considered local if it is registered in the main countries in which Iberdrola operates.

Systems supporting the Purchasing activity

Iberdrola's Procurement Division relies on two main platforms to carry out its activities:

- **IBuy**, a collaborative global tool through SAP Ariba Network, supports the management of procurement processes, including requests for proposals, negotiations with suppliers, and internal approvals of these processes, all in a digital native environment with robotisation of certain processes. IBuy integrates real-time analysis and risk assessment of each supplier.
- **GoSupply**, the management platform of the Spanish start-up of the same name, allows for the classification of current and potential suppliers, as well as the assessment and monitoring of their risks and sustainability which is integrated with IBuy.



IBuy: procurement platform based on SAP-ARIBA cloud technology.



GoSupply: Supplier risk and sustainability assessment

03.

Policies and procedures

3. Policies and procedures

Code of Ethics

This is a key element in the integrity of Iberdrola's business. The vision and values incorporated in the [Code of ethics](#) are embodied by principles of conduct that bind the Group in how it relates to third parties and represents its commitment to the highest standards of company ethics and transparency. It sets out specific principles for suppliers in accordance with the Group's principles and values, and is sent as an attachment to orders and contracts.

More information on the practical application of the Code of Ethics and the fraud and corruption risk control mechanisms can be found in section 5.

Purchasing Policy

The [Purchasing policy](#), initially approved by the Board of Directors on 18 June 2013 and last updated on 21 February 2023, sets out the global framework for monitoring and managing risks (market, credit, business, regulatory, operational, reputational, cybersecurity and criminal) resulting from the purchase of materials and equipment, and the commissioning of construction work and services throughout the Iberdrola group. It has an emphasis on compliance with ethical commitments by company employees and suppliers.

The [Purchasing policy](#) is based on the following basic principles:

I Ethics

Rigorously apply the [Code of ethics](#) to promote a strong risk culture and develop an ethical and honest business culture throughout the organisation to support the professional and ethically responsible behaviour of all employees.

I Standards and control

Establish in a coordinated manner the criteria and controls related to purchasing and contracting equipment, materials, works and services to the benefit of the companies integrated in the Group, guaranteeing full respect for the corporate organisation derived from the Group's Governance and Sustainability System.

I Added value

Implement the necessary mechanisms so that procurement decisions benefit the Company and the Group's companies, guaranteeing a balance between technical suitability, quality and price, as well as the quality of the supplier, as a basic condition for adding value.

I Relationships with suppliers

Establish supplier selection processes that meet objectivity, impartiality and equal opportunities criteria, ensuring at all times that employees are professional and loyal to the Group and its shareholders, regardless of their own and third-party interests.

Promote suppliers' strict compliance with contractual conditions and applicable regulations, as well as the principles of conduct included in the Code of ethics.

Promote a supplier relationship policy based on the principles of business ethics and transparency, pursuing continuous improvement and mutual benefit, while promoting innovation and development.

I Team

Promote employee motivation and participation in the training and professional development necessary for them to perform their duties.

I Growth and development

Promote continuous, inclusive and sustainable economic growth, productive employment and decent work for all the professionals who make up the Group's value chain, in line with the eighth [Sustainable Development Goal \(SDG 8: Decent work and Economic growth\)](#) approved by the United Nations.

The [Purchasing policy](#) establishes guidelines and limits on the levels of delegation of authority and procurement procedures for the Group under the principles set out above, as well as on the organisational principles that should ensure full respect for the corporate organisation derived from the Governance and Sustainability System.

Supplier risk assessment in the purchasing policy:

The [Purchasing policy](#) defines the following supplier risks:

- **Credit Risk** "A credit risk assessment of the Supplier will be required in major purchases or tenders, seeking sufficient contractual guarantees to ensure all obligations are met."
- **Fraud Risk** "Depending on the nature and amount of the tender, a fraud risk assessment of the Supplier should be carried out to determine the level of approval needed to be able to enter into the relationship."
- **Cybersecurity Risk** "Processes will be included to identify and establish cybersecurity requirements to mitigate the risks associated with access to the Group's information and communications and information services and systems by our suppliers and their subcontractors."
- **Sustainability Risks** "[...] the supply chain will be promoted and driven to achieve high standards of sustainability globally and there should be a continuous measurement model in all three areas of the model set by the Company: environmental, social and governance. The sustainability level of awarded Suppliers will be analysed and assessed. A culture of sustainability will be fostered among the Suppliers, establishing improvement plans when optimal levels are not reached".
- **Risks associated with human resources** "[...] the Supplier will be required to indicate in its bid the work it proposes to subcontract, as well as the names of any potential subcontractors. This will be analysed in the context of the assessed proposal".
- **Tax Risk** "No contract will be entered into with any supplier that is not up to date with its fiscal or tax obligations, or any other obligation for which the Group might incur subsidiary liability."

The Procurement Division has been updating its Policy, Procedure, Management and Supplier Classification Systems to ensure that purchasing decisions are made taking into account the best risk assessment of its suppliers.

General contracting terms and conditions

The purchasing conditions of the Iberdrola group are general documents that regulate the relationships between the Iberdrola Group companies and its suppliers; they are usually a basic part of the contractual documentation.

These conditions contain binding contractual clauses for performance by the parties within the most stringent levels of health and safety, occupational risk prevention and environmental respect and incorporate specific clauses on supplier corporate social responsibility based on the UN's Universal Declaration of Human Rights, the Agreements of the International Labour Organisation and the principles of the Global Compact (respect for and protection of human rights, eliminating all forms of forced and mandatory labour, preventing all forms of child labour, eliminating all discrimination practices, working against corruption, etc.).

When the supplier has to subcontract to carry out the services or deliver the supplies commissioned by Iberdrola, it must establish the principles indicated in the contracting conditions applicable to the subcontractor or reseller.

At all times during the term of the contract, the supplier must allow Iberdrola to review the degree of compliance with the principles established in these clauses.

The full text of the purchase conditions can be found at:

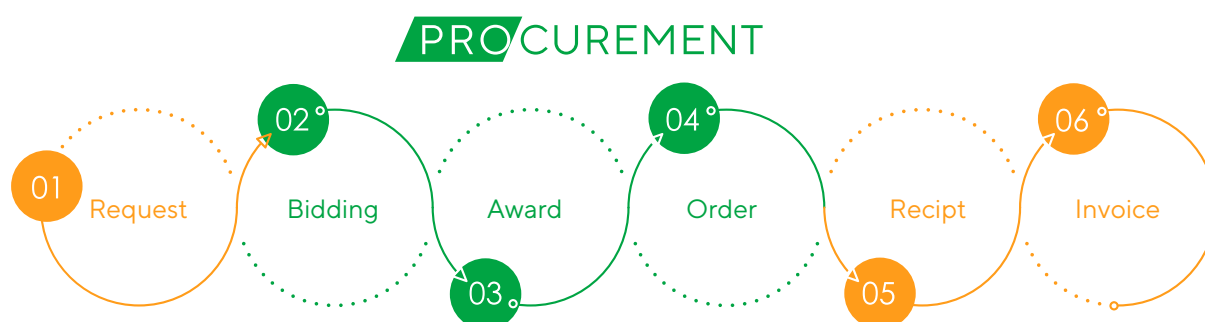
<https://www.iberdrola.com/suppliers/tenders/contracting-terms>

Purchasing procedure

The Purchasing procedure develops the [Purchasing Policy](#).

Management of purchasing equipment, materials, works and/or services includes the part of the supply chain involved, from purchase planning until the contractual relationship with the supplier has been formalised.

The Procurement Organisation is the agency within Iberdrola that manages this task on behalf of the units or companies heading up the business and their subsidiaries through the following stages:



Procurement procedure flow

In 2020, the Procurement Division renewed its ISO certificate for the quality management system according to the UNE-EN-ISO 9001:2015 standard, which currently covers the companies belonging to the Iberdrola group in Spain, the United Kingdom, Mexico and the United States. This was a very important milestone and a recognition of our efforts to integrate the processes and their quality standards and confirmed the consolidation of the corporate procurement model.

Within the 2023 audit plan of Procurement Process Management, for the external monitoring audit corresponding to the UNE-EN ISO-9001:2015 standard, there are plans to audit the centres in Spain (from Bilbao, Torre Iberdrola) and Mexico (Mexico City).

Risk assessment and mitigation in the supply chain

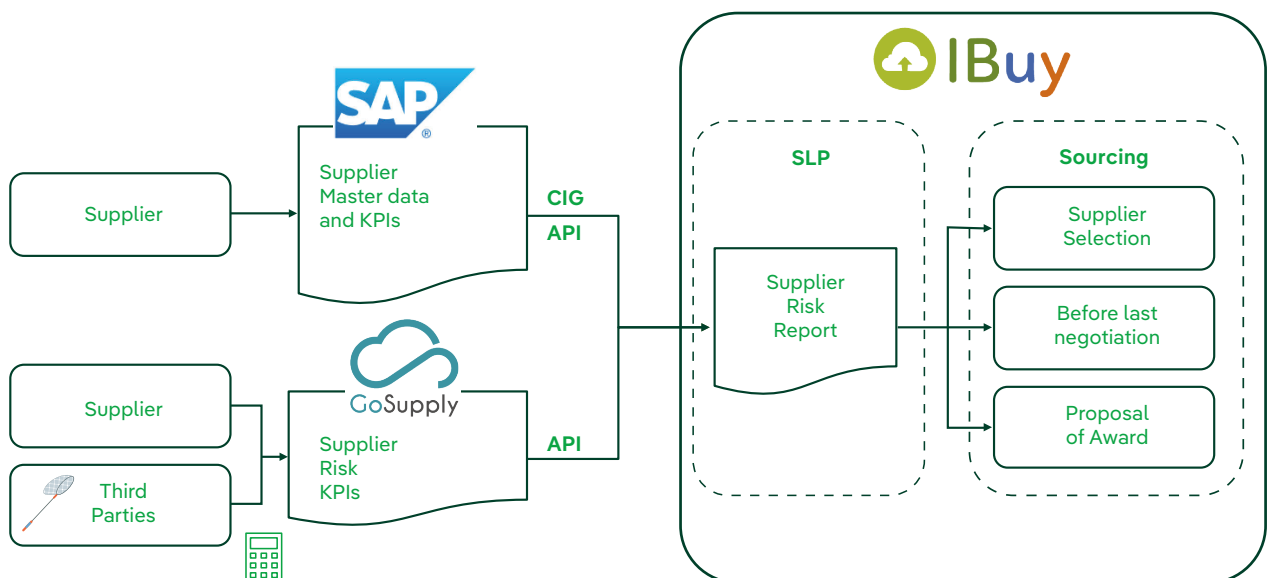
Supply chain risks are assessed and mitigated from the first moment suppliers are registered in Iberdrola's purchasing management systems:

- The registration of a new supplier entails an enhanced screening of the supplier, its shareholders and senior managers, against reputation, sanctions and adverse media data bases.
- Registration in the IBuy purchasing system requires the supplier's acceptance of the [Supplier Code of Ethics](#), Iberdrola's [Sustainable Development Policies](#) and [Environmental and Climate Action Policies](#), as well as acceptance of the applicable data protection regulations.
- The **general contracting terms and conditions** set out obligations on human rights and the environment, with which the supplier must comply and pass on to its own supply chain.

The procurement process incorporates the mandatory tasks of risk control of participating suppliers with a focus on being proactive by requiring analysis from the earliest stages of tenders, and being efficient, by bringing the data closer to the buyer in the purchasing process itself.

The scheme reflecting the relationship between the systems is as follows:

INTEGRATION OF RISK KPIS IN THE PROCESS



Risk assessment is based on a common model and depends, in each tender, on the scope, on the business and country, and the amount. This assessment is mandatory at three critical points in the process:

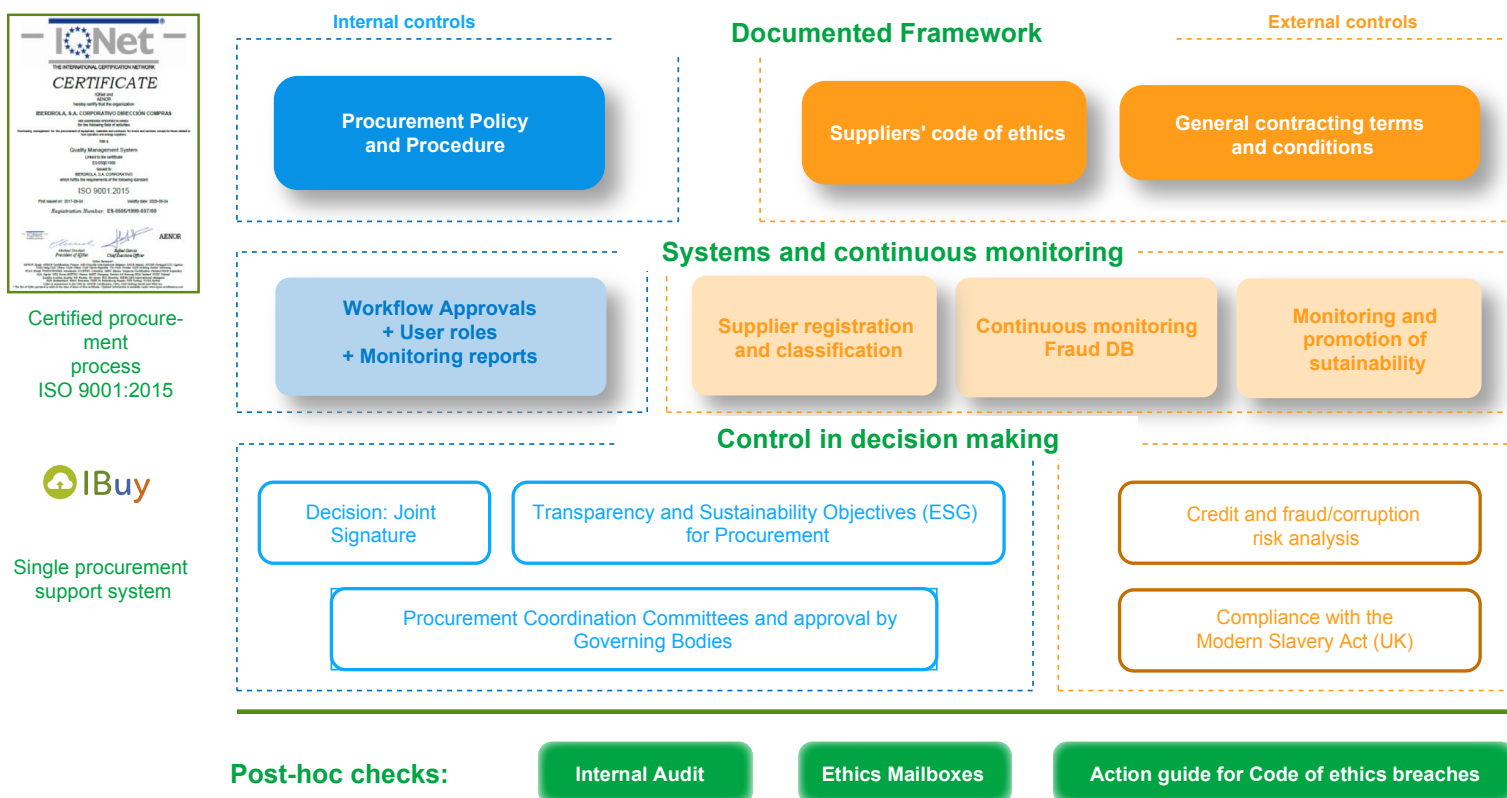
- When the tender is launched, in the selection of suppliers to invite to participate in the tender. In this way, the buyer is one step ahead, knowing the risk profile and whether any action should be taken at the outset to avoid or mitigate risks.
- Before the last negotiation. In this way, risk mitigation mechanisms can be established and incorporated into the suppliers' final offers to ensure procurement decisions that are in the best interest of Iberdrola and fair to the suppliers.
- Prior to approval by the governing bodies. This last check involves a final analysis to verify that the supplier's situation has not changed before submitting it for approval.

To improve buyers' proactivity in risk management, robotic processes have been implemented which, on a regular basis, communicate to each buyer the assessment of the risk and sustainability levels of each supplier invited to significant tenders, including the actions to be taken to complete the assessment, mitigate the risks and drive the supplier to improve its sustainability profile.

The assessment of technical, operational and cybersecurity risks is carried out in each of the procurement processes in the technical evaluation of bids and is documented in the technical bid assessment report. The assessment is also included in the IBuy system, with specific approval chains depending on the amount, country and business.

Control and compliance mechanisms within the procurement organisation

THE VALUE OF THE PROCUREMENT ORGANISATION - COMPLIANCE AND CONTROL MECHANISMS



04.

Ethics and Compliance in the procurement process

4. Ethics and Compliance in the procurement process

Risk of fraud and corruption in suppliers

At the end of 2012, the Board of Directors set up the Compliance unit, whose duties include the dissemination of the Code of ethics and the development of a preventive culture based on the principle of “zero tolerance” for crime and fraud.

It is vitally important for the Group to establish the programmes and mechanisms to fight and prevent corruption in all its manifestations and to foster a culture of integrity among its professionals and the third parties with whom it is related.

Iberdrola requires in-house professionals as well as any third party working with it or on its behalf in its operations to observe the highest standards of integrity in their business activities and not involve themselves in any situation involving corruption or bribery, or participate in any type of fraudulent conduct or behaviour.

The following measures are implemented in Iberdrola’s procurement procedure and process as mechanisms to prevent bribery and corruption:

- The Iberdrola group’s [Code of ethics](#), which forms part of all contracts and orders.
- A policy for preventing corruption and fraud which creates a preventive culture based on the principle of zero tolerance for illegal acts and fraud.
- Daily screening of all newly registered suppliers and all existing suppliers in IBuy with third party databases for sanctions, bad publicity and other risk factors.
- In general and depending on the number of existing suppliers and the nature of the purchase, the tendering process will ensure that a minimum of three valid bids are obtained for each procurement.
- Proposals for awarding orders are released jointly and are endorsed by two duly authorised persons.
- There is separation between procurement activities (Procurement Division), subsequent provisioning activities (Business Units) and payment of invoices to suppliers (Management and Control Division).
- Payment-invoice-order-tender traceability is maintained entirely in corporate systems, with the necessary documentary support.
- The process is periodically audited and no non-conformities or deviations have been discovered to date.
- Specific section to which the provider must respond during the classification process:
 - Does your organisation have a specific Code of Ethics or Code of Conduct?
 - Does the organisation have a general responsible purchasing policy?
 - Does the organisation have a Corporate Social Responsibility policy?
 - Has the organisation signed the United Nations Global Compact? This compact includes an anti-corruption principle.
- Moreover, the latest version of the contract clauses includes specific sections on this topic. In particular, in relation to the fight against corruption, the Supplier declares, guarantees and commits to:

- (i) **Comply** with the relevant anti-corruption laws, both now and in the future. The Supplier agrees that they will not offer, promote, pay, authorise or carry out any type of payment, either now or in the future, or directly or indirectly, that may (1) influence any official decision relating in any way to the Contract or any associated activity, with any Affected Party or with the State or any type of governmental body; (2) give themselves an unfair advantage in relation to the Contract or any associated activity; or (3) obtain or retain business or divert it to any entity or individual, in relation to the Contract or any associated activity.

For this purpose, the “Affected Party” shall be understood to mean any official, director, employee or representative of: (i) any governing body, department or federal, state, autonomous, provincial or municipal agency of any state; (ii) any international organisation or its departments or agencies; or (iii) any company or other entity belonging to or controlled by the State, including public companies or others in the energy sector; as well as any political party or candidate for political office

- (ii) **Maintain** complete and truthful accounting records and other documentation relating to the Contract or any associated activity, including those relating to payments made to third parties, in accordance with generally accepted accounting principles. The Supplier agrees that it will allow Iberdrola, following a request made by the company reasonably in advance, to inspect their accounting records and other documentation at any time. A request will be considered reasonable when it is made within fourteen (14) calendar days prior to the inspection date.
- (iii) **It has not made and will not make political contributions, donations** or any other type of payment relating to the Contract or with any associated activity, nor will it offer or promise the aforementioned at the request of an Affected Party without prior written consent from Iberdrola.
- (iv) If Iberdrola, reasonably and in good faith, believes that the Supplier has breached any of the terms of this clause, they must **cooperate in good faith with Iberdrola to confirm whether such a breach was in fact committed**.

The supplier will inform Iberdrola of any situation in which a breach of the aforementioned principles has been verified, as well as plans to remedy the situation. If these corrective plans are not adopted, Iberdrola reserves the right to cancel the contract.

Assessment of the risk of fraud and corruption in suppliers

Following the passing of the Bribery Act in the United Kingdom in 2010, a series of measures were established in the tender process to assess the risk of corruption associated with the contract when a new relationship is established or an existing contract with a supplier is renewed.

In addition, the procurement process establishes the obligation to check the supplier's risk level in this area for all procurement processes exceeding a certain amount. To optimise this control during the procurement process, with the implementation of IBuy in 2019, the updating of the fraud and corruption risk indicator available to the Compliance Unit in its management system was automated, integrating it daily into the Procurement platform. This allows the procurement manager to at any time check the value of this indicator for the suppliers participating in the tenders it manages. In the event that the supplier has established a monitoring or "*compliance flag*", any contracting must be checked with Compliance, which must approve it once the mitigation measures to be implemented have been determined.

Ethical commitments of Group suppliers


The [Code of Ethics](#), which is part of the corporate governance system, was approved by the Board of Directors in 2002 and last revised on 20 December 2022.

All suppliers of the Iberdrola group that are invited to participate in a purchasing tender must accept that their participation therein and, if awarded, their performance during the term of the contract will be subject to compliance with the [Supplier Code of Ethics](#). Prior to this, during the registration process in the systems, new suppliers are expressly asked to confirm that they have read, understood and, in turn, agree to comply with the Iberdrola group [Supplier Code of Ethics](#).


And finally, the [Supplier Code of Ethics](#) is attached to all orders and contracts issued by the Iberdrola group, being incorporated as a contractual document, thus reinforcing the supplier's obligation to comply with it.

Whistle-blower Channel

Iberdrola has a new whistle-blower channel that, through its website, makes it possible to initiate the process and guarantee the confidentiality of all information and persons mentioned in such communications, and to ensure the anonymity of the whistle-blower in the processing thereof.



Whistle-blower channel



Contact us

Through this channel, any behaviour that may involve non-compliance with the Governance and Sustainability System by any employee in the Iberdrola group or any illegal act or perpetration by a supplier, by any of its subcontractors or by their respective employees, or any act in violation of the law or the Code of ethics within the framework of its business relationship with the companies in the Iberdrola group can be reported.

In 2022, the company did not receive, through the channels enabled for this purpose, any external complaints in relation to its supply chain resulting in the termination of a contract or order for reasons associated with human rights, corruption, labour practices or environmental practices.

Campaign to promote the *Code of ethics*

In 2021, together with the Compliance Unit, an effort was made to bring the [Code of ethics](#) closer to the Iberdrola group's suppliers. For this purpose, an explanatory brochure was prepared to facilitate dissemination of the Code to suppliers and their employees, and is available on the website. (<https://www.iberdrola.com/suppliers/contribution-sustainability/suppliers-code-ethics>).



**Code of Ethics
Brochure Supplier**



Discover it

Supplier compliance system improvement campaign

The Procurement Division, along with the Compliance Unit, in line with the Group's strategic goals on sustainability, launched an initiative in 2022 which encourages the development of compliance systems in the governance of companies with which it interacts.

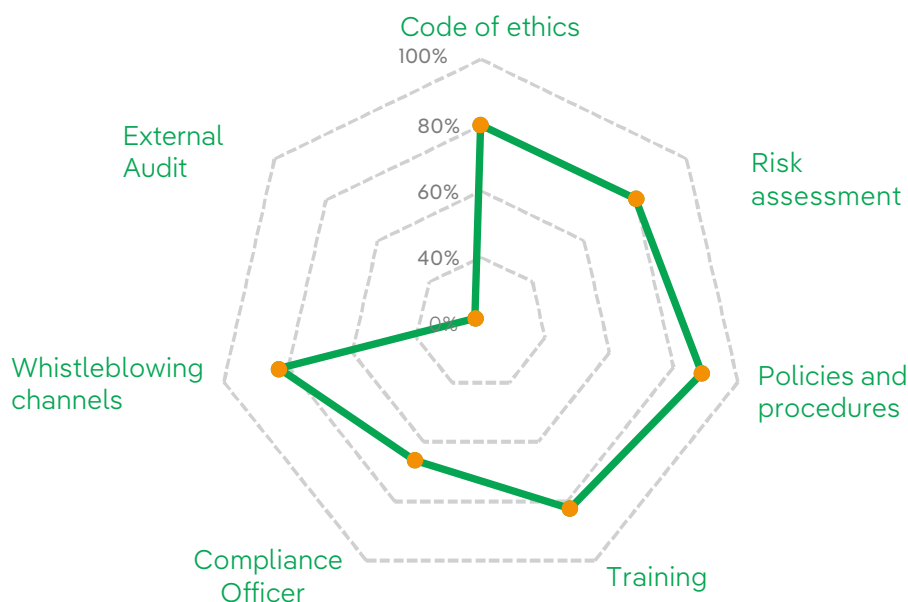
Previously, in 2021, a specific "Compliance Score" indicator was established, to assess the degree of maturity of suppliers in this area based on the measurement of certain factors included in the Group's supplier sustainability assessment model. Each of the suppliers assessed obtains a value for this indicator, allowing the Group to know the opportunities for improvement of each one, as well as the possibility of carrying out a better segmentation of suppliers, proposing traction campaigns and monitoring their progress.

The initiative called "*Enhancing supplier's Compliance system*" was launched in 2022 and focused on selecting and engaging more than 100 of the Group's main suppliers at a global level, with a high level of relationship, but which had a very elementary or poorly developed compliance system. Regular contact with these suppliers began in order to promote the implementation in their organisations of effective compliance systems aligned with the principles set out in the [Governance and Sustainability System](#). The vast majority of the suppliers contacted have already included specific actions in their short and medium term goals and it has been possible to measure the impact of these actions by monitoring the evolution of the suppliers' "Compliance Score" as well as the commitments adopted by them in regular follow-up meetings.

In the medium term, in addition to achieving greater awareness of compliance among our suppliers, we believe that this reduces the potential risk of these suppliers being affected by a potential event of fraud, corruption, or adverse news that could have a negative impact on the Iberdrola group.

It should be noted that at the end of 2022, more than 1,630 of the Group's main suppliers already have a robust compliance system in place, with a compliance score of more than 70 out of 100.

PRESENCE OF ELEMENTS OF A COMPLIANCE SYSTEM WITHIN THE MANAGEMENT OF THE GROUP'S SUPPLIERS



An overview of our compliance system

Our Compliance system represents the Iberdrola group's commitment to all of our stakeholders to conduct our activities in accordance with applicable laws and regulations, as well as the highest ethical standards and values.

Its ultimate goal is to ensure the application of the Code of Ethics and to establish criteria and guidelines for the development of professional conduct with integrity.

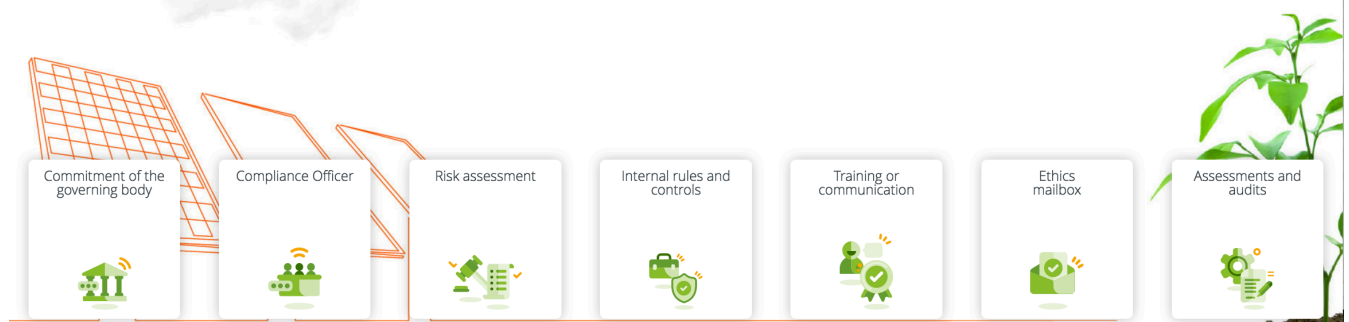
In 2022 we have made available an **interactive module** to our suppliers in order to promote a culture of ethics and integrity throughout the organisation and towards our stakeholders. The module describes what a Compliance System is and what elements must be in place to ensure it is effective.

[Code of Ethics](#)[Ethics mailbox](#)[ES](#)[EN](#)[PT](#)

Our Compliance System

The Compliance System is a set of organisational measures, procedures and actions aimed at preventing irregular, unethical or unlawful conduct by employees of an organisation. The ultimate goal of this system is to promote a culture of ethics and integrity within the organisation.

What are the elements that should make up an effective Compliance System?



Analysis of purchases in countries where there is risk of corruption

To carry out corruption risk analysis in countries with a high risk of corruption in 2022, the company has used the 2022 Corruption Index published by Transparency International (TI CPI 2022) to classify countries according to their risk level.

In accordance with this Index, the volumes of purchases made, classified by corruption-risk levels, are shown in the following table:

CORRUPTION RISK	% OF 2022 PURCHASES OF GENERAL SUPPLIES IN COUNTRIES ACCORDING TO THE 2022 CPI INDEX	% OF 2021 PURCHASES OF GENERAL SUPPLIES IN COUNTRIES ACCORDING TO THE 2021 CPI INDEX	% OF 2020 PURCHASES OF GENERAL SUPPLIES IN COUNTRIES ACCORDING TO THE 2020 CPI INDEX
Low	74.7	80.9	78.9
Medium	2.1	0.2	0.4
High	23.2	18.9	20.7

The countries considered to have a high risk of corruption according to the above-mentioned TI CPI 2022, in which purchases have been made from suppliers registered in those countries, are Brazil and Mexico. The volume of purchases is directly related to Iberdrola's presence and investment efforts in those countries.

In addition, in 2022 Iberdrola has not made any significant general supply purchases from suppliers located in tax havens.

05.

Supplier registration and classification

5. Supplier registration, screening and classification

Supplier management effectiveness has become an element of vital importance enabling constant improvement in the value chain while generating the necessary decision-making information in the Procurement area.

Iberdrola's rapid and profound transformation over recent years has also multiplied our responsibility as a global company, placing orders with thousands of suppliers worldwide during the year.

The global supplier management model is the foundation on which we build our comprehensive and uniform corporate processing for responsible supplier management, no matter the suppliers' location, economic activity and the territorial scope in which purchases are made. Nevertheless, we respect local requirements that may exist in the supplier's country of origin.

One of the essential factors that led to creating this management model is the importance given to facilitating the registration and classification process for suppliers that:

- Would like to work with Iberdrola,
- Are participating in a tender,
- Have been awarded a contract or framework agreement to supply equipment and materials or to execute works and services, or
- Have a current service provision contract in and/or outside Iberdrola's work centres,

The model enables us to standardise our relationship with suppliers and speed up the process to register them, classify them and share key and updated information with the staff involved in a procurement process. This clearly results in savings in time, costs and efforts invested in business activities for suppliers and Iberdrola.

It should be highlighted that Iberdrola is responsible for the entire cost of the supplier classification system, so suppliers are not required to pay any annual subscriptions to the platform. Access to register in the platform is open to any company interested through the corporate website, which facilitates the addition of new suppliers to the Group's supply chain.

Depending on the criticality of the supply, and the relevance of the procurement amount, Iberdrola will require a certain level of registration and classification on the new platform:

- **360° Level:** active suppliers of strategic and critical products and/or services and purchases for significant sums or a large contracting volume. Purchases under framework arrangements. It requires the submission of detailed up-to-date information and relevant documentation that is used for internal supplier management, sustainability assessment, risk monitoring and measurement of associated KPIs.
- **Basic Level:** active, but not critical, suppliers of non-strategic goods and/or services or those which are not technically complex and purchases for minor amounts. Depending on the information provided and internal classification criteria, a supplier can remain at this level or be required to complete a higher level (360° Level).
- **Elementary Level:** applications from new suppliers.

During 2022, an automated system was implemented to make the supplier classification process more efficient by assigning priority levels. This makes it easier to manage the risk profile analysis of suppliers. The assignment of priorities is based on the assessment of the relationship existing at all times with each supplier, in terms of activity and the level of participation in the tenders to which they are invited.

The activity of current contracts in progress at any given time is also taken into account. In this way, resources are focused on analysing those suppliers with current and potential future relationships.

As of December 2022, the management system had 17,537 suppliers, 7,016 of which were Level 360, 7,486 Basic and 3,035 Elementary.

Factors evaluated when classifying suppliers

Iberdrola looks for sustainable, transparent, fair and ethical supplies and suppliers. That's why we assess suppliers throughout the purchasing process, in order to gain an understanding of their potential risks. We check that their “modus operandi” is aligned with the Group's policies, principles and responsibilities.

The requirements in the classification of suppliers are:

REQUIREMENTS TO QUALIFY AS SUPPLIERS



Supplier's acceptance of the code of ethics

This contains the ethical principles that they accept before entering into their contractual relationship.



Comply with the legislation of each country in which it operates

Compliance with the legislation in each of the countries in which the Iberdrola group carries out its activities.



Stability

Evidence of a stable financial situation and that there is no credit risk.



Sustainability

Environmental performance, human rights, ethics, SDGs, etc.



Third party liability

For certain contracts, a third party liability insurance policy appropriate to the needs will be required.

Enhanced screening in the registration of suppliers

In 2021, the Group's Compliance unit implemented a new form of *enhanced screening* whereby all suppliers registered in the Iberdrola group's procurement systems, as well as their parent companies and/or subsidiaries, officers, and shareholders are analysed for fraud and corruption.

This analysis is carried out before the supplier can be invited to any tender process. The risk assessment considers, among other matters:

- Links with countries considered by the compliance function to be above a certain level of risk.
- International Sanctions.
- Adverse news or incidents in the field of:
 - Human rights
 - Modern slavery
 - Corruption and bribery
 - Competence
 - Environment
 - Other irregularities and unlawful conduct.
- Links with persons with public responsibility or public entities.

Based on this analysis, the compliance function rates the fraud and corruption risk of suppliers and this classification is incorporated in the corporate systems.

In 2022, more than 5,250 third-party assessments were carried out in the form of enhanced screening.

After the initial screening at the time of registration, the Group's suppliers and debtors are monitored daily along with the Group's other suppliers via the compliance databases (*ongoing screening*).

In the event of any new developments with regard to any of the Group's suppliers and debtors, the relevant compliance management is automatically alerted and immediately carries out an analysis to update the risk assessment of the supplier or debtor in question.

If the risk exceeds a certain level, the compliance function monitors all transactions to be entered into with the third party and the corresponding corrective plan is implemented by the Procurement Department. The supplier is contacted and the robustness of its compliance system is analysed and specific improvement actions are agreed with the supplier.

Suppliers and debtors considered to be above acceptable risk are classified as critical risk and blocked in the systems, preventing the formalisation of any transaction or payment in relation to them.

Classification of suppliers

Iberdrola group's main suppliers are those that play a strategic role in meeting the business plans and objectives of the Group and vary depending on the Group's investment plans for each year.

In general terms, we consider critical suppliers to be those suppliers that have participated in a tender for an amount equal to or greater than €700,000 and may be potential winning bidders.

Risk monitoring of the Group's suppliers, through the GoSupply platform, is carried out with a special focus on critical suppliers. When a supplier is invited to participate in a tender with an estimated value equal to or greater than €700,000, if they have not already, they must register in GoSupply in the 360° level. This ensures that the supplier's full risk profile can be determined early in the process and any necessary risk mitigation measures can be taken. For tenders of less than €700,000, the supplier must register at the Basic level.

The following table shows the evolution of the number of critical suppliers in recent years and the % of the total amount in orders.

	NUMBER OF SUPPLIERS			% ORDER AMOUNT (IN €)		
	2022*	2021	2020	2022*	2021	2020
Critical	1,201	1,812	1,511	96.46%	94.51%	93.94%
Non-critical	18,733	18,423	18,370	3.54%	5.49%	6.06%
Total	19,934	20,235	19,981	100%	100%	100%

* A new threshold for critical suppliers with a total order value of €700,000 was established at the end of 2022.

Tier-n suppliers

The depth of Iberdrola's supply chain is a challenge when it comes to establishing analyses and conditions beyond direct suppliers (Tier-1).

Since 2021, most global supply chains have been distorted by a succession of logistical setbacks, demand surges, geostrategic and military conflicts, escalating raw material and energy costs, extraordinary global inflation, rising wage costs, and even supply chain disruptions for many sectors. With the appearance of these tensions, it has become even more important to improve the knowledge of Iberdrola group's supply chains and identify and monitor those of a higher risk.

Historically, the responsibility for managing the behaviour of the next levels of the supply chain has been transferred to direct suppliers through the conditions established in the Code of ethics and general contracting compliance conditions.

Currently, the Iberdrola group's sustainability assessment model for suppliers includes questions to identify elements our suppliers have in the management of their own supply chains and those with third parties overall. Suppliers must answer whether they have any of the following elements:

- Mechanisms to assess the ethical integrity of third parties with which it interacts.
- Specific terms and conditions on anti-corruption and business ethics or other means to transfer these commitments to third parties.
- Ethical channels to be used by their own suppliers to report behaviours that may imply commission of irregularities or any action against the law or regulations.
- Specific terms and conditions on respect for human rights in all the areas where they carry out their activities, enabling the termination of the contract in case of detecting vulnerabilities.
- Suppliers' classification and assessment system in terms of sustainability.
- Social and sustainability audits to main suppliers.

The goals defined by the Iberdrola group's Procurement and Services Division in 2023 include the development of a new model to identify the origin of Tier-n suppliers in the supply chains of critical equipment and material suppliers and with potential social and sustainability risks. This goal has been defined with the intention of developing the knowledge and tools to meet the challenges posed by new legislation such as the planned new European law on due diligence in the supply chain to prevent violations of human rights and environmental legislation.

06.

Suppliers and human rights

6. Suppliers and human rights

In supplier management and during the procurement process, the measures adopted by the Group to protect human rights are based on the principles that arise from the Corporate and Sustainability System, particularly from its regulatory framework and, especially, the Code of Ethics and, in turn, from the specific clauses regarding the Group's corporate social responsibility in the contractual conditions accompanying orders. These specific clauses are based on the UN Universal Declaration of Human Rights, the conventions of the International Labour Organisation and the principles of the Global Compact.

In this way, suppliers commit to the principles of social responsibility and human rights. It should be noted that, during the term of the contract, the supplier must allow Iberdrola to review the degree of compliance with the principles in the contracts and, if breaches are detected and remedial plans not adopted, the company reserves the right to cancel the contracts.

Human rights in the Iberdrola group's General Contracting Terms and Conditions

Iberdrola group's General Terms and Conditions, which form part of the orders and contracts, establish that, for the performance and/or execution of the supply, the supplier must adopt the necessary measures in its organisation to:

- Promote good practices that support and respect the protection of human rights.
- Avoid complicity of any kind in the violation of rights.
- Respect workers' freedom to join a trade union and the right to collective bargaining and comply with the supplier's local laws.
- Eliminate all kinds of forced and compulsory labour, understood as all work or service required of an individual under the threat of any kind of penalty. Only labour that is offered freely and voluntarily by the individual is acceptable.
- Reject any kind of child labour in its organisation, and respect the minimum working age as governed by current applicable legislation and have suitable, reliable mechanisms to verify the age of its employees.
- Eliminate any discriminatory employment and work practice. Discrimination is construed as any differentiation, exclusion or preference by reason of race, colour, sex, religion, political opinion, nationality or social condition that leads to the annulment or alteration of equal opportunities in employment.
- Have a preventive approach to environmental issues to achieve sustainable development, limiting the works whose impact on the environment may be harmful.

Human rights monitoring in the supply chain

100% of relevant suppliers of general supplies are assessed following this management approach and taking into account their significant human rights risks in relation to their impacts on society. These risks are managed and mitigated through the quality processes in place and regular audits carried out by each business unit. As indicated above, this strategy has been reinforced in 2022 with a global campaign of social and sustainability audits of key suppliers of general supplies to ensure compliance with the Group's ESG criteria and validate the supplier assessment model.

In 2022, with the help of the specialised consulting firm Pinsent Masons, an analysis of the various laws against *modern slavery* and forced labour in the geographies in which Iberdrola operates its activities was conducted. This work included an analysis of the measures currently in place to prevent this risk in Iberdrola's procurement process, as well as proposals to strengthen these measures, including the specific inclusion in the Respect for Human Rights Policy of the company's commitment to prevent modern forms of slavery and to require this also of its suppliers, and the incorporation of specific questions on modern slavery to analyse this risk in the registration process for new suppliers.

Purchases from at-risk countries from a human rights perspective

Purchases in countries considered at-risk are analysed frequently according to the human rights risk-country map prepared by an independent third party, showing the risks while taking into consideration the operational context and activities, as recommended by the UN's Global Compact. This map, updated in 2022, covers the 23 countries where the Group operates, as well as the 56 countries where it procures, and takes into account violations of ILO core conventions on forced labour, freedom of association and collective bargaining, and child labour exploitation, among other indicators. In the analysis at the end of 2022, the percentage of purchases made from suppliers located³ in risky countries was:

Countries considered as risks where purchases have been made ⁴	% of purchases of total
China	1.19
India	0.25
Turkey	0.01

Therefore, in 2022, the procurement turnover from countries identified as having a high risk of human rights violations reached 1.45% of the total, a slight increase with respect to the value recorded in 2021, 0.82% of the total, due to the increase in purchases from China.

On the other hand, in 2022, no contracting with suppliers has been identified in which incidents related to the rights of freedom of association, collective bargaining, the use of child labour, or forced or non-consensual labour have occurred, nor is there any record of any complaints having been received for the aforementioned reasons, except for a labour lawsuit filed by a former employee of the supplier EPS RR Construtora against this company and Neoenergia Elektro for subsidiary liability as the contractor. Among other issues, the former employee claimed the recognition of degrading conditions of the accommodation where he stayed for 2 months, considering that this accommodation/house did not have the necessary infrastructure. The contractual relationship with the supplier was temporarily suspended until the labour claim was resolved.

Lastly, in 2022 no suppliers were detected with a significant negative social impact, nor have any incidents been recorded through the channels provided for this purpose that have led to the cancellation of orders or contracts with the Group's suppliers due to negative social impacts.

3. Based on the CIF (Corporate Tax Id) or Tax Id linked to the supplier.

4. The criteria used to identify risky countries are the same as those described in the in section "III.1. "Protection of Human Rights" section in chapter "III. Social" of the Sustainability Report for the 2022 financial year.

Note that in 2021, a potential risk associated with allegations of forced labour was identified in the Xinjiang region of China linked to polysilicon producers supplying polysilicon to solar module manufacturers. Although this risk does not directly affect Group suppliers, it does affect the photovoltaic technology supply chain. Since then, Iberdrola has promoted scrupulous compliance with the Iberdrola group's Supplier Code of ethics among all suppliers potentially exposed to such risk. For this, Iberdrola has successfully required the inclusion of specific clauses to mitigate "Forced Labour" or "Modern Slavery" risks from all affected suppliers with which it has signed supply contracts. In addition, the necessary clauses have also been included in the photovoltaic panel supply contracts to allow the right to conduct social and sustainability audits, both for the manufacturers of the modules and for third party companies in their supply chains, to ensure the quality and traceability of the components. At the same time, the Iberdrola group is actively participating in the main industry initiatives, such as Solar Power Europe and WindEurope, in which the manufacturers themselves also participate, with the goal of establishing common standards and tools to obtain objective evidence that human rights have been respected throughout the manufacturing process of the equipment incorporated in these projects.

A tour of human rights and your company

Human rights are relevant to businesses because they can have an impact on the human rights of all their stakeholders during the course of their operations.

Iberdrola provides its suppliers with an online awareness-raising module on human rights through its website.

We encourage suppliers to take our virtual awareness-raising tour of human rights and share it with their employees and other stakeholders.

The tour is available on the Human Rights and Business section of the corporate website.

<https://www.iberdrola.com/suppliers/contribution-sustainability/human-rights-business>



Alignment of procurement and supplier management with human rights criteria:

INTERNAL MECHANISMS		EXTERNAL MECHANISMS WITH SUPPLIERS	
Purchasing Policy	Encourage rigorous compliance with the contractual conditions by suppliers, with particular attention paid to the principles outlined in the <i>Policy in regard to human rights</i> .	<u>Code of Ethics</u> (Supplier Clauses)	Labour practices: Respect the protection of basic human and workers' rights, as recognised internationally, within their area of influence (forced labour, child labour, etc.)
Supplier registration and classification	Acceptance of the <u>Code of ethics</u> Weighting of the supplier's status with regard to sustainability, labour practices and respect for human rights	<u>Specific contracting terms and conditions</u>	Specific contractual clauses relating to the supplier's social responsibility based on the UN Universal Declaration of Human Rights, ILO Conventions and the principles of the Global Compact
Sanction List Screening	Blocking and remedial plan for cases in which a supplier has been sanctioned or there are signs their activities may violate human rights	<u>Traction campaigns</u>	As a leading company, we drive suppliers in areas of common interest to ensure reliable and responsible behaviour throughout the supply chain
Annual improvement goals	New feature: putting in place annual improvement goals for the Procurement Team that are directly linked to improvements in suppliers' sustainable development; these are linked to variable remuneration	<u>Modern Slavery Act</u> (United Kingdom and Australia)	Supplier classification and auditing protocols adapted to contractual clauses in material contracts
Sustainable Development Committee and Plan	The Procurement Division is a member of the Group's Sustainable Development Committee: guidelines, the objectives set and their KPIs	<u>Social and Sustainability Audits Assessment Model</u>	Specific section to assess the supplier's performance in terms of compliance and respect for HR Social and sustainability audits at the workplaces of selected key suppliers
Transparency & Reporting	Purchase Indicator in risk countries Infographic: Contribution to Sustainability Annual Procurement and Supplier Management Report published on the corporate website	<u>Supplier of the Year Award</u>	This promotes supplier commitment and improvement and publicly recognises those whose performance is outstanding

07.

Sustainability in procurement management and supplier relationships

7. Sustainability in procurement management and supplier relationships

Iberdrola has the responsibility and the ability to encourage its suppliers to improve their environmental, ethical and social performance through actions that promote excellence in sustainability management.

The Procurement Division is an active member of the Sustainable Development Committee and is particularly attuned to the demands and interests of suppliers as strategic stakeholders.

Commitment to the sustainability of our supply chain at the highest level

The Procurement Division at Iberdrola has had the goal of improving the sustainability of its suppliers for more than 16 years, linked to the team's variable remuneration. In 2020, this objective was translated into a corporate sustainability objective organised around three fundamental pillars of sustainability that come under the acronym ESG: Environmental, Social and Governance. It has been recently included as one of the Group's strategic goals including during the 2023-2025 period.

Iberdrola's commitment to ESG criteria and its extension to its main suppliers is embodied in the ambitious goal of ensuring that at least 85% of the Group's main suppliers are subject to sustainable development policies and standards by 2025. This goal is directly reflected in the inclusion of this scale in the assessment of the Strategic Bond 2023-2025, approved in point fourteen of the resolutions passed (subsection b) in section 4. Parameters related to the Sustainable Development Goals ("SDGs"), at the General Shareholders' Meeting of Iberdrola, S.A., held on 28 April 2023⁵

In particular, the remuneration plan is linked to the increase in the number of suppliers subject to sustainable development policies and standards, such as having a human rights strategy, a code of conduct for its suppliers, health and safety standards (SDG 3) and a global environmental sustainability strategy, including strategies on water (SDG 6), energy (SDG 7) and biodiversity (SDGs 14 and 15).



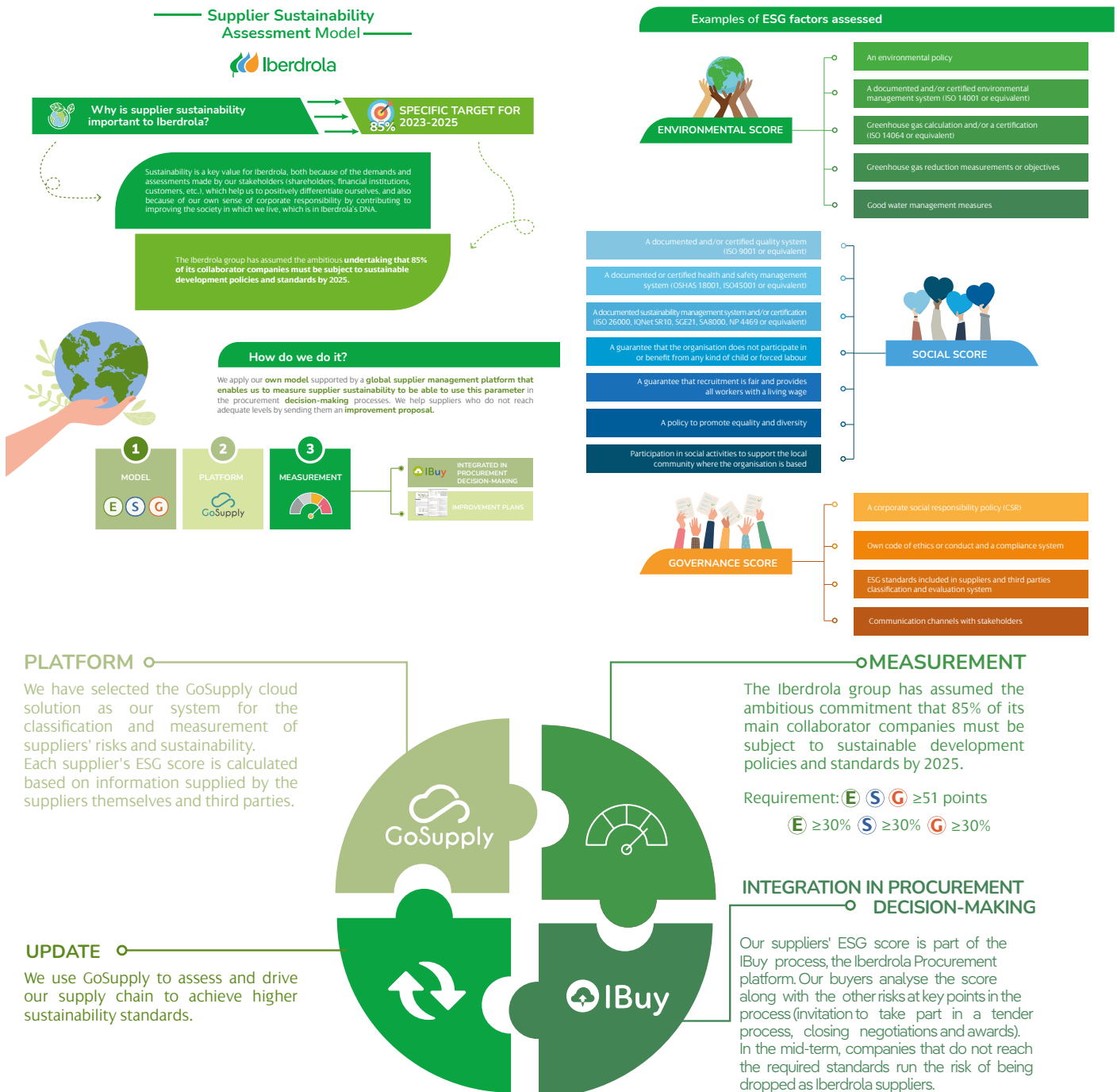
The goal is supported by a specific assessment model for the supply chain, defined for the entire Group in 2019 and implemented in 2020. This model was integrated into the new systems implemented by the Procurement Department, both in the supplier classification system and in the procurement management system itself, incorporating the sustainability assessment of the Group's suppliers into the procurement decision-making process.

5. https://www.iberdrola.com/documents/20125/2729910/gsm23_Adoptedresolutions.pdf

Sustainability assessment model

In order to share our model with our suppliers and other stakeholders, specific computer graphics have been developed and are available on our website (Supplier Sustainability Assessment (www.iberdrola.com)).

https://www.iberdrola.com/documents/20125/0/Supplier_Sustainability_Assessment_Model.pdf



Improvement plans

We drive our suppliers to be **more sustainable**. We give suppliers that are technically valid and economically competitive the opportunity to comply with ESG aspects.

We send **customised improvement plans** to suppliers whose level of compliance is not adequate for a long-term relationship with Iberdrola.

During the period **2020-2022**, we have sent **more than 1000 plans with more than 50 % success** (suppliers that improved until they are deemed sustainable).


**SUSTAINABLE
PROCUREMENT**

 Committed with:
DS

The supplier assessment model for sustainability is adapted to the international reality of the Iberdrola group.

Supplier evaluation includes the supplier's performance in wide-ranging areas: identification of goals linked to the Sustainable Development Goals (SDG), management of risks resulting from climate change, circular economy strategy, due diligence in human rights, etc.

The supplier must provide evidence and supporting documentation for their claims and performance. The model has been agreed with internal stakeholders (the Divisions of Social Responsibility, Compliance, Sustainability and Environment) and has also been validated by Forética, an external organisation specialising in this area.

For each of the three areas analysed, the following information is taken into account:

Environmental

-  Environmental Policy
-  Emissions
-  Biodiversity
-  Water Management
-  Circular Economy

Social

-  Human Rights
-  Diversity
-  Management Systems
-  Contribution to Society
-  Reporting

Governance

-  Policies
-  SDGs
-  Ethics and Compliance
-  Sanctions
-  Stakeholders
-  Supply Chain

Following the analysis, suppliers are classified into two levels: adequate if their score is over 51 points out of a possible 100 with at least 30% of the points in each of the ESG axes, and inadequate in all other cases.

In 2022, €16.287 billion, 91.5% of the total amount awarded, was allocated to suppliers that had been evaluated on the basis of this ESG model.

For 2023, improvement targets have been set for the entire Procurement Division team related to the percentage of main suppliers that achieve these sustainability levels. The target for 2023 is for 82% of key suppliers to be sustainable, with this target being set at management level, and being rolled out at business and country level.

ESG audits to suppliers

Audit Plan 2022

A protocol for social and sustainability audits was designed in 2021, and in 2022 a specific ESG audit plan was launched for key suppliers.

The purpose of these ESG audits is to verify compliance with the Group's ESG criteria and to check, at the suppliers' premises, the validity of the responses previously recorded in the supplier classification system.

Suppliers from all of Iberdrola's main geographic areas were audited under this plan. The selection of the suppliers to be audited was done jointly with the internal audit area to ensure total impartiality and a more efficient selection.

The 2022 plan included ESG audits to 42 suppliers in the Group's 5 main geographies (Spain, United Kingdom, United States of America, Mexico and Brazil), as well as in other countries where main suppliers are located

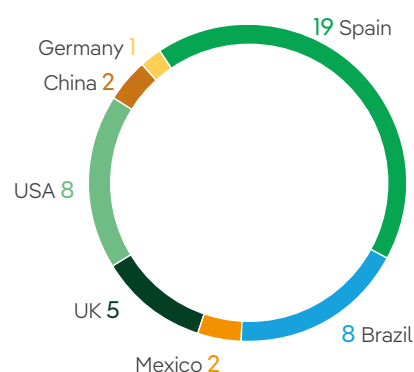
The outcome of the 2022 ESG audit campaign has been very satisfactory. The audits have shown that the suppliers audited have a very high level of implementation of ESG policies and good practices. It has been possible to confirm the assessment carried out through the supplier classification platform with the assessment carried out on these same suppliers by the auditors on site, obtaining very similar overall scores.

To carry out this ESG audit campaign, we have had the excellent collaboration of firms of recognised prestige in the sector such as Applus (Spain), Oca Global (Spain and USA) and Buerau Veritas (UK, Brazil, Mexico, Germany and USA). The close collaboration with each of them has made it possible to improve the audit protocol that will be used in 2023.

In turn, the effort made by the different business units of the Group in carrying out audits and inspections to suppliers should be highlighted. They are a fundamental follow up and control tool to ensure that all the requirements for minimising the risk, as appropriate, of the areas of human resources, environment, quality, occupational hazards and corporate social responsibility, have been met.

In 2022, as well as the ESG audits, there have been at least 384 audits to suppliers and, for those suppliers who had non-conformities, a period of time has been set to amend the deficiencies found. In addition, more than 46,500 periodic field inspections were carried out where suppliers are assessed, as appropriate, on environmental, quality and occupational hazard prevention aspects.

ESG Audits 2022

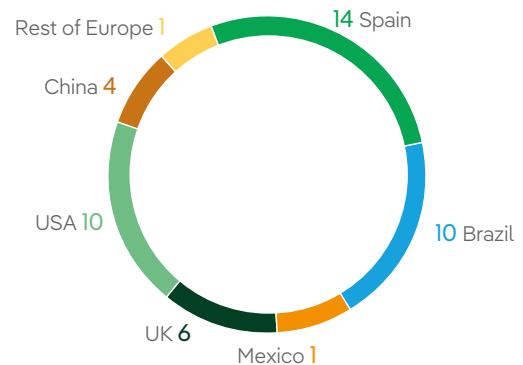


ESG audit plan 2023

The 2023 plan includes carrying out ESG audits to more than 50 suppliers in the Group's main geographies (Spain, United Kingdom, United States of America, Mexico and Brazil), as well as in other countries where main suppliers are located.

This new campaign will have an improved execution process, as a new module has been implemented in the supplier classification tool to digitise the process from start to finish. This tool will allow the assigned auditor to plan the dates of the audit, to receive the requested evidence in advance, and, during the on-site audit, to manage the collection and validation of the evidence directly on the platform and in real time. This digitisation of the process makes it more efficient and improves the traceability of the process and the result of the assessment. The audit module allows the improvement or remediation plans for certain assessed aspects to be requested and monitored, all in the same environment, which facilitates the follow-up of corrective actions.

ESG Audits 2023

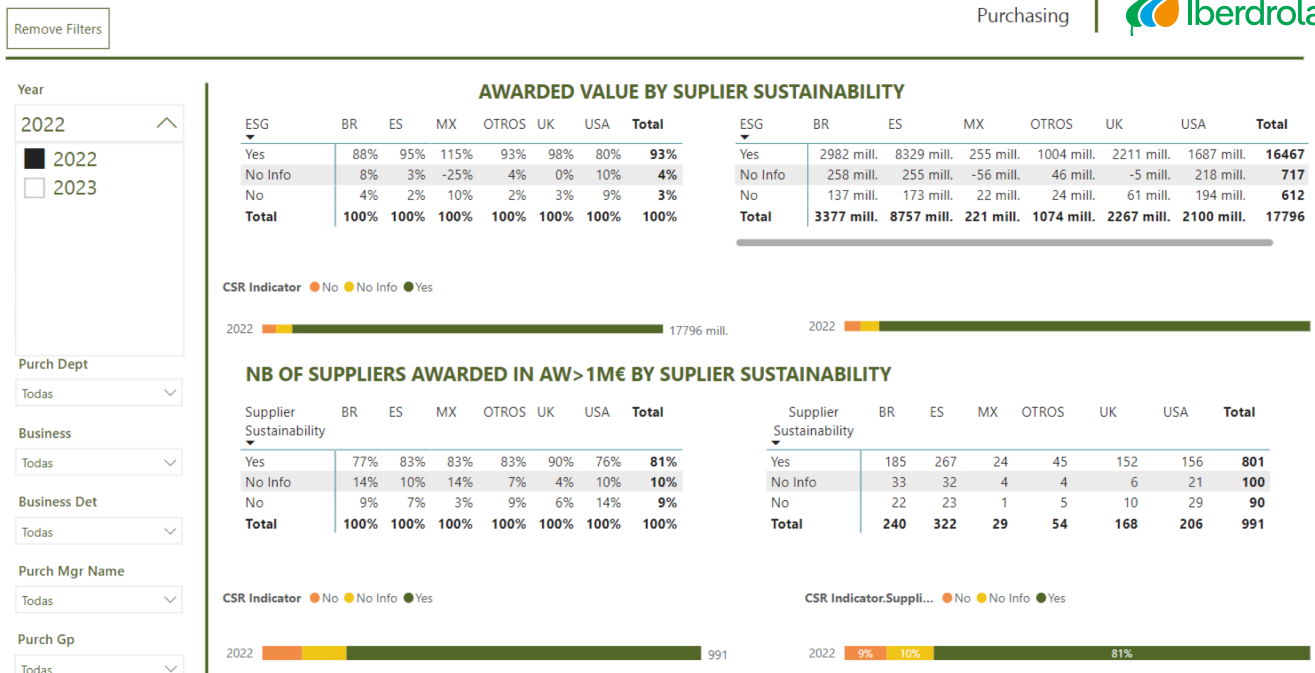


Monitoring Supply Chain's Sustainability Strategic Objective

A scorecard has been developed internally in PowerBI in order to continuously monitor this goal, which is updated daily and allows this goal to be monitored by business, country and purchasing category, as well as the identification of suppliers that require an improvement plan.

In this way, each purchasing unit as well as each manager is able to quickly view the updated sustainability profile of the suppliers that have been awarded contracts and those that are currently participating in ongoing tenders. This availability of information helps to facilitate dialogue with suppliers on sustainability improvement opportunities and to set specific targets for improvement.

SUSTAINABILITY OBJECTIVES Purchasing



Extract from an improvement plan

Suppliers that do not reach the required levels are sent a personalised ESG improvement plan indicating the areas in which they can improve and a deadline is agreed with them to attain results.



Improvement plan request:

Dear supplier,

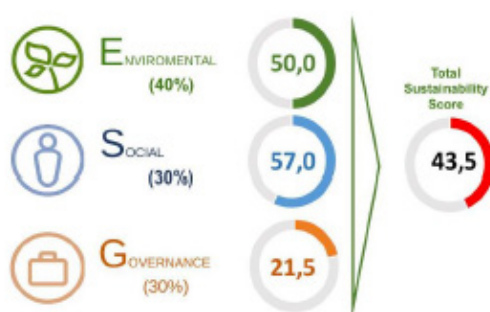
Iberdrola group is firmly committed to ensure that all its corporate activities and business, which contribute to the success of its business project, are developed by promoting the creation of value in a sustainable manner.

One of the key elements to achieve a successful implementation in this task is the close collaboration with the Supply Chain, and especially with our main suppliers since, as strategic partners, they make the development of the Group's activity possible.

For this reason, we are requesting the collaboration of to improve its sustainability profile through the definition and implementation of its own improvement plan, including commitments to measure its carbon footprint and reduce emissions in the short and medium term.

Evaluation

Based on our evaluation model of the sustainability profile of our suppliers,
has obtained a score of **43.5 points**, with the following breakdown:



This score is below the score that the Iberdrola group considers adequate to guarantee that it can continue to be our main supplier, so we encourage you to analyze the areas for improvement that we have identified so that you can propose actions that imply improvements in your Sustainability profile.

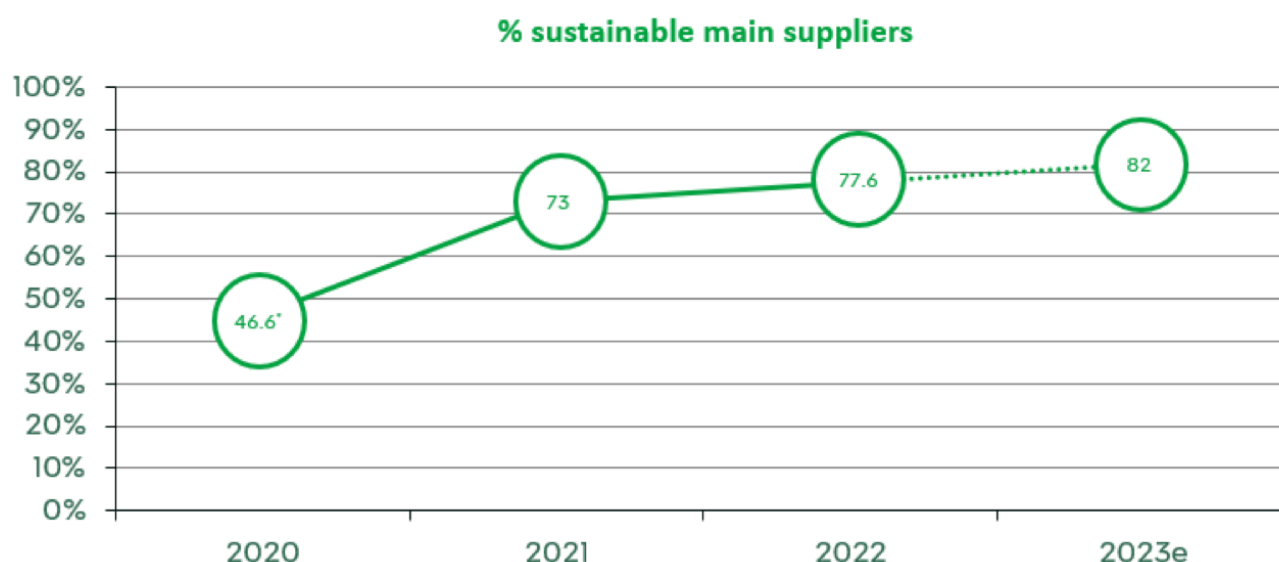
IMPORTANT: all main suppliers, before being awarded, must meet the minimum requirements to be qualified as a Sustainable supplier. If this level is not reached, you will have **four months after the award**: to achieve at least **51 global points**, as well as **30 partial points** in each of the three fundamental axes of sustainability.

This not only acts as an incentive to suppliers to improve their profiles through actions that encourage excellence in business management, but also encourages the Procurement Division, using quantifiable goals, to select companies that have demonstrated a solid performance in social responsibility or have committed to improving.

It should be noted that the suppliers included in the 2022 objective relating to the establishment and monitoring of improvement plans were the successful bidders in strategic tenders between the beginning of 2020 and the end of 2022. Therefore, during this period, improvement plans have been sent to 912 group suppliers and the result of this initiative has been that 57% of them have managed to improve their level of sustainability to the level of "sustainable".

Percentage of main suppliers subject to sustainable development policies and standards

The following graph shows the evolution of the indicator and the forecast for 2023. It should be highlighted that the 2020-2022 strategic goal was set to ensure that at least 70% of the Group's main suppliers were subject to sustainable development policies and standards by the end of 2022.



* Data based on extrapolating responses obtained before the end of 2020, supplier on boarding year which is ending in 2021.

By the end of 2022, more than 77% of the Group's main suppliers that were awarded contracts in the 2020-2022 period already met the established criteria and were subject to sustainable development policies and standards, thus meeting the strategic goal for that period.

Emissions associated with the supply chain

In its firm commitment to fight climate change, Iberdrola attempts to extend the effort to comply with emissions-reduction objectives to its suppliers. Emissions data from suppliers is obtained via a yearly environmental awareness campaign to encourage the reduction of CO₂e emissions in the supply chain.

Through this initiative, we want suppliers to demonstrate their effectiveness in managing, controlling and reducing greenhouse gas (GHG) emissions, while understanding the impact of climate change on their businesses and managing the associated risks appropriately.

Emissions proportional to the supplier's invoicing volume to the Company as a share of the total were taken as corresponding to Iberdrola, based on the replies to the questionnaires.

Emissions Scope 3 (t CO₂ eq)

EMISSIONS ASSOCIATED WITH THE SUPPLY CHAIN⁶

2022	2,944,448
2021	3,422,571**
2020	5,250,951*
2019	1,884,771

* The calculation method changed in 2020. A country-by-country factor was used to calculate emissions until 2019, whereas in 2020 an average factor was used. This means the data for 2019 cannot be compared with the data from following years.

** In 2021, an annual review and update of the emission factors was carried out and has led to a reduction of the values in the United States and Brazil. The emission factors used in the calculation of each of these emissions are obtained from official sources.

More information on Scope 1, 2 and 3 emissions can be found in the **Greenhouse Gas (GHG) Report** audited annually under ISO 14064-2018.

These campaigns also give suppliers the opportunity to tell us about any environmental projects they are working on, or if they have an environmental project that they would like to undertake in partnership with Iberdrola.

With regard to the environmental evaluation of suppliers, purchases from suppliers with an environmental management system increased in 2022 up to 72.2% in terms of % of total volume invoiced (general supplies) in the year.

SteelZero membership

In April 2022 Iberdrola formalised its membership of the international SteelZero initiative, led by Climate Group in collaboration with **Responsible Steel**.

By joining this alliance, the Iberdrola group maintains its commitment to incorporate sustainable steel in its future projects. The Group has set an ambitious target of using 50% low-emission steel by 2030, with the goal of reaching zero emissions by 2050.

With this project, Iberdrola and SteelZero contribute to sending a strong signal of a demand to shift global markets and policies towards responsible steel production and sourcing. The companies that have joined this alliance will ensure that the materials used in the production of renewable energy infrastructure are in line with a carbon-free world.

Decarbonising steel-making is possible and there are already several promising alternatives through direct electrification or green hydrogen. In the future, thanks to the expected cost reductions in renewable energy and green hydrogen driven by Iberdrola, green steel could become more competitive, benefiting all consumers.



For this reason, the Iberdrola group will progressively appreciate the fact that its main suppliers are also making commitments in this area and adhere to alliances of this kinds.

6. Estimates based on the supplier Greenhouse Gas measurement campaign that Iberdrola carries out on its suppliers. Calculation made based on a global emission factor in kg CO₂eq/€ invoiced (the calculation criteria in 2019 were only made based on an emission factor per country).

First Movers Coalition membership

On 23 January 2023, Iberdrola announced at the Davos Forum that it is joining the *First Movers Coalition (FMC)* to help accelerate decarbonisation and promote the use of green steel. The company became the first Spanish company to join and committed that **at least 10 % of its annual purchases of this material by 2030 will be made using green steel**, a product made with near-zero emissions (near-zero steel).

Led by the World Economic Forum, the initiative itself already has some seventy members committed to creating new markets for clean, innovative technologies, essential for the energy transition and the goal of zero net emissions by 2050.



**First Movers
Coalition**

This global coalition relies on the combined power of companies to send an early signal that there is demand for clean products, even in the most difficult industries to decarbonise. Seven sectors currently account for 30% of global emissions: aviation, chemicals, cement and concrete, shipping, steel and trucks.

The members represent a market capitalisation of around \$8 billion. All have committed to procure or contract a percentage of industrial and long-haul transport materials from suppliers offering near-zero or zero-emission solutions.

One of the activities in which Iberdrola collaborates in this coalition is to help launch regional initiatives. The coalition has chosen to develop a series of initial workshops, at local level, starting with India and Brazil. The aim of these sessions is to work on the decarbonisation of the steel sector, with the participation of the government, companies and financial institutions, in order to define specific actions that include the assessment of the current situation of the sector at local level, identify challenges and opportunities, and provide local administrations with policy recommendations, together with other stakeholders, in order to implement future projects in a more agile way.

The Iberdrola group has selected its subsidiary Neoenergía in Brazil to join this group and participate in the local First Movers Coalition initiative in Brazil to be held at the end of 2023.

This commitment complements previously reached agreements such as the SteelZero initiative.

SDG awareness-raising actions

Iberdrola is a company committed to achieving the Sustainable Development Goals and raising awareness of the importance of these goals among its suppliers.

An example of this is the design and launch in 2019 of the new supplier assessment model for sustainability, as mentioned in section “Sustainability in procurement management and supplier relationships” of this report.

In particular, it was reinforced when in 2020 the increase in number of main suppliers subject to sustainable development policies and standards was included as an strategic goal. These policies and standards include having a human rights strategy, a code of conduct for its suppliers, health and safety standards (SDG 3) and a global environmental sustainability strategy, including strategies on water (SDG 6), energy (SDG 7) and biodiversity (SDGs 14 and 15).

Supplier assessment takes into account a supplier’s performance in wide-ranging areas, such as the writing of an annual sustainability report, their inclusion in a sustainability index, having signed up to the United Nations Global Compact, the identification of goals (both financial and non-financial) linked to the Sustainable Development Goals (SDGs), the management of risks resulting from climate change, a circular economy strategy, due diligence in human rights, etc.

In addition, since 2018, the supplier satisfaction survey done every two years includes a section relating to involvement in the different SDGs. In previous years, this information had been in a separate survey.

SUSTAINABLE DEVELOPMENT GOALS

SDGs AS PART OF THE IBERDROLA GROUP'S BUSINESS STRATEGY

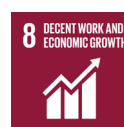
MAIN FOCUS



DIRECT CONTRIBUTION



INDIRECT CONTRIBUTION TO OTHER SDG



From the responses received in the latest edition of the 2022 survey, SDG 7 "Ensure access to affordable, secure, sustainable and modern energy" was selected by 12% of the suppliers surveyed, followed by SDG 8 "Decent work and economic growth" SDG 9: "Build resilient infrastructure, promote sustainable industrialisation and foster innovation", and SDG 3 "Health and well-being" with 11% each. SDG 13 "Climate Action", received 10% of responses, and SDG 15 "Gender Equality" was selected by 9% of suppliers. The other goals have been selected to a lesser degree.

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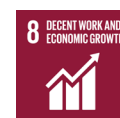
SDG 7 "Ensure access to affordable, reliable, sustainable and modern energy for all"



12%

02.

SDG 8 "Decent work and economic growth"



11%

03.

SDG 9 "Ensure healthy lives and promote well-being for all at all ages"



11%

04.

SDG 3 "Good health and well-being"



11%

05.

SDG 13 "Climate action"



10%

06.

SDG 5 "Gender Equality"



9%

Alignment of Procurement and Supplier Management with respect for the environment and sustainability

A summary of the main mechanisms in place to align procurement and supplier management with regard to the environment and sustainability can be found in the table below.

INTERNAL MECHANISMS		EXTERNAL MECHANISMS WITH SUPPLIERS	
Purchasing Policy	This contains the environmental principles that the suppliers must accept and the principles of responsible, sustainable management in the Iberdrola group supply chain	<u>Code of Ethics</u> (Supplier Clauses)	Incorporates environmental principles. The Group's suppliers must accept it and it is attached to orders and contracts
Supplier registration and classification	Having an environmental certification is weighted in the supplier's overall assessment. Iberdrola's Environmental Policy must be accepted	<u>Specific contracting terms and conditions</u>	Environmental clauses the supplier must meet during the term of the contract
Tender Process	The environmental assessment of the supplier is evaluated in the offer evaluation and award proposal phases of the tender	<u>Traction campaigns</u>	As a leading company, we proactively promote environmental certification among our suppliers, supporting them in their pursuit of excellence and generating multiplier effects
Annual improvement goals	New feature: putting in place annual improvement goals for the Procurement Team that are directly linked to improvements in suppliers' sustainable development; these are linked to variable remuneration	<u>Carbon footprint measurement</u>	Annual campaigns to measure suppliers' greenhouse gas emissions
Global Environmental System	The Procurement Division is a member of the Group's Sustainable Development Committee: guidelines, the objectives set and their KPIs. Audits	<u>Sustainability Assessment Model</u>	Includes environmental factors: biodiversity, circular economy, climate change risks, etc. Evaluation of suppliers, quantifying their relative position in terms of the management that they carry out
Transparency & Reporting	Purchase Indicator in risk countries Infographic: Contribution to Sustainability. Annual Procurement and Supplier Management Report published on the corporate website	<u>Supplier of the Year Award</u>	This promotes supplier commitment and improvement and publicly recognises those whose environmental performance is outstanding.

Sustainability training for the purchasing team

One of the keys to improving the sustainability of the Group's suppliers over the last few years has been the effort made by all the buyers in their daily conversation with the suppliers with whom they regularly interact.

Buyers have been able to tell their suppliers about the requirements and priorities in terms of sustainability, and in some cases, they have even had to carry out educational work in order to explain some of the elements of the Group's evaluation model and even advise in which possible lines of action they could begin to reach the required level.

For this, it has been necessary to manage continuous training for buyers at a worldwide level to make them known and deepen the basic rules connected with the different ESG elements.

08. Credit analysis in suppliers

8. Credit analysis in suppliers

As indicated in the section dedicated to the [Purchasing policy](#), the monitoring of Suppliers' credit risk, among other risks, is established.

Criticality of the supply

The [Purchasing policy](#) determines the following 3 levels of criticality of supply as a general guide:

HIGH LEVEL	A	MEDIUM LEVEL	B	LOW LEVEL	C
<p>Critical supply. Assigned to those supplies in which it is very difficult, expensive and/or problematic to substitute the Supplier. For example: captive supply (single Supplier), legal requirement, essential supply in the nuclear sector, serious effect on the production process (strategic equipment), existence of advance payments and/or high value guarantees or warranties provided by the Group, high risk of impact on reputation or countries considered at risk due to their low performance in terms of human rights or corruption. The cost of supply failure would be great expense and/or significant penalties.</p>		<p>Supplies in which substitution is possible with limited cost. There are no significant advance payments. Although they may be few, there are alternative suppliers in the market. Business processes outsourced to a single contractor whose replacement would not cause significant delays. There are historical references of similar jobs/supplies without performance incidents. It does not require high labour qualification or technical complexity.</p>		<p>Non-critical supply. Supplies in which substitution is not problematic and/or which do not affect essential processes. For example: sufficient number of alternative Suppliers, possibility of rapid substitution, marginal cost overrun.</p>	

Criticality of supply is one of the considerations to be taken into account when planning a tender process and in the selection of suppliers to be invited. In the event the invited suppliers have a high risk profile in some of the assessed factors, mitigation measures will be determined and negotiated prior to the awarding.

Credit Risk

In order to prevent any potential negative consequences for Iberdrola of a supplier's failure to honour the commitments they have undertaken, the Procurement Division has a credit risk management system for the Group's main suppliers.

In application of this system, the Group's main potential and current suppliers are assessed and classified according to their creditworthiness, their production capacity and their dependence on the Iberdrola group.

The reports of credit rating companies as well as financial ratios obtained from the audited accounts of the supplier are taken into account in order to analyse their credit quality.

In addition to the supplier's own credit rating, the credit risk analysis includes the supplier's dependence on Iberdrola and the existing commitments that the supplier has ordered and pending delivery (capacity).

If the estimated amount of the contract exceeds the thresholds established in the [Procurement Policy](#), the Risk Division reviews the creditworthiness of such supplier, and this credit risk assessment is taken into account when selecting the successful bidders for contracts, as well as in the assessment of various options to protect the Group's position.

Mitigation measures, including guarantees or bank guarantees advantages, are established for suppliers with high credit risk.

During 2022, more than 85% of the total amount of purchases made were analysed centrally in the management systems.

09. Dialogue with suppliers

9. Dialogue with suppliers

Iberdrola has a responsible and sustainable business model, which places the Group's stakeholders at the centre of its strategy. As part of this, the company aims to build trust-based relationships with its different stakeholders, as well as to deepen their participation, involvement and sense of belonging with Iberdrola. Among the most relevant stakeholders are our suppliers with whom we engage on an ongoing basis.

STAKEHOLDER RELEVANT DIALOGUE AND COMMUNICATION CHANNELS

Suppliers

- Employee Portal at www.iberdrola.com/suppliers
- Supplier Service Centre
- Satisfaction surveys
- Supplier of the Year Awards
- Supplier registration, assessment and classification platform
- IBuy tender management platform
- Supplier traction campaigns, improvement plans and remediation plans
- Participation in events
- Suppliers' ethics mailbox

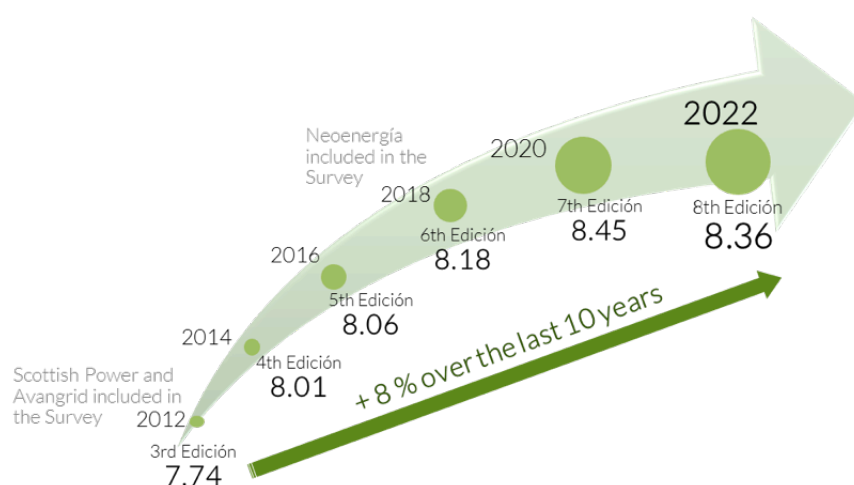
The model that Iberdrola has been developing and improving to manage its relationships with suppliers, as well as the broad range of channels for dialogue and communication for these groups, are summarised in the above table.

Supplier survey

Iberdrola is concerned about knowing the satisfaction and expectations of its stakeholders, amongst which supply companies play a prominent role. An important part of this is the Supplier Satisfaction Survey, which is carried out every two years and provides information on suppliers' expectations and perceptions of the procurement process and the Company.

Based on the opinions of the suppliers, the possibility of including new continuous improvement actions in the Iberdrola group's Procurement and Services Division is being analysed.

The last survey was carried out in 2022 (8th edition), with a global satisfaction level of 8.36 (out of 10), in line with the result in 2020 and improving upon result of previous editions.



Results of the supplier satisfaction surveys

For this initiative, there is no target result, since the purpose of the survey is to collect the opinion of suppliers to then use as a source for improvements. A high participation rate from suppliers of around 40% is sought (42% 2022, 41.8% in 2020 and 43.1% in 2018) along with a high level of response (more than 2,000 responses in 2022).

In general, suppliers rated Iberdrola's ethics and reputation, the brand and the trust it inspires very positively. Our suppliers also said that working with the Group helps to preserve jobs, promotes on-going improvement of their processes and investment in R&D.

On the other hand, suppliers also pointed out opportunities for improvement, such as increasing feedback on the outcome of the tender processes in which they have participated and weighting price over other differential factors in their value proposals.

In this edition, the survey is used to launch a campaign to collect data and raise awareness among suppliers to learn about their level of commitment to the UN's **Sustainable Development Goals (SDGs)**:

In 2022, the **most relevant SDG** for suppliers was **SDG 7 “Affordable and clean energy”**, followed by **SDG 8 “Decent work and economic growth”**, **SDG 9: “industry, innovation and infrastructure”**, **SDG 3 “Health and well-being”**, **SDG 13 “Climate action”** and **SDG 5 “Gender Equality”**.

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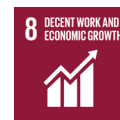
SDG 7 “Ensure access to affordable, reliable, sustainable and modern energy for all”



12%

02.

SDG 8 “Decent work and economic growth”



11%

03.

SDG 9 “Ensure healthy lives and promote well-being for all at all ages”



11%

04.

SDG 3 “Good health and well-being”



11%

05.

SDG 13 “Climate action”



10%

06.

SDG 5 “Gender Equality”



9%

629 suppliers have submitted **alliance** opportunities with Iberdrola to **accelerate** compliance with the **2030 Agenda**.
Details of these proposals are shared with ESG management.

Main benefits for suppliers

Actions being developed by the Procurement Division to foster social, ethical, economic and environmental progress in our suppliers have generated progressive convergence of suppliers and supplies toward the sustainability parameters required by the company; this is causing a multiplier effect throughout the supply chain, as what is being requested from top-level suppliers today will gradually spread to the entire supply chain.

Given its high annual procurement volumes, the Iberdrola group acts as an economic driving force in the geographic areas where it is present and streamlines its supply chain by:

- Creating an integral, ethical and transparent business model that favours the development of these values and commitments in the market in which it operates
- Encouraging internationalization
- Injecting liquidity into suppliers
- Providing highly qualified employment
- Driving investments in R&D
- Rewarding the supplier's contribution to the Company's strategic objectives

Among other things, Iberdrola has contributed to ensuring that supplier companies that were initially only local, had no management systems, or were focused on a single activity, etc., were able to access new markets and clients, become involved in R&D projects and become more competitive by developing an international presence. This allows them to become, on their own, leading firms in their own sectors, such as renewable energies, industrial facility maintenance, power facility construction, global services, etc.

However, in addition to purely economic wealth, from a sustainable and responsible perspective we act as a powerful driver in the market, encouraging suppliers to improve their environmental, ethical and social profile through activities that promote excellence in management.

In their responses to the 2022 satisfaction survey, suppliers highlighted the following (in order of rating) as the most positive aspects of working with Iberdrola:

- It helps to maintain jobs
- It promotes the continuous improvement of processes
- It encourages investment in R&D
- It helps them to win new customers
- It encourages them to internationalise

10. Supplier diversity programme

10. Supplier diversity programme

Within the Iberdrola group we are committed to creating a diverse, equitable and inclusive workforce. This commitment also extends to our supply chain, as seen through the Supplier Diversity Program supported by our subsidiary, Avangrid, in the United States. Avangrid has established actions to ensure we provide equal access to purchasing opportunities for all suppliers, with a focus on suppliers from diverse backgrounds, to stimulate fresh ideas, bring us closer to our local communities and drive increasingly innovative benefits and services.

We define supplier diversity as proactively sourcing goods and services from US-based companies that are at least 51% owned and controlled by a US citizen(s) in the following diverse groups:



The volume invoiced during 2022 to these groups is around \$177.9 million, an increase of 7.6% compared to the previous year.

Avangrid's goal is focused on reaching \$300M invoiced with diverse suppliers by 2025.

Actions taken to grow the Supplier Diversity program include:

- Established Mission Statement, Policies and Governance
- Implemented Communication Strategy and Outreach including launching an internal Supplier Diversity Program Training, and participation in panels, interviews and events to increase awareness
- Launched a Tier 2 Diversity Spend data collection and validation process
- Membership and active participation with supplier diversity organizations like Disability:IN, National Minority Supplier Development Council (NMSDC) and the Women's Business Enterprise National Council (WBENC)

These actions are designed to foster inclusive supplier engagement that promotes economic development and reflects the increasingly diverse business communities that can support our work and growth.

As we work to achieve our supplier diversity and sustainability goals, we recognise that these commitments create long-term value for both our suppliers and our company, including creating better business solutions, increasing customer loyalty and satisfaction, and positively impacting the community.

We will continue to review best practices in Supplier Diversity as we set attainable steps and best in class goals for our program. Making this program a success is a shared responsibility and a successful partnership that will help fuel growth and economic strength.

Additionally, the Procurement Division in Spain has been working over the last few years on incorporating Special Employment Centres into the network of regular suppliers. A total of €2.44 million was under contract

with Special Employment Centres in Spain in 2022. This represents an increase of 8.9% compared to the previous year.

Therefore, having a varied base of suppliers benefits the businesses and our Company. It allows us to obtain the goods and services that we need while enabling small enterprises and minority owned companies to grow and prosper.

Promoting equality and diversity in the supply chain

Iberdrola carries out an internal assessment of its main suppliers, based on environmental and social, as well as business and logistical, criteria. Among the aspects assessed in terms of equality and diversity, the following stand out:

- Percentage of women hired
- The company has a policy to promote equality and diversity
- The company has promoted and developed measures to encourage the work-life balance of its workers that go beyond legally-required measures
- The company calculates the salary gap index between men and women
- The company actively promotes the inclusion of people with disabilities

On the other hand, and with the intention of recognising the efforts made by some of our suppliers in this area, the Iberdrola group publicly acknowledges those suppliers through the Diversity and Equality category of the Supplier of the Year Awards. In 2022, it was specifically distinguished with the award in:

- **Spain to INAEL** for its commitment to implementing measures that promote diversity and equal opportunities, supporting policies that may benefit groups with special difficulties when manufacturing equipment and materials for Iberdrola's electricity grids.
- **Mexico to Aequale** for being key allies in carrying out the first Diversity and Inclusion diagnosis at Iberdrola Mexico. They supply training and awareness-raising services on topics such as female leadership, generational diversity, and inclusion of persons with disabilities, and have provided support for initiatives such as International Women's Day and Diversity and Inclusion Week.



**Spain to
INAEL** for its
commitment
to implement
measures
that promote
diversity
and equal
opportunities.

11.

**Innovation
programmes,
support for
recently
created
companies
and SME
suppliers**

11. Innovation programmes, support for recently created companies and SME suppliers

R&D&I and PERSEO fund

Iberdrola's innovative strategy for management and technology deployed over the last 15 years has made it a global leader and benchmark company in the area of Research, Development and Innovation (R&D&I) by five main lines of action:

- New products and services which respond to customer needs with more personalisation of content and offerings.
- A culture of innovation and talent by transferring knowledge, attracting talent and promoting an entrepreneurial spirit.
- Digitisation and automation in all businesses and processes to create value in the asset management life cycle, the optimisation and aggregation of the grid, and the design of integrated services for the new digital customer profile. The digital transformation will be based on new technologies, such as blockchain, Big Data, IoT, Virtual Reality, Artificial Intelligence, etc., at all levels of the Group.
- Disruptive technologies which are becoming increasingly efficient, sustainable and respectful to the environment, optimising the functioning of facilities and processes, and of products and services that are more innovative and competitive.
- Innovation with start-ups, entrepreneurs and suppliers. We are pioneers in promoting innovation with start-ups, entrepreneurs and suppliers with the aim of developing new disruptive business models, promoting the exchange of knowledge and acting as a driving force among our partners.

The Iberdrola group's R&D&I efforts are aligned with the driving forces of the transformation of the energy sector, decarbonisation and electrification of the economy.

Iberdrola runs a Supplier Innovation Programme to promote and accelerate the development of new products and services that provide solutions for the Company's future needs while responding to the challenges facing the sector.

The programme has three central concepts:

- To help suppliers access financing mechanisms
- To promote joint ventures (supplier spin-offs) through the Perseo fund
- Innovative purchasing of the products or services developed



During 2022, we further strengthened our commitment to innovation as a key strategic cross-cutting issue in all our businesses and activities: allocating more than €360 million to cutting-edge initiatives that promote electrification, which has led us to once again be considered by the European Commission as the private utility that invests the most in this concept in the world.

The Iberdrola group views innovation as a strategic variable to guarantee the sustainability, efficiency and competitiveness of the company.

In the coming years, in line with the company's current investment plan, we plan to invest €2 billion in innovative initiatives by 2025 and €4 billion by 2030, doubling our R&D&I efforts by the end of the decade.

In 2022 the Iberdrola group supported the creation and consolidation of new business projects with a range of significant initiatives, with the following being of particular note:

- €106 million in purchases made in Spain during 2022 from companies less than 5 years old, which represents a clear support for entrepreneurship. Total purchases, from the Group as a whole, from companies less than 5 years old is €378 million.
- Iberdrola's venture capital programme, Iberdrola Ventures - Perseo, which has invested more than €125 million worldwide since its creation, represents an opportunity for companies dedicated to innovative technologies and business models that ensure the sustainability of the energy model. More information on <https://www.iberdrola.com/innovation/international-startup-program-perseo>

PERSEO's mission is to generate added value to the company through the application of innovation in the business and is divided into four complementary goals: Early identification of key trends, fostering entrepreneurial culture, supporting disruptive business models and boosting economic revitalisation. In turn, the programme is applied transversally in six strategic sectors for Iberdrola.

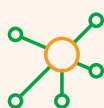
Objectives of the programme



Early identification of key trends for the future of the company



Fostering a culture of innovation and entrepreneurial activity



Access to ground-breaking technologies and business models



Stimulation of industrial sectors with high potential for growth and promoting economic and social revitalisation

PERSEO uses instruments such as venture capital investments, strategic alliances, competitions for start-ups and pilot projects or Proof of Concept (PoC) as tools, with the aim of maximising the channelling of innovation towards our company for its constant improvement.

Keys



125 M€ invested in startups

8 companies in our
portfolio



Challenges

Open Innovation Tool

10 challenges launched annually

+ 500 proposals received each year



Venture Builder program

For creating and investing
in companies



+7,500 start-ups in our ecosystem

Increasing at a rate of
300 per year



Pilot projects

Access to technology
in real cases

+25 real pilot projects per year



Andromeda Sustainable Tech Fund

First major technology fund
for energy transition

300 M€ for investing in scaleups

This investment effort has materialised through 25 companies, and currently maintains a portfolio of eight companies, selected from among the more than 300 international start-ups that Iberdrola analyses each year in search of opportunities to accelerate the electrification and decarbonisation of the economy.

In addition to this investment, Perseo conducts 25 pilot tests with start-ups per year and annually launches 10 challenges, also called Iberdrola start-up Challenges, with the aim of covering the company's specific business needs with innovative solutions.

These initiatives are in conjunction with the launch of the Andr meda fund in 2022, in collaboration with Seaya Ventures and the Spanish Government through the Official Credit Institute (ICO). Andr meda has an investment capacity of  300 million for the growth and scaling of European technology companies related to sustainability, energy transition, electrification of the economy and other areas of interest, such as sustainable agriculture and the circular economy. In August 2022, it closed its first investment by investing in the OIh construction company initiative, whose main goal is to optimise the design and construction process of carbon neutral buildings, making them easily repeatable and scalable.

More information on <https://www.iberdrola.com/innovation/innovation-report>

Iberdrola joins the United Nations Global Compact Programme to further promote the sustainability of its suppliers

The Procurement and Services Division has strengthened its collaboration with the UN Global Compact Spain organisation to take a further global step in its drive for sustainability among its suppliers.

This initiative promotes sustainability training for SME suppliers on five continents through the "Sustainable Suppliers" programme of the UN Global Compact Spain, ICEX and ICO Foundation

For five months, the supplier SMEs benefiting from the programme (more than 220 that have joined Iberdrola) will be able to access online courses, live recorded sessions, practical guides, templates for the preparation of policies and codes and case studies of other companies. SMEs will receive a certificate of participation and compliance once they have completed all the modules in the programme.

This programme is free of charge for our suppliers, including training in four modules on general issues regarding sustainability, the Sustainable Development Goals (SDGs) and the topics in four blocks of the Global Compact Principles and the internationalisation of the company, incentives and reporting of non-financial information.

In its first edition, the "Sustainable Suppliers" training programme has involved more than 2,000 SME suppliers from 38 countries with a total workforce of 140,000 employees. The programme is promoted by the United Nations Global Compact and its local network in Spain together with the ICO Foundation and ICEX Spain Export and Investment, with Iberdrola and 16 other large Spanish companies, partners of the UN Global Compact Spain, participating as promoters.



Iberdrola listens to SMEs at the event "SMEs + SUSTAINABLE: Incentives"

On 23 May 2023, the Iberdrola Campus in San Agustín de Guadalix hosted the conference "SMEs + SUSTAINABLE: INCENTIVES", in which more than 25 small and medium-sized Spanish companies and suppliers of the Group participated.

The conference, which was organised together with the UN Global Compact Spain and Accenture, was attended by more than 50 participants. They were able to share their own experiences and results following the efforts made to improve the profile of their organisations as drivers of Sustainable Development.

The main goals of the conference were to identify the barriers encountered by the SMEs in attendance in their task of implementing certain ESG improvement lines of action requested by Iberdrola and, in turn, the possible incentives that could be made available to SMEs by customers such as Iberdrola or third parties, such as

public administrations and sectoral or business associations, to help them meet this requirement. A preliminary analysis of the feasibility of implementing these incentives was also carried out.

Two "co-creation" sessions were held, which were facilitated by Accenture and UN Global Compact Spain, with extensive experience in this type of initiative. Using the "design thinking" methodology, the participants shared their experiences and proposals for improving the process, which were assessed and prioritised by the participants themselves, taking into account the impact and feasibility of implementation.

After the working sessions, the attendees were able to take a guided tour of the main R&D&I classrooms and workshops available at Iberdrola's Innovation and Training Campus, where nearly 13,000 people receive training in its classrooms every year. Iberdrola's Innovation and Training Campus represents the Group's commitment to technology, R&D, and collaboration with technology centres as levers to lead the energy transition, the green recovery of the economy, and the employment and employability of young and senior professionals in sectors of the future.

The assessment of the initiative by the attendees themselves obtained a very high rating, which once again highlights the importance of intensifying collaboration with our supply chain and of redoubling efforts to further develop suppliers at the local level for strategic procurements, especially aimed at SMEs. This will help to further contribute to the creation of indirect and induced jobs and the maintenance of a strong industrial fabric in the geographies where the Group operates.



The initiative was
very highly rated
by the participants
themselves.

1. ADMINISTRACIÓN ORGANIZACIÓN Y CONTROL DE PROYECTOS, S.L.	16. INVENERGY SERVICES HUSO, S.L.U.
2. AIRBOX, S.A.	17. INVESTIGACION Y CONTROL DE CALIDAD, S.A.U.
3. COPSA EMPRESA CONSTRUCTORA, S.A.	18. JAINSER, S.L.
4. ECOS ESTUDIOS AMBIENTALES Y OCEANOGRAFIA, S.L.	19. MECANIZADOS OLIVERA, S.L.
5. FLULLE INSTALACIONES SL	20. METALURGICA B B, S.L.
6. GRUPO DE ARQUITECTURA Y OBRA CIVIL	21. RECTICUR, S.L.
7. HEMAG, S.A.	22. SEYP INGENIERIA, S.L.P.
8. HEREDEROS DE IGNACIO DE LA IGLESIA, S.L.	23. TALLERES ELECTROMECANICOS L PINAZO, S.A.
9. HIDRAULICA CONSTRUCCION Y CONSERVACION, S.A.	24. TECHNICAL SERVICES WIND, S.L.U.
10. IBERIAN SUSTAINABLE ENERGIES GROUP, S.L.	25. TECNICAS DE SOFT, S.A.
11. IBERICA DE APARELLAJES S.L.	26. TENSA, S.A.
12. IBERLOZ ALBACETE, S.L.	27. VALDECONSA SL
13. INGENIERIA DE INSTRUMENTACION Y CONTROL, S.A.	28. VELAMAR ELECTRICIDAD S.L.
14. INGENIERIA Y DISEÑO ESTRUCTURAL AVANZADO, S.L.	29. WAKE UP SOSTENIBILIDAD, S.L.
15. INTEGRAL MANAGEMENT FUTURE RENEWABLES, S.L.	

ScottishPower helps its Scottish SMEs to develop their decarbonisation projects

ScottishPower offers all its support to Scottish SMEs so that they can develop decarbonisation plans and contribute to the country's goal of net zero emissions. With the aim of continuing to promote these efforts, the company has joined other organisations in the creation of the Climate Action Centre, created as a virtual learning environment that also provides carbon footprint measurement tools.

It is a free platform that provides resources for understanding and addressing climate risks. It is jointly funded by the Scottish Government and members of the Scottish Business Climate Collaboration (SBCC) and its content is developed by environmental management specialist Zero Waste Scotland.

The Hub has a wide range of resources, including:

- 12 modules on topics ranging from basic climate science to carbon emissions related to business practices.
- Free access to a dashboard to track carbon literacy across the organisation.
- Tools to calculate a carbon emissions baseline and develop a carbon reduction plan.

The Climate Action Centre aims to support not only significant emissions reductions but also cost savings for businesses.

Through these resources, ScottishPower's small and medium-sized companies have new tools that will help them play a full and active role in the energy transition. In this regard, it makes it easier for them to identify and develop their own plans to reduce their carbon footprint and to develop their own sustainability strategies.



Why Net Zero?

- The Basics of Climate Change
- Business Opportunities from Carbon Reduction
- Why Carbon is Important



Understanding Your Carbon

- Sources of carbon in your business
- Upstream carbon
- Downstream carbon
- How to measure your carbon
- Calculating your carbon footprint



How to Implement

- Setting your targets
- Taking action to reduce your carbon
- Communicating your carbon actions
- Where to go for help

The Climate Action HUB is available on <https://sbcc.group/>

Iberdrola Mexico collaborates in training Mexican SMEs to calculate their carbon footprint

Iberdrola Mexico has made a great effort in recent years to transfer the Iberdrola group's sustainability criteria to its suppliers. Projects for the installation of new generation plants in different parts of Mexico have expanded the base of new suppliers, many of which are small and medium-sized companies that have had to adapt and implement the management standards required to work with the Group.

In this regard, one of the opportunities for improvement detected for SMEs was the need to disseminate knowledge about climate change and decarbonisation, as the Group seeks greater involvement of its suppliers so that they calculate their carbon footprint, verify it and take climate actions with specific climate targets.

Iberdrola Mexico, in collaboration with the Carbon Trust, delivered an online course in two sessions held in early June of 2023 in which 50 SMEs were able to improve their technical knowledge of corporate carbon footprinting, as well as the benefits of verification and climate targets through the following main topics:

- Climate science and the private sector
- Corporate carbon footprinting with practical session
- Benefits of ISO14064 verification

In turn, the Group's decarbonisation and environmental targets set for the short and medium term were shared with attendees, as well as the importance of the support needed from the supply chain.

Iberdrola brings the professional profiles of the future of industry closer to its suppliers

The Iberdrola group is aware of the need to open new lines of collaboration with the suppliers involved in the projects that support its strategy to promote the green energy transition.

Due to the large number of renewable energy projects in the installation phase in Spain during 2022, we identified the difficulty that most of our suppliers that manage facilities had in finding trained and specialised professionals to incorporate in the execution of these projects.

For this reason, in November 2022, a hundred suppliers were invited to learn about the Reskilling for Employment "R4E" project, an initiative that aims to help companies find trained professionals with the skills and competencies demanded by the sector. This project is focused on the field of "green jobs".

The Human Resources Division, which leads this project on behalf of Iberdrola, defined green jobs and launched reskilling programmes in these jobs in collaboration with various entities.

The profiles defined so far are:

- Wind Farm Installer and Maintenance,
- Photovoltaic Plant Installer,
- Installer of Electric Vehicle Charging Infrastructure,
- Photovoltaic Self-consumption Systems Installer,
- Heat electrification technician.

Iberdrola is one of the three companies participating, together with SAP and Telefónica, in the "Reskilling for Employment- R4E" project, which was created along with other projects by the main European association of large industrial companies, ERT "European Round Table for Industry", whose main aim is to promote European competitiveness and prosperity. Iberdrola is a very active member. The project has been created with the aim of addressing the skills gap in Europe between its workforce and the new skills required by the dual transition (energy and digital), through reskilling actions enabling the placement across Europe of 1 million people by 2025 and up to 5 million by 2030, focusing on unemployed and people in at-risk jobs.

Further details of the project can be found at the following link:

<https://reskilling4employment.eu/en/spain/>
<https://ert.eu/>

Iberdrola collaborates with suppliers in digital transformation projects

Iberdrola focuses on people to guarantee the maximum digital experience in its technological projects.

The Iberdrola group's Finance and Treasury area is immersed in a strategic digital transformation project called DatIA together with the provider Bluetab (IBM group), winner in the "Digitalisation and new technologies" area for the 2022 supplier of the year awards.

Bluetab, which has more than 1,000 expert data engineers, specialises in offering technological solutions in Data and Cloud, and one of the distinctive features when contracting its services was its focus on people.

From the start of the project, a dedicated team was in place to facilitate the adoption of the data-driven culture and increase the commitment and involvement of the impacted stakeholders. This initiative, articulated through a Change Management Plan, is considered fundamental to ensure the success of the project.

The Change Management Plan is composed of 5 lines of work: Discovery, DatIA Academy, Communications & Engagement, DatIA Community and Monitoring and On-Going Improvement.

In particular, the DatIA Academy line aims to promote training in new technologies and skills, promoting a new way of working in a team of more than 175 people. The training plan designed includes 7 training itineraries defined according to the needs of each role and covers 5 areas of knowledge: data culture, data governance, Power BI, advanced analytics & AI and Microsoft Azure. Until now, 17 training actions have been carried out for more than 46 users, accumulating more than 200 training hours.

DatIA Academy

GENERAL OVERVIEW



7 learning paths


5 knowledge areas: data culture, Power BI, data governance, analytics & Azure.

+170 users involved

+ 24 training sessions planned

+ 1,400 training hours included

UP TO DATE KEY DATA

 +40
users involved

 + 17
training sessions done

 + 200
Accumulated
training hours

★★★★ 5/6
Average satisfaction

Bluetab's experience has enabled the Iberdrola group's Finance and Treasury Division to become a data-driven organisation capable of realising the full potential of data and achieving more proactive financial and treasury management coordinated at Group, Business and Corporate level.

12.

Supplier of the Year Awards

12. Supplier of the Year Awards

Supplier of the Year Awards in Spain

On November 22nd, 2022, the CEO of Iberdrola Spain, Mario Ruiz-Tagle, presented the Supplier of the Year Awards in Spain, during an event whose spirit is to recognise the fundamental role of our suppliers in achieving the Group's strategic goals and highlights the importance of creating an ecosystem of suppliers working towards the same goals.

In his speech, he stressed that suppliers are necessary and are a relevant player: “Without their daily work, commitment, dedication and performance, we would not be able to continue being a responsible, sustainable and resilient company”, he stated

In this edition, the awards were presented to eleven companies that have stood out for their commitment to innovation, competitiveness, diversity and equality, occupational risk prevention, quality, sustainability, job creation and internationalisation, collaborating with Iberdrola in its goal for a decarbonised economy through investment in renewable energy, smart distribution grids, large-scale storage projects and innovative solutions for its customers.



“Without their daily work, commitment, dedication and performance, we would not be able to continue being a responsible, sustainable and resilient company”

Mario Ruiz-Tagle,
CEO in Iberdrola España

- **Supplier of the Year Award:** Ormazabal. The special 2022 award went to this Basque company for its extensive experience working with Iberdrola, always responding with the highest level of quality, jointly developing solutions, and flexibility of supply.
- **Equipment manufacturer Award:** Gonvarri Solar. This supplier provides great support in several key projects for Iberdrola by showing flexibility, quality of service, reliable equipment and competitive pricing in the field of renewable energies.
- **Internationalisation Award:** Deutsche Windtechnik. This supplier accompanies Iberdrola in the strategy of global wind maintenance models outside Spain and new markets.
- **Entrepreneurship and Innovation award:** Beeplanet. The Navarre-based start-up installs second-life batteries (circular economy) in charging points. They have developed a scalable product that accelerates the deployment of fast charging points.
- **Diversity and Equality Award:** INAEL. They were recognised for their commitment to implementing measures that promote diversity and equal opportunities, supporting policies that may benefit groups with special difficulties when manufacturing equipment and materials for Iberdrola's electricity grids.
- **Technical services Award:** Lizelan. The company received this award for its decisive service in the elimination of pruning anomalies in the electricity distribution sector, developing its work with high quality.
- **Non-technical services Award:** JA Garrigues. Iberdrola's leading law firm in Spain, they provide legal advisory services in different areas, aligned with the highest international standards in corporate governance.
- **Energy transition Award:** Eco Energías del Guadiana de Extremadura. This supplier was recognised for its environmental management services and co-development contracts for solar PV plants. As a result of this collaboration, Iberdrola has built and put into operation more than 1,900 new solar MW; another 575 MW are under construction and 380 MW are at an advanced stage of processing.
- **Sustainability and SDG contribution Award:** Milsa Trillo Galicia. After carrying out an ESG improvement plan requested by Iberdrola, it has been positioned with more than 90 points/100 in the ESG Sustainability model.
- **Award for economic recovery and job creation** IDESA (GDA-Windar). They received this award for their efficient management and maximum safety with the H2 storage tanks for Iberdrola's hydrogen plant at Puertollano in Ciudad Real.
- **Digitisation and innovation Award:** BLUETAB (IBM group). This award was given for their work done on Big data, Cloud, Data Management and Data Governance.

Supplier of the Year Awards in Mexico

In addition to the awards in Spain, the 2022 Supplier of the Year awards were also held in Mexico. On September 22nd, 2022, Iberdrola Mexico recognised a total of 16 strategic partners that have made a decisive contribution to achieving the company's goals with the highest standards of efficiency and quality, but also with common values such as transparency, ethics, equality and inclusion, and social commitment, at an event attended by more than 100 suppliers and employees of the company.

The awards were presented to eight companies that have been recognised for their excellent performance and commitment to Iberdrola Mexico over the years and especially in the last financial year. Eight other finalist companies were also recognised, each in one of the award categories. Below is a list with the winners and the runners up:

- Supplier of the Year Award: Winner SAPCO and runner up Mitsubishi Power from Mexico
- Digitisation and innovation Award: Winner Siemens and runner up Critical Arc

- Health and safety at work Award: Winner Mitsui & Co Infrastructure Solutions and runner up COPSA Desarrollos
- Sustainability Award: Winner Greening Renovables and runner up Proyecto Concentrate
- Social corporate responsibility Award: Winner Ilum México and runner up Educación para Compartir
- Ethics and compliance Award: Winner Remo Range Security and runner up Construcción y Servicios Integrales SIGMA
- Equality Award: Winner Aequale and runner up BLK Logistics.
- Energy transition Award: Winner Solarever Tecnología de América and runner up Eco Ibérica

At the award ceremony, Enrique Alba, CEO of Iberdrola Mexico, highlighted the boost that Iberdrola Mexico has been giving to the Mexican industrial fabric without neglecting the social dividend, support for communities, care for the environment and the well-being of its employees and, in turn, the efforts made by the Group's suppliers, giving special recognition to the award winners and also to the finalists, as they are suppliers that have stood out for promoting ethics, energy transition and equality, among other values that are essential to the company.



Award ceremony in Mexico

The Director of Procurement and Insurance at Iberdrola Mexico, Alberto López-Pando, highlighted the successful collaboration with suppliers, as the result obtained is clear evidence that economic sustainability and environmental sustainability are not opposed and that it is possible to promote a fair, inclusive and egalitarian society through these initiatives.

13. Awards

13. Awards

ISO 20400:2017 Certificate Sustainable Procurement Strategy

Iberdrola has become the first private company to be awarded the Sustainable Procurement Strategy Certificate by AENOR, based on the international standard ISO 20400:2017.

According to the standard, sustainable purchases are those "that have the greatest possible positive environmental, social and economic impact throughout the life cycle of the service or product". This certification defines how sustainability considerations should be integrated into existing procurement processes, promoting a procurement strategy that includes sustainability as a core value in decision-making.

Iberdrola, by obtaining this certificate, highlights the efforts made in the development of a supply chain focused on sustainability, favouring a "back and forth" interaction with Iberdrola's suppliers and internal stakeholders in a continuous, transparent manner. In addition, thanks to the digital tools implemented, the management of procurement processes, risk management and compliance with the company's governance guidelines are facilitated, making it possible to be more ambitious in the inclusion of these criteria in the decision-making process.

This recognition confirms the commitment of the Group's management, which was reflected in the 2020-2022 strategic goal in which it established that 70% of the main collaborating companies should be subject to sustainable development policies and standards by the end of 2022, and which has recently been increased to 85% by the end of 2025.

Iberdrola has a supplier assessment model based on environmental, social and governance (ESG) criteria. Iberdrola thus takes into account 43 factors to calculate the ESG score of each of its suppliers, including compliance with human rights, management of risks derived from climate change, circular economy strategy, and contribution to the United Nations Sustainable Development Goals (SDGs).

Iberdrola also drives sustainability throughout the supply chain, proposing customised improvement plans to those suppliers that do not meet the appropriate sustainability levels, for a long-term relationship.

The Iberdrola group's achievement of this important certification is part of its global commitment to quality, which involves the excellent management of all processes and resources as an essential lever for creating value for people: shareholders, customers, employees, suppliers and other stakeholders in society.

CDP 2022

Iberdrola has been included for yet another year in the *Supplier Engagement Leaderboard* list, prepared by the prestigious organisation CDP, which thus recognises the company's climate strategy throughout its value chain.

CDP has singled out Iberdrola for its work in engaging its suppliers on climate change, its efforts to measure and reduce this risk in its supply chain and its commitment to fighting climate change.

CDP develops this annual ranking, in which it assesses and promotes the climate actions of companies in the supply chain. The companies with the best rating are classified as leaders in commitment to their suppliers.

This distinction comes a few months after Iberdrola's recognition on the CDP's "A List", which groups together the world's leading companies for their action plans in relation to climate and transparency in information, as well as recognising their work in dissemination, awareness, management and, finally, environmental leadership.

DJSI 2022

Iberdrola has once again been included in the Dow Jones Sustainability Index (DJSI), making it the only European utility to have been included in the selection in all 23 editions.

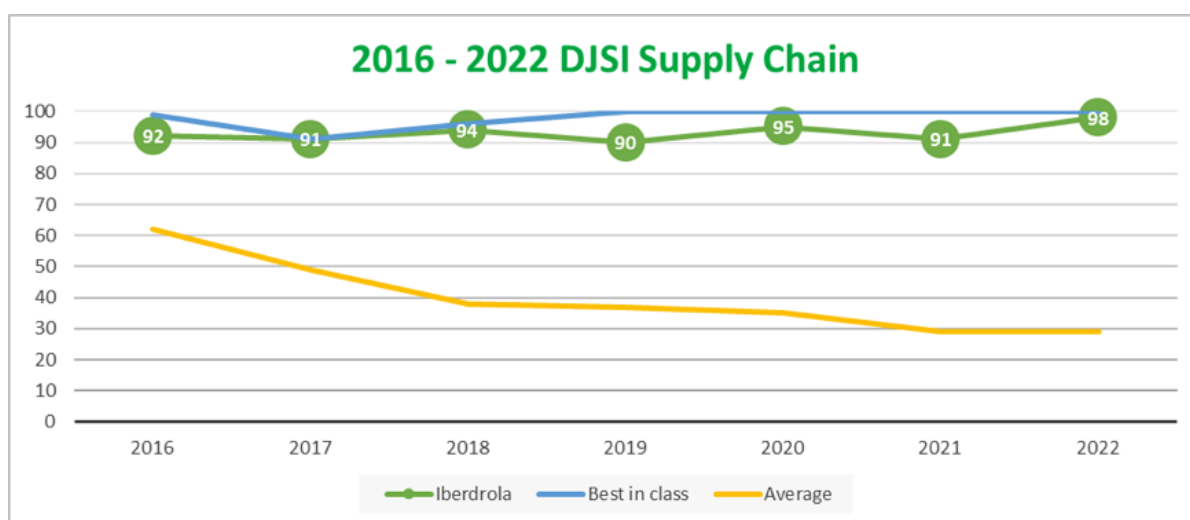
This is reflected in the annual update published by S&P Dow Jones Indexes and RobecoSAM, which is in charge of preparing the index. This demonstrates the Group's firm commitment to the highest environmental, social and corporate governance standards, given that, from an initial universe of some 10,000 companies, only 10% of the listed companies with the best sustainability scores are finally selected.

In this edition, the company also stood out in aspects such as innovation, stakeholder relations, market opportunities, risk management, environmental management and water.

Supply Chain Section

In the Supply Chain Management section, Iberdrola obtained the highest score in the last few years, with a score of 98 points, maintaining a score of over 90 points in recent years in positions very close to “best in class”.

In 2022 the highest score has been attained in four of the six assessment sections: “Supplier Code of Conduct”, “Critical Supplier identification”, “Supplier Risk Management Measures” and “ESG integration in SCM strategy”

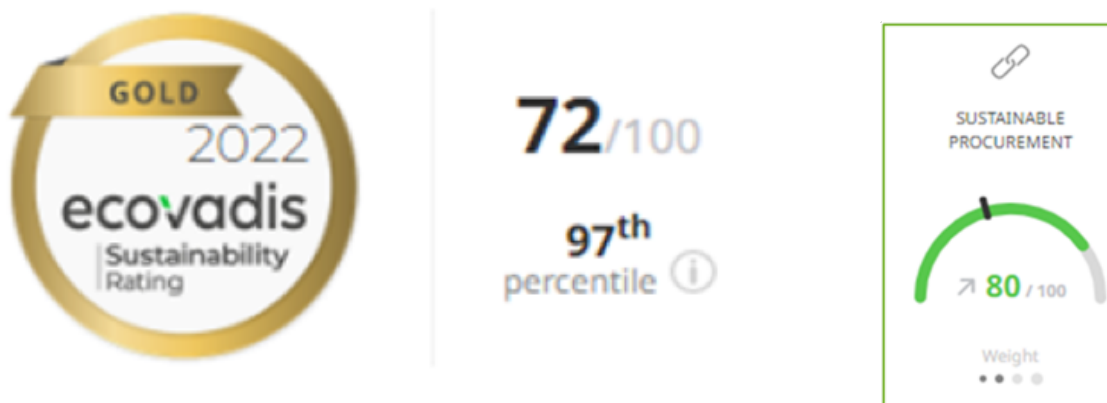


Every year, the feedback received is analysed and an action plan established to foster continuous improvement through good practices.

Iberdrola's goal is to maintain a rating above 90 points in 2023, despite the DJSI's increasing demands. In particular, this year the Supply Risk Exposure section will be specifically analysed with the intention of improving its assessment and maintaining the high level obtained in the rest of the sections.

Ecovadis 2022

Additionally, Iberdrola has also been assessed by the prestigious company ECOVADIS, maintaining its GOLD level for yet another year. In the supply chain section, 80 points were scored, 10 more than in 2021 when it scored 70 points. This value is double the average value of the companies assessed by ECOVADIS in the sector.



In addition to all of the above, the presence and high score achieved by the rest of the main international sustainability indices, including Moody's ESG, MSCI, FTSE4Good, Sustainalytics, ISS-ESG, Bloomberg GEI, Euronext Vigeo Eiris indices, Global100, etc., must be added to the above.

14.

Short and medium-term priorities and objectives

14. Short and medium-term priorities and objectives

Challenges achieved in 2022

- Exceeded the strategic goal Iberdrola group set to improve its Supply Chain Sustainability profile in the period 2020-2022. More than 77% (>70%) of the main suppliers awarded met the established ESG criteria and were subject to sustainable development policies and standards. Awards to these suppliers accounted for more than 82% of the annual amount awarded in 2022.
- Obtained the Sustainable Purchasing Strategy certificate awarded by AENOR, based on the ISO 20400:2017 standard, where the company's responsibility to ensure that the life cycle of each product or service has the greatest positive environmental, social and economic impact was verified.
- Improved the generation of ESG improvement plans for suppliers, including support material that enables Iberdrola's employees to implement best practices in sustainability. By the end of 2022, improvement plan proposals were generated and sent to more than 85% (>80%) of suppliers that did not meet the ESG criteria set by the Group.
- Accelerated digital transformation with specific projects embedded in a company-wide Digital Boost initiative, increasing robotisation skills and incorporating virtual assistants and collaborative environments both internally and externally with the supplier.
- Presented the 2023 Supplier of the Year Awards to the Iberdrola group's suppliers in Mexico and Spain.
- Defined new models for assessing other risks in our supply chain by establishing new indicators for suppliers and incorporating them into the GoSupply platform, such as cybersecurity risk and measurement of Greenhouse Gas emissions.
- Conducted a global social and sustainability audit campaign

2023 goals and medium-term challenges

Iberdrola's procurement model is constantly being reviewed, based on continuous incremental improvements to adapt it to our service needs and ongoing pursuit of efficiency.

The market points to a shift towards advanced management models supported by disruptive technology, much of which is available today. In addition, our businesses and corporate areas and our internal customers move in increasingly competitive, changing, global, and efficient environments that require rapid responses, where technology and innovation will be the keys to success.

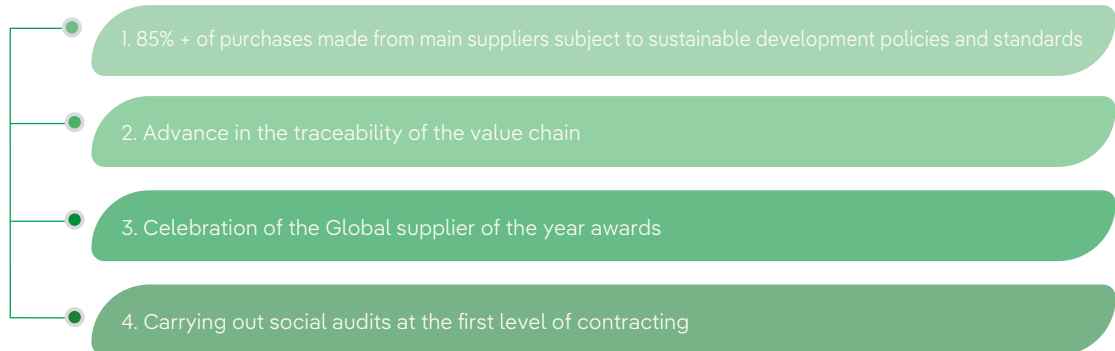
There are challenges to resolve in the near future, such as introducing the proposed European Sustainability Due Diligence Directive, or the increased sustainability reporting requirements set by EFRAG and our own stakeholders, meaning that we have a lot of work ahead of us.

- We need to delve deeper into our supply chain, going beyond our direct suppliers to identify the nodes in the chains most at risk of non-compliance with ESG standards and to conduct audits and, where appropriate, take action.
- In order to meet our ambitious commitment to be carbon neutral in all our operations by 2040, we must start by improving our suppliers' emissions capture and decarbonisation commitments. Based on these emissions we will need to review their decarbonisation pathway and support our suppliers to achieve them.

- We are analysing, with our main suppliers, specific actions for electrification and decarbonisation of those processes with the highest emissions intensity, such as steel, where we have made a commitment that 50% of our steel will be low-emission by 2030.

As well as continuing the supplier management and procurement actions presented in this report, the main priorities and objectives in the short and medium terms are:

CHALLENGES (short and medium term)



**Purchasing model aligned with the energy transition
and committed to value creation**

15. Appendix

Annex: Detailed information for listed subsidiaries: Neoenergia and Avangrid

This report's content applies to all of Iberdrola's subsidiaries that use the same systems for purchasing and managing suppliers, although the Iberdrola group's subsidiaries that are listed in stock markets each have their own Procurement Policies, that are totally aligned with the Group's.

In this sense, this annex details some of the information provided in the report for the following 2 subsidiaries of which Iberdrola is the main shareholder:

- **Neoenergía:** Trades in the B3 stock Exchange in São Paulo and since 2022 in the Latibex stock exchange in Madrid.
- **Avangrid:** Listed on New York Stock Exchange.

The organisation of Procurement

The procurement organizations of Neoenergia and Avangrid follow the same principles established for the Iberdrola group: focused on categories and grouped by business.

Procurement Staff Dec 31 2022	
Neoenergia	63
Avangrid	48

Priorities of the Procurement Division

The priorities for the Procurement divisions of Neoenergia and Avangrid are the same as those set at the Iberdrola group level: Competitiveness, Efficiency, Sustainability, Internal Customer Satisfaction, Digital Transformation, Governance and Compliance and Supply Chain Development.

Key figures: volumes, countries, supplies, suppliers

Iberdrola's invoiced volume for purchases of equipment, materials, and contracting of works and services by Avangrid and Neoenergia, and its geographical breakdown for the 2022 fiscal year, is shown in the following table:

GENERAL SUPPLY OF EQUIPMENT, MATERIALS, WORKS AND SERVICES (€ MILLION)	2022	2021	2020
Avangrid	3,360	3,031	2,790
Neoenergia	2,143	1,400	1,283

Number of tenders managed in 2022 and the number of suppliers with an order during the year for Avangrid and Neoenergia:

	TENDERS MANAGED IN THE YEAR	SUPPLIERS WITH ONE OR MORE ORDERS DURING THE YEAR
Avangrid	1,504	4,131
Neoenergia	1,705	5,346

The distribution of purchases by supply type in 2022 for Avangrid and Neoenergia is summarised in the following table:

	WORKS AND SERVICES	EQUIPMENT AND MATERIALS
Avangrid	76%	24%
Neoenergia	72%	28%

Purchases from local suppliers made by Avangrid and Neoenergia in 2022, % over the total, are summarised in the following table:

% OF GENERAL SUPPLIES PURCHASED FROM LOCAL SUPPLIERS	2022	2021	2020
Avangrid	94%	96%	97%
Neoenergia	100%	99%	100%

Systems supporting the Purchasing activity

Both Avangrid and Neoenergia support their purchasing and tendering processes in IBuy and their supplier management in GoSupply.

Neoenergia, additionally and in order to comply with local requirements, uses a local platform (Websupply) to control supplier compliance with administrative requirements in Brazil.

Critical suppliers

Neoenergia's and Avangrid's Policies also determine levels of criticality of supply based on difficulty to find a substitute, the existence of alternative sources of supply and purchasing volume.

In general, Avangrid and Neoenergia consider critical suppliers to be those suppliers that have participated in a tender for an amount equal to or greater than 700,000 euros.

The following table shows the evolution of the number of critical suppliers in 2022 for AVANGRID and NEONERGIA and the % of the total amount in orders.

	NUMBER OF SUPPLIERS 2022		% 2022 INVOICING	
	CRITICAL SUPPLIERS	NON-CRITICAL SUPPLIERS	CRITICAL SUPPLIERS	NON-CRITICAL SUPPLIERS
Avangrid	424	3,707	93.29%	6.71%
Neoenergia	342	5,004	91.41%	8.59%

In recent years, the cumulative annual amount of orders from critical suppliers has exceeded 90% of the Group's total.

Suppliers and human rights

Purchases made in countries considered to be at risk because they have not having ratified ILO conventions on forced labour, freedom of association and collective bargaining, and child labour - and countries where, although they have ratified these conventions, observations have been made about weaknesses in their application - are analysed periodically.

At the end of 2022, the percentage of purchases made from suppliers located in risky countries was:

COUNTRIES CONSIDERED AS RISKS WHERE PURCHASES HAVE BEEN MADE ⁷	% OF PURCHASES OF TOTAL	
	AVANGRID	NEOENERGIA
China	-	-
India	0.03%	-
Turkey	-	-

Sustainability in procurement management and supplier relationships

The supplier sustainability evaluation model defined by the Iberdrola group is also applied in Neoenergia and Avangrid using the same criteria.

The following graphs show the situation at the end of 2022 of the KPI of the main sustainable suppliers and the forecast for 2023.



* Data based on extrapolating responses obtained before the end of 2020, supplier on boarding year which is ending in 2021.

7. The criteria used to identify risky countries are the same as those described in the in section "III.1. "Protection of Human Rights" section in chapter "III. Social" of the Sustainability Report for the 2022 financial year.

Analysis of purchases in countries where there is risk of corruption

The Iberdrola group has used the Corruption Index according to International Transparency 2022 (TI CPI 2022) as a source to classify countries according to their level of risk for purchases in 2022.

In accordance with this Index, the volumes of purchases made, classified by corruption-risk levels, are shown in the following table:

CORRUPTION RISK	% OF 2022 PURCHASES OF GENERAL SUPPLIES IN COUNTRIES ACCORDING TO THE 2022 CPI INDEX	
	AVANGRID	NEOENERGIA
Low	99.9%	0.4%
Medium	-	-
High	0.1%	99.6%

Neoenergia's high % is due to the fact that Brazil is included in the list of countries identified in the CPI 2022 as high risk and that the volume of purchases in Brazil is directly related to Neoenergia's presence and investment effort in the country.

Supplier survey

In 2022, the 7th Supplier Satisfaction Survey was sent out and the result obtained are shown in the following table:

	WEIGHTED ASSESSMENT	
	2020	2022
Neoenergia	8.87	8.97
	Δ	1.1%
	2020	7.73
Avangrid	7.54	-2.5%
	Δ	-2.5%
	2020	7.73

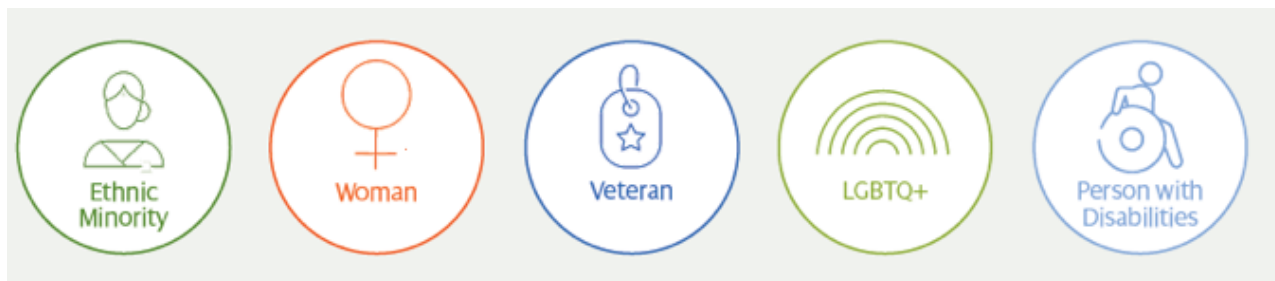
There is no target result, since the survey is to collect the opinion of suppliers to then use it as a source for improvements.

Supplier diversity programme

In the United States, Avangrid has been working on the “**Supplier Diversity Program**”, for many years, which strengthens efforts to ensure equal access to purchasing opportunities for all suppliers, including opportunities for suppliers from diverse backgrounds.

These actions are designed to foster inclusive supplier engagement that promotes economic development and reflects the increasingly diverse business communities that can support our work and growth.

Supplier diversity has been defined with the aim of proactively increasing the procurement of goods and services from US-based companies that are at least 51% owned and controlled by a US citizen from one of the following minorities:



The evolution of the annual volume contracted to these various groups is shown in the following table:

Avangrid	2022	2021	2020
Volume contracted to diverse suppliers (€ million, Tier I)	170.0	153.0	141.1

Avangrid has also set a target to increase procurement from diverse suppliers to \$300 million by 2025.

As we work to achieve our supplier diversity and sustainability goals, we recognise that these commitments create long-term value for both our suppliers and our company, including creating better business solutions, increasing customer loyalty and satisfaction, and positively impacting the community.

Therefore, having a varied base of suppliers benefits the businesses and our Company. It allows us to obtain the goods and services that we need while enabling small enterprises and minority owned companies to grow and prosper.

Awards

Not only does Iberdrola take part in the Dow Jones Sustainability Index, but Avangrid and Neoenergia also take part. The evaluation obtained in the Supply Chain area in the last years is presented below:

DJSI SUPPLY CHAIN MANAGEMENT	2022	2021	2020
Avangrid	90	86	87
Neoenergia	75	70	87

Iberdrola's Procurement division is committed to continuous improvement and external recognition.

We consider the Dow Jones Sustainability Index (DJSI) to be one of the best indices for measuring our activity. The goal set for 2022 is to maintain a rating above 85 points for Avangrid and 70 for Neoenergia, despite the DJSI's increasing demands.

Every year, the feedback received is analysed and an action plan established if the target is not met.

