REPORT OF ACTIVITIES ON PURCHASING
AND SUPPLIER MANAGEMENT
AND THEIR CONTRIBUTION TO THE GROUP'S
SUSTAINABILITY 2019-2020

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1. Overview

Iberdrola channels its equipment, materials, works and services purchasing processes through the Purchasing and Insurance Division.

In its day-to-day undertakings, the Purchasing and Insurance Division strives to create value for its stakeholders by assuming and promoting the Group’s values and commitments regarding the ethics and social responsibility (SR) issues in the Group's code of ethics and social responsibility policies. The purchasing process involves mechanisms to ensure transparent, comprehensive and responsible management 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 Purchasing Division is proactive and firmly committed at all levels, developing new capabilities and interacting with suppliers from their first contact with the Group.

Suppliers are considered strategic players within the Iberdrola Group and the purchasing function has the necessary mechanisms to guarantee a fair, transparent and ethical value chain.

Iberdrola also has its own Code of Ethics which sets out the principles and guidelines for conduct aimed at ensuring ethical and responsible behaviour in all administrators, professionals and suppliers in the company.

2. Purchasing in the Iberdrola Group

Mission

The Purchasing and Insurance Division’s mission is “to set out the strategy and procedures for and supervise the purchasing of equipment and materials (apart from fuel), as well as contracts for works and services, and insurance schemes (apart from life and accident insurance, and health and pensions) for the whole Iberdrola group, in compliance with the strategic aims established by the Board of Directors, adhering to the company’s Corporate Governance System at all times.”

Purchasing’s mission perfectly defines the nature of centralisation (permits synergies and the application of best practices for purchases throughout the entire Group) and the 4 fundamental values to be respected:

The organisation of Purchasing

The Iberdrola Group has a common corporate purchasing model. The Purchasing organisation comprises more than 250 professionals strongly rooted in the local community yet with centralised management. This enables us to leverage the talent and proximity to operations of the business areas and corporate fabric of the countries in which we work, and deploy these with global-level coordination enabling us to identify synergies and strategically align purchasing decisions.

Key figures:

volumes, countries, supplies, suppliers

Iberdrola’s invoiced volume for purchases of equipment, materials, and contracting of works and services, and its geographical breakdown for the 2019 fiscal year, is shown in the following table:
General supply of equipment, materials, works and services (€ million) 2019(*) 2018

<table>
<thead>
<tr>
<th>Country</th>
<th>2019(*)</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>1,815</td>
<td>1,564</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2,014</td>
<td>1,775</td>
</tr>
<tr>
<td>United States</td>
<td>2,583</td>
<td>1,945</td>
</tr>
<tr>
<td>Brazil</td>
<td>1,622</td>
<td>1,335</td>
</tr>
<tr>
<td>Mexico</td>
<td>510</td>
<td>957</td>
</tr>
<tr>
<td>Others</td>
<td>173</td>
<td>177</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,716</strong></td>
<td><strong>7,753</strong></td>
</tr>
</tbody>
</table>

(*) Volume invoiced in the year. Amount awarded in 2019: 12,823 M€

The way these figures evolved in 2019 was significantly affected by the volumes invoiced by suppliers linked to offshore wind projects in the United Kingdom, terrestrial wind projects in the USA, and photovoltaic solar projects in Spain.

+9,100
Tenders managed in the year

+22,000
Suppliers with one or more orders during the year

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.

In 2019, the Group’s main suppliers were, in alphabetical order:

- Eiffage
- Elecnor
- EPCL Empreendimentos, Projetos
- General Electric
- Mastec
- Nexans
- Siemens
- Siemens Gamesa
- Van Oord
- Vestas

None of the main suppliers accounts for 10% of the total volume invoiced in the year.

Distribution of purchases by supply type in 2019:

- Equipment and materials 37%
- Works and services 63%

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

At the end of 2019, purchases from local suppliers amounted to 89% of the total, broken down as follows:

<table>
<thead>
<tr>
<th>% of general supplies purchased from local suppliers</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>79</td>
<td>85</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>84</td>
<td>71</td>
</tr>
<tr>
<td>United States</td>
<td>98</td>
<td>97</td>
</tr>
<tr>
<td>Mexico</td>
<td>76</td>
<td>60</td>
</tr>
<tr>
<td>Brazil</td>
<td>99</td>
<td>100</td>
</tr>
<tr>
<td>Others</td>
<td>50</td>
<td>65</td>
</tr>
<tr>
<td><strong>Iberdrola Group</strong></td>
<td><strong>89</strong></td>
<td><strong>85</strong></td>
</tr>
</tbody>
</table>

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

However, in addition to purely economic wealth, from a sustainable and responsible point of view Iberdrola acts as a market leader, motivating suppliers to improve their environmental, ethical and social profiles through activities that promote excellence in management. This goes beyond technical quality, and helps to make suppliers more competitive.

Support for entrepreneurs or start-ups

Iberdrola has been supporting the creation and consolidation of new business projects with a range of significant initiatives, with the following being of particular note:

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

At the end of 2019, purchases from local suppliers amounted to 89% of the total, broken down as follows:
- The volume of purchases by Iberdrola in Spain in 2019 from companies that have been in existence for fewer than 5 years was €54 million, representing clear support for entrepreneurship.

- Inclusion of the specific category of Job creation and jobs for young people in the Supplier of the Year Award in Spain: this encouraged suppliers to commit to hiring young men and women and to offer quality professional opportunities to young people. There is no doubt that this will have an impact on improving companies’ competitiveness and innovation, and help them retain talent.

- Awarding a 2019 Global Award to a start-up (Wallbox) in the Innovation and Competitiveness section, for their commitment to innovative solutions that will lead to an improvement in the sustainability of the energy model.

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.

Purchasing Policy
The Purchasing Policy, approved by the Board of Directors, sets out the global framework for monitoring and managing risks (market, credit, business, regulatory, operational and 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 a particular emphasis on compliance with ethical commitments by company employees and suppliers.

The Purchasing Policy is based on the following basic principles:

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.

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 corporate governance system.

Added value
Implement the necessary mechanisms so that purchasing 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.

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.

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

Growth and development
Promote sustained, 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) approved by the United Nations.

Supplier risk assessment, as set out in the Purchasing Policy:

- 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.”
CSR Risk “[…] priority will be given to Suppliers who have advanced management systems certified by third parties, particularly those with: (i) an environmental management system; (ii) a quality management system; (iii) an occupational hazard prevention system; (iv) a corporate social responsibility action plan; and (v) an internal code of ethics.

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.”

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 in April 2019. In 2018, the three codes of ethics in existence at that point were merged: the Directors’ Code of Ethics, the Professionals’ Code of Ethics, and the Suppliers’ Code of Ethics. These were merged into a single code applicable to all group managers, employees and suppliers.

The Code of Ethics lays down specific action principles for suppliers in line with the group’s principles and values. These principles are attached to orders and contracts.


Suppliers’ ethics mailbox

Ethics and transparency are one of the Iberdrola Group’s fundamental pillars. We promote both values in our relationships with our suppliers and in the suppliers’ own dealings with their business partners.

To this end, Iberdrola has ethics mailboxes for suppliers. These mailboxes can be used:

- To report behaviour that may involve non-compliance with the corporate governance 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, of 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. Since 2018, these mailboxes have included the option of anonymous reporting

- To ask questions or make suggestions about the Code of Ethics

Contracting clauses

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.). To work with Iberdrola Group, the supplier must adopt the necessary measures to:

(i) Promote good practices that support and respect the protection of human rights.

(ii) Avoid complicity — of any kind — in the violation of rights.

(iii) Respect workers’ freedom to join a trade union and the right to collective bargaining and comply with the supplier’s local laws.
(iv) **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.

(v) **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.

(vi) **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.

(vii) **Have** a preventive approach to environmental issues to achieve sustainable development, limiting activities whose impact on the environment may be harmful.

In regard to the fight against corruption, the Supplier declares, guarantees and commits to:

(viii) **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, 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 within a reasonable time period, 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.

(x) **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 within a reasonable time period, 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.

(xi) 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.

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](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 Purchasing Organisation is the department within Iberdrola that manages this task on behalf of the units or companies heading up the business and their subsidiaries through the following stages:

- Request
- Tender
- Award
- Order
- Reception
- Bill

### Purchasing procedure flow

In 2019, the Purchasing 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 is an important achievement that rewards our efforts to integrate the processes and their quality standards and confirms the consolidation of the corporate purchasing model.
4. Purchasing process transparency

Iberdrola is committed to the best practices in corporate governance and the principles of business ethics and transparency in all the Company’s areas of activity.

The Purchasing Division guarantees equal opportunities, applying criteria of objectivity and impartiality in its relationships with suppliers, and promoting advertising and competition in the 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 Purchasing Department or, if appropriate, the Purchasing Business Manager.

One of the purchasing team’s annual objectives is to finalise the rounds of negotiations in tender processes with competitive and transparent closing sessions, using sealed envelopes and/or electronic auctions.

Periodically, the purchasing process is audited internally and by outside firms, and there were no non-conformities in this year. Nonetheless, recommendations and areas for improvement arising during these reviews are analysed and implemented to constantly improve the related procedures.

5. Sustainability in purchasing management and supplier relationships

Supplier registration 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 Purchasing 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 our comprehensive and uniform corporate responsible supplier management system is based, regardless of a supplier’s location, economic activity and the territorial scope in which purchases are made. Nonetheless, 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
- Have a current service provision contract in and/or outside Iberdrola’s work centres

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

2019 has been a crucial year in the improvement and digitalisation of the Purchasing Division. Work was begun on transforming the purchasing and supplier management platform with some important changes: the technological change of the tendering tool to a SAP-ARIBA cloud-based solution, and the design and launch of a new Supplier Management System via a new global platform managed by the company GoSupply.

The launch of this new platform will involve the gradual replacement of the previous supplier registration and classification systems that Iberdrola has been operating in different geographical locations.

Iberdrola is responsible for the entire cost of the new Supplier Management System; therefore suppliers are not required to pay any annual subscriptions. Any interested company can access the registry on the corporate website.

Depending on the critical nature of the supplier, Iberdrola will require a certain level of registration and classification on the new platform:

- **Elementary Level**: Applications from new suppliers
- **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 (360º Level)
- **360º 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. This requires the presentation of up-to-date, detailed information and relevant documentation used for the supplier’s internal management, sustainability assessment, monitoring of risks and measurement of associated indicators.

Factors evaluated when classifying suppliers

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

The factors evaluated when classifying suppliers are:
In supplier management and during the purchasing process, the measures adopted by the Company to protect these rights are based on the Purchasing Policy, the Code of Ethics and the specific clauses regarding social responsibility in the contractual conditions accompanying orders. In this way, suppliers commit to the principles of social responsibility and human rights. 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.

Purchases made in countries considered to be at risk because they have not having ratified ILO conventions on forced labour, freedom of trade unions 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.

In the most recent analysis, at the end of 2019, the percentage of purchases made from suppliers located in risky countries was:

<table>
<thead>
<tr>
<th>Countries considered as risks where purchases have been made</th>
<th>% of purchases of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>18.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>4.5</td>
</tr>
</tbody>
</table>

About 23% of our general purchases were made in countries where there may be a risk of human rights violations, according to the sources consulted.

In the 2019 fiscal year, no human rights issues were detected in our suppliers nor was there evidence of practices that might have violated human rights in the Group’s Purchasing area.

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 has prepared an online awareness-raising module on human rights, which is accessible to all suppliers.

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1The criteria used to identify risky countries are the same as those described in the “Protection of Human Rights” section in chapter “II.5. Contribution to the Well-being of our Communities” in the Sustainability Report for the 2019 fiscal year.
Alignment of purchasing and supplier management with human rights criteria:

<table>
<thead>
<tr>
<th>Internal mechanisms</th>
<th>External Mechanisms with Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purchasing Policy</strong></td>
<td><strong>Code of Ethics</strong> (Supplier Clauses)</td>
</tr>
<tr>
<td>Encourage rigorous compliance with the contractual conditions by suppliers, with particular attention paid to the principles outlined in the Policy in regard to human rights</td>
<td><strong>Specific T &amp; Cs</strong></td>
</tr>
<tr>
<td><strong>Supplier registration and classification</strong></td>
<td><strong>Sanction List Screening</strong></td>
</tr>
<tr>
<td>Acceptance of the Code of Ethics</td>
<td><strong>Traction campaigns</strong></td>
</tr>
<tr>
<td>Weighting of the supplier’s status with regard to sustainability, labour practices and respect for human rights</td>
<td><strong>Annual improvement goals</strong></td>
</tr>
<tr>
<td><strong>Sanction List Screening</strong></td>
<td><strong>Modern Slavery Act</strong> (United Kingdom)</td>
</tr>
<tr>
<td><strong>Sustainable Development Committee and Plan</strong></td>
<td><strong>Sustainability Assessment Model</strong></td>
</tr>
<tr>
<td>The Purchasing Division is a member of the Group’s Sustainable Development Committee: guidelines, the objectives set and their KPIs</td>
<td><strong>Supplier of the Year Award</strong></td>
</tr>
<tr>
<td><strong>Transparency &amp; Reporting</strong></td>
<td></td>
</tr>
<tr>
<td>Purchase Indicator in risk countries</td>
<td><strong>Supplier of the Year Award</strong></td>
</tr>
<tr>
<td>Contribution to Sustainability</td>
<td></td>
</tr>
<tr>
<td>Annual Purchasing and Supplier Management Report published on the corporate website</td>
<td></td>
</tr>
</tbody>
</table>
New supplier assessment model in terms of sustainability

In 2019, the Purchasing Division designed, tested and launched a new supplier sustainability assessment model, replacing the previous CSR Scoring.

This new model has been adapted to the Iberdrola Group’s international status and is organised around the three fundamental pillars of sustainability that come under the acronym ESG: Environmental, Social and Governance.

Supplier evaluation is more detailed and rigorous than the previous scoring system as it 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 Departments 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 will be taken into account:

- **Environmental** (40%)
  - Existing policies
  - Management Systems
  - Greenhouse Gases
  - Biodiversity
  - Climate Change
  - Water Management
- **Social** (30%)
  - Human rights
  - Diversity
  - Management Systems
  - Contribution to Society
  - Reporting and transparency
- **Governance** (30%)
  - Existing policies
  - SOG
  - Ethics and Compliance
  - Penalties
  - Stakeholders
  - Supply Chain

In the year in which the new model was designed, developed and launched, information was put together to allow for the classification of suppliers who represent over €5,000 million in purchases.

For 2020, improvement goals have been set for the entire Purchasing Department team, relating to the increase in purchases from analysed suppliers, as well as the establishment and monitoring of improvement plans for suppliers awarded 35 points or fewer.

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 Purchasing Division, using quantifiable objectives, to select companies that have demonstrated a solid performance in social responsibility or have committed to improving.

**Promoting diversity in the supply chain**

Iberdrola’s high volume of yearly purchases means the Group needs to disseminate its principles and ethical values throughout the entire 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 areas assessed relating to equality and diversity in the new model adopted in 2019, the following are of particular note:

- Percentage of women hired
- The company has a policy to promote equality and diversity

**Emissions associated with the supplier chain**

In its firm commitment to fight climate change, Iberdrola attempts to extend the effort to comply with emission-reduction objectives to its suppliers. Emissions data from suppliers is obtained via a yearly environmental awareness campaign to encourage the reduction of CO₂eq 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.

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

With regard to the environmental evaluation of suppliers, purchases made in 2019 from suppliers with an environmental management system accounted for 73% of the total orders issued.

There is a summary of the main mechanisms in place to align purchasing and supplier management with regard to the environment and sustainability in the table below.
## Alignment of Purchasing and supplier management with sustainability criteria:

<table>
<thead>
<tr>
<th>Internal mechanisms</th>
<th>External Mechanisms with Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purchasing Policy</strong></td>
<td>Code of Ethics (Supplier Clauses)</td>
</tr>
<tr>
<td>Supplier registration and classification</td>
<td>Acceptance of the Code of Ethics Possession of an environmental certification is weighted in the supplier’s overall assessment</td>
</tr>
<tr>
<td>Tender Process</td>
<td>The environmental assessment of the supplier is evaluated in the offer evaluation and award proposal phases of the contract</td>
</tr>
<tr>
<td>Annual improvement goals in Purchasing Team</td>
<td>New feature: putting in place annual improvement goals for the Purchasing Team that are directly linked to improvements in suppliers’ sustainable development; these are linked to variable remuneration</td>
</tr>
<tr>
<td>Global environmental system</td>
<td>The Purchasing Department is a member of the Iberdrola Global Environmental System Committee, which monitors environmental guidelines, the objectives set and their KPIs. Audits</td>
</tr>
<tr>
<td>Transparency &amp; Reporting</td>
<td>Infographic Contribution to Sustainability Annual Purchasing and Supplier Management Report published on the corporate website</td>
</tr>
</tbody>
</table>
Credit risk analysed in suppliers

To prevent any potential negative consequences for Iberdrola of a supplier’s failure to honour the commitments they have undertaken, the Purchasing Division has a credit risk management system for the Group’s main suppliers. Applying this system, the Group’s main potential and current suppliers are evaluated and rated based on their financial solvency, their capacity and Iberdrola’s exposure to the risk of breaches of contract. This score is considered when selecting the successful bidders for contracts and when assessing the options to safeguard the Group’s position.

In 2019, over 77% of the total amount of purchases made was analysed.

Risk of corruption in suppliers

Iberdrola has a commitment to the highest standards of business ethics, transparency and integrity.

An example of this commitment was seen in 2012, when the Board of Directors set up the Compliance Unit, whose duties include the communication 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 corruption and prevent it 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 purchasing procedure and process as mechanisms to prevent bribery and corruption:

- The Iberdrola Group’s code of ethics
- A policy for preventing corruption and fraud which creates a preventive culture based on the principle of zero tolerance for illegal acts and fraud.
- 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 purchasing activities (Purchasing Division), subsequent provisioning activities (Business Units) and payment of invoices to suppliers (Management and Control Department).
- 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?

Moreover, the latest version of the contract clauses includes specific sections on this topic.

Following the passing of the Bribery Act in the United Kingdom, a series of measures was introduced into the tendering 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 the 2019 fiscal year, no incidents leading to orders or supplier contracts being cancelled were recorded through the established channels, nor were judicial resolutions issued in this regard.

Analysis of purchases in countries where there is risk of corruption

To carry out corruption risk analysis in procurement, the company uses the 2019 Corruption Index published by Transparency International (TI CPI 2019) 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:

<table>
<thead>
<tr>
<th>Corruption risk</th>
<th>% of 2019 purchases of general supplies in countries according to the 2019 CPI index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>76.3</td>
</tr>
<tr>
<td>Medium</td>
<td>0.3</td>
</tr>
<tr>
<td>High</td>
<td>23.4</td>
</tr>
</tbody>
</table>

The countries considered to have a high risk of corruption according to the above-mentioned TI CPI 2019, 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.

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

**Supplier audits**

This fiscal year, 186 social audits have been carried out on suppliers. Suppliers with non-conformities in the process have a deadline to correct any deficiencies found. The aim of on-site audits is to ensure that the supplier has met all the requirements for minimising occupational risks and risks in the areas of human resources, environment, quality and corporate social responsibility.

In 2019, the company did not receive any external complaints via the appropriate channels in relation to its supply chain, and no contract or order was cancelled for reasons associated with human rights, corruption, labour practices or environmental practices.

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**6. 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 to Iberdrola.

**Supplier survey**

A further example of the efforts that Iberdrola has made to understand the satisfaction levels and expectations of its stakeholders — with suppliers being a key stakeholder — is a regular Supplier Satisfaction Survey to enable the Purchasing Division to understand suppliers’ expectations and perceptions with regard to the purchasing process and the Company.

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**Results of the supplier satisfaction surveys**

In 2018, more than 1,200 suppliers from around the world took part, rating 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.

The 7th edition of these surveys will take place in 2020.

**Traction in suppliers**

Because of our size, sector and geographical associations, the diversity of our current and potential group of suppliers means that we need flexible policies that adapt to the local and global market at all times.

Engagement activities in quality, the environment and occupational risk prevention are well established practices in major suppliers that do not have a management system certified by a third party. Each of our major suppliers was contacted individually and informed that their certification in these areas would be valued positively, since Iberdrola’s objectives include having key suppliers with certified management systems, like the Company’s corporate units and business areas, to ensure reliable and responsible conduct throughout the supply chain.

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2 Low risk: country index ≥ 60 / Medium risk: 59-50 / High risk: <50 on a scale of 0 (perception of high levels of corruption) to 100 (perception of low levels of corruption).
7. Commitment to continuous improvement

Objectives in the period

Setting objectives is essential for improving processes and the pursuit of excellence in management. Comparing results to objectives is fundamental to progress towards excellence.

Iberdrola’s Management by Objectives System is designed to help achieve the objectives derived from the strategic lines and contribute to creating value.

The Purchasing Division is an active member of the Sustainable Development Committee and is particularly attuned to the demands and interests of suppliers as strategic stakeholders. To continually improve in this group, annual goals have been defined linked to the Purchasing Division’s compensation and focused on improving supplier profiles, within the context of corporate social responsibility.

Not only is the supplier motivated to improve its profile through actions that encourage excellence in business management, as seen in the section on Dialogue with Suppliers, but Purchasing is encouraged to choose companies with good performance in the areas that should be developed throughout the process, through quantifiable objectives.

8. Supplier diversity programme

In Iberdrola’s Purchasing Division, work has been done over the last few years to incorporate Special Employment Centres into the network of regular suppliers. A total of €2.3 million was under contract with Special Employment Centres in Spain in 2019, to provide help for and work with disabled people.

In the United States, AVANGRID has a Supplier Diversity Program, through which we undertake to add to the network of suppliers and increase purchases from:

- Minority Business Enterprises (MBE)
- Women’s Business Enterprises (WBE)
- LGBTBE Business Enterprises
- Veteran Business Enterprises (VET)
- Service Disability Business Enterprises (SDVET)
- Small Disadvantaged Businesses (SDB)
- Historically Underutilized Business Zones (HUBZone)

This additional business development programme was created to help disadvantaged small enterprises (referred to as SBEs “small businesses” or “small business enterprises”) be competitive and gain access to federal contracting.

In 2019, the volume contracted from these groups was around €93 million.

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.

9. Presence and organisation of events and activities related to traction in CSR, compliance and increased participation of local companies

- Compliance Days in Madrid, Murcia and Toledo: Programme for the development of compliance systems in SMEs.
- Day of Innovation: BIND 4.0 - StartUP! Basque Industry 4.0 Accelerator Program: Session with purchasing directors from driving-force companies.
- ASIVALCO meeting in Valencia. Opportunities for local suppliers.

10. SDG awareness-raising actions

Iberdrola is a company committed to achieving the United Nations Sustainable Development Goals (SDGs). It is working to communicate and raise 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 5 of this report.

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 Pact, the identification of goals (both financial and non-financial) linked to the Sustainable Development Goals (SDG), the management of risks resulting from climate change, a circular economy strategy, due diligence in human rights, etc.

11. Corporate social responsibility awareness-raising workshop

In 2019 a social responsibility awareness-raising workshop was once again held in Mexico with local suppliers. The aims of this initiative are to:

- Strengthen the relationship between Iberdrola and its suppliers, using suitable approaches to share Iberdrola’s experience in CSR.
- Raise supplier awareness of the importance of CSR in Iberdrola’s business strategy to generate loyalty.
- Create synergies with suppliers to develop CSR-focused projects.
Awarding the Distintivo ESR (Socially Responsible Company hallmark) to Mexican suppliers during the 3rd International Socially Responsible SMEs Forum.

12. Supplier innovation programme

Iberdrola has continued to invest in innovation (nearly €280 million, 5% more than in 2018) to develop new technologies in energy transition. It is the most innovative Spanish utility and the second most innovative in Europe, according to the European Commission’s ranking.

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

Its innovative strategy for management and technology deployed over the last decade has made Iberdrola a global leader and benchmark company in the area of Research, Development and Innovation (R&D&I) by:

- Implementing a common model in all areas
- Collaborating with technology providers
- Fostering a culture of innovation

In recognition of this, in 2019 the Spanish Ministry of Science, Innovation and Universities presented the National Innovation Award in the Innovative Career category to Ignacio Galán, the Chairman of the Iberdrola Group.

The Company’s unwavering commitment to R&D&I is also evident in its support for technological entrepreneurs and start-ups through its Perseo venture capital scheme. The scheme focuses on technologies and business models based on greater electrification and the decarbonisation of the economy. Since the scheme’s inception, over €65 million has been invested in start-ups in the energy sector worldwide.

More information on the R&D&I projects in which the Iberdrola Group is participating can be found on the Innovation section of the website.

Blocksup, guaranteeing the traceability of the subcontractor chain with Blockchain

In 2019, the decision was taken to launch a pilot project coordinated by INNOLAB Bilbao in search of a technological solution that would help to guarantee traceability and regulatory compliance in the subcontracting chain.

The project began with a needs analysis, leading to the development of an architecture and development environment that would fit around it.

Having weighed up the various options, in the end they opted for a platform with a multi-layer architecture based on Blockchain, which would allow for scalability, maintenance and future improvements.

13. Supplier of the Year Awards

The goal of Iberdrola’s supplier awards is to promote, recognise and provide an incentive for excellence, sustainable development, quality, internationalisation, innovation, corporate social responsibility, job creation and occupational risk prevention.

The prize was envisaged as a tool and mechanism to thank suppliers for their contribution to achieving the Group’s objectives.
In 2019 five “Supplier of the Year Awards” events were held, one in each country of the group’s sub-holding companies. Around a thousand people from the world of business in these countries attended the events, including representatives of over 100 suppliers. All the events included an award for the category of best performance in CSR, in addition to other categories.

“With our suppliers, we are responding now to the important challenges posed by the UN’s Sustainable Development Goals, in which the role of companies is key” - Ignacio Galán, Chairman of Iberdrola -

14. Main benefits for suppliers

Actions of this sort being developed by the Purchasing 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.

Acting as an economic driving force, because of our high annual purchasing volume, and:

- 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, allowing them to become leading firms in their own sectors (such as renewable energies, industrial facility maintenance, power facility construction, global services, etc.).

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.

15. Awards

Once again this year, Iberdrola and its strategy of commitment to its supplier chain has been recognised by CDP Supply-Chain, who have chosen it as their CDP Supplier Engagement Leader in recognition of the company’s commitment to the UN’s Sustainable Development Goals.

Leading companies such as Iberdrola are characterised by their work in raising awareness among their suppliers of the importance of reducing their impact or changing their surroundings to produce more sustainable products and services.

These leading companies develop social initiatives which help to create a sustainable environment, as well as encouraging partnerships with suppliers and complying with minimum purchasing requirements.

16. Short and medium-term priorities and objectives

CHALLENGES FOR 2019 AND THEIR PROGRESS:

✔ Digital Transformation Project on purchasing processes, and development and launch of a new tendering tool based on cloud-based SAP-ARIBA.
✔ Design, testing and launch of a new supplier sustainability assessment model, replacing the previous CSR Scoring.
✔ Holding of five “Supplier of the Year Awards” events, one in each country of the group’s sub-holding companies.
Design and launch of a new Supplier Management System via a new global platform managed by the company GoSupply.

Extending to suppliers the personalised online awareness-raising module on respect for human rights, accessible to all suppliers.

**Medium-term objectives**

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

- Increase the percentage of the volume of purchases awarded to suppliers on whom a Sustainable Development and Social Responsibility analysis has been carried out.
- Increase the number of suppliers subject to sustainable development policies and standards.
- Preparation of a protocol for company social auditing at the first level of contracting.

**Challenges in 2020**

Iberdrola’s purchasing 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 clients move in increasingly competitive, changing, global, and efficient environments that require rapid responses, where technology and innovation will be the keys to success.

Of the activities planned for 2020, the following are of particular note:

- continue the digital transformation and change of model that was begun in 2019;
- conduct the 7th edition of the supplier satisfaction survey;
- present the global awards to the most outstanding suppliers;
- draw up the action points for the supply chain as part of Iberdrola’s 2020-2022 Sustainable Development Plan.

“Purchasing as a driver and leader of its own change”