



Procurement and Supplier Management activity report.

*Contribution to Iberdrola Group's
sustainability*

2021-2022



Message from the Procurement and Services Director



Asís Canales,
Procurement and Services Director

In 2021 we found ourselves in an environment where we emerged from the pandemic, with a very noticeable upward impact on raw materials, especially steel and metals. 2022 and the war in Ukraine has brought us rising energy costs and global inflation scenarios not seen in recent decades. These macroeconomic and geopolitical factors reinforce the convenience of having a professional management for procurement as well as for the risks associated with the supply chain, a vital element to meet Iberdrola's investment plan.

The approaches of relocating manufacturing to environments closer to the points of consumption to avoid the high costs and risks associated with logistics will continue in 2022. This will gradually change current supply chains, although some proposals for new production capacity in Europe and the Americas will require extended lead times to become a reality.

On the other hand, the energy sector needs to address the necessary energy transition to avoid the risks posed by climate change. The opportunities offered by this green transition have attracted leading companies from other sectors, such as oil and gas, and investment funds interested in entering a growing renewables business.

This movement, which is positive for the fight to reduce

emissions, on the other hand increases the demand for specialised equipment and services, creating further tension in these markets.

These challenges make it more necessary than ever to secure reliable sources of supply to continue the development of our businesses in the different geographies and of our ambitious investment plan, the largest in the company's more than 120 years.

We are doing all of this while continuing to drive sustainability in our supply chain, this being the last year of the 2020-2022 strategic goal, and assuming the future requirements of the different regulations that seek to establish monitoring obligations in the different supply chains in matters as important as human rights or the environment. In this respect, we are already analysing the adaptation of our current supplier monitoring systems to the requirements of future European legislation in this area.

2020-2022, key years for the Sustainability
of the Iberdrola Group's supply chain



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1. Overview





Mission

The mission of the Iberdrola group Procurement and Services Division is the corporate and centralised execution, for the entire Group, of equipment and material procurement (except power and fuel), construction and service contracts, and insurance programmes (except life, accident, health and retirement insurance) to meet the strategic objectives set by the Board of Directors in terms of cost efficiency, strategic alignment, internal Group regulation, sustainability, ethics and compliance with the legislation in force.

In its day-to-day undertakings, the Procurement 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 *Governance and sustainability system* [\[?\]](#).

The procurement 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.

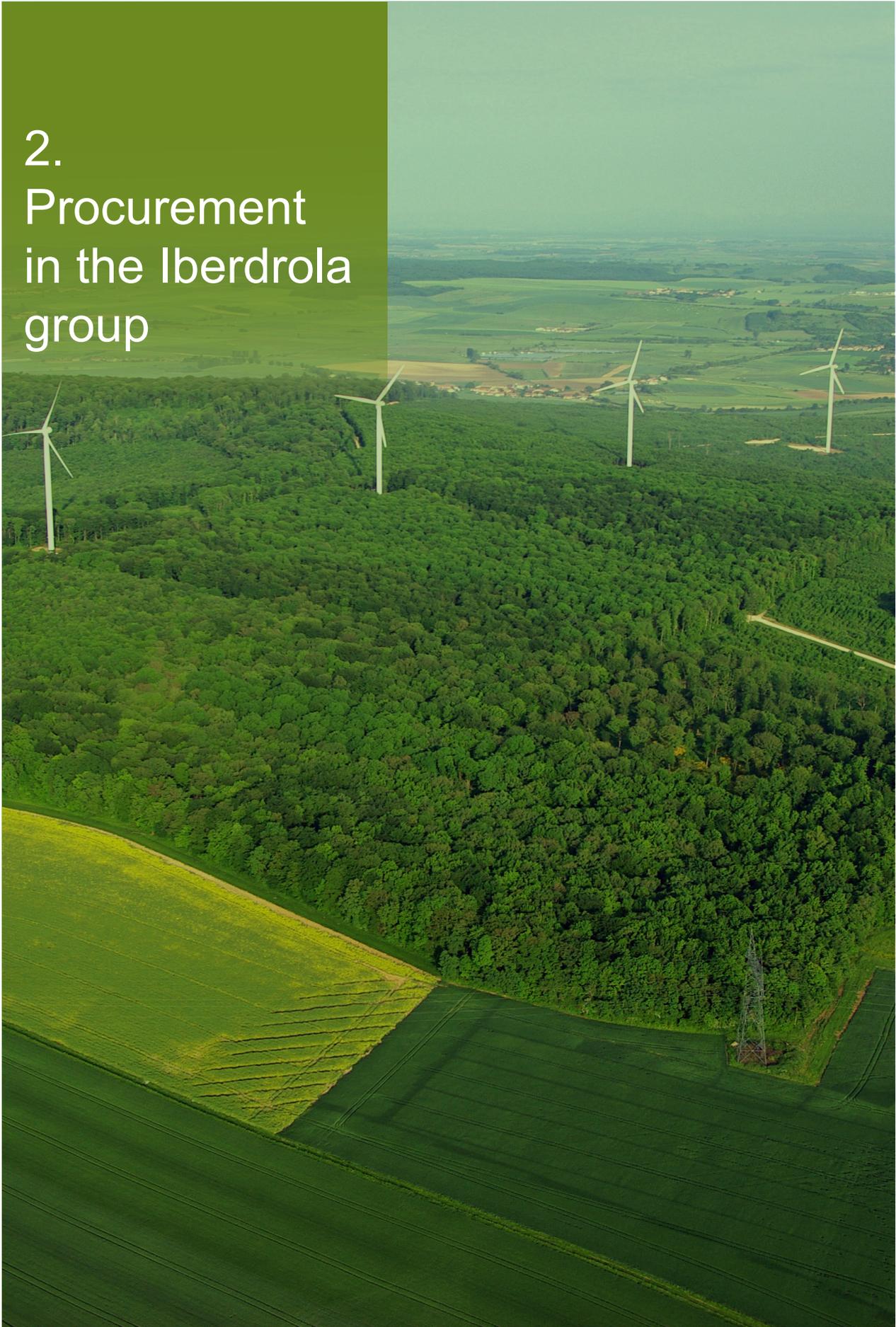
When responding to internal and external demands, the Procurement Division is proactive in developing new capabilities and interacting with suppliers from their first contact with the Group. Suppliers are one of the strategic stakeholders for the Iberdrola Group.

The Procurement and Services Division assumes and promotes in its daily management the values and commitments acquired by the Iberdrola group in terms of ethics and responsibility





2. Procurement in the Iberdrola group





Values of the Procurement function

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



The Procurement organisation

The Procurement organisation comprises over 278 professionals strongly rooted in the local community and a centralised management. 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



The Procurement team is organised based on the **management of purchasing categories**, in which specialisation by product/service 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.

In 2022 we reorganised our purchasing categories to better align them to the strategies and needs of the businesses, contributing to both their growth and efficiency: On the one hand, under the direction of Global Procurement, purchases are deployed by **Business**: Networks, Onshore Renewables, Offshore Renewables and Customers. On the other hand, the purchases of the **Corporate Areas** are established: telecommunications, systems and facility management. And finally, a **Supplier Management and Procurement Services unit** is set up.

The Procurement team is organized with a clear focus on category management



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, rising logistics costs and high demand for strategic elements linked to the energy transition makes it necessary to establish purchasing strategies that guarantee the availability of equipment and services that are critical for the development of the planned investment plan. In this regard, business and country Procurement divisions have annual targets to ensure availability of critical equipment and services to cover a significant percentage of the current investment plan.
- **Competitiveness:** The growth of the renewable, grid 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

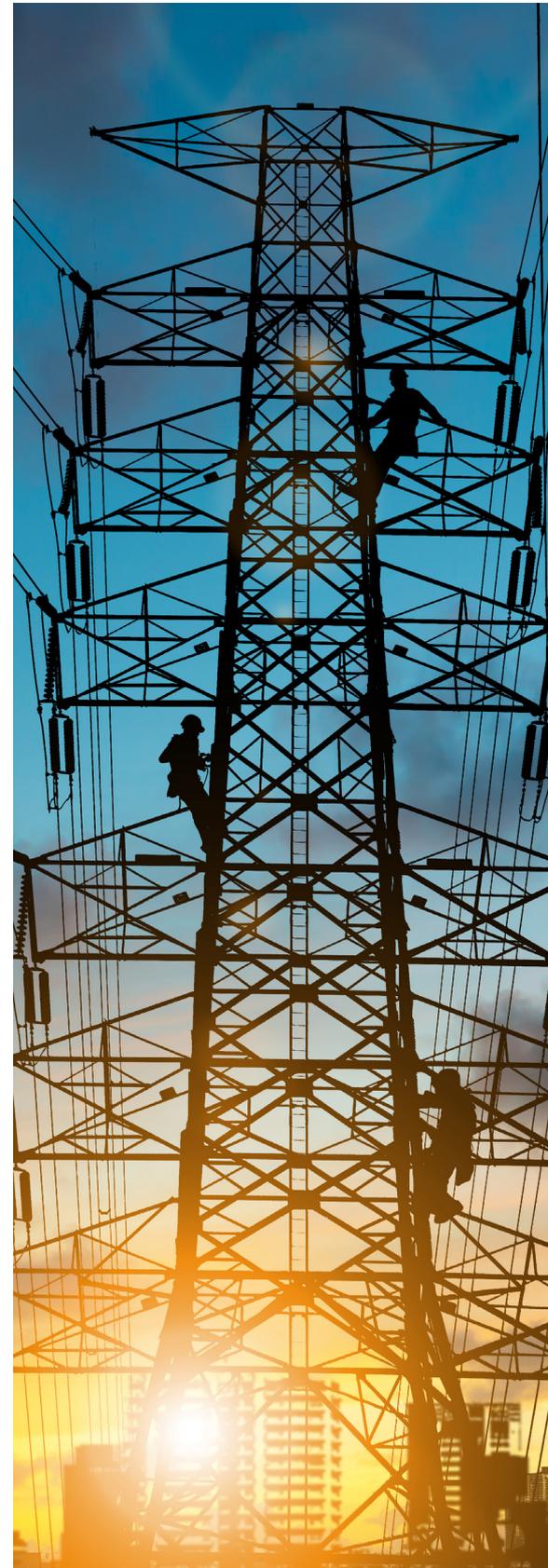




businesses and countries have annual targets to contribute to the growth of their respective businesses.

- **Efficiency:** Savings are one of the main values added by a centralised procurement organisation. By optimising procurement costs, Net Operating expense can be improved and the cost of investments reduced. The procurement divisions of the businesses and countries have annual savings targets.
- **Sustainability:** Sustainability is in Iberdrola's DNA, and transferring it to our supply chain is one of our key activities as a leading company. The Procurement divisions of the businesses and countries have annual targets for improving their suppliers' sustainability.
- **Internal Customer Satisfaction:** Procurement negotiates and optimises contracting 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, objectives 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.
- **Supply chain development:** For the most strategic equipment and services, depending on the market situation, Procurement must proactively seek 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.

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





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 2021 fiscal year, is shown in the following table:

General supply of equipment, materials, works and services (€ million)	2021(*)	2020	2019
Spain	2,405	2,070	1,815
United Kingdom	1,225	1,484	2,014
United States	3,031	2,790	2,583
Brazil	1,400	1,283	1,622
Mexico	395	507	510
Iberdrola Energía Internacional (IEI)	967	360	173
Total	9,424	8,494	8,716

(*) Volume invoiced in the year. Amount awarded in 2021: €12.163 billion.

In 2021, the volumes invoiced by suppliers related to offshore wind projects in Europe 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, were particularly noteworthy.

In 2021, the Group's main suppliers were, in alphabetical order:

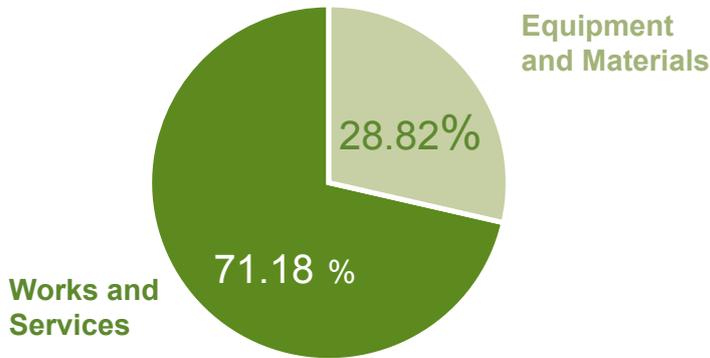
- Eiffage
- Elecnor
- General Electric
- JA Solar
- Longi Solar Technology
- Prysmian
- Siemens Gamesa
- Sterling and Wilson
- UTE Navantia Windar
- Vestas

None of the main suppliers account for 5% of the total volume invoiced in the year.

These purchase volumes serve as a growth engine in the countries where Iberdrola contracts



Distribution of purchases by supply type in 2021:



Iberdrola follows a local supplier development strategy that has allowed the creation of indirect jobs

During the year there have 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 2021, purchases from local suppliers¹ amounted to 88% of the total, broken down as follows:

% of general supplies purchased from local suppliers	2021	2020	2,019
Spain	84	82	79
United Kingdom	89	91	84
United States	96	97	98
Brazil	99	100	99
Mexico	71	63	76
Iberdrola Energía Internacional (IEI)	60	65	50
Iberdrola Group	88	89	89

For more information about the local procurement actions carried out in Mexico please visit the [following website](#)  (unfortunately only available in Spanish), where there are videos where companies, employees and local businesses tell of their experience with Iberdrola and how they have been able to develop their careers and businesses thanks to our commitment to the local economy.

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. Iberdrola's activity employs an estimated 400,000 professionals in collaborating companies in addition to the group's own employees. This figure will increase to 500,000 jobs (direct, indirect and induced) by 2025.

In addition to generating economic wealth and creating direct and indirect employment, Iberdrola acts from a sustainable and responsible point of view 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.

Iberdrola's
activity employs
an estimated
400,000
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in collaborating
companies

¹ Based on supplier's company Tax ID, its considered a local purchase if the supplier is registered in the country which the specific Iberdrola entity that is making the purchase operates.



Systems supporting the Procurement activity

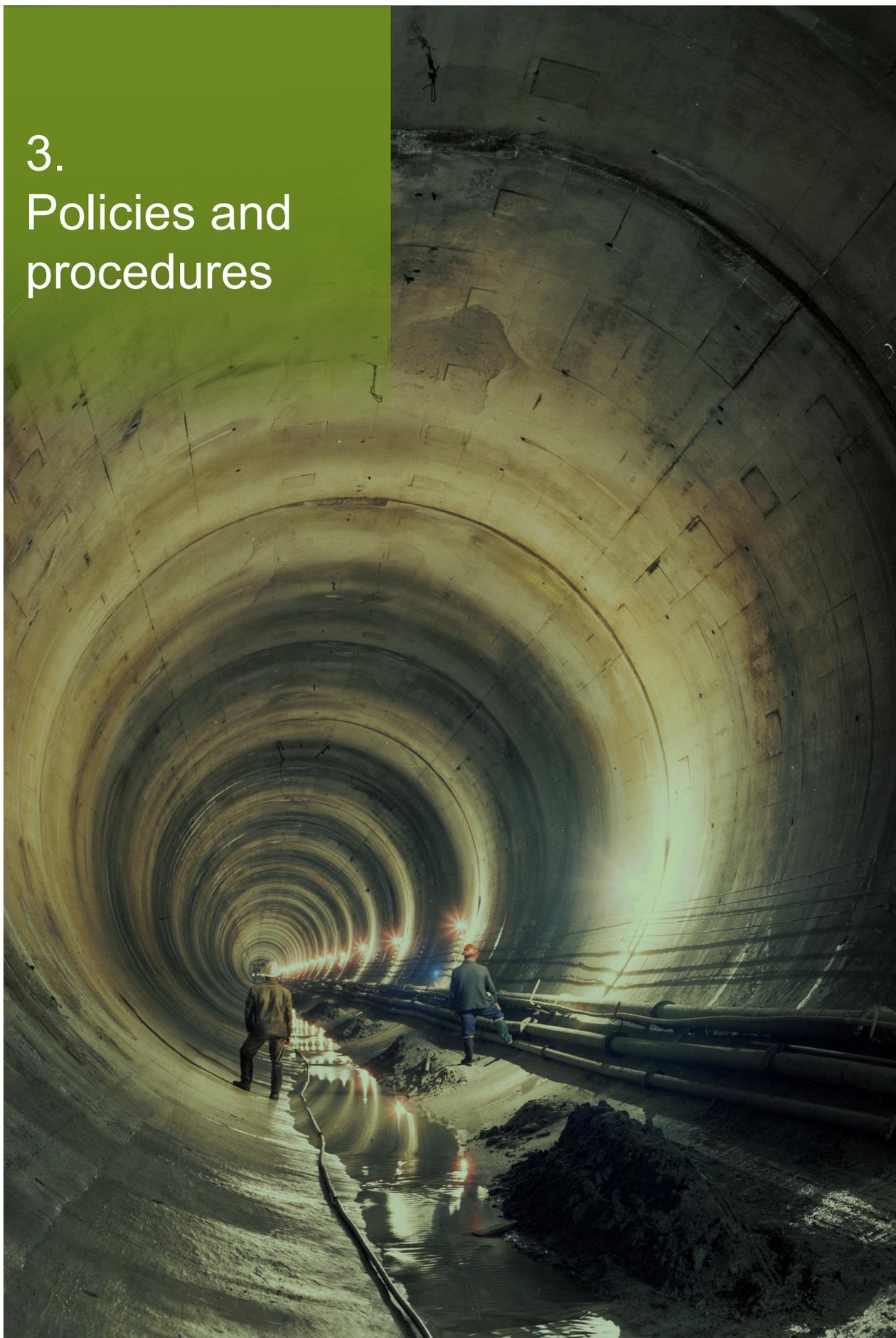
Iberdrola's Procurement Division relies on two main platforms to carry out its activities:

- IBuy, a collaborative global tool, through SAP Ariba Network, that supports the management of procurement processes, including requests for proposals, negotiations with suppliers, internal approvals of all these processes, all in a digital native environment and 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 GoSupply, allows the classification of current and potential suppliers, as well as the assessment and monitoring of risks and their sustainability which is integrated with the IBuy application.





3. Policies and procedures





| The 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.

The principles of action included in the Code of Ethics represent the commitment to the highest standards of business ethics and transparency

| Purchasing Policy

The *Purchasing policy* [\[?\]](#), initially approved by the Board of Directors on 18 June 2013 and last updated on 22 February 2022, 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, with special emphasis on compliance with the ethical commitments of the professionals of the Group and its 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 Governance and sustainability system.



• 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.

• Relationships with suppliers

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

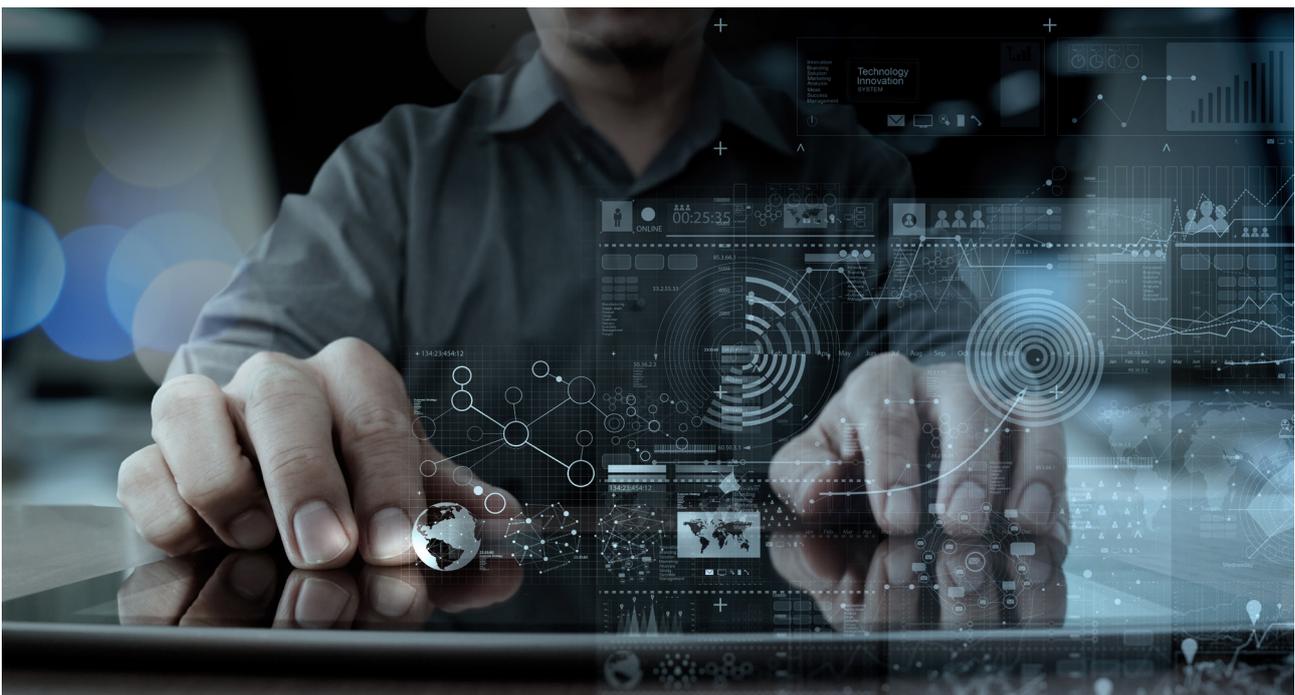
Promote suppliers' strict compliance with contractual conditions and applicable regulations, as well as the principles of conduct included in the *Code of ethics* [\[↗\]](#).

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.

Supplier selection processes are established that comply with criteria of objectivity, impartiality and equal opportunities

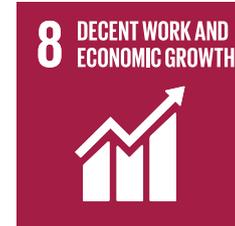




• Growth and development

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.

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 prevail to ensure full respect for the corporate organisation derived from the Governance and Sustainability System.



Supplier risk assessment in the Purchasing policy

The *Procurement 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”.

The purpose of the Purchasing Policy is to establish the global framework for the control and management of the risks resulting from purchasing activities



- **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.

Iberdrola’s
purchasing
conditions
incorporate
specific clauses
of the supplier’s
corporate social
responsibility



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

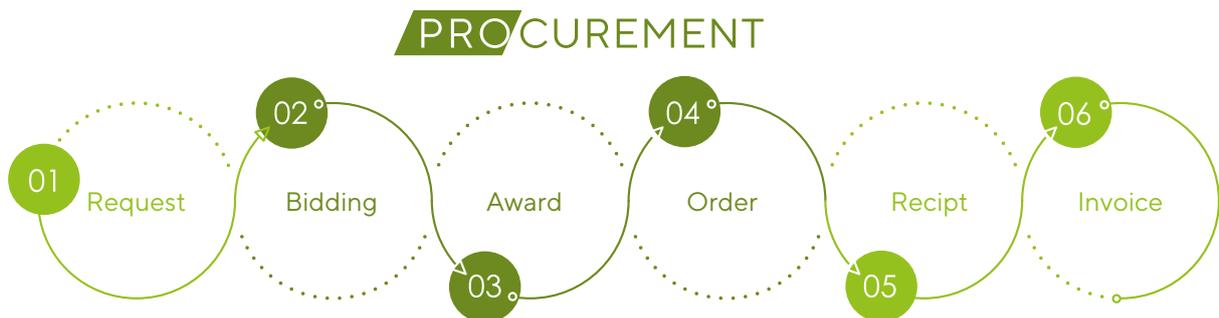
<https://www.iberdrola.com/suppliers/tenders/contracting-terms> 

Procurement procedure

The Procurement 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 2022 audit plan of the 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 the United Kingdom (Glasgow).



Risk assessment and mitigation in the supply chain

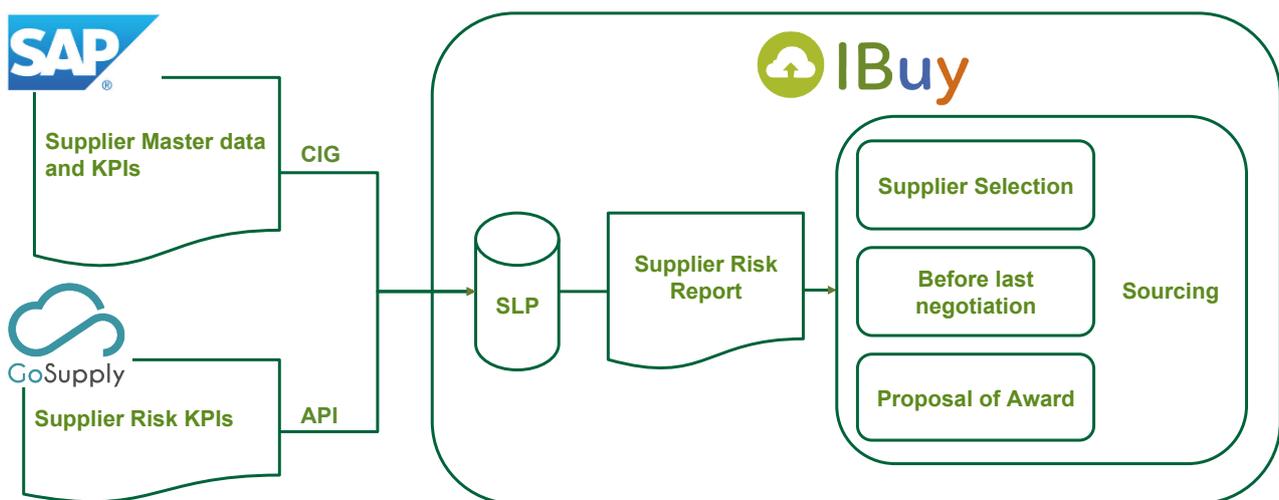
Supply chain risks are assessed and mitigated from the first moment suppliers are registered in Iberdrola's purchasing management systems:

- The registration of a new supplier entails an enhanced screening of the supplier, its shareholders, senior managers against reputation databases, and sanctions of proven reputation.
- Registration in the iBUY procurement system requires the supplier's acceptance of Iberdrola's [Code of ethics](#) and of [Iberdrola's sustainability policies](#).
- The general terms and conditions of business set out obligations on human rights and the environment, which the supplier has to comply with 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 and on efficiency. Being proactive by requiring analysis from the earliest stages of tenders and efficiency by bringing the data closer to the buyer in the purchasing process itself.

The procurement process incorporates the mandatory tasks of risk control of participating suppliers

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



Risk assessment is based on a common model that depends, in each tender, on the scope to be contracted, the country and business, 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 situation has not changed before submitting it for approval.

To improve buyers' proactivity in risk management, a new weekly robotised process has been incorporated in 2022. For each significant tender published during the week, the risk and sustainability assessment of each invited supplier is sent to each buyer in a summarised, individual manner, 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.

In 2022 a new weekly robotised process to improve purchasers' proactivity in the management of risks has been added



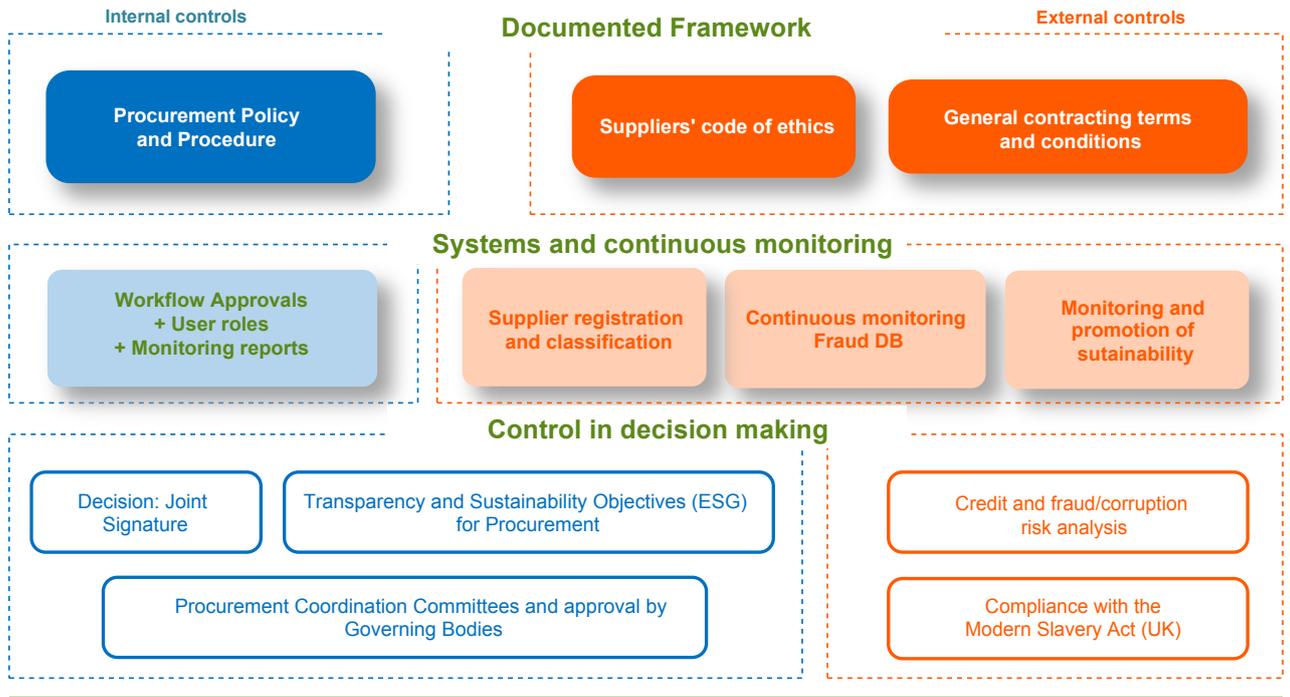
The Value of the Procurement Organisation - Compliance and Control Mechanisms



Certified procurement process
ISO 9001:2015



Single procurement support system



Post-hoc checks:

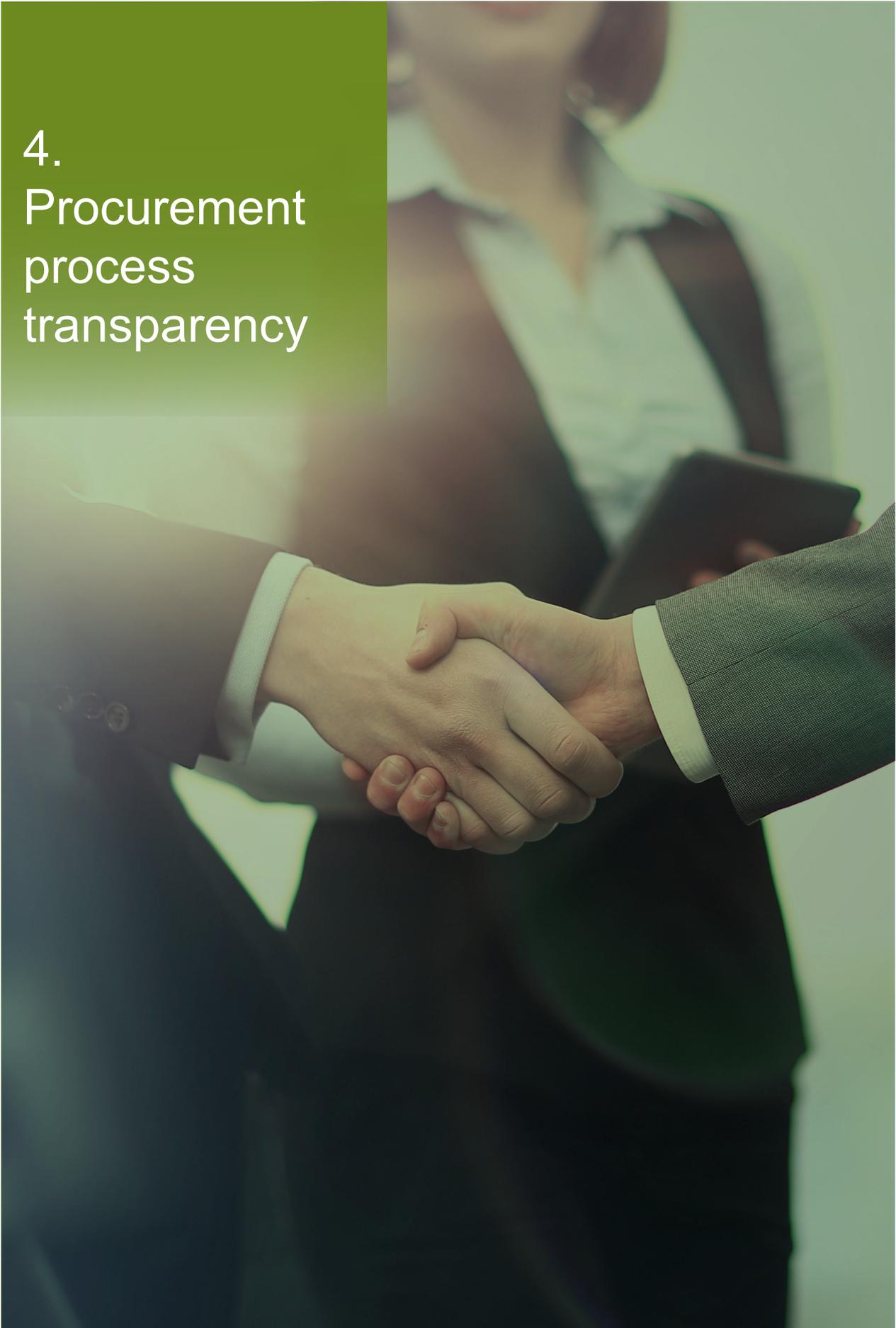
Internal Audit

Ethics Mailboxes

Action guide for Code of ethics breaches



4. Procurement process transparency





Iberdrola has designed its procurement process to guarantee best practices in corporate governance and the principles of business ethics and transparency in all the Company's areas of activity.

The Procurement Division guarantees equal opportunities, applying criteria of objectivity and impartiality in its relationships with suppliers, and promoting transparency and competition without discrimination 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 Procurement Division or, if appropriate, the Purchasing Manager for the Business.

One of the procurement team's annual objectives is to finalise a certain percentage of negotiations through competitive and transparent closing mechanisms, using sealed bids and/or electronic auctions.

KPIs are also established to monitor the degree of transparency and competition, which are the percentage of purchases made from a single supplier, as well as the number of suppliers invited to participate in the Group's tenders and those considered technically valid who participate in the final round. These two indicators have been reduced in 2021 to 6.14% and 3.7% respectively, acceptable values in global terms.

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

Iberdrola has designed a procurement process that ensures best governance and sustainability practices



5. Ethics and Compliance in the procurement process



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 26 April 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 *Supplier's Code of Ethics* [\[↗\]](#). Prior to this, in the case of new suppliers, during the registration process in the systems, they are expressly asked to confirm that they have read, understood and, in turn, endeavor to comply with the Iberdrola Group *Suppliers Code of Ethics* [\[↗\]](#).

And finally, the *Supplier's 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.

Suppliers' ethics mailbox [\[↗\]](#)

Iberdrola has suppliers ethics mailboxes on its website and for each operating company:



The mailboxes guarantee the confidentiality of all information and persons mentioned in such communications and allow anonymous complaints to be processed. 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 May 2018 this mailbox has also offered the option of anonymous whistle blowing.



- To ask questions or make suggestions about the *Code of ethics* .

In 2021, 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.

Campaign to promote the Code of Ethics in 2021

In 2021, together with the Compliance Division, an effort was made to bring the *Code of ethics*  closer to the Iberdrola Group's suppliers, for which purpose an explanatory brochure was written to facilitate its dissemination to suppliers and their employees, and is available on the website at <https://www.iberdrola.com/suppliers/contribution-sustainability/suppliers-code-ethics>.

The image shows a collage of overlapping brochures. The main brochure on the left is titled 'Code of ethics' and features a portrait of Ignacio S. Galán, Chairman and Chief Executive of Iberdrola. It includes a quote from him: 'The Code of ethics sets out Iberdrola's commitment to ethical business principles and transparency in every area of its activity, establishing a set of principles and guidelines for behaviour intended to guarantee ethical and responsible conduct by all Iberdrola Group directors and employees. Iberdrola, which is firmly committed to extending this commitment to all third parties with which it has dealings and, in particular, to suppliers, has developed specific guidelines for action in accordance with the Group's principles and values, which are set out in the Supplier code of ethics, and which must be complied with by the Group's suppliers. This requirement is one of the measures the Group has adopted to encourage sustainability among its suppliers to enable it to achieve the Sustainable Development Goals adopted by the United Nations.'

The brochure is divided into sections: 'WHAT DO WE EXPECT FROM OUR SUPPLIERS?', 'Sustainability and environmental protection', 'Ethics & compliance', and 'Tax issues'. The 'Sustainability and environmental protection' section states: 'All our actions are aligned with the Sustainable Development Goals and we encourage our suppliers to align their actions with the Sustainable Development Goals as well. Therefore, we assess them according to ESG (environmental, social and governance) criteria and require measurable and specific sustainability standards from our strategic suppliers.' The 'Ethics & compliance' section states: 'We expect our suppliers to share our absolute commitment to the principles of business ethics and zero tolerance of fraud. Regarding procurement matters, we view especially positively suppliers that have compliance systems in place to help them effectively prevent corruption and any other crimes or misconduct.' The 'Tax issues' section states: 'As a result of our commitment to good tax practices, we expect our suppliers: to refrain from using artificial or opaque structures unrelated to their own activities for the sole purpose of reducing their tax burden; and not to set up or acquire companies resident in countries or territories considered by the tax authorities to be tax havens or which are uncooperative in tax matters.'

Other brochures in the collage include 'Suppliers' ETHICS MAILBOX' with sections like 'How do I report it?' and 'Who deals with my report?'. The 'How do I report it?' section states: 'Through the Supplier's ethics mailbox, accessible from our corporate website: www.iberdrola.com'. The 'Who deals with my report?' section states: 'The Compliance Department, an independent area within the Iberdrola Group, will investigate your report with the utmost confidentiality and will resolve the issue objectively and impartially. The Group undertakes not to adopt and to ensure that no employee engages in any form of reprisal, directly or indirectly, against professionals or suppliers who have made a report through the ethics mailbox.'



A dissemination campaign for this brochure was conducted in October and November 2021 and has reached more than 11,000 suppliers.

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 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 procurement procedure and process as mechanisms to prevent bribery and corruption:

- 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.
- Reinforced screening of all newly registered suppliers and all existing suppliers in IBUY with third party databases for sanctions, bad publicity and other risk factors.
- 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 purchase.
- Proposals for awarding orders are released jointly and are endorsed by two duly authorised persons.

Iberdrola fosters a culture of integrity among its professionals and third parties with whom it interacts



- 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 registration 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 Pact? This Pact 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:
 - l) **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 so that the risk of corruption associated with the contract is assessed when a new relationship is established or an existing contract with a supplier is renewed.

In addition to the daily screening process for all existing suppliers in the purchasing systems, which is carried out independently by the Compliance Division, the obligation to check the supplier's risk level in this area is established for those purchasing processes that exceed a certain amount. If the supplier has a monitoring mark established by the Compliance Division, any contracting must be checked with the Compliance Division, which must approve the contract.



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 2021, the company has used the 2021 Corruption Index published by Transparency International (TI CPI 2021) to classify countries according to their risk level.

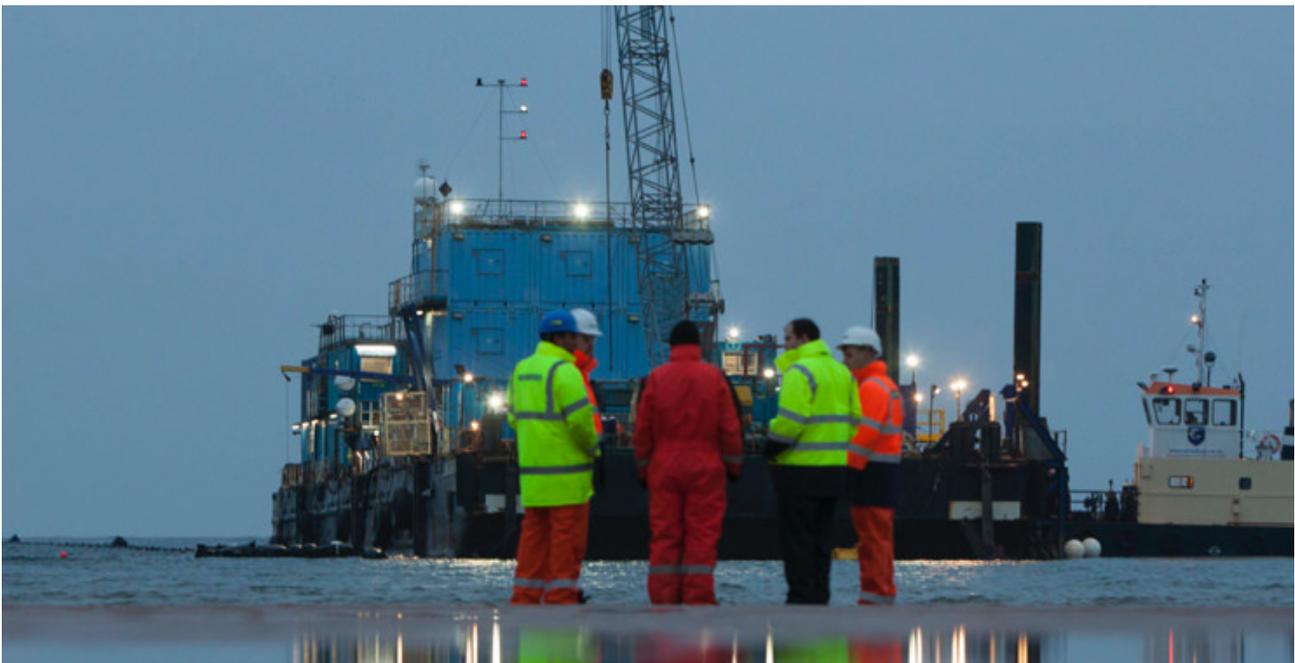
In accordance with this Index, the volumes of purchases made, classified by corruption-risk levels, are shown in the following table:

Iberdrola carries out a daily screening for all its suppliers to identify potential risk of breaching the Code of Ethics.

Corruption risk	% 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	% of 2019 purchases of general supplies in countries according to the 2019 CPI index
Low	80.9	78.9	76.3
Medium	0.2	0.4	0.3
High	18.9	20.7	23.4

The countries considered to have a high risk of corruption according to the above-mentioned TI CPI 2021, 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.





Proactive promotion of the improvement of the crime prevention and compliance systems of Iberdrola group's suppliers

Together with the Group's Compliance Division, an assessment of the compliance systems implemented by our main suppliers was carried out in 2021. For this, and taking advantage of the responses on ethics and compliance provided by suppliers in their ESG assessment, an initiative was launched to establish a specific indicator to assess the degree of maturity of suppliers in this area. This makes it possible to better segment suppliers, plan tracking campaigns and monitor their progress.

In 2022, a plan has been put in place to encourage the improvement and development of the compliance systems of major suppliers with a low score on this indicator.

This tracking initiative will allow for an in-depth analysis of more than a hundred suppliers, as they will be asked to provide details of the elements that make up their compliance system so they can be analysed, including meetings with the suppliers, and in which they will receive a personalised assessment of the improvements to be made, so that in this way they can implement action plans.

This will result in increased awareness and, in the medium term, a reduction in the potential risk of these suppliers being affected by a potential event of fraud, corruption or adverse news that could have an impact on the Iberdrola group.

This initiative will be rolled out globally in 2022 with the following breakdown: 22 suppliers in Spain, 20 in the UK, 20 in the US, 25 in Brazil and 15 in Mexico.



In 2022, a plan has been put in place to encourage the improvement and development of the compliance systems of suppliers

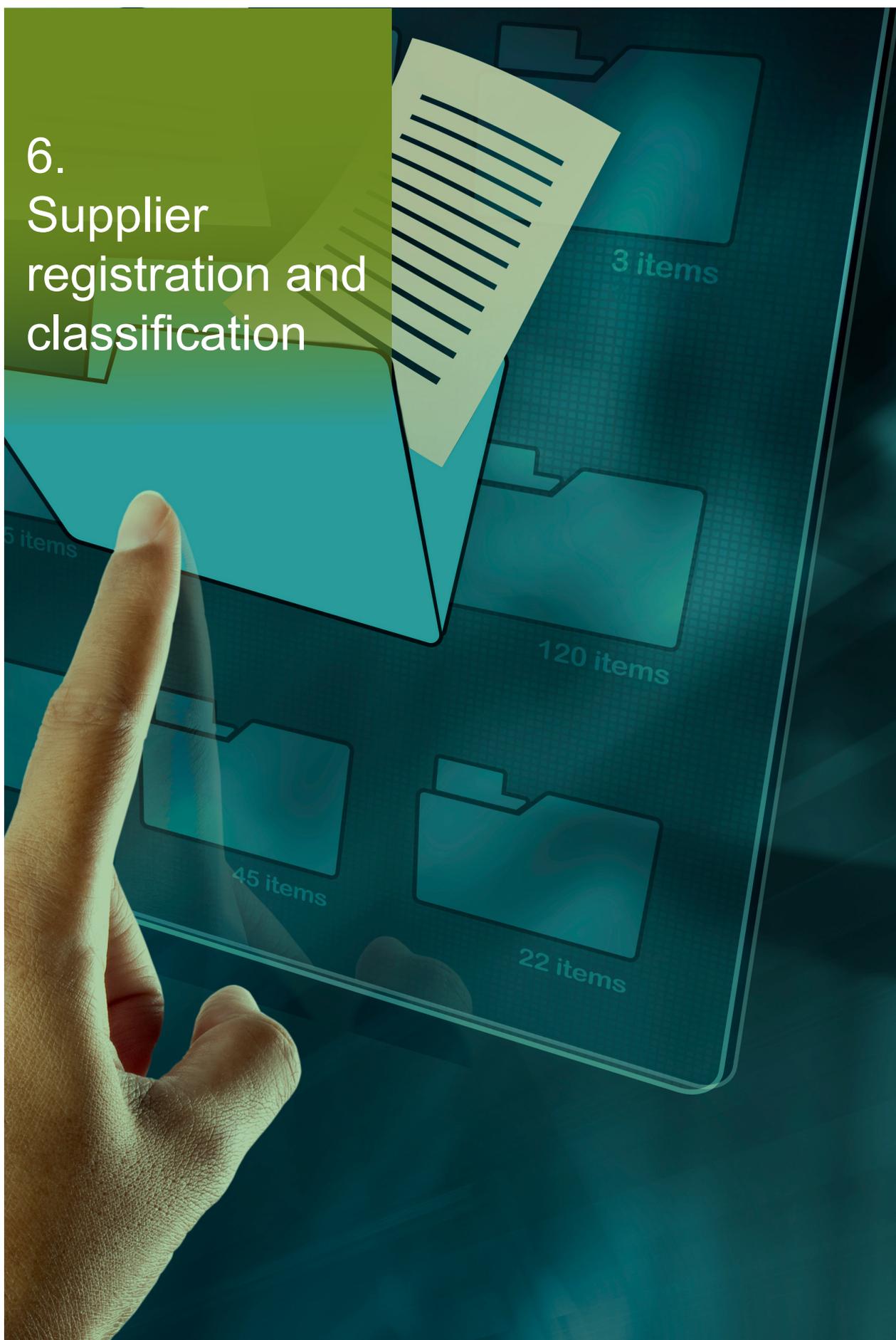


Monitoring of the proposed improvements and their implementation will be established with the suppliers included in the plan. Depending on the success in 2022, this plan will be rolled out with more suppliers in subsequent years.





6. 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 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 whatever 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 Group
- 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 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, supported by the platform GoSupply, so suppliers are not required to pay any annual subscriptions. Access to register in GoSupply is open to any company interested through the corporate website, which facilitates the addition of new suppliers to the Group's supply chain.

The global supplier management model is the basis for promoting a comprehensive and homogeneous corporate treatment of responsible supplier management



Depending on the criticality of the supply, Iberdrola will require a certain level of registration and classification in GoSupply:

- **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.

As of December 2021, the management system had 21,367 suppliers, 7,001 of which were Level 360, 11,931 Basic and 2,435 Elementary.

As of December
2021, the supplier
classification
system had
21,367
suppliers



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 the potential risks. We check that their modus operandi is aligned with the group's policies, principles and responsibilities.

Iberdrola looks for for sustainable, transparent, fair and ethical supplies and suppliers.

The factors evaluated in the classification of suppliers are:

Requirements

Below we list a series of requirements that must be met to be qualified as suppliers.



Supplier acceptance of the Code of Ethics

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



Stability

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



Comply with the legislation of each country in which it operates

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



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

A reinforced screening procedure has been established in conjunction with the Group's Compliance Division for all suppliers that are registered in the Iberdrola group's purchasing systems, in which the supplier is analysed, together with its parent companies and/or subsidiaries, officers, and shareholders. This screening, which improves the previous control system, seeks to identify sanctions, adverse news or indications of non-compliance in terms of compliance and human rights, and is carried out with a tool of proven prestige in the market, owned by Dow Jones.

Since the progressive implementation of this tool in March 2021, more than 600 third parties have been screened.



Classification of suppliers

Iberdrola group's key 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, we consider critical suppliers to be those suppliers that, in cumulative value for the year, receive orders for an amount equal to or greater than 400,000 euros.

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 €400,000, if they have not yet been assessed, must register with GoSupply at the 360° level so 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 €400,000, the supplier must be assessed under 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 €)		
	2021	2020	2019	2021	2020	2019
Critical	1,812	1,511	1,534	94.51%	93.94%	93.86%
Non-critical	18,423	18,370	20,375	5.49%	6.06%	6.14%
Total	20,235	19,981	21,909	100%	100%	100%

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).

In 2021 and at the beginning of 2022 most supply chains at the global level have been disrupted by a series of logistic setbacks, increases in demand, cost escalation, geostrategic and war conflicts, extraordinary increase of inflation globally, and even breaks in the supply chain for many industries. 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.

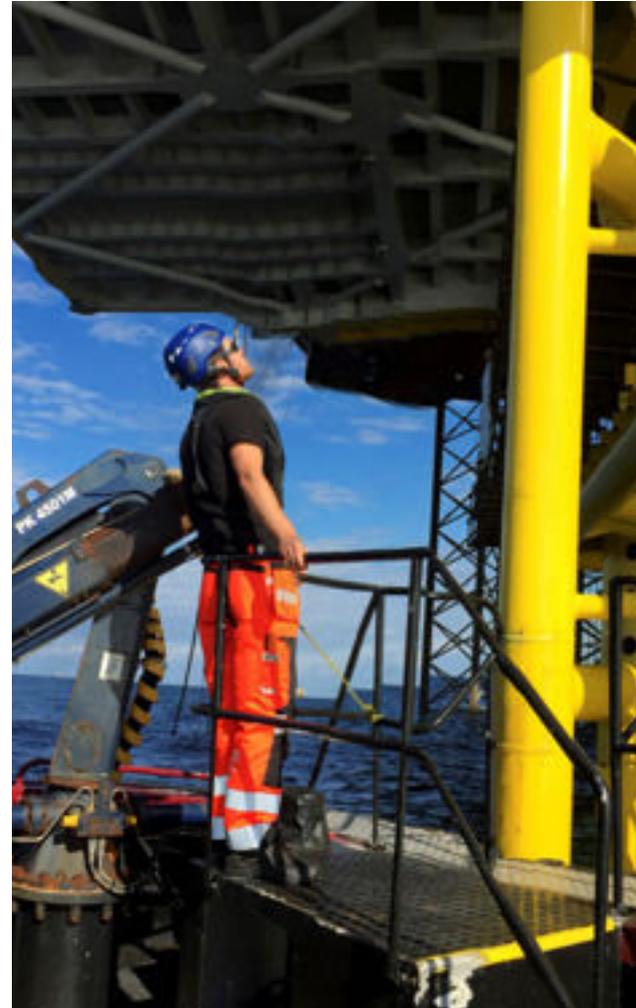


Historically, the responsibility for managing the behaviour of the next levels of the supply chain has been transferred to direct suppliers through the conditions established in the Code of Ethics and general contracting conditions.

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 the fight against bribery and business ethics or other means to transfer these commitments to third parties.
- Ethics channels to be used by their own suppliers to report behaviours that may imply commission of irregularities or any action against the law or the rules.
- 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 audits to suppliers.

In 2022 Iberdrola is studying mechanisms to improve the knowledge of Tier-n suppliers and control of those suppliers that entail a risk.





7. Suppliers and human rights





In supplier management and during the procurement process, the measures adopted by the Group to protect these 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.

Suppliers commit
to the principles
of social
responsibility
and respect for
human rights

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 activities 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 plan for 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, the Procurement Division engaged the specialised consultancy firm Pinsent Masons to conduct an analysis of the various laws against modern slavery and forced labour in the geographies in which Iberdrola operates its activities.

This work includes an analysis of the measures currently in place to prevent this risk in Iberdrola's procurement process and proposals to strengthen these measures.

Purchases from at-risk countries from a human rights perspective

In turn, on a frequent basis, purchases in countries considered of risk have been analysed, according to the human rights risk-country map prepared by an independent third party, showing the risks taking into consideration the operational context and activities, as recommended by the UN's Global Compact.

This map, updated in 2021, covers the 23 countries where the group operates, as well as the 38 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 2021, the percentage of purchases made from suppliers located in risky countries was:



Countries considered at risk where purchases have been made ²	% of purchases of total
China	0.52
India	0.26
Turkey	0.04

Therefore, in 2021, the volume of procurement from countries identified as having a high risk of human rights violations was reduced, reaching only 0.82% of the total. It should be noted that this value contrasts with 20.4% in 2020 due to the fact that in the new risk matrix of the Group, Brazil and Mexico are no longer high risk countries.

In 2021, there have been no supplier engagements in which incidents related to freedom of association, collective bargaining rights, use of child labour or forced or compulsory labour have been identified, nor are we aware of any complaints having been received for these reasons. Nor have any suppliers been 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 suppliers of the group due to negative social impacts.

However, during 2021, a potential risk was identified from NGO reports of forced labour in the Xinjiang region of China, linked to the supply chain of equipment for photovoltaic plants.

2. The criteria used to identify risky countries are the same as those described in the "Protection of Human Rights" section in chapter "III.3. Contribution to the well-being of our communities" in the Sustainability Report for the 2021 fiscal year.



To mitigate this risk, the Group has launched several lines of action:

- For suppliers with contracts in place or under negotiation, they were required to take additional measures to ensure the non-use of forced labour in their supply chains by including new contract clauses. For the remaining suppliers of photovoltaic panels, formalisation or explicit confirmation of their commitment against forced labour has been requested.
- In addition, as a complement to the acceptance of Iberdrola's [Code of Ethics](#), suppliers are also asked to formalise an express declaration rejecting forced labour and including a confirmation that they do not use silicon poly or other components originating from Xinjiang province.
- For new tendering processes, it is proposed to request information on the mechanisms in place or necessary for suppliers to ensure that these practices do not take place in their supply chain, details of the traceability mechanisms of the materials incorporated in the modules, as well as those of the suppliers and the location of the facilities. A request is also contemplated for the codes of conduct and ethics applicable to each supplier and those applicable to their supply chains, for review by Iberdrola and inclusion in supply contracts.
- As a complement to the above, we are analysing how to ensure, for this type of supplier, the possibility of carrying out social and sustainability audits beyond the Tier-1 level.
- Work is also actively being undertaken to address this issue from a sectoral perspective, and the Group is participating in the initiatives **Solar Power Europe** and **Wind Europe**.
- In the USA, Renewables signed in March 2022, along with another 300 organisations and companies in the industry, the "**Solar Industry Forced Labor Prevention Pledge**", issued by the SEIA (*Solar Energy Industries Association*) opposing to forced labour in the solar supply chain and promoting the creation of a protocol to ensure the traceability through the whole supply chain, including solar panels.





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.

We encourage our 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 Policy in regard to human rights	Code of ethics (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 <i>Code of ethics</i> [↗] Weighting of the supplier's status with regard to sustainability, labour practices and respect for human rights	Specific contracting terms and conditions	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	Traction campaigns	As a locomotive 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	Modern Slavery Act (United Kingdom)	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	Sustainability Assessment Model	Specific section to assess the supplier's CSR and HR performance
Transparency & Reporting	<ul style="list-style-type: none"> • Purchase Indicator in risk countries • Infographic Contribution to Sustainability • Annual Procurement and Supplier • Management Report published on the corporate website 	Supplier of the Year Award	This promotes supplier commitment and improvement and publicly recognises those whose performance is outstanding



8. 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 department at Iberdrola has had the goal of improving the sustainability of its suppliers for more than 15 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.

Iberdrola's commitment to ESG criteria and its extension to its main suppliers is embodied in the ambitious goal of ensuring that at least 70% of the group's main suppliers are subject to sustainable development policies and standards by 2022.

This objective is directly reflected in the inclusion of this scale in the evaluation of the Strategic Bonus 2020-2022, approved in point sixteen of the resolutions passed at the Iberdrola, S.A. General Shareholders' Meeting held on 2 April 2020.³

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).

For more than 15 years, Iberdrola has aimed to improve the sustainability of its suppliers



3. https://www.iberdrola.com/documents/20125/42364/gsm20_AprovedResolutions2020.pdf

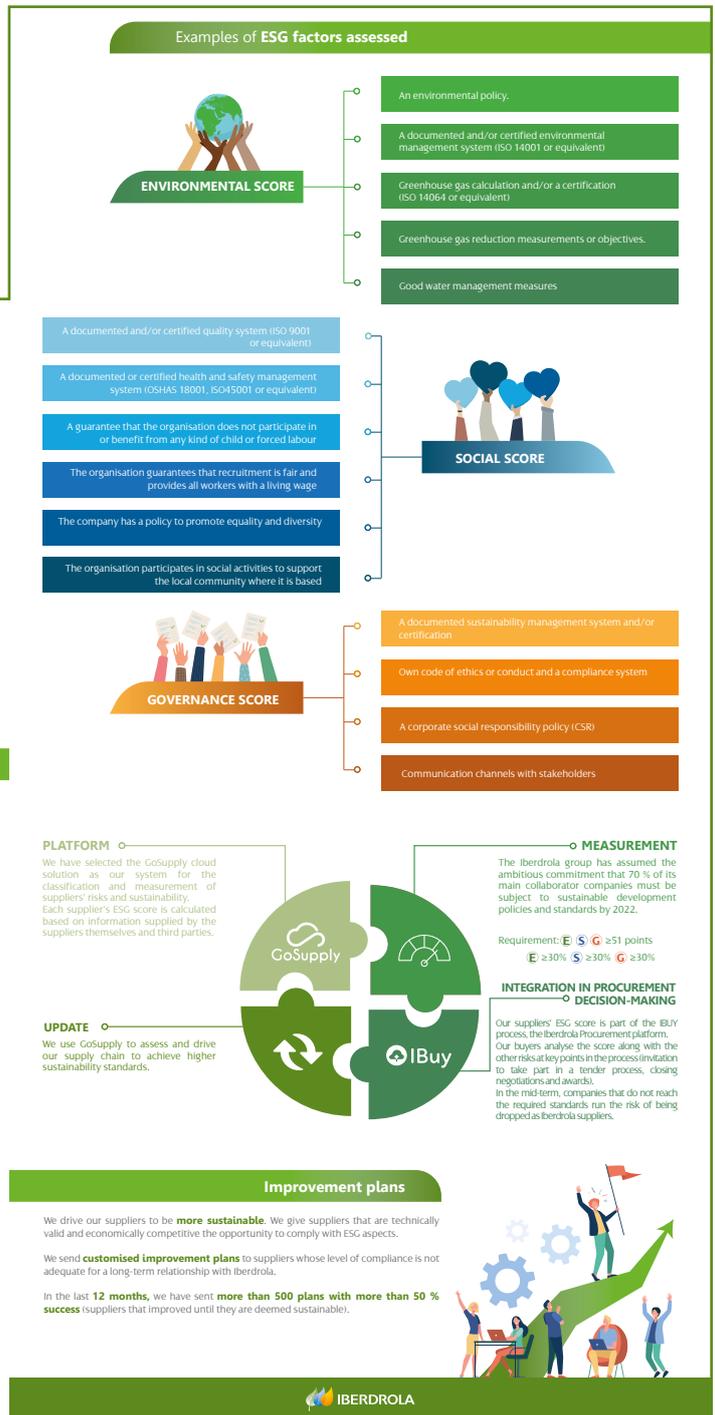
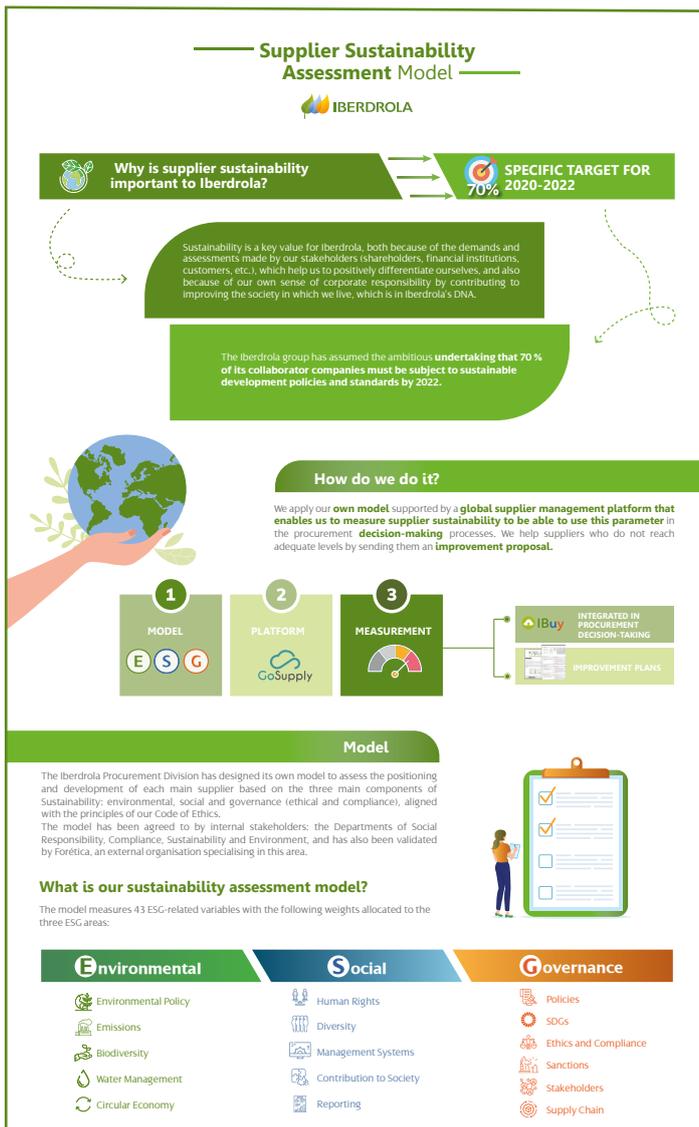


The objective is supported by a specific assessment model for the supply chain and has been integrated into the new systems implemented by the Procurement Division, both in the supplier classification system and in the purchasing management system itself, incorporating sustainability into decision-making.

Sustainability assessment model

In order to share our model with our suppliers and other stakeholders, a specific infographic has been developed and is available on our website (Supplier Sustainability Assessment (www.iberdrola.com))

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



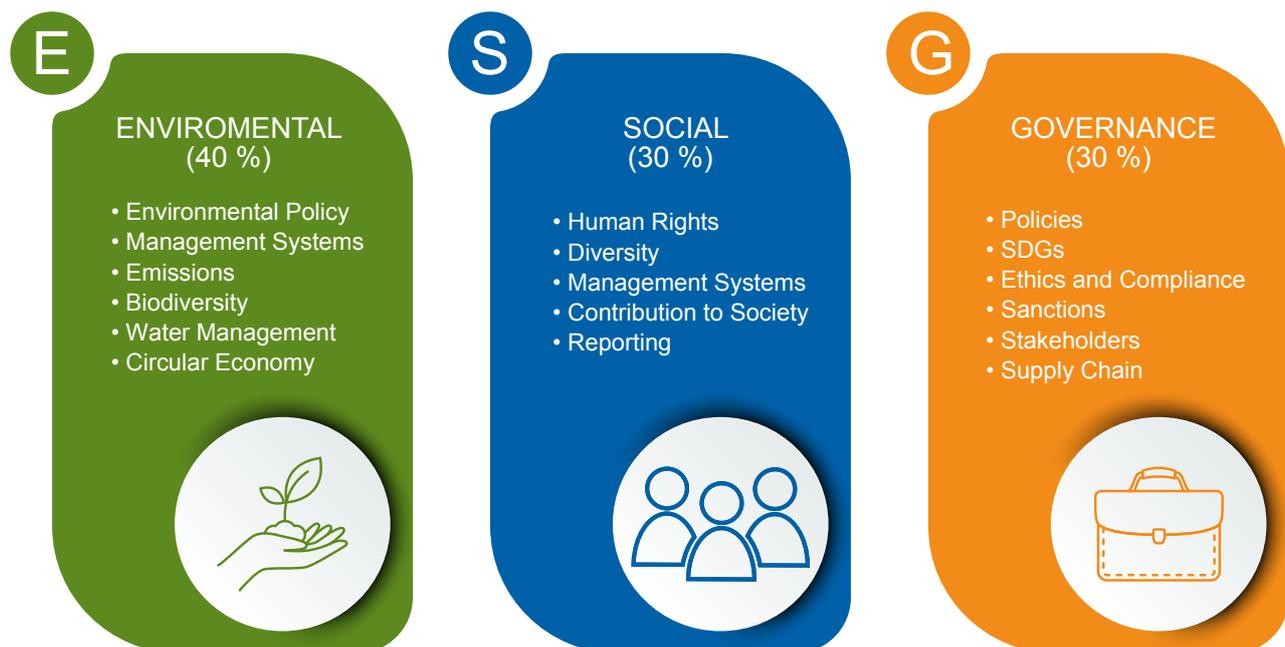


The supplier assessment model for sustainability is adapted to the international reality of the Iberdrola group.

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:



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

In 2021, €10,827 billion, 89% of the total amount awarded, was allocated to suppliers that had been evaluated on the basis of this ESG model.



For 2022, improvement targets have been set for the entire Procurement Department team related to the percentage of main suppliers that achieve these sustainability levels. The target for 2022 is 70% at the Group level, with the target being rolled out at the business and country levels.

ESG audits to suppliers

A protocol for social and sustainability audits was designed in 2021, with the intention of launching a specific ESG audit plan for major suppliers in 2022.

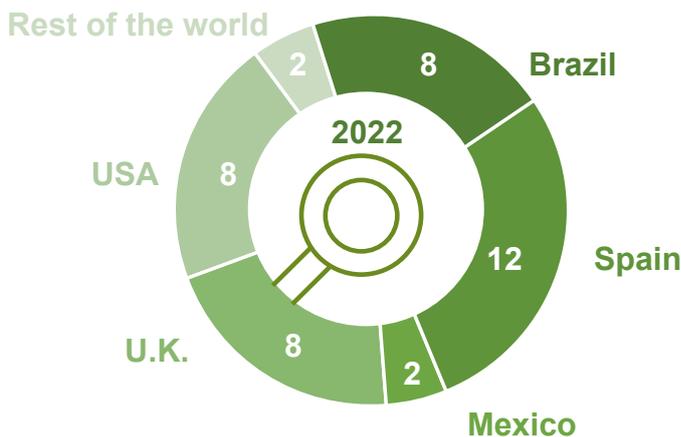
The purpose of the audits is to verify compliance with the Group's ESG criteria and to check, at the suppliers' premises, the validity of the responses previously recorded in the supplier classification system. These will be carried out by independent third party experts in the field.

Suppliers from all of Iberdrola's main geographic areas will be audited under this plan. On the one hand, an ESG audit will be included for suppliers that already had technical audits planned and, on the other hand, a specific audit plan exclusively for ESG issues for suppliers that were not included in the technical audit plan. In this way, a greater number of audits is achieved, without abandoning the auditing of service providers.

The selection of the suppliers to be audited has been done jointly with the internal audit area to ensure total impartiality and a more efficient selection.

The 2022 plan includes audits of 40 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 purpose of audits is to verify compliance with the Group's ESG criteria





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 2021 there have been at least 385 audits to suppliers and to those incurring in non-conformities, a period of time has been set to amend the deficiencies found. In addition, in more than 46,500 periodic field inspections were carried out where suppliers are assessed, as appropriate, on environmental, quality and occupational hazard prevention aspects.

Monitoring Sustainability Supply Chain's Strategic Objective

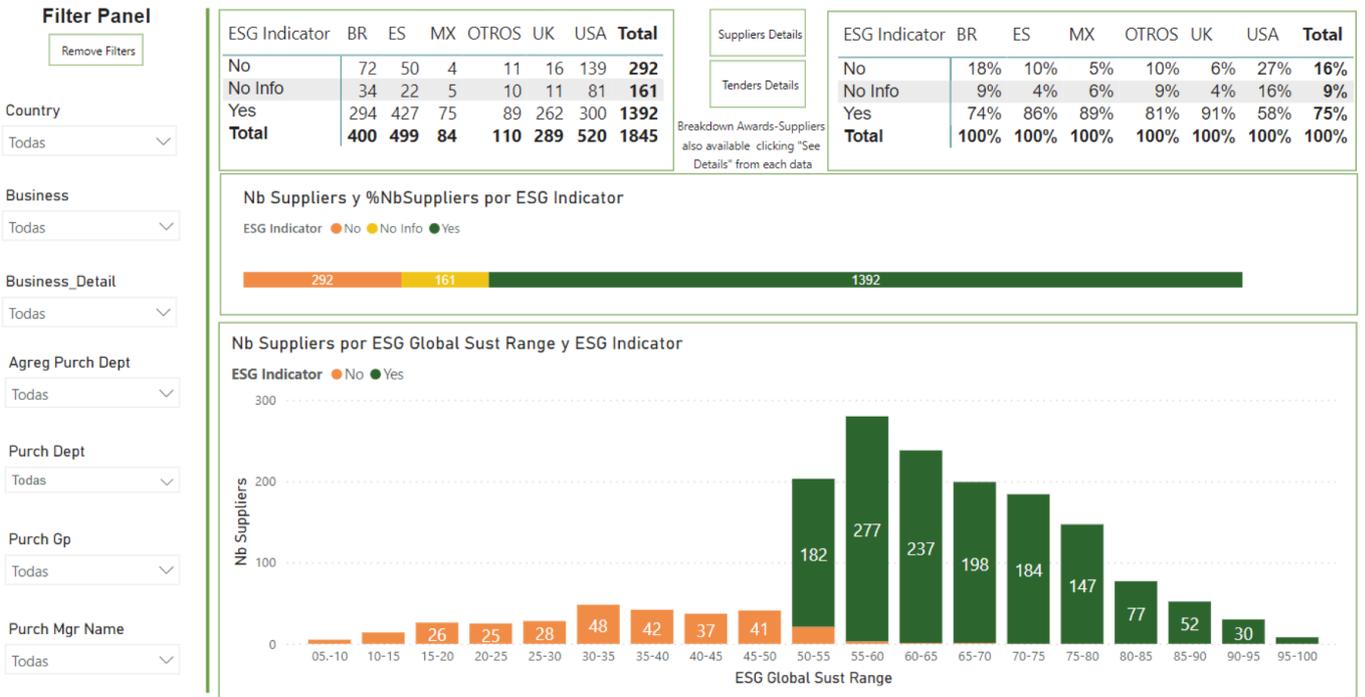
A scorecard has been developed internally in PowerBI in order to continuously monitor this goal, which is updated daily and allows this goal to be monitored by business, country and purchasing category, as well as the identification of suppliers that require an improvement plan.

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.



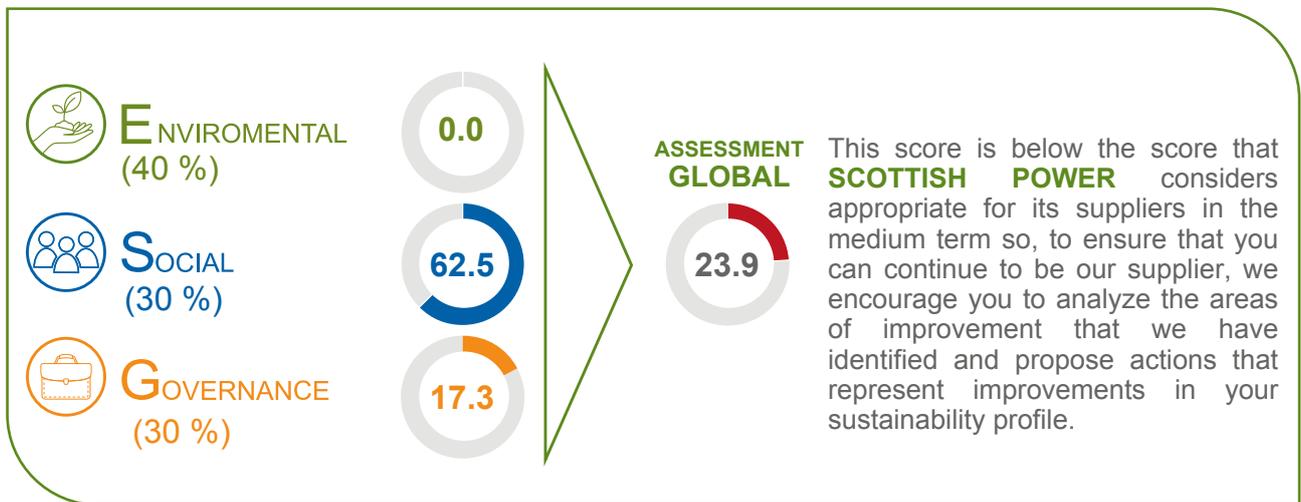
SUSTAINABILITY STRATEGIC OBJECTIVE - PURCHASING

lunes, 16 de mayo de 2022



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.



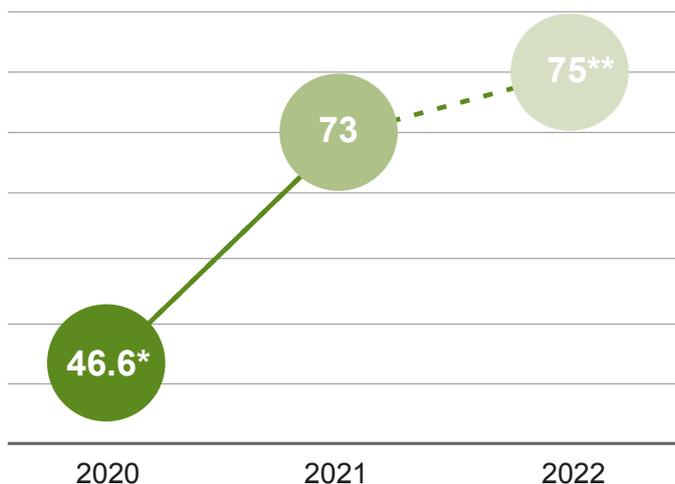


This not only acts as an incentive to suppliers to improve their profiles through actions that encourage excellence in business management, but also encourages the Procurement Department, using quantifiable goals, to select companies that have demonstrated a solid performance in social responsibility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

It should be noted that in 2021, the objectives relating to the establishment and monitoring of improvement plans for those main suppliers that did not meet the minimums established by Iberdrola were met. 529 improvement plans were sent to the Group's main suppliers and 53% of them have managed to improve their level of sustainability, exceeding the appropriate level.

Percentage of main suppliers subject to sustainable development policies and standards

The following graph shows the historical evolution of the KPI and the forecast for 2022. It should be highlighted that the 2020-2022 strategic goal set was ensuring that at least 70% of the group's main suppliers are subject to sustainable development policies and standards by 2022.



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

** Data based on extrapolating responses obtained at the end of May 2022 until the end of the year.

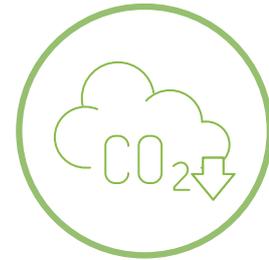


Emissions associated with the supply chain

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 CO_{2eq} 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 CO_{2eq})

Emissions associated with the supply chain ⁴	
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 and 2020 cannot be compared.

These campaigns also give suppliers the opportunity to tell us about any environmental projects they are working on, or if they have any environmental projects 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 accounted for around 66.9 % of the total orders issued (general supplies).

4. Estimated based on the Campaign to raise awareness and measure greenhouse gas emissions from suppliers that Iberdrola considers as suppliers of the Group. Calculation based on a global emission factor in CO_{2e}/€ invoiced (the calculation criteria for 2018 and 2019 was based on an emission factor per country).



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.

| 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.

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 (SDGs), the management of risks resulting from climate change, a circular economy strategy, due diligence in human rights, etc.

In April 2022
Iberdrola has
formally adhered
to the international
initiative *SteelZero*

CLIMATE GROUP
STEELZERO



SUSTAINABLE DEVELOPMENT GOALS

SGD AS PART OF THE GROUP'S BUSINESS STRATEGY IBERDROLA

MAIN FOCUS



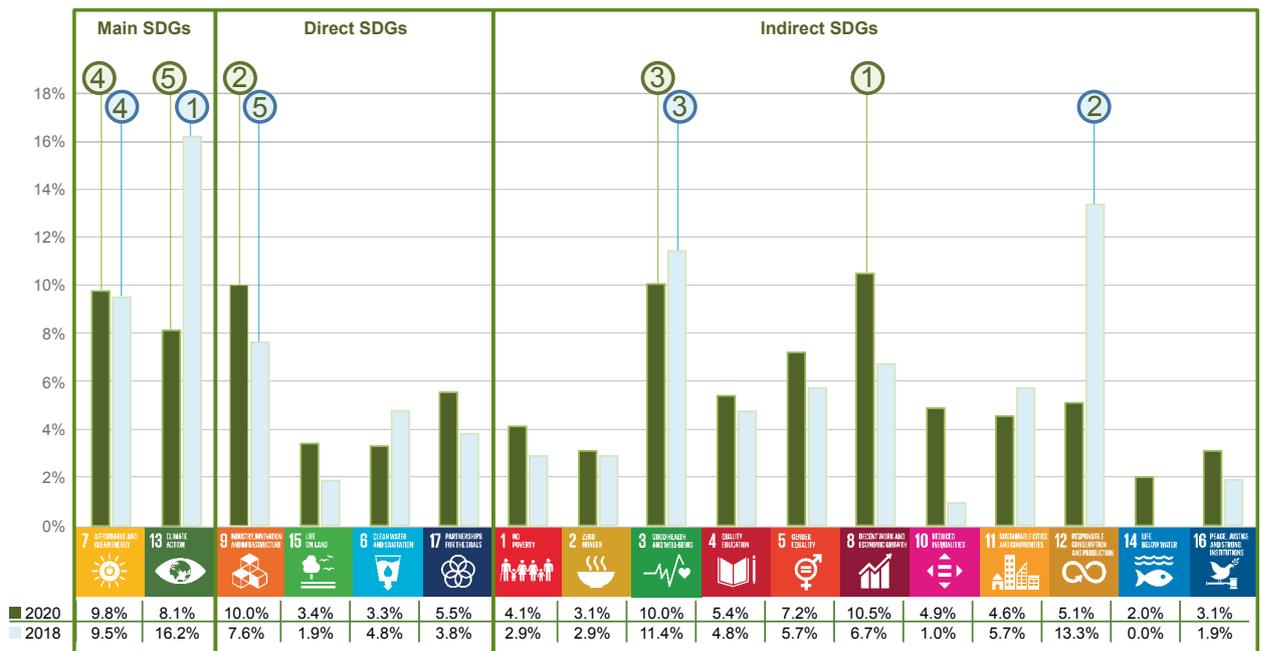
DIRECT CONTRIBUTION



INDIRECT CONTRIBUTION TO OTHER SDG

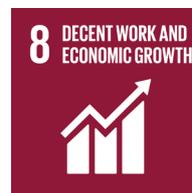


In addition, since 2018, the supplier satisfaction survey done every two years includes a section relating to supplier's involvement in the different SDGs. In previous years, this information had been in a separate survey.





Of the responses received in 2020, the most relevant SDG for the 1,960 suppliers of the Iberdrola Group that responded to this section is SDG 8: “Decent work and economic growth” with 10.5% of the responses. Goal 9 was in second place: “Build resilient infrastructure, promote sustainable industrialisation and foster innovation”. One of those considered by Iberdrola as a direct contribution SDG and in the top five places are SDG 7: “Ensure access to affordable, reliable, sustainable and modern energy” and 13: “Take urgent action to combat climate change and its impacts” which are Iberdrola’s top two SDGs.



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

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

Internal mechanisms		External Mechanisms with Suppliers	
Purchasing Policy	This contains the environmental principles that the supplier must accept and the principles of responsible, sustainable management in the Iberdrola Group supply chain	Code of ethics (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	Specific contracting terms and conditions	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 contract	Traction campaigns	As a driver 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	Carbon footprint measurement	Annual campaigns to measure suppliers’ greenhouse gas emissions
Global Environmental System	The Procurement Department is a member of the Group’s Sustainable Development Committee: guidelines, the objectives set and their KPIs. Audits	Sustainability Assessment Model	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	Supplier of the Year Award	This promotes supplier commitment and improvement and publicly recognises those whose environmental performance is outstanding.



9. Supplier credit risk analysis



As indicated in the Purchasing Policy section, the monitoring of credit risk, among other risks, is established.

Criticality of the supply

Moreover, the *Purchasing policy* [\[2\]](#) determines the following 3 levels of criticality of supply as a general guide:

HIGH LEVEL

A

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.

MEDIUM LEVEL

B

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.

LOW LEVEL

C

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.

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 Department 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 Procurement Department has a credit risk management system for the Group's main suppliers



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. If the estimated amount of the purchase exceeds a threshold set out in the *Purchasing Policy* [\[2\]](#), the risk department reviews the credit quality of the supplier.

The percentage of production capacity occupied by the Iberdrola group for purchases contracted and not delivered with this company is reviewed for the production capacity.

The amount invoiced to the Iberdrola group is compared with its annual turnover for the supplier's dependence on the Iberdrola group.

This score is considered when selecting the successful bidders for contracts and when assessing the options to safeguard the Group's position.

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

During 2021, more than 73% of the total amount of purchases made was analysed centrally in the management systems.



10. 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 with 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	• Supplier portal at https://www.iberdrola.com/suppliers
	• Supplier Service Centre
	• Satisfaction surveys
	• Supplier of the Year Awards
	• Supplier registration, assessment and classification platform
	• IBuy tender management platform
	• Campaigns to boost suppliers
	• 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.

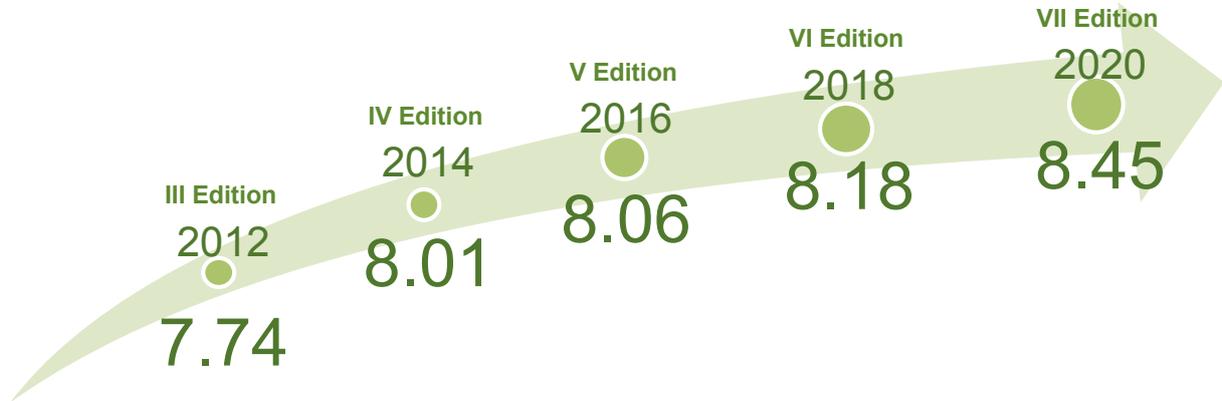
Supplier survey

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 purchasing 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 Department is being analysed.

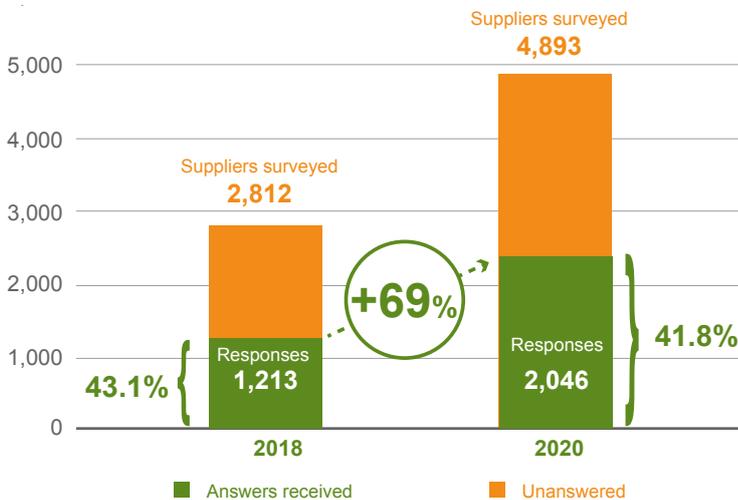
The last survey was carried out in 2020 (7th edition), with a result of 8.45 (out of 10), improving the result of previous editions.

Iberdrola’s purpose is to build relationships of trust with its diferents Stakeholders



Results of the supplier satisfaction surveys

The 8th edition of the survey will be launched in 2022. For this initiative, there is no target result, since the survey is to collect the opinion of suppliers to then use it as a source for improvements. A participation rate of around 40% is sought (41.8% in 2020 and 43.1% in 2018) and a high level of response (more than 2,000 responses in 2020).



Suppliers have highly valued Iberdrola's ethics and reputation

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.

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.

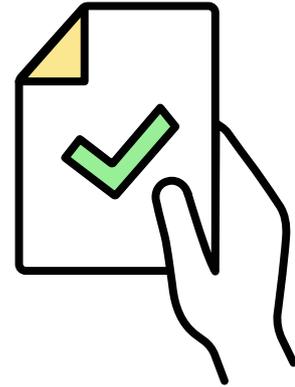




| Traction with suppliers

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.





11. Supplier diversity programme

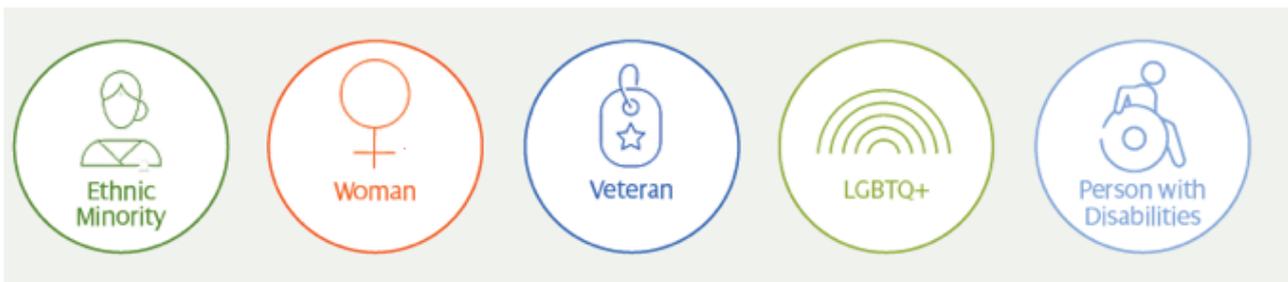




Within the Iberdrola group we are committed to creating a diverse, equitable, inclusive workforce. This commitment also extends to our supply chain, for example through the “**Supplier Diversity Program**” programme, of our subsidiary AVANGRID in the United States, with which actions are reinforced to 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.

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 who is:



The volume contracted during 2021 to these groups is around €153 million, an increase of 8.5% compared to the previous year.

AVANGRID has also set a target to increase purchases 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.

On the other hand, in Spain, the Procurement Department has been working over the last few years on incorporating Special Employment Centres into the network of regular suppliers. A total of €2.2 million was under contract with Special Employment Centres in Spain in 2021 (to provide help for and work with disabled people).



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 diverse 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:

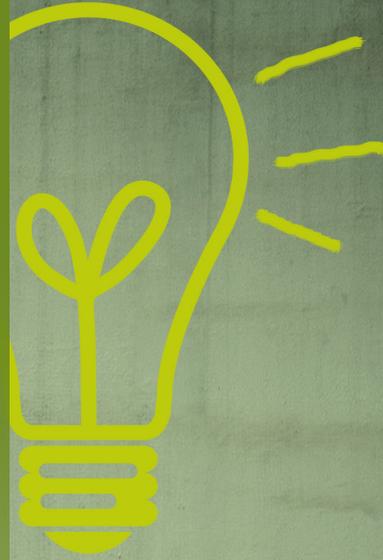
- *Percentage of women hired*
- *The company has a policy to promote equality and diversity*
- *The company has promoted and developed measures to encourage the work-life balance of its workers that go beyond legally-required measures*
- *It calculates the salary gap index between men and women*
- *It 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 Award. In 2021, the insurance company Mapfre was specifically distinguished with the RETO Igualdad (Equality CHALLENGE) award for its policies and actions to minimise the wage gap and promote gender equality.

In Iberdrola's Procurement Department, work has been done over the last few years to incorporate Special Employment Centres into the network of regular suppliers



12. Innovation programmes, support for suppliers and start-ups





| Lada and Velilla Innovation Platform

Since the beginning of 2021, an innovative initiative has been carried out with suppliers within the framework of the Open Innovation Platform of Lada and Velilla del Río Carrión (plataformainnovacion.com), which was launched in 2020 by Iberdrola, together with two open innovation centres, itdUPM and ALC, to accelerate collaboration processes in the regions where the company has proceeded to close its last two coal-fired power plants (Asturias and Castilla y León). These processes are established between citizens, public entities and companies, based on methods of listening and co-creation, which are the basis for the development of a portfolio of connected socio-economic development initiatives.

This initiative has consisted of promoting conversations with Iberdrola's main suppliers in both regions, Asturias and Castilla y León, contacting them and proposing that they join and/or contribute to the search for initiatives and projects that can be carried out in the specific area where the activity is ceasing, with the aim of seeking potential connected activities that can revitalise and re-industrialise these mining regions.

| R&D+I and PERSEO fund

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

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

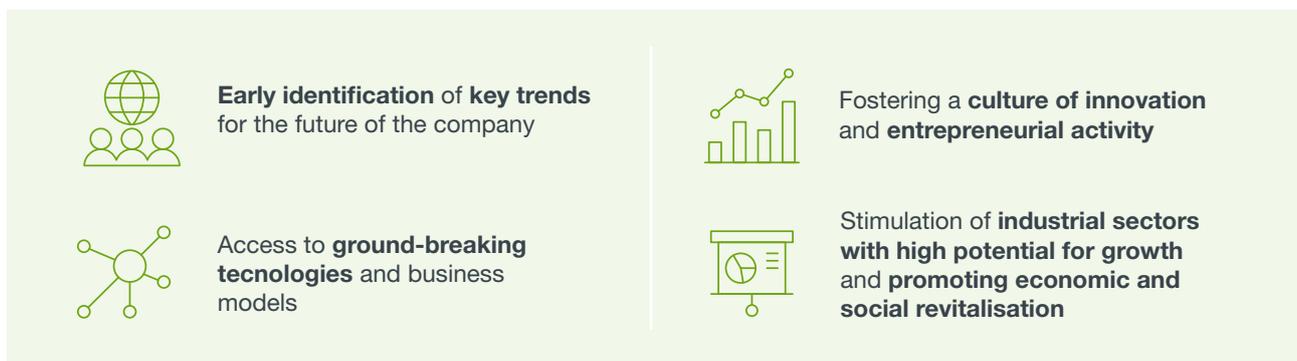


In 2021, Iberdrola invested a total of 337.5 million euros in R&D&I, 15% more than in 2020. According to the European Commission, it is the world's leading private energy company in terms of R&D&I investment. In addition, Iberdrola is among the companies that most support start-ups in Europe. The Iberdrola group views innovation as a strategic variable for guaranteeing the sustainability, efficiency and competitiveness of the company.

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.

Since its creation, PERSEO has invested 100 million euros in start-ups that are developing innovative technologies and business models, focusing on those that improve the sustainability of the energy sector through greater electrification and decarbonisation of the economy.

OBJECTIVES OF THE PROGRAMME





The programme has focused its actions on analysing business opportunities and technological collaboration with start-ups and emerging companies around the world, analysing 300 companies each year and creating an ecosystem of almost 3,000 entrepreneurial companies. This investment instrument currently has a portfolio of eight companies.

Through PERSEO, in 2021, Iberdrola carried out more than 25 pilot tests with start-ups in technological areas such as IoT, robotics and batteries, in construction and maintenance of networks, hybridisation of land uses (agrovoltaic), electric mobility and energy efficiency, with the aim of improving the construction and management of assets, optimising operation and maintenance or improving the services offered to our customers. These pilot tests are a first step towards establishing a commercial relationship or partnership with the start-ups. Additionally, in the last two years the group has launched a total of fourteen challenges, in which 700 start-ups have taken part.

Among the companies that form part of the PERSEO portfolio, it is worth highlighting Stem Inc., dedicated to the management of distributed energy assets (batteries) and the Spanish company Wallbox Chargers S.L., dedicated to the development of electric mobility solutions, which has become a reference supplier for the Group. Both recently reached a significant milestone: flotation (NYSE).

In addition, within PERSEO, the Iberdrola group has launched Perseo Venture Builder, a new unit through which it will invest €40 million to support and create businesses to support electrification from scratch - in principle, it will focus on areas such as recycling and the circular economy - and in sectors that are difficult to decarbonise, such as industrial heat production and heavy transport.

Perseo Venture Builder's activities will focus on creating innovative companies in collaboration with other technology and industrial groups and will also entail public-private collaboration. Its main area of influence is Spain, although it does not rule out promoting activities in other markets where Iberdrola operates.

Three new investments have recently materialised through the programme in the areas of energy efficiency, mobility and decarbonisation, including the recent launch of EnergyLOOP, an initiative to be developed by FCC and Iberdrola, which aims to become the world leader in the recycling of wind turbine blades. For this, the new company plans to set up Spain's first blade recycling plant in Navarre.



The plant will be the first industrial-scale plant in Europe and is expected to create around 100 direct and indirect jobs over the decade and plans to invest around €10 million in the first installation. The initiative, which reinforces both companies' commitment to the circular economy, has already established collaboration agreements with other leading companies such as Siemens Gamesa.



EnergyLOOP for recycling wind turbine blades

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.

The volume of purchases by Iberdrola in Spain in 2021 from companies that have been in existence for fewer than 5 years was €507 million at global level and €85 million in Spain, representing clear support for entrepreneurship.

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 awards were created as a tool and mechanism to thank suppliers for their contribution to achieving the Group's objectives.

In 2021, the Iberdrola RETO (CHALLENGE) Awards were presented, with a focus on Recovery, Clean Energy, Energy Transition and the Sustainable Development Goals (SDGs), as well as recognition of the suppliers that collaborated with Iberdrola to supply health material that was donated by the company to support in the most critical moments of the pandemic.

Their Majesties the King and Queen of Spain, accompanied by the Minister of Education and Vocational Training, Isabel Celaá, and the Chairman of the Iberdrola group, Ignacio Galán, presented the Supplier of the Year Awards 2021, coinciding with the official inauguration of the company's Innovation and Training Campus in San Agustín de Guadalix (Madrid).





Equality CHALLENGE

The company awarded in the category of Equality CHALLENGE was the insurance company Mapfre, for its **policies and actions to minimise the wage gap and promote gender equality**. The company is a benchmark in the implementation of good practices to avoid the gender gap. Its third Equality Plan, the Women's Leadership Network and the Closingap Project are good examples of these actions.



Employment CHALLENGE

Spain's Ibermática won the Employment CHALLENGE award for its **ability to create new jobs by taking advantage of the energy transition**. Ibermática has internationalised with Iberdrola, and currently has contracts in Spain, the United Kingdom and the United States. In fact, in 2020 the company was able to create 235 new jobs in Spain (100 in the Basque Country, 100 in Madrid and 35 in other autonomous communities), as well as 81 in the rest of the world, increasing its subcontracted workforce by 75 people.



Digitalisation CHALLENGE

The Digitalisation CHALLENGE award went to the British company Kirby, for **developing projects with a high innovation content**, such as the digital substation for SP Energy Networks or the use of tablets on sites.



Energy transition CHALLENGE

The Dutch company Van Oord received the Energy Transition CHALLENGE Award for its specialisation in **maritime construction**. The company has already participated in the East Anglia ONE park and has won orders worth more than €450 million for Saint-Brieuc and Baltic Hub.



Special Mention COVID CHALLENGE

As part of these awards, Iberdrola made a special mention to COVID-19, awarding the **companies that collaborated in the procurement and transport of essential health and protection material** at a time when the markets were absolutely collapsed and there was an unprecedented worldwide demand.

The award-winning companies were Amara, Ormazabal, Iturri, Wottoline and DSV.



14. Main benefits for suppliers





Actions of this sort 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.

Due to its high annual purchasing volumes, the Iberdrola group acts as a driving force and an economic engine in the geographical areas where it is present, streamlining its supply chain through:

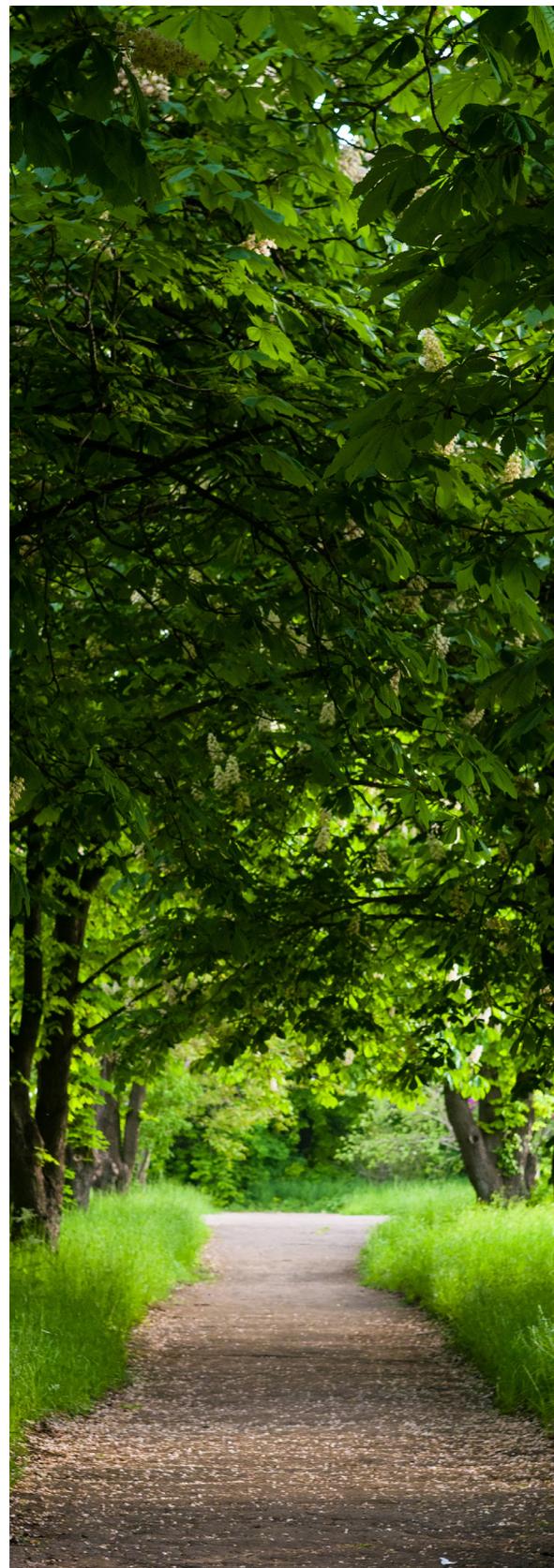
- Creating an integral, ethical and transparent business model that favours the development of these values and commitments in the market in which it operates
- Encouraging internationalization
- Injecting liquidity into suppliers
- Providing highly qualified employment
- Driving investments in R&D
- 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, 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.

In their responses to the 2020 satisfaction survey, the 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 my processes
- It encourages investment in R&D
- It helps them to win new customers
- It encourages them to internationalise





15. Awards





Iberdrola has been included in the Supplier Engagement Leaderboard 2021 once again, prepared by CDP, a well-renowned organisation that has been working for more than twenty years on the transparency and performance of the climate practices of the different actors, with the climate action of its entire value chain being recognised.

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 recognises Iberdrola's strategy to reduce emissions and climate management across the supply chain.

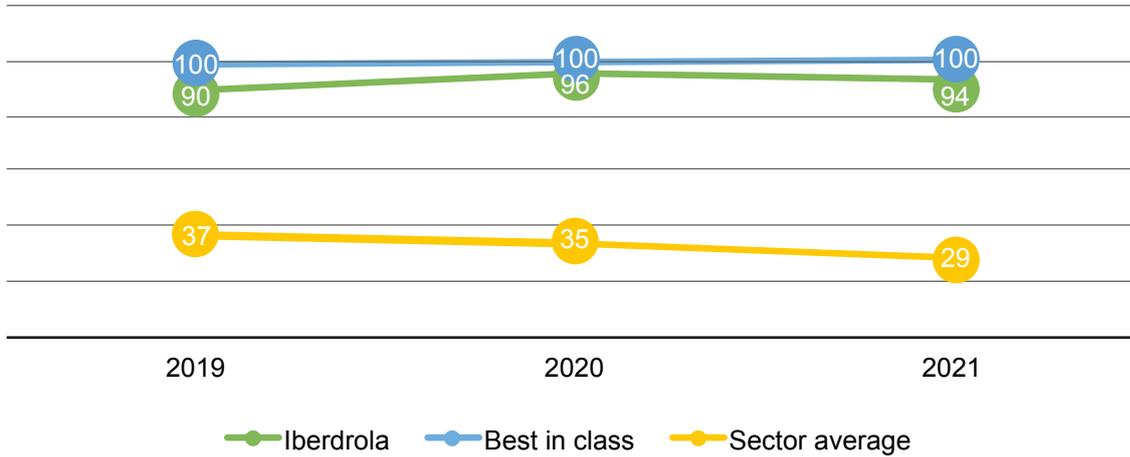
In addition to its inclusion in this list, the group is also included in the main international sustainability indices, including the Dow Jones Sustainability Index, CDP, MSCI, Sustainalytics, Bloomberg GEI, Euronext Vigeo Eiris indices, Global100, EcoVadis, etc.

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 22 editions. That's according to the annual update published by S&P Dow Jones Indexes and RobecoSAM, which is in charge of preparing the index.

In the Supply Chain Management section, Iberdrola obtained a score of 94 points, maintaining a score of over 90 points in recent years in positions very close to "best in class".

In 2021, the highest rating was achieved in the "Transparency & Reporting" section, which had been set as an area for improvement in 2020. For 2022, the Supply Risk Exposure section will be specifically analysed with the intention of improving its valuation.

Section Supply Chain



Iberdrola’s Procurement Department 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.

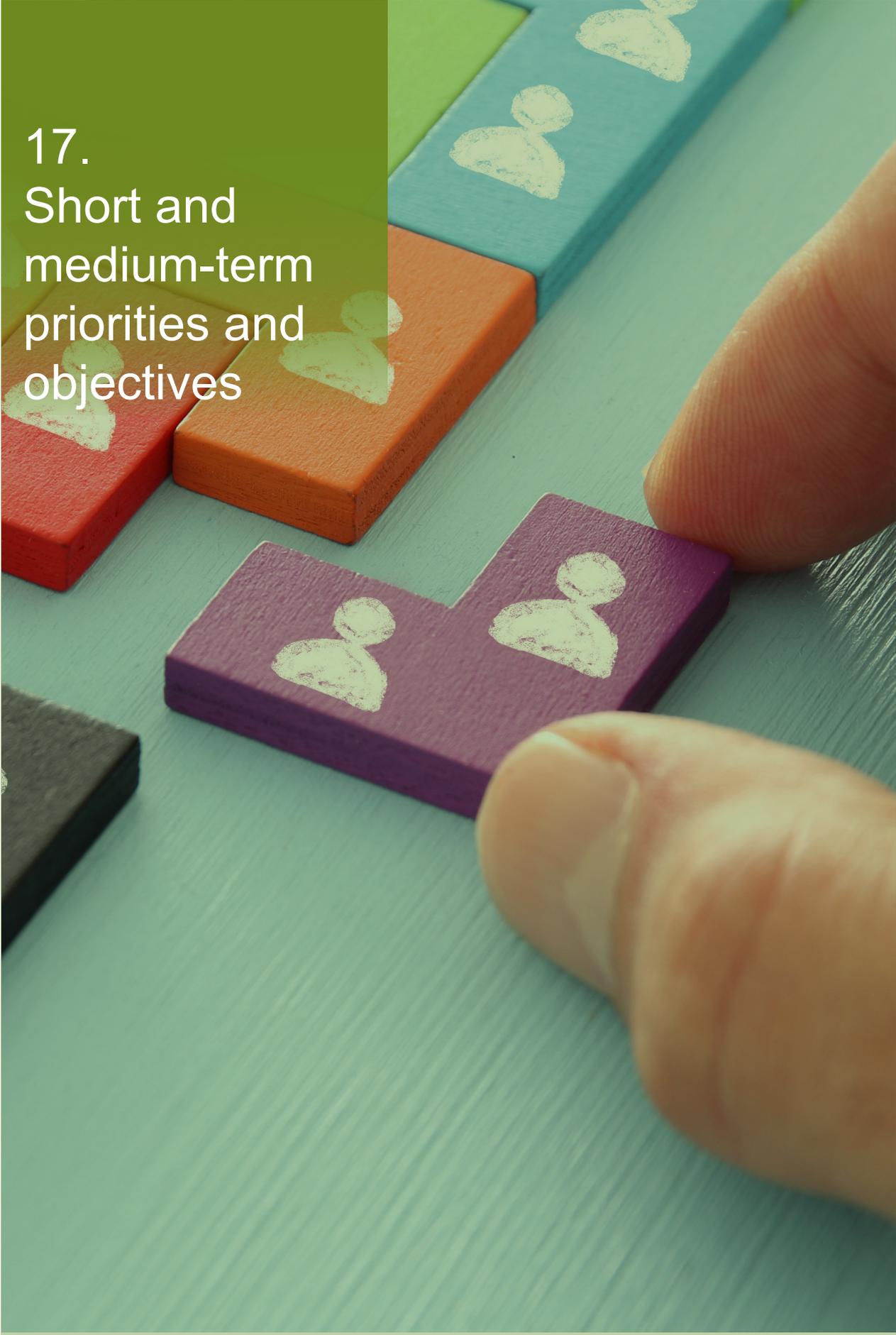
Iberdrola’s goal is to maintain a rating above 90 points in 2021, despite the DJSI’s increasing demands. Every year, the feedback received is analysed and an action plan established if the target is not met.

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.



72/100
97th percentile ⓘ





17.
Short and
medium-term
priorities and
objectives



Challenges achieved in 2021

- ✔ Exceed the Supply Chain Sustainability target set in 2021, as an intermediate milestone of the 2020-2022 strategic goal, by achieving that more than 73% (>70%) of the main suppliers awarded meet the established ESG criteria and are subject to sustainable development policies and standards. Awards to these suppliers accounted for more than 82% of the annual amount awarded.
- ✔ Improve 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 2021, improvement plan proposals were generated and sent to more than 89% (>80%) of suppliers that did not meet the ESG criteria set by the Group.
- ✔ Continue the digital transformation and the change of model initiated in 2019 by analysing the possibility of implementing robotic process automation in processes and improving Business Intelligence by making better use of available data..
- ✔ Deliver the RETOS Awards to Iberdrola Group's suppliers.
- ✔ Define 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 emissions measurement.
- ✔ Define a protocol to conduct social and sustainability audits

2022 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.

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

CHALLENGES (Short and medium term)

- 1- Continue the digital transformation and change of model begun in 2019.
- 2- Carry out social audits at the first level of contracting.
- 3- Certify the Purchasing process with ISO 20400 for Sustainable Purchasing.
- 4- Carry out the VIII edition of the supplier satisfaction survey (year 2022).
- 5- Greater integration with other third-party risk measurement systems such as those being proposed by the Risk and Compliance departments.

Procurement, driving and leading its own change.



Annex I.
Detailed
information
for listed
subsidiaries:
Neoenergia
and Avangrid





This report's content applies to all 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 Purchasing 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:

- Neoenergia: It trades in the B3 stock Exchange in São Paulo and recently in the Latibex stock exchange in Madrid.
- Avangrid: Listed on New York Stock Exchange

Avangrid and Neoenergia approve their own purchasing policies that are fully consistent with those of the Group

The Procurement organisation

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

Procurement Staff Dec 31 2021	
Neoenergia	66
Avangrid	42

Priorities of the Procurement Department

The priorities for the Procurement departments of Neoenergia and Avangrid are the same as those set at the Iberdrola group: 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, and its geographical breakdown for the 2021 fiscal year, is shown in the following table:



General supply of equipment, materials, works and services (€ million)	2021	2020	2019
Avangrid	3,031	2,790	2,583
Neoenergia	1,400	1,283	1,622

Number of tenders managed in 2021 and the number of suppliers with one or more orders during the year for Avangrid and Neoenergia:

	Tenders managed in the year	Suppliers with one or more orders during the year
Avangrid	1,633	4,522
Neoenergia	1,696	5,726

Distribution of purchases by supply type in 2021 for Avangrid and Neoenergia:

	Works and Services	Equipment and Materials
Avangrid	75%	25%
Neoenergia	67%	33%

Purchases from local suppliers made by Avangrid and Neoenergia in 2021 are summarised in the following table:

% of general supplies purchased from local suppliers	2021	2020	2019
Avangrid	96	97	98
Neoenergia	99	100	99

Systems supporting the Procurement 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.



Supplier registration and classification

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, in cumulative value for the year, receive orders for an amount equal to or greater than 400,000 euros.

The following table shows the evolution of the number of critical suppliers in 2021 for AVANGRID and NEONERGIA and the % of the total amount in orders.

	Number of suppliers 2021		% 2021 Invoicing	
	Critical Suppliers	Non-critical suppliers	Critical Suppliers	Non-critical suppliers
Avangrid	542	3,980	95.46%	5.54%
Neoenergia	374	5,352	93.53%	6.47%

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 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.

Avangrid and Neoenergia consider critical suppliers to be those suppliers that, in cumulative value for the year, receive orders for an amount equal to or greater than €400,000



At the end of 2021, the percentage of purchases made from suppliers located in risky countries was:

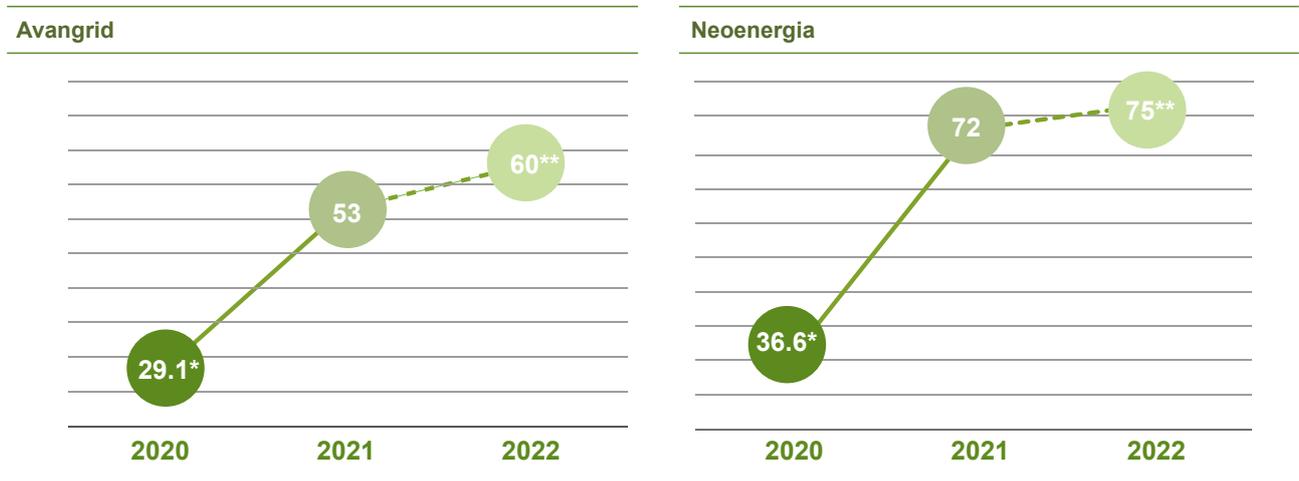
Countries considered as risks where purchases have been made ⁷	% of purchases of total	
	Avangrid	Neoenergia
China	-	-
India	0.27%	-
Turkey	-	-

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

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 2021 of the KPI of the main sustainable suppliers and the forecast for 2022.



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

** Data based on extrapolating responses obtained at the end of May 2022 until the end of the year.

7. The criteria used to identify risky countries are the same as those described in the "Protection of Human Rights" section in chapter "III.3. Contribution to the Well-being of our Communities" in the Sustainability Report for the 2020 fiscal year.



Analysis of purchases in countries where there is risk of corruption

The Iberdrola Group has used the Corruption Index according to International Transparency 2021 (TI CPI 2021) as a source to classify countries according to their level of risk for purchases in 2021.

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

% of risk in purchases of general supplies in countries according to the 2021 CPI index.

Corruption risk ⁸	% of 2021 purchases of general supplies in countries according to the 2021 CPI index	
	Avangrid	Neoenergia
Low	99.7%	0.7%
Medium	-	-
High	0.3%	99.3%

Neoenergia's high % is due to the fact that Brazil is included in the list of countries identified in the CPI 2021 as high risk and that the volume of purchases in Brazil is directly related to Neoenergia's presence and investment effort in the country.

It is an objective in itself to collect the opinion of the suppliers and to be a source of improvement

Supplier survey

In 2020, the 7th Supplier Satisfaction Survey was sent out and the result obtained has improved, both in Avangrid and Neoenergia, exceeding that of previous years.

		Weighted assessment
Neoenergia	2018	8.63
	2020	8.87
	Δ	2.7%

8. 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).



Weighted assessment		
Avangrid	2018	7.42
	2020	7.73
	Δ	4.1%

There is no target result, since the survey is to collect the opinion of suppliers to then use it as a source for improvements. The aim is to obtain a participation rate of around 40% (41.3% in Neoenergia and 38.4% in Avangrid) and to maintain a high number of responses (+90%+ responses than in 2018 in Neoenergia and +212% in Avangrid). Although Avangrid's participation hasn't reached 40%, it's considered reasonable given the high rise in the number of suppliers involved.

		Suppliers Surveyed	Responses	Participation (5)
Neoenergia	2018	685	251	36.6%
	2020	1,155	477	41.3%
	Δ	+68.6%	+90.0%	+12.7%
Avangrid	2018	316	120	38.0%
	2020	975	374	38.4%
	Δ	+208.5%	+211.7%	+1.0%

Supplier diversity programme

In the United States, AVANGRID has been developing 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 management 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 volume contracted to suppliers within these diverse groups and their evolution is shown in the following table:

Avangrid	2021	2020	2019
Volume contracted to various groups (€ million)	153.0	141.1	93.0

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 diverse 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	2021	2020	2019
Avangrid	86	87	89
Neoenergia	70	87	N/A

Iberdrola's Procurement department 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 2021 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.

We consider the Dow Jones Sustainability Index (DJSI) to be one of the best indices for measuring our activity



IBERDROLA