



5.1 Governance and Sustainability System

Always in the lead of international best practices, Iberdrola's former Corporate Governance System has evolved, based on ESG standards, with the contents being reordered to emphasis environmental performance, social commitment and best corporate governance practices. Particularly notable is the new pioneering Inclusion and Diversity Policy.

Board of Directors

Position	Director	Status	Date of last appointment	Expiry of mandate
Chairman & CEO	José Ignacio Sánchez Galán (Salamanca, Spain, 1950)	Executive	29-03-2019	29-03-2023
Vice-Chair and Lead Independent Director	Juan Manuel González Serna (Madrid, Spain, 1955)	Independent	31-03-2017	31-03-2021
Member	Íñigo Víctor de Oriol Ibarra (Madrid, Spain, 1962)	Other external	02-04-2020	02-04-2024
Member	Samantha Barber (Dunfermline, Fife, Scotland, United Kingdom, 1969)	Other external	02-04-2020	02-04-2024
Member	María Helena Antolín Raybaud (Toulon, France, 1966)	Independent	29-03-2019	29-03-2023
Member	José Walfredo Fernández (Cienfuegos, Cuba, 1955)	Independent	29-03-2019	29-03-2023
Member	Manuel Moreu Munaiz (Pontevedra, Spain, 1953)	Independent	29-03-2019	29-03-2023
Member	Xabier Sagredo Ormaza (Portugalete, Spain, 1972)	Independiente	29-03-2019	29-03-2023
Director – Business CEO	Francisco Martínez Córcoles (Alicante, Spain, 1956)	Executive	31-03-2017	31-03-2021
Member	Anthony L. Gardner (Washington, D.C., U.S.A., 1963)	Independent	13-04-2018	13-04-2022
Member	Sara de la Rica Goiricelaya (Bilbao, Spain, 1963)	Independent	29-03-2019	29-03-2023
Member	Nicola Mary Brewer (Taplow, United Kingdom, 1957)	Independent	02-04-2020	02-04-2024
Member	Regina Helena Jorge Nunes (São Paulo, Brazil, 1965)	Independent	02-04-2020	02-04-2024
Member	Ángel Acebes Paniagua (Ávila, Spain, 1958)	Independent	20-10-2020	2021 General Shareholders' Meeting

**The purpose of the group, its *raison d'être*, is none other than:
To continue building together each day a healthier, more accessible
energy model, based on electricity.**



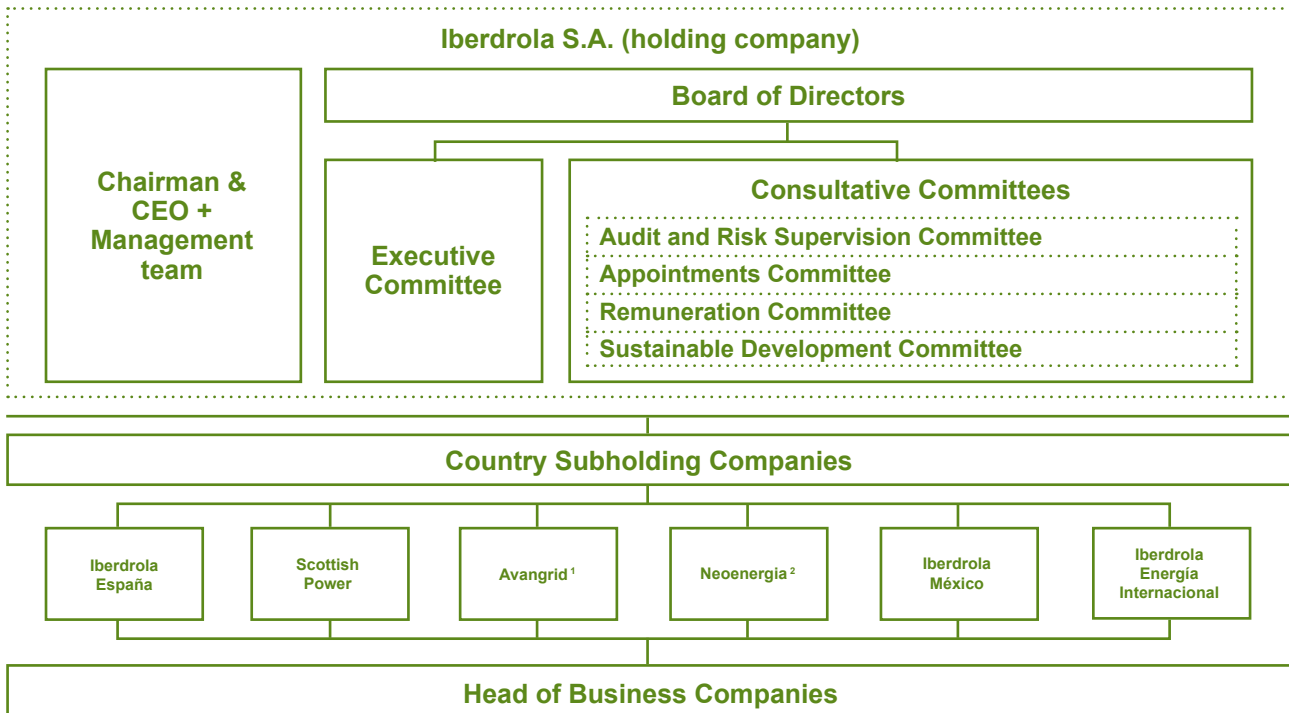
Corporate and governance structure

The Iberdrola group is structured on three levels that differentiate the functions of strategy, supervision and control of the group as a whole (attributed to the holding company), those of organization and coordination with regard to the countries (corresponding to the country subholding companies) and those of the administration and effective management of each of the businesses (within the purview of the head of business companies).

It is based on a system of checks-and-balances that avoids an accumulation of power:

- Iberdrola’s Board of Directors, made up of a large majority of independent directors (one of whom is the vice-chairman and lead independent director), focuses its activity on the determination, supervision and monitoring of the policies, strategies and general guidelines of the Iberdrola group. Especially important is the supervision of the development and application by the group companies of the new Governance and Sustainability System.
- The chairman of the Board of Directors & chief executive officer and the rest of the management team are responsible for the organisation and strategic coordination of the group.
- In the principal countries in which the group operates, organisation and strategic coordination is implemented through country subholding companies, which group together equity stakes in the head of business companies and centralise the provision of common services to the head of business companies.
- Country subholding companies have boards of directors, including independent directors, and their own audit and compliance committees, internal audit divisions and compliance units or divisions. Listed country subholding companies like Avangrid, Inc. and Neoenergia, S.A. have a framework of strengthened autonomy.
- The head of business companies are in charge of the day-to-day administration and effective management of each of the businesses. They also have boards of directors, which include independent directors, and specific management teams.

Corporate and governance structure



(1) Company listed on the New York Stock Exchange.

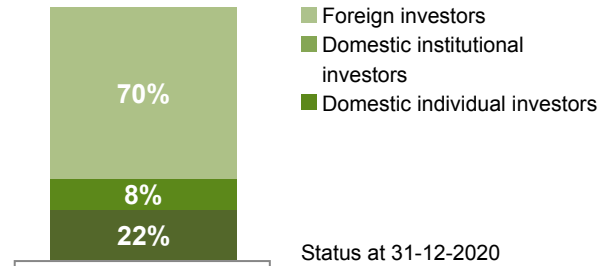
(2) Company listed on the New Market segment of BOVESPA (Brazil).



Ownership structure

Iberdrola has approximately 600,000 shareholders throughout the world, and none of them has a controlling interest.

Investment funds, pension funds and other foreign institutional shareholders account for 70% of the capital.



Iberdrola in the vanguard of governance and sustainability

Strategy

The key elements defining Iberdrola's governance and sustainability strategy are:

- Environmental performance.
- The promotion of diversity, inclusion, equal opportunity and excellence at all levels.
- Shareholder engagement.
- Active listening to the legitimate interests of the Stakeholders.
- Social dividend and contribution to the Sustainable Development Goals.
- Zero tolerance towards corruption and fraud.
- Prudent and balanced management of risks.

Continuous improvement of its corporate governance rules and practices

On corporate governance matters, the Company looks to the *Good Governance Code of Listed Companies*, updated by the CNMV in June 2020, and generally accepted practices in the international markets.

The aim of the Diversity and Inclusion Policy is to achieve a favourable environment that facilitates and enhances diversity and inclusion among the group's professionals.

Remuneration policy

Director Remuneration Policy approved by the shareholders at the General Shareholders' Meeting.

Executive directors' variable remuneration tied to financial and non-financial targets.

Clause on cancellation and reimbursement of variable remuneration (malus and claw-back).

Operation of the Board

71.4% of the directors are independent.

System of checks and balances, including the vice-chairman and lead independent director.

Gender diversity: five women on the Board, two of whom chair board committees.

Diversity of skills, experience, nationality and origin.

Annual evaluation of the governance bodies with the participation of an independent expert.

Sustainable Development and Corporate Reputation

Sustainable Development Committee.

Monitoring of the group's strategy and performance on sustainable development and ESG objectives.

Climate Change Action Plan and adoption of the recommendations of the *Tax Force on Climate-related Financial Disclosures (TCFD)*.

Value creation for Stakeholders and reputation of the Company.



Commitment to shareholders and investors

- The Iberdrola group has a industrial and financial model based on balanced growth, focused on the networks businesses, renewables and long-term contracted assets, focused on the achievement of targets that combine financial, environmental and social results.
- The *Shareholder Engagement Policy* is intended to understand the opinions and concerns of the shareholders in the areas of corporate governance and sustainable development, encourage their sense of belonging, and align their interests with those of Iberdrola.
- The company encourages shareholders' participation throughout the year, especially at the General Shareholders' Meeting.



All the resolutions of the 2020 General Shareholders' Meeting were approved with a majority vote in favour of the Board of Director's proposals.

Remuneration policy

- The current Director Remuneration Policy was approved by the shareholders at the General Shareholders' Meeting.
- Director remuneration is aligned with strategic objectives and shareholder return.

Remuneration model for the Board of Directors

Type of remuneration	External (non-executive) directors	Executive directors
Fixed.	According to their duties.	On market terms.
Short-term variable.	Not applicable.	Tied to financial and non-financial targets.
Long-term variable.	Not applicable.	Tied to multi-annual targets payable in shares (3-year accrual period and payment deferred over 3 years following accrual).

Parameters to which the annual variable remuneration of executive directors is tied in 2021

Operational / Financial	Net Profit. Shareholder remuneration. Financial strength. Efficiency in costs. Installed capacity. Project portfolio.
Sustainable Development	Female presence in management positions. Presence on major international indexes. Training.

Parameters to which the multi-annual variable remuneration of executive directors is tied (Strategic Bonus 2020-2022)

- Net profit.
- Financial strength.
- Total shareholder return.
- Sustainable Development Goals (fight against climate change, boost sustainability in the supply chain and commitment to salary equality between men and women).



Main activities of the Board of Directors

Key topics in 2020

Balanced growth	Review and presentation of results: level of achievement of the Outlook.
	Approval of the budgets for financial year 2021 .
	Performance and expectations of each of the businesses of the group.
	Analysis of the impacts of the measures taken to fight the COVID-19 pandemic .
	Opportunities for investment in strategic markets: PNM Resources (United States), Infigen Energy (Australia), Aalto Power (France), Acacia Renewables (Japan), Svea Vind Offshore (Sweden).
Sustainable remuneration of shareholders	Shareholder remuneration in line with <i>Outlook 2018-2022</i> .
	Implementation of the <i>Iberdrola Flexible Remuneration</i> optional dividend system and renewal for the next year.
Sustainability	Review of the risks and opportunities deriving from Climate Change .
	Publication of the Statement of Non-Financial Information. Sustainability Report .
	Monitoring of the targets for the reduction of greenhouse gas emissions .
	Supervision of the group's activities having an impact on Stakeholders , and alignment with the Sustainable Development Goals .
	Approval of the new <i>Diversity and Inclusion Policy</i> .
	Modification of the <i>General Sustainable Development Policy</i> and of the <i>Human Resources Framework Policy</i> .
	Publication of the <i>Fiscal Transparency Report</i> .
	Publication of the <i>Diversity and Inclusion Report</i> .
Analysis of Talent Management trends and best practices.	
Financial strength	Approval of major financial transactions , prioritising the issuance of green bonds .
	Monitoring of key financial indicators .
	Disposal of non-strategic assets: sale of the equity interest in Siemens Gamesa Renewable Energy S.A.



Control of corporate risks	Review and update of Risk Policies and approval of guidelines on risk limits.
	Monitoring of risk control and management systems and of level of compliance with the Corporate Tax Policy .
	Proposal to re-elect the statutory auditor and appointment of the provider assuring the Statement of Non-Financial Information .
Corporate governance and compliance	Reordering of the Corporate Governance System and transition to the Governance and Sustainability System , based on environmental, social and corporate governance standards (ESGs).
	Holding of a fully remote General Shareholders' Meeting .
	Appointment and re-election of directors .
	Selection and composition of the governance bodies .
	Proposals for the appointment of independent directors at the various country subholding companies.
	Adaptation of the Corporate Governance System (now the Governance and Sustainability System) to the update of the CNMV's Good Governance Code of Listed Companies .
	Remuneration of the Board of Directors and of senior management.
	Monitoring of contacts with shareholders .

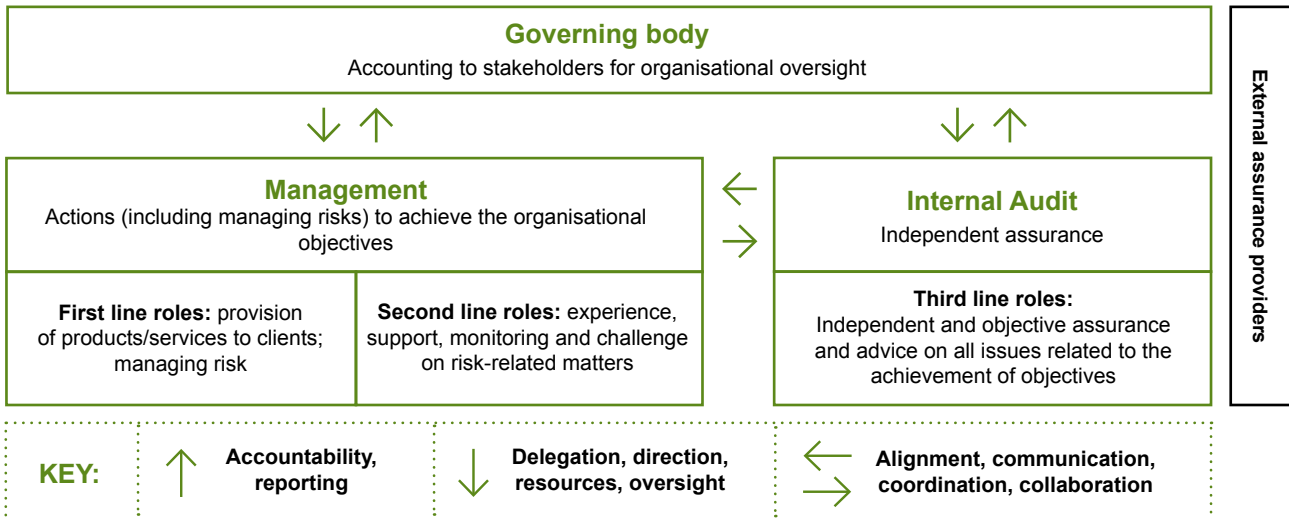
The main objective of Iberdrola's Board of Directors is to establish, supervise and implement the strategy of the company and its group; and to continuously review and update its *Governance and Sustainability System*, and particularly its corporate policies.



5.2 Three Lines Model

A principles-based model

The Internal Control System of Iberdrola and the companies of its group is configured by reference to international best practices. The *Three Lines Model*, published on 20 June 2020 by the Institute of Internal Auditors, updates the previous *Three Lines of Defense Model*, and is based on an assurance system combined around three lines, providing a comprehensive view of how the different parts of the organisation interact in an effective and coordinated manner, increasing the efficiency of the processes for management and internal control of the entity's significant risks.



Based on the document "The IIA's Three Lines Model 2020. An update of the Three Lines of Defense". IIA 2020.

Iberdrola adopts the Three Lines Model to ensure its internal control system.

Principle 1: Governance

Iberdrola's governance has structures and processes that enable:

- **Accountability** by the Board of Directors to stakeholders for organisational oversight through integrity, leadership and transparency.
- **Actions** (including managing risk) by management to achieve the objectives of the strategic plan through risk-based decision-making and application of resources.
- **Assurance and advice** by an internal audit function to provide clarity and confidence and to promote and facilitate continuous improvement through rigorous research and insightful communication.

Principle 2: Governing body roles

Iberdrola's Board of Directors:

- Ensures that appropriate structures and processes are in place for effective governance.
- Ensures that organisational objectives and activities are aligned with the prioritised interests of the stakeholders.
- Delegates responsibility and provides resources to management to achieve the objectives of the organisation while ensuring legal, regulatory and ethical expectations are met.
- Establishes and oversees an independent, objective and competent internal audit function to provide clarity and confidence on progress toward the achievement of objectives.



Principle 3: Management and first and second line roles

Management's responsibility to achieve organisational objectives comprises both first and second line roles. The management team and the professionals of Iberdrola and its group are the direct managers of the entity's risks. Thus, the company's Management is responsible for maintaining effective control and for implementing procedures to control risks on a continuous basis, based on the Internal Control objectives of the COSO model (operational, reporting and compliance – *Committee of Sponsoring Organizations*, May 2013).

● Significant risks facing Iberdrola's primary businesses / Pages 54, 58, 62

The primary assurance functions within Iberdrola, within their respective areas of responsibility, are: (i) the group's Risk Division, within the framework of its duties within the Comprehensive Risk Control and Management System; (ii) the Internal Assurance Division, belonging (like the Risk Division) to the Risk Management and Internal Assurance area, in its responsibilities relating to the internal risk management and control systems in relation to the preparation of financial information (Internal Control over Financial Reporting System, or ICFRS) and non-financial information (Internal Control over Non-Financial Reporting System, or ICNFRS) and the SAP environment; (iii) the Compliance Unit, which is responsible for proactively ensuring the effective operation of the Compliance System (notwithstanding which, in the financial and non-financial information processes it is considered to have a third line role as it provides independent assurance regarding the risk of non-compliance with the legal framework); and (iv) the Cybersecurity Division within the Corporate Security Division, through the supervision, monitoring and reporting of cybersecurity risks.

● Comprehensive Risk Control and Management System / Page 90
● Compliance Unit / Page 93

Principle 4: Third line roles

The Internal Audit area proactively ensures the proper operation of the internal control, risk management and governance systems, systematically auditing the roles of the first and second lines in the performance of their respective duties of management and control.

To ensure its independence, the director of the Internal Audit Area reports hierarchically to the chairman of the Board of Directors and functionally to Iberdrola's Audit and Risk Supervision Committee (ARSC).

The Audit and Compliance Committees (ACC) and Internal Audit divisions of the various country subholding companies have this same positioning, and are coordinated under the framework of the *Basic Internal Audit Regulations*. These regulations, approved by the Board of Directors, form part of the Governance and Sustainability System and establish the rules, duties, competencies and powers of Internal

Audit, as well as its framework of relations within the group. The 2020 annual activities plans of Iberdrola's Internal Audit Area and of the Internal Audit divisions of the group, with a risk-based focus, responded to the requirements established by the ARSC and the respective ACCs of the country subholding companies, and included:

- Half-yearly reviews of the operation of the most critical ICFRS controls, as well as reviews of the various cycles of financial information preparation, within the framework of the revision of the entire ICFRS over a 5-year period.
- Audits of key corporate and business process and risks, based on the Risk Policies approved by the Board of Directors on an annual basis.
- Audits of the compliance programmes.

Iberdrola satisfactorily completed the Quality Assurance evaluation performed by the Internal Auditors Institute of Spain in 2020.

Principle 5: Third line independence

Internal audit's independence from the responsibilities of management is critical to its objectivity, authority and credibility. At Iberdrola this is established by: accountability to the Board of Directors; unfettered access to people, resources and data needed to complete its work; and freedom from bias or interference in the provision of audit services.

Principle 6: Creating and protecting value

At Iberdrola, all of the roles are aligned with each other and with the interests of the stakeholders, contributing to the creation and protection of value.

External assurance providers

Regulators establish requirements to strengthen the organisations' controls and perform an independent oversight role. The powers of the ARSC and the ACCs include striving to preserve the independence of the statutory auditors, who provide assurance of the true picture provided by Iberdrola's financial information..

● Audit Report on the Consolidated Financial Statements



5.3 Risks

Risk management within the Iberdrola group is based on foresight, independence, commitment to the group’s business objectives and the engagement of senior management and the Board.

Commitment of the Board of Directors and of senior management

Iberdrola’s Board of Directors and senior management is strongly committed to and engaged in the management of the group’s risks:

- **Ex-ante:** acceptable levels of risk tolerance are reviewed and approved on an annual basis through risk policies and limits that establish the qualitative and quantitative risk appetite at the group level and at each of the main businesses and corporate functions.
- **Ex-post:** periodic monitoring of significant risks (key risk maps) and threats and the various exposures of the group, as well as of compliance with the approved risk policies, limits and indicators.

- Attain strategic goals with controlled volatility.
- Ensure the group’s corporate stability, financial strength and reputation (Stakeholders).
- Contribute to meeting the SDGs, with a special focus on goals seven and thirteen.
- Imbue a risk culture.

At the operational level, the Comprehensive Risk Control and Management System is structured around a Risk Committee and an independent specialised Risk Management and Internal Assurance Division, functionally reporting to the Audit and Risk Supervision Committee, that analyses and quantifies the risks within the main businesses and corporate functions of the group.



By way of supplement, the group has a Compliance System, linked to the Board’s Sustainable Development Committee, with elements that include the Code of Ethics and the Compliance Unit.

Comprehensive Risk Control and Management System

The *General Risk Control and Management Policy* of the group approved by the Board of Directors establishes the mechanisms and basic principles for appropriate management of the risk / opportunity ratio, at a risk level that makes it possible to:

Duties of the Risk Division

Active management

Credit risk

- Analysis and approval of counterparties and limits, establishment of approval criteria, and monitoring of exposures in order to minimise credit losses.

Market risk

- Analysis and approval of detailed limits and monitoring of exposures in order to delimit the effects of volatility in the markets in which the group operates.

Enterprise Risk Management (ERM) focus

Ensure, under the internationally recognised three lines model, that there are mechanisms for all significant risks of the group to be adequately identified, measured, managed and controlled at all times and that they are regularly reported to the various committees and externally.

Instruments and reports:

- Risk policies and risk limits and indicators.
- Quarterly report on key risks.
- Continuous monitoring and detection of emerging risks and other non-financial risks, including environmental, societal and governance (ESG) risks with significant reputational consequences.

Operational risk is centrally managed through the group’s corporate Insurance, Information Technology, Security and Cybersecurity, and Occupational Safety and Health units.



Risk policies and limits of the Iberdrola group

The *General Risk Control and Management Policy* is further developed and supplemented with the following specific policies established in relation to certain risks, corporate functions or businesses of the group, which are also annually approved by the Board of Directors at the head of the group, and which include limits and indicators that are subsequently monitored:

Specific risk policies of the businesses:

- *Liberalised Businesses of the Iberdrola group.*
- *Renewable Energy Businesses of the Iberdrola group.*
- *Networks Businesses of the Iberdrola group.*
- *Real Estate Business.*

Corporate risk policies:

- *Corporate Credit Risk Policy.*
- *Corporate Market Risk Policy.*
- *Operational Risk in Market Transactions Policy.*
- *Insurance Policy.*
- *Investment Policy.*
- *Financing and Financial Risk Policy.*
- *Treasury Share Policy.*
- *Risk Policy for Equity Interests in Listed Companies.*
- *Reputational Risk Framework Policy.*
- *Purchasing Policy.*
- *Information Technologies Policy.*
- *Cybersecurity Risk Policy.*
- *Occupational Safety and Health Risk Policy.*



The country subholding companies adopt the group's risk policies and specify the application thereof, approving the guidelines on specific risk limits, based on the nature and particularities of the businesses in each country. The listed country subholding companies, and companies with significant interests held by other shareholders, approve their own policies under their own special framework of strengthened autonomy.

Principal risk factors of the Iberdrola group

The group is exposed to various risks inherent in the different countries, industries and markets in which it operates, and which may prevent it from achieving its objectives and implementing its strategies. These risks are grouped into:

Corporate governance risks: those that endanger the corporate interest and the strategy of the company.

Market risks: exposure to volatility in variables like prices of electricity and other energy commodities, emission rights, exchange rate, interest rate, etc.

Credit risks: possibility of contractual breach by a counterparty, causing economic or financial losses, including liquidation and replacement cost risks.

Business risks: deriving from uncertainty as to the behaviour of variables intrinsic to the business (characteristics of demand, hydraulic resources, wind, solar, etc.).

Regulatory and political risks: coming from regulatory changes made by the regulators that can affect remuneration of the regulated businesses, environmental or tax provisions, etc.

Operational, technological, environmental, social and legal risks: losses resulting from external events, inadequate internal procedures, technical failures, human error, pandemics, climate change, technological obsolescence, cybersecurity, fraud and corruption, litigation, etc.

Reputational risks: potential negative impacts on the company's reputation arising from situations or events that fail to meet the expectations of its Stakeholders.

Given the multidimensional nature of the risks, the taxonomy defined in the system contemplates additional classification variables for better monitoring, control and reporting of such risks. These additional categories include the classification of risks into Structural Risks, Hot Topics and Emerging Risks, the latter being understood as potential new threats, the impact of which is as yet uncertain and the probability of which undefined, but which are growing and could become significant for the group.



Risk factors and mitigation measures

● < 15 €M ● 15 - 50 €M ● > 50 €M of annual impact

Price and demand risks

Changes in the price of electricity	<p>The main variable affecting the results of the group's Wholesale and Retail Businesses as regards market prices is the price of electricity, which relatively corresponds to the price of fuel and applicable emission rights, required to produce such electricity.</p> <p>The group's Renewables Businesses preferentially sell their energy at: i) regulated rates; or ii) fixed prices via PPAs. The remaining market exposure of the Renewables Businesses of Spain, the United Kingdom, Brazil and Mexico is transferred to the Wholesale and Retail Business of such countries to be managed.</p> <p>Offsetting at-risk positions between wholesale and retail activities allows for a large reduction in the group's market risk; the remaining risk is mitigated via diversification of purchase / sale agreements, and by trading in derivatives.</p>	<p><i>Possible impact of a 5% change in the price of electricity and / or of energy commodities and CO₂</i></p>	<ul style="list-style-type: none"> ● Spain. Integrated Wholesale, Renewables and Retail risk ● United Kingdom. Integrated Retail and Renewables (power from wind farms with ROCs) risk ● Mexico. The PPAs with the CFE do not have a market risk ● Brazil. Integrated Wholesale, Renewables and Retail risk ● United States. For windfarms exposed to the market ● International. For windfarms exposed to the market
Change in demand	<p>Wholesale, Retail and Renewables: moderate short-term impact, given the nature of the group's generation facilities and the structure of the long-term power purchase agreements.</p> <p>Networks: no impact, except for the Brazilian subsidiaries in between tariff periods.</p>	<p><i>Possible impact of 1% reduction in demand for each country</i></p>	<p>●</p>

Resource risks

Change in hydroelectric resources - Spain	<ul style="list-style-type: none"> • In the medium-to-long term, humid years are offset by dry years. The storage capacity of multi-year reservoirs and the group's portfolio of power plants mitigate the level of volatility during the year. 	<p><i>Lower hydroelectric production - Spain</i></p>	<p>Renewables Business - Spain</p>	<p>●</p>
Change in wind resources - group	<ul style="list-style-type: none"> • Mitigated thanks to the high number of facilities in operation and the geographic dispersion thereof. • In the medium-to-long term, years with more wind are offset by years with less wind. 	<p><i>Lower wind output - group</i></p>	<p>Renewables Business - group</p>	<p>●</p>

Financial risks

Change in interest rate	<p>The Iberdrola group maintains a fixed-rate and variable-rate debt structure, based on the structure of its revenues and the sensitivity thereof to changes in interest rates.</p>	<p><i>Possible impact on financial cost of +25 bps increase</i></p>	<p>Group financial cost</p>	<p>●</p>
Change in exchange rate	<p>This risk is mitigated by taking on debt and realising all its financial flows in the functional currency corresponding to each company, whenever possible and economically efficient, and managing its open positions with derivatives. The risk associated with the translation of results from subsidiaries is closed out annually.</p>	<p><i>Possible impact on financial cost of 5% increase in currency</i></p>	<p>Group financial cost</p>	<p>●</p>

Other risks

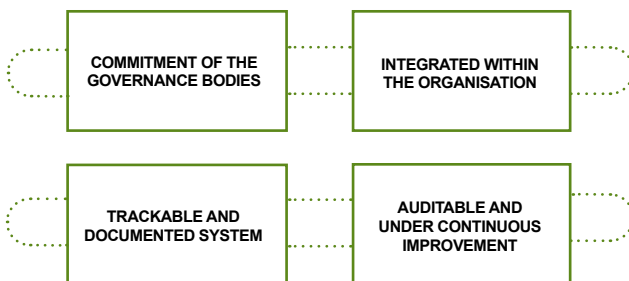
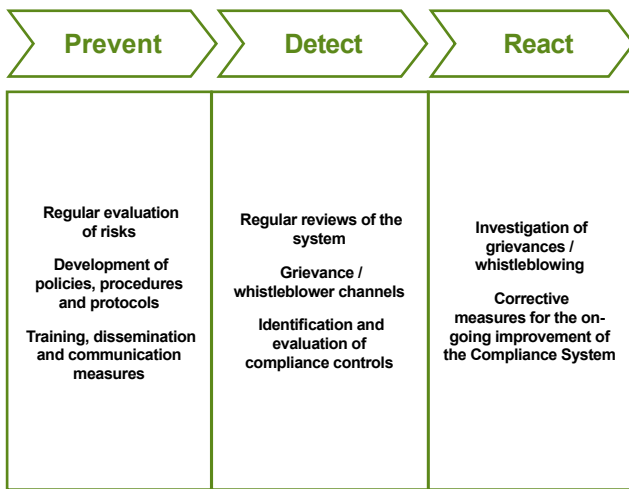
Credit risk	<ul style="list-style-type: none"> • Main sources: amounts outstanding (customers, suppliers, banks, partners, etc.) and cost of replacement. • Retail: cost of late payments / defaults has been kept to levels slightly above 1% of total invoicing. • Networks: In Spain and in the United Kingdom there is no retail sale of energy, in the United States and Brazil late payments are generally recovered through the tariffs.
Operational risk	<p>These risks are mitigated by making the necessary investments, applying operation and maintenance procedures and programmes (supported by quality systems), planning appropriate training and skills development for staff, and finally by obtaining appropriate casualty and civil liability insurance.</p>
Regulatory and political risk	<p>The group is subject to laws and regulations on tariffs and other regulatory aspects of its activities in the countries in which it does business. The introduction of new laws / regulations or amendments to existing ones could adversely affect operations, annual results and the financial value of the businesses of the group (including risks relating to commercial trade between the EU and the United Kingdom).</p>
Climate change risk	<p>Includes the risks of transition (regulatory or market associated with emissions reduction goals) and physical risks (deriving from potential impacts of an increase in extreme climate phenomena, increase in temperatures, increase in sea level, changes in rain patterns, etc.).</p> <p>Iberdrola believes that it is well positioned with respect to this risk, given the nature of its current businesses and its main goals for growth.</p>



5.4 Ethics

Compliance System

Iberdrola's Compliance System is made up of all of the rules, formal procedures and significant actions intended to ensure that the company conducts itself in accordance with ethical principles and applicable law and to prevent improper conduct or conduct that is contrary to ethics, the law or the Corporate Governance System that might be committed by the professionals thereof within the organisation.



The Code of Ethics, which forms part of Iberdrola's Corporate Governance System, was approved by the Board of Directors in 2002 and is regularly updated.

Compliance Unit

Iberdrola, S.A.'s Compliance Unit is a collective, internal and permanent body, linked to the Sustainable Development Committee of the Board of Directors, responsible for proactively ensuring the effective operation of the group's Compliance System.

In addition, there is a Compliance Division linked to the corresponding Audit and Compliance Committees at each country subholding company and each head of business company.

Powers of the Unit

The Compliance Unit has powers related to the *Code of Ethics*, the *Anti-Corruption and Anti-Fraud Policy*, the *Crime Prevention Policy*, the *Internal Regulations for Conduct in the Securities Markets*, legal provisions regarding the separation of activities, and all other powers that may be entrusted thereto by the Sustainable Development Committee or the Board of Directors of the company or that are established in the Iberdrola group's Corporate Governance System.

Main areas of the Compliance System

The main activities and areas of activity within the framework of the group's Compliance System are: (i) the implementation and improvement of the crime prevention programmes, which are developed within the scope of the provisions of the Spanish Criminal Code (without prejudice to additional actions required by the laws of any other jurisdiction in which the group does business), (ii) training and communication activities aimed at all professionals of the group, (iii) the development and implementation of rules and controls to minimise the risk of crime, particularly fraud and corruption, (iv) actions to ensure compliance with the rules on market abuse and separation of activities, and (v) management of the ethics mailboxes.

Principal awards / recognitions

In 2018 Iberdrola obtained the Compliance Leader Verification certification provided by the Ethisphere Institute to those companies that show they have an ethical culture implemented within all of their businesses and activities as well as a robust and effective compliance system.

In 2020 Iberdrola renewed the certifications provided by AENOR in 2017: UNE-ISO 37001 on anti-bribery management systems and UNE 19601 on penal compliance management systems. The companies of the Spain subgroup also renewed these certifications.

Iberdrola has been chosen for the seventh consecutive year as one of the most ethical companies in the world, according to the *World's Most Ethical Companies 2020* ranking prepared by the *Ethisphere Institute*, thus recognising the ethical leadership and conduct of the organisation.





5.5 Sustainable Development

The Iberdrola group has transformed its business model in recent years to make it more sustainable, achieving development that meets the needs of the present without compromising those of future generations.

Sustainable Development Plan: Energy to thrive

Iberdrola is firmly committed to sustainable development and to improving the quality of life of people. Its contributions in the environmental, social and governance (ESG) areas are reflected in numerous projects and activities that constitute the group's 2020-2022 Sustainable Development Plan: Energy to thrive. Using this plan, the company works towards all the Sustainable Development Goals (SDGs) of the 2030 Agenda of the United Nations.

Thus, the more than 350 tasks in this plan constitute Iberdrola's ESG objectives, a portion of which were presented at Capital Markets Day 2020.

Priorities of the 2020-2022 Sustainable Development Plan Energy to thrive.

SUSTAINABLE DEVELOPMENT PLAN 20-22 "ENERGY TO THRIVE"

The "Energy to thrive" Plan demonstrates Iberdrola's commitment to fight against climate change and to the well-being of the society, through the development of more than 350 actions at environmental, social and governance level. These responds the demands of our stakeholders and places the company on the highest standards at sustainable development field.

Environmental

We led the energy transition for more than two decades to combat climate change through the innovation and the production of clean energy.

2022 Main targets:

- Green energy:** we will increase green energy consumption with an additional 3,300 MW
- Digitalization:** 16.7 million smart meters installed
- Fight against climate change:** we will reduce our emissions until 100 g CO₂/kWh
- Water:** reduction of water consumption, up to <500 m³/GWh
- R&D:** Research and development investments of 330 M €
- Green Hydrogen:** Projects to produce more than 50 MW of green Hydrogen
- Our networks:** reaching up to 75% of digitalized networks in HV & MV
- Sustainable mobility:** We will install 150,000 recharging points by 2025
- Renewables:** We will accelerate investment in clean energy, incorporating more than 12 GW
- Biodiversity:** we will reforest with 2.5 million trees, reaching 8 million by 2025
- Circular economy:** 100% of office waste will be recycled and recovered

Social

We work for the universal access to energy, contributing to improve people's life quality, creating employment and assisting those most vulnerable.

2022 Main targets:

- Training:** We will increase the number of employee training hours up to 55
- Sensitization:** Support for the initiative Universo Mujer of CSD across 16 federations
- Driver of employment:** creating more than 400,000 at direct, indirect and induced level
- Training an Education:** More scholarships and grants reaching 33,000 beneficiaries
- Access to energy:** reaching 11.5 million people through the Electricity for all program.
- Safety:** Achieve 99 % of permanent contract
- Social Action:** To reach 1.3 million beneficiaries through the Social Foundations Program
- Excellence:** Iberdrola U Universities Program, with more than 40 initiatives
- Equality:** Reach 25% of women in managerial positions and maintain equal pay
- Intelligent solutions:** More products and services tailored to our customers, reaching up to 12 million

Governance

We develop the best practices at corporate governance level, supporting the sustainable financial market and promoting social responsible practices in the supply chain.

2022 Main targets:

- Cybersecurity:** More than 1,800 Cybersecurity analysis of per year
- Plans for 80% of suppliers** with identified needs for improvement
- Responsible supply:** To have 70% of our suppliers with sustainability policies
- Sustainable events:** Increase in the certification of sustainable events, with at least 5 per year
- Sustainable financing:** Maximize green financing, currently above €15 billion
- Compliance:** Continuous improvement of the compliance systems of the holding company and the group's subholding companies
- Implement best practices** in the Governance and Sustainability System
- New system for 100% centralized purchases**