

Purchasing and Supplier Management activities report and their contribution to the Group's sustainability 2017-2018



TABLE OF CONTENTS

1. Introduction
 2. Purchasing in the Iberdrola Group
 - a. Mission
 - b. Purchasing organisation
 - c. Main magnitudes: volumes, countries, supplies, suppliers
 - d. Support for entrepreneurs or start-ups
 3. Policies and procedures
 - a. Code of ethics
 - b. Purchasing Policy
 - c. Supplier's code of ethics
 - d. Supplier's ethics mailbox
 - e. Contracting clauses
 - f. Purchasing procedure
 4. Purchasing process transparency
 5. Sustainability in purchasing management and supplier relationships
 - a. Supplier registration and classification
 - b. Factors evaluated in the classification
 - c. Human rights in suppliers
 - d. Corporate Social Responsibility (CSR) scoring
 - e. Commitment to work-life balance. Equality and parity
 - f. Emissions associated with the supply chain
 - g. Credit risk
 - h. Risk of corruption in suppliers
 - i. Training
 - j. Analysis of purchases in countries where there is risk of corruption
 - k. Supplier audits
 6. Dialogue with suppliers
 - a. Satisfaction survey
 - b. Traction in suppliers
 7. Commitment to continuous improvement
 - a. Objectives in the period
 - b. Main KPIs
 8. Supplier diversity program
 9. Supplier innovation program
 10. Supplier of the year award
 11. Main benefits
 - a. Social area
 - b. Economic area
 - c. Environmental area
 12. Awards
 13. Medium-term priorities and objectives
 - Challenges for 2016-2017 and their progress
 - Medium-term objectives
- Summary:** mechanisms of the responsible supplier-management model

1. Introduction

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

In its day-to-day undertakings, the Purchasing and Insurance Division strives to create value for its stakeholders by assuming and promoting the Group's values and commitments regarding the ethics and social responsibility (SR) issues in the Group's code of ethics and social responsibility policies. The purchasing process has mechanisms to ensure transparent, comprehensive and responsible management throughout the supply chain. This has enabled the company to take on globalization of processes with the confidence that the values and commitments to ethics and responsibility are transmitted to suppliers, regardless of their location or area of activity.

When responding to internal and external demands, the Purchasing Division is proactive and firmly committed at all levels, developing new capabilities and interacting with suppliers from their first contact with the Group.

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

Iberdrola has a code of ethics for suppliers that sets out the Group's firm commitment not to accept any corrupt, fraudulent or illegal practices or actions that go against the Company's policies and principles in social responsibility.

SUPPLIERS ↔ BUSINESS PARTNERS

2. Purchasing in the Iberdrola Group

Mission

Iberdrola's Purchasing and Insurance Division has a mission:

“Manage the purchase of equipment and materials and the contracting of works, services and insurance policies¹ in a centralized and coordinated manner for the entire Group to minimize purchase costs. Ensuring awards are strategically aligned, in compliance with current legislation in each country and with the purchasing policy approved by the Group's governing bodies, as well as in compliance with the requirements defined by the internal client, who will execute the subsequent supply. In addition, it defines the insurance contracting policies and carries out all tasks related to administration of contracted insurance policies”.

Purchasing's mission perfectly defines the nature of centralization (permits synergies and the application of best practices for purchases throughout the entire Group) and the four (4) fundamental values:

Efficiency: Secure the best conditions by utilising available resources optimally.

Transparency: Guarantee equal opportunities by applying criteria of objectivity and impartiality. Promoting and advertising competition in the selection processes under criteria of management efficiency.

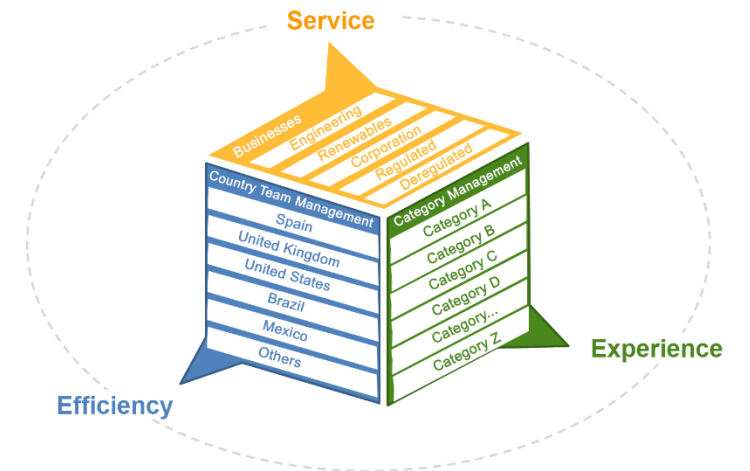
Strategy: Purchases must always be aligned with the Group's strategy and values: value creation; quality of life; safety of people and supply; the environment; social responsibility; and customer-focus .

Compliance: purchases must be made in compliance with each country's current legislation, the approved Purchasing Policy and meet our business requirements.

Service: Purchasing is an internal client-service unit and must satisfy their needs in terms of cost, quality and deadlines.

Purchasing Organisation

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



¹ Liberalised Business handles fuel acquisition

**Key magnitudes:
volumes, countries, supplies, suppliers**

In the 2017 fiscal year, Iberdrola's invoiced volume for purchases of equipment, materials, works and services by geographical breakdown, is shown in the following table:

General supply of equipment, materials, works and services (€ million)	2017	2016
Spain	1,440	1,354
United Kingdom	1,663	2,134
United States	2,467	2,146
Brazil	1,500	1,242
Mexico	902	453
Others	676	179
Total	8,648	7,508

+10,200
Tenders managed in the year

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

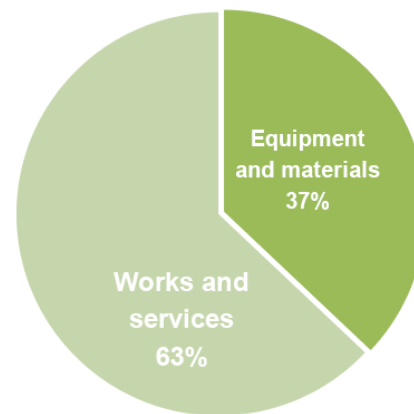
These high volumes of purchases drive growth in the countries where the Company signs contracts, favouring business, industrial and social development in the regions by creating jobs along the entire supply chain.

In 2017, the Group's main suppliers were:

Elecnor	Navantia
General Electric	Shanghai JA
IBM	Siemens
Mitsubishi	Siemens Gamesa
Mota-Engil/Acciona/Edivisa	Visser&Smit

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

Distribution of purchases by type of supply during 2017:



Purchase segmentation 2017

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

At the end of 2017, purchases from local suppliers amounted to 88% of the total, breakdown as follows:

% of general supplies purchased from local suppliers	2017	2016
Spain	88	93
United Kingdom	85	69
United States	98	98
Mexico	60	66
Brazil	100	100
Others	76	n/a
Iberdrola Group	88	84

Note: Depending on a supplier's Tax Id, it is considered local if it is registered in the main countries in which Iberdrola carries out operations.

But in addition to purely economic wealth, from a sustainable and responsible point of view, Iberdrola acts as a tractor in the market, motivating suppliers to improve their environmental, ethical and social profiles through actions that promote excellence in management, beyond technical quality and help make suppliers more competitive.

Support for entrepreneurs or start-ups

The volume of Iberdrola's 2017 purchases in Spain, from companies that have been in business for less than 5 years old, was €38 million. This is clear proof of our support for entrepreneurship, given the existing general consensus that the most effective way to support new business ideas is to

purchase their products/services during their first years of existence to help them enter the market.

In 2017, the specific category *Job creation and jobs for young talent* was included in the Supplier of the Year Award in Spain: this encouraged suppliers to commit to hiring young talent and women and to offer quality professional opportunities to young people. There is no doubt that this will have an impact on improving companies' competitiveness and innovation and help them retain talent.



3. Policies and procedures

Code of ethics

This is a key element in the integrity of Iberdrola's business. The vision and values incorporated in the code of ethics are embodied by principles of conduct that bind the Group in how it relates to third parties and represents its commitment to the highest standards of company ethics and transparency.

Purchasing Policy

The Purchasing Policy, approved by the Board of Directors, establishes the global framework for controlling and managing risks (market, credit, business, regulatory, operational and reputational, cyber-security and criminal)

from purchasing materials, equipment, and contracting construction work and services at the Iberdrola Group, stressing compliance with the commitment to ethics by professionals from 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, ensuring full respect for the corporate organisation derived from the Group's corporate governance system.

Added value

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

Relationships with suppliers

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

- Promote suppliers' strict compliance with contractual conditions and applicable regulations, as well as the principles of conduct included in the supplier's 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, active participation, training and professional development necessary for employees to perform their duties.

Supplier's code of ethics

The Iberdrola Group's Purchasing Policy contains the *Supplier's Code of Ethics* as an appendix. It outlines the principles of conduct for the suppliers in accordance with the Group's principles and values.



During the tender stage, all suppliers and service providers are informed of the *Supplier's Code of Ethics*, which is part of the documentation in both the request for bids and the final contract documentation with the successful awardee.

The full text of the Supplier's Code of Ethics can be found at the following link:

<https://www.iberdrola.com/suppliers/purchasing-portal/contracting-terms/suppliers-code-ethics>

Suppliers' ethics mailbox

Iberdrola has ethics mailboxes for suppliers. These mailboxes are communication channels through which suppliers, its subcontractor and their respective employees and the companies that have taken part in a tender for services or supplies can report behaviours that may involve

- (i) A breach of the corporate governance system, the code of ethics or of applicable legislation by an Iberdrola professional.
- (ii) Any illegal act or a breach of the provisions of the Supplier's Code of Ethics by a supplier, its subcontractors or their respective employees within the framework of its commercial relationship with Iberdrola can also be reported. These mailboxes are available on the purchasing portal.

Contracting clauses

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

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

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

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

In relation to the fight against corruption:

Reject any type of fraudulent practice or corruption, developing a culture of business integrity and establishing preventive mechanisms to combat corruption in all its forms.

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

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

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

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

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

Purchasing procedure

The Purchasing Policy is the foundation of the Purchasing Procedure.

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 formalized.

Purchasing 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:



Purchasing procedure flow

In 2017, the Purchasing Division renewed its ISO certificate for the quality management system according to the new UNE-EN-ISO 9001:2015 standard. The scope of the certificate has been extended and it currently covers the companies belonging to the Iberdrola Group in Spain, the United Kingdom, Mexico and the United States.

This is an important achievement that rewards our efforts to integrate the processes and their quality standards which confirms the consolidation of the corporate purchasing model.

4. Purchasing process transparency

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

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

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

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

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

5. Sustainability in purchasing management and supplier relationships

Supplier registration and classification

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

Iberdrola's rapid and profound transformation of recent years has also multiplied our responsibility as a global company; we have thousands of suppliers with orders all over the world.

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

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

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

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

Any interested company can access the supplier registry on the corporate website.

Currently, there are two levels of supplier registration:

- **Basic Registration:** new potential suppliers, suppliers with a low order amounts, non-critical equipment or furnished supplies. Depending on the information provided and the internal classification criteria, this provider can be remain at this level ("low risk") or be required to complete a higher level (Complete Global Registration)
- **Complete Global Registration:** suppliers with a relevant yearly order amount, critical supplies, country risk. This requires presentation of detailed, up-to-date information and relevant documentation, which we use to manage suppliers internally

Factors evaluated for classifying suppliers

The minimum requirements to be classified as an Iberdrola supplier include:

- Acceptance of the Supplier's code of ethics
- Compliance with the applicable legislation in each of the countries in which the Iberdrola Group carries out its activity
- Evidence of a stable financial situation
- For certain contracts, subscribe to a liability policy appropriate to the needs

Once registered, the weighted factors for classifying the supplier depend on how it approaches the following areas:

- Corporate social responsibility, labour practices and human rights
- The environment
- Safety and occupational hazard prevention
- Credit risk assessment, financial health

- Quality
- Risk of corruption and bribery
- References and previous work history

The supplier's situation in the area of sustainability (quality, environment, occupational risk prevention, social responsibility and human rights) has a weight of 40% on the total score, and the other 60% corresponds to the assessment of credit risk, financial health and prior references.

Seeking to improve the situation for suppliers with lower performance in these matters, year-long actions are carried out for traction, awareness-raising and motivation so these suppliers can become certified in these areas (further information in the section on Dialogue with suppliers-Traction).

Human rights in suppliers

In supplier management and during purchasing, the measures adopted by the Company to protect these rights are based on the Purchasing Policy, the Supplier's Code of Ethics and the specific clauses regarding social responsibility in the contractual conditions accompanying the orders.

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

Purchases made in countries considered to be at risk because they have not ratified ILO conventions on forced labour, freedom of trade unions and collective bargaining, and child labour and in countries that, although they have ratified these conventions, have nevertheless had observations made that raise weak points in their application are analysed periodically.

In the most recent analysis, at the end of 2017, the percentage of purchases made from suppliers located in risky countries was:

Countries considered as risks where purchases have been made ²	% of purchases of total
Brazil	17.4
Mexico	6.3
Canada	0.8
China	0.4
India	0.1

About 25% of our general purchases were made in countries where, according to the sources consulted, there may be a risk of human rights violations. This increase from 2016, which was 8%, is due to the incorporation of Neoenergia in Brazil.

In the 2017 fiscal year, no human rights issues were detected in our suppliers nor was there evidence of practices that might have violated human rights in the Group's Purchasing area.

² The criteria used to identify risky countries are the same as those described in content 412-1 of the Sustainability Report for the 2017 fiscal year.

Alignment of Purchasing and Supplier Management with Human Rights criteria

The supplier management measures adopted by the Company during the purchasing process to protect and manage these rights are based on:

Internal Mechanisms		External Mechanisms with Suppliers	
Purchasing Policy	Ensuring suppliers' strict compliance with contractual conditions..., paying special attention to the principles of the Human Rights Policy	Supplier's Code of Ethics	EMPLOYMENT PRACTICES: respect the internationally recognised protection of basic human and workers' rights in its sphere of influence (forced and child labour...)
Supplier Registration and Classification	Acceptance of the supplier's code of ethics Weighting of the supplier's status in CSR, labour practices and human rights	Specific T & C	Specific contracting clauses regarding the supplier's social responsibility based on the UN Universal Declaration of Human Rights, the ILO Conventions and the Global Compact principles
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 tractor company, we apply traction to suppliers in areas of common interest to ensure reliable and responsible behaviour throughout the supply chain
Annual improvement goals	Innovative aspect: established annual improvement objectives for the Purchasing team linked to variable remuneration directly related to the supplier's improvement in CSR	Modern Slavery Act (United Kingdom)	Classification and audit protocols for suppliers adapted to the law "Ethical Procurement: a workshop for buyers": Training sessions for the entire UK purchasing team Contract clauses in major contracts
CSR Committee and Plan	The Purchasing Division is part of the Group's CSR Committee: guidelines, established objectives and associated KPIs	CSR scoring	Leadership, Dialogue, Management, Communication 4 blocks to assess the supplier's CSR and HR performance
Transparency & Reporting	Procurement in risk countries indicator <i>Contribution to sustainability</i> infograph <i>Annual Purchasing and Supplier Management Report</i> published on the corporate website	Supplier of the Year Award	CSR categories, diversity and equality: promoting supplier commitment and improvement and publicly recognizing those who go the extra mile

Suppliers' CSR Scoring

Iberdrola uses the CSR scoring model to evaluate its suppliers' social responsibility. It quantifies the suppliers' relative position according to their CSR management in a way that establishes a differentiating criterion when tendering or contracting with them. The evaluation adds value for the supplier, enabling it to discover areas they can focus their efforts on to improve their social responsibility. To do this, the supplier must provide answers about itself in the four dimensions of CSR:

- Leadership
- Dialogue
- Management
- Communication

Depending on the result, suppliers are classified as: "A +" or above average suppliers, "A" or suppliers with an average score and "B" or below average.

In 2017, the Purchasing Division continued to consolidate CSR scoring in all geographic areas with the following result:

Classification level	2017	%	2016	%	2015	%
A+	662	37	628	38	552	36
A	953	53	871	52	813	53
B	172	10	168	10	171	11
Total:	1,787		1,667		1,536	

The CSR scoring data on the volume of purchases analysed (85% of the Group's total purchases) are shown below:

Classification level	% amount of purchases awarded out of total
A+	78.2
A	20.7
B	1.1

Having established improvement objectives for all the Purchasing team on increasing purchases from analysed suppliers and increasing the percentage of purchases from A+ suppliers.

A specific communication about their situation is sent to those suppliers with a B so that they try to improve to A+.

Commitment to work- life balance

Iberdrola extends to its suppliers its best practices in work-life balance.

In the section entitled 'Labour Practices' of the Supplier's Code of Ethics, Iberdrola provides that suppliers should 'consider the implementation of work-life balance measures that promote respect for the personal and family lives of their employees and which make it possible for a healthier balance to be found between the latter and the work responsibilities of both women and men, in keeping with the applicable laws and local practices. Under no circumstances shall they remove measures already in place when they become suppliers for the Group'.

Equality

The Iberdrola Group has several global policies to prevent discrimination and encourage respect for diversity and effective equality between men and women in their access to jobs, training, promotions and working conditions. They also support workers with functional diversity and promote their integration into the workplace. These best practices in equality, parity and diversity will be extended

globally to suppliers through awareness-raising actions and specific campaigns.

Emissions associated with the supply chain

In its firm commitment to fight climate change, Iberdrola attempts to extend to its suppliers the effort to comply with the emission-reduction objectives. Emissions from suppliers are obtained through a yearly environmental awareness campaign to foster the reduction of CO2 emissions in the supply chain.



In 2012, the footprint resulting from scope 3 of the Iberdrola emissions inventory was included for the first time and verified in accordance with ISO 14064.

In 2017, the *8th Campaign to Raise Awareness about and Measure Greenhouse Gases in Suppliers* was carried out through specific questionnaires sent to over 1,000 suppliers of materials, equipment, works or services for the Group in Spain, the United Kingdom, Brazil, Mexico and the United States.

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

Of the replies obtained from the questionnaires, emissions proportional to the supplier's invoicing volume to the Company with regard to the total were taken as corresponding to Iberdrola.

Using the responses to the questionnaires sent to the suppliers, the emissions are calculated in proportion to the turnover, which is included in the emissions report as indirect emissions:

CO ² _{eq} emissions associated with the supplier chain (t)	2017
Spain	1,054,507
United Kingdom	795,891
United States	490,768
Brazil	211
Mexico	635,421

These campaigns also give suppliers the opportunity to inform us of the environmental projects they are developing or whether they have an environmental project that they would like to undertake in partnership with Iberdrola.

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

Internal Purchasing Mechanisms		External Mechanisms with Suppliers	
Purchasing Policy	It contains environmental principles that the supplier must accept and the principles of responsible, sustainable management in the Iberdrola Group supply chain	Supplier's Code of Ethics	Incorporates principles into environmental matters The Group's suppliers must accept it and it is attached to orders and contracts
Supplier Registration and Classification	Possession of an environmental certification is weighted in the supplier's overall assessment Suppliers must accept Iberdrola's Environmental Policy	Specific T & C	Environmental clause that the supplier must comply with during the contract
Tender Process	In the offer evaluation and award proposal phases of the contract, the supplier's environmental assessment is evaluated	Traction campaigns	As a tractor company, we proactively promote suppliers' environmental certifications by supporting them in their pursuit of excellence and we act as multipliers
Annual improvement goals	Innovative aspect: established annual improvement objectives for the Purchasing team linked to variable remuneration that is directly related to the supplier's environmental improvement	Carbon Footprint Measurement	Annual campaign to measure suppliers' greenhouse gas emissions: in 2017, this involved over 1,000 Group suppliers from Spain, the United Kingdom, Brazil, Mexico and the United States
Global Environmental System	The Purchasing Department is a member of the Iberdrola Global Environmental System Committee: this involves monitoring of environmental guidelines, established objectives and their associated KPIs. Audits	CSR scoring	This includes environmental aspects Evaluate suppliers in terms of CSR, quantifying their relative position in terms of their management in this area
Reporting	Infographic: <i>Annual Purchasing and Supplier Management Report</i> published on the corporate website	Supplier of the Year Award	Environmental category: promoting suppliers' environmental responsibility and publicly recognising those who go the extra mile

Credit risk analysed in suppliers

To prevent any potential negative consequences for Iberdrola of a supplier's failure to honour their acquired commitments, the Purchasing Division has a credit risk management system for the Group's main suppliers.

Applying this system, the Group's main potential and current suppliers are evaluated and rated based on their financial solvency, their capacity and Iberdrola's exposure to the risk of contract breach. This score is considered when selecting the successful tenderers for contracts and when assessing the various options to safeguard the Group's position.

In 2017, more than 76% of the total purchases was analysed.



Risk of corruption in suppliers

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

One instance of this commitment was in 2012, when the Board of Directors set up the Compliance Unit, whose duties include the dissemination of the code of ethics and the development of a preventive culture based on the principle of “zero tolerance” for crime and fraud.

It is vitally important for the Group to establish the program 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 that in-house professionals as well as any third party working on its behalf or with which it works during its activities must observe the most stringent standards of integrity in their business activities and not involve themselves in any situation involving corruption or bribery, nor participate in any type of fraudulent conduct or behaviour.

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

- The Iberdrola Group's code of ethics
- The Supplier's Code of Ethics
- A policy for preventing crime and fraud through which a preventive culture is established on the principle of zero tolerance for illegal acts and fraud.
- In general and depending on the number of existing suppliers and the nature of the purchase, the tendering process will ensure that a minimum of three valid bids are obtained for each procurement.
- The proposals for the awarding orders are released jointly and are endorsed by two duly authorised persons.
- There is a separation between purchasing activities (Purchasing Division), subsequent provisioning activities (Business Units) and payment of invoices to suppliers (Management and Control Department).
- Payment-invoice-order-tender traceability is held entirely in corporate systems with the necessary documentary support.
- The process is periodically audited and no non-conformity or deviation have been discovered to date
- Specific section to which the provider must respond during the classification process:

- Can your company demonstrate that its labour practices take into consideration the following internationally recognised conditions? Anti-bribery and anti-corruption measures
- Do you require your suppliers and contractors to apply Corporate Social Responsibility (CSR) in their labour practices according to international standards?

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

After the Anti Bribery Act was brought into force in the United Kingdom, a series of measures were established in the tender process so that when a new relationship is established or an existing contract with a supplier is renewed, the risk of corruption associated with the contract is evaluated.

As a sign of Iberdrola's commitment to integrity and to adopting best practices against corruption, it has extended measures of this sort across the Group's full purchasing scope, and suppliers participating in tenders entailing approximately 90% of the total tendered amount during the year have been analysed for corruption.

Suppliers are analysed in each of the following six (6) sections:

Factor 1 - Level of contact that the service provider has with public officials

Factor 2 - Type of service provided

Factor 3 - Contract volume

Factor 4 - Corruption index of the supplier country according to Transparency International TI (CPI)

Factor 5 - Payment method

Factor 6 - Other factors: “red flags” high dependency of the providers/suppliers on the Iberdrola Group, high financial risk, requests from providers/suppliers to receive payments in countries considered tax havens, failure to observe IBERDROLA'S Policies, or refusal to accept an anti-bribery and corruption clause in the corresponding contract, etc.

The scores of each section are added up to obtain the total risk rating for the supplier, and the analysis can result in a due diligence in case of high risk of corruption.

In 2017, over 80% of total amount of purchases was analysed.

During the year no incidents leading to orders or supplier contracts being cancelled were recorded through the established channels, nor were judicial resolutions issued in this regard.



Training

In 2017, the Iberdrola Purchasing and Insurance Division and the Compliance Unit continued to carry out online training sessions specifically designed to raise awareness of the responsibilities and risks associated with the purchasing activity of those employees who regularly participate in the process.

The content of this training is focused on understanding the principles in the Purchasing Policy:



Do you take part in Purchasing processes?



Find the Purchasing Policy Awareness Programme in GEP where you can learn about:



- Types of Purchases
- Policies and procedures
- Risks
- And other key issues for your management



Take note: From now on, users who request access to the Purchasing systems must have the diploma awarded on completing this course; if not, the request will be rejected until the course has been completed.

The course is available in GEP, in the Complementary Training section. Once completed, it generates the required diploma

Students who have already taken it can find it in this section by clicking on 'See all my courses'.



CLICK TO START

Moreover, in the United Kingdom and after the entry of the Modern Slavery Act, the corporate legal team and the purchasing team, in collaboration with the *Ethical Trading Initiative*, organised 'Ethical purchasing : a buyers' workshop', a tailor-made training course and delivered it to the entire purchasing team in the UK.

Analysis of purchases in countries where there is risk of corruption

To analyse procurement in countries with risk of corruption, the company uses the Corruption Index according to Transparency International (TI CPI 2016) to classify countries according to their risk level.

The volumes of purchases made, classified by corruption-risk levels, are shown in the following table:

Corruption risk ³	% of 2017 purchases of general supplies in countries according to the 2016 CPI index
Low	58
Medium	17
High	25

According to the TI CPI 2016, the countries with the highest risk of corruption –in which purchases were made from suppliers registered there– are mainly Brazil and Mexico. This volume of purchases is directly related to Iberdrola's investment in these countries, where approximately 25% of the Group's total 2017 investments were made.

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

³ 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).

Supplier audits

Seventy-six (76) social audits were carried out on suppliers with orders during the 2017 fiscal year. Suppliers with non-conformities have a deadline to correct any deficiencies found. The objective of on-site audits is to ensure that the supplier has met all the requirements for minimizing occupational risks and risks in the human resources, environment, quality and corporate social responsibility areas.

6. Dialogue with suppliers

Iberdrola develops a responsible and sustainable business model, which places the group's stakeholders at the centre of its strategy. The purpose of the company is to build trusting relationships with the stakeholders, as well as to deepen their participation, involvement and sense of belonging to Iberdrola.

Stakeholder	Relevant communication and dialogue channels
Suppliers	Customer portal
	Satisfaction surveys
	Supplier of the Year Awards
	Supplier registration and classification processes
	Supplier traction campaigns
	Participation in responsible purchasing events
	Suppliers' ethics mailbox

The model that Iberdrola has been developing and improving to manage its relationships with suppliers as well as the broad catalogue of dialogue and communications

channels for these groups are summarised in the table above.

Significant progress has taken place in key elements of the relationships with this group to consolidate the model applied within the parameters of Standard AA 1000 (Assurance Standard).

Supplier survey

A further instance of the efforts that Iberdrola has made to ascertain the satisfaction and expectations of its stakeholders, among which supply companies are prominent, is a regular Supplier Satisfaction Survey periodically conducted (2018 will be the 6th) to provide the Purchasing Division with the expectations and perceptions of suppliers on the purchasing process and the Company.

Knowing what suppliers' opinions are is essential to include new continuous improvement actions in the Corporate Social Responsibility and Reputation Plan (with the active participation of the upper level of the Purchasing and Insurance Division at the Iberdrola Group).

Supplier Satisfaction Survey	5th (2016)	4th (2014)	3rd (2012)	2nd (2009)	1st (2007)
Score (out of 10)	8.06	8.00	7.74	7.57	7.56

Results of the supplier satisfaction questionnaires

Suppliers value the professional respect their contacts in Purchasing show during the bidding phase, as well as their transparency and honesty, very highly.

Regarding the overall perception of the Iberdrola Group, the Company's good reputation is valued at 8.8; the brand and the trust it inspires scores an 8.6.

On the other hand, the results of the survey reveal that some matters –such as the financing possibilities offered– can be improved.

Traction in suppliers

Because of size, geographical associations, etc., the diversity of our current and potential group of suppliers has meant that we need to define flexible policies that adapt to the local or global market as needed.

Supplier traction activities in quality, environment and occupational risk prevention among those relevant suppliers that do not have a management system certified by a third party are consolidated practices. Each one was contacted 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.

7. Commitment to continuous improvement

Objectives in the period

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

The Purchasing Division is an active member of the Corporate Social Responsibility Committee and is especially sensitive to the demands and interests of suppliers as a strategic stakeholder. To continually improve in this group, annual goals have been defined linked to the Purchasing Division's compensation and focused on improving supplier profiles, within a setting of corporate social responsibility.

Not only is the supplier motivated to improve its profile through actions that encourage excellence in business management, as seen in the section on *Dialogue with*

Suppliers, but Purchasing is encouraged through quantifiable objectives to choose companies with good performance in the areas that should be developed throughout the process.

Iberdrola's Management by Objectives System is designed to help achieve the objectives derived from the strategic lines and contribute to creating value. Some of the monitoring KPIs defined to improve sustainability in suppliers are:

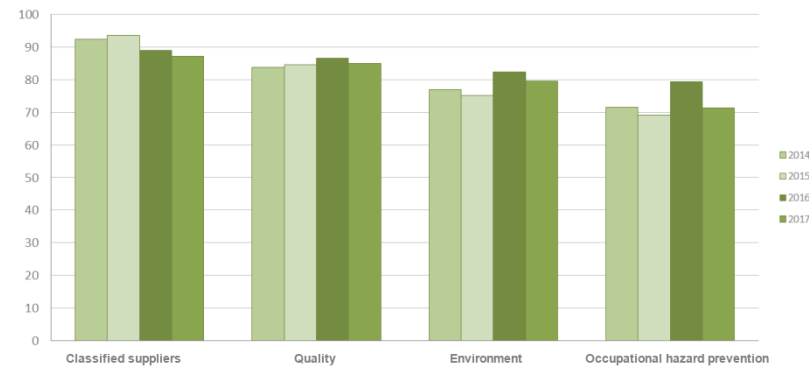
Main KPIs

OBJECTIVE	2017	2016	2015
Increase in the % amount awarded to classified suppliers	87.2	89	93.5
Increase of the % amount contracted with suppliers with quality certificate (ISO 9001 or equivalent)	85	86.6	84.5
Increase of the % amount contracted with suppliers with environmental certificate (ISO 14001 or equivalent)	79.5	82.3	75.2
Increase of the % amount contracted with suppliers certified in risk prevention (OHSAS 18001 or equivalent)	71.4	79.4	69.2

Scope: Suppliers with orders in the year amounting to at least €400,000. November 2017.

Geographic area: Spain, the UK, the US, Brazil (Elektro) and Mexico.

The following chart shows the evolution over the last few years:



These KPIs which historically were measured in Spain and grew annually, have moderated their growth mainly due to the 'USA effect': the current scope is global and when US suppliers are included, the trend flattens out.

The growth in the ratios measured in those countries has progressed positively in the period, although not at European levels.

8. Supplier diversity program

In Iberdrola's Purchasing Division, work has been done over the last few years on incorporating Special Employment Centres into the network of regular suppliers. A total of €3.2 million was under contract with Special Employment Centres in Spain in 2017 (to help and collaborate with the disabled).

In the United States, Iberdrola USA has a Supplier Diversity Program, within which we add to the network of suppliers and increase purchases from:

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

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

In 2017, the volume contracted to these groups was around €33 million.

Having a varied base of suppliers is a benefit for businesses and for our Company. It lets us obtain the goods and services that we need while enabling small enterprises and minority owned companies to grow and prosper.

9. Supplier innovation program

In 2017, Iberdrola invested €246 million in Research, Development & Innovation, doubling the resources allocated to this area in seven years.

Iberdrola has a Supplier Innovation Program 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 program has three central concepts:

- Help suppliers access financing
- Promote joint ventures (supplier spin-offs) through the Perseo fund
- Innovative purchase of products or services developed



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

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



The Company's unwavering commitment to R&D&I is also evident in its support for technological entrepreneurs and start-ups through its **Perseo** venture capital scheme.

The main aims of this initiative are to:

- Secure Iberdrola's access to future energy technologies.
- Encourage the creation of new business opportunities for Iberdrola.
- Promote entrepreneurship and the development of an innovative corporate fabric in the energy sector

Through its PERSEO scheme, Iberdrola is currently looking for innovative projects in the energy field, which can be emailed to: perseo@iberdrola.es

10. Supplier of the year award

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

The prize was envisaged as a tool and mechanism to thank the supplier for its contribution to achieving the Group's objectives.

This prize was awarded for the first time in 2002 in Bilbao. The accelerated pace of the Company's internationalisation during the past few years meant a few years' reflection were needed to adapt the award to the global and international situation that Iberdrola Group has been consolidating. Iberdrola is now a multinational with clear focal points in multiple countries and markets, with stable activities in Spain, the United Kingdom, the United States, Mexico and Brazil.



In 2017, the Supplier Award event was held in each of these countries, publicly acknowledging over 60 companies before more than 1,000 attendees.

Iberdrola works and shall continue to work with excellent and sustainable suppliers, and to do so, it establishes clear traction and measurement mechanisms with resources in the Purchasing Division allocated to these tasks. The Company likewise establishes personal objectives with its management team that are linked to continuously improving the sustainability ratios of its suppliers. Only in this way can Iberdrola continue to grow and serve the societies in which it is present and to which it is committed.

11. Major benefits for suppliers

Actions of this sort being developed by the Purchasing Division as a social, ethical, economic and environmental driver for suppliers have generated a progressive convergence of suppliers and supplies toward the sustainable parameters required by the company, resulting in a multiplying effect throughout the supply chain, since what is currently being requested from first-level suppliers will gradually be assumed by the entire supply chain.

By acting as a tractor company and being an economic driving force, because of our high annual purchasing potential and:

- 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 results, 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., could gain access to new markets and clients, become involved in R&D projects, grow more competitive by developing an international presence that would allow them to become leading firms on their own in 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 point of view, we act as a powerful tractor in the market, encouraging suppliers to improve their

environmental, ethical and social profile through actions that promote excellence in management.

12. Awards

The CDP (Carbon Disclosure Project) has placed Iberdrola and its strategy of commitment to its CDP Supply Chain on its A list, in recognition of the company's commitment to the Sustainable Development Goals defined by the UN.



CDP Supply-Chain. A-List, highest category

Leading A-list companies such as Iberdrola are similar in that they work to raise the awareness of their suppliers and service providers about the importance of reducing their impact or changing their surroundings to produce more sustainable products and services.

These leading companies develop social initiatives which emphasise the importance of a sustainable environment, encourage partnerships with suppliers and meet minimum purchasing requirements.

13. Short and medium-term priorities and objectives

CHALLENGES FOR 2016-2017 AND ATTAINMENT STATUS

Improvement in supplier communication

- ✓ Improve communication and information channels with our suppliers

Supplier traction towards excellence

- ✓ Extend best practices on real equality between women and men and employees work-life balance globally to suppliers
- ✓ Conduct the 8th Campaign to Raise Awareness about and Measure Greenhouse Gases in Suppliers
- ✓ Complete the lines of action and activities laid out in Purchasing and in supplier management in the 2015-2017 CSR Plan
- 👉 Extend to the providers a new updated and personalised online course for Iberdrola on human rights. **To do in 2018.**

Medium-term objectives

As well as continually maintaining actions on supplier management and purchasing that were presented in this report, the main priorities and objectives in the short and medium terms are:

- 6th supplier satisfaction questionnaires.
- Establish the 2018-2019 SR Plan: lines of work and objectives in supplier relationships
- 2nd Global Supplier Award
- Raise suppliers' awareness of human rights
- Advance in implementation of a responsible supplier management model in Neoenergía Brazil

In the coming years, Iberdrola will continue to develop a sustainable and long-term business model, ensuring a fair, sustainable, transparent and ethical supply chain and driving the supplier towards continuous improvement and excellence.

SUMMARY: The main mechanisms of the supplier management model are outlined in the following table.

