Iberdrola

Response received by BHRRC from Iberdrola regarding assessment of exposure to and steps taken in response to forced labour issues in XUAR as documented by Sheffield Hallam University, among others, 11 July 2023.

(1) Assessment of exposure & (2) Steps taken in response

“In 2021, a potential risk associated with reports of forced labour in China’s Xinjiang region linked to polysilicon producers supplying polysilicon to solar module manufacturers was identified by our internal media screening and from Iberdrola’s constant engage with relevant stakeholders, such as ONGs, civil society representatives, investors, and industrial forums. Although this risk does not directly affect TIER 1 suppliers of the group, it could affect the value chain of photovoltaic technology.

Even though Iberdrola has had no knowledge of a demonstrated forced labour case related to its solar panel supply chain, since 2021, the Company has increased its due diligence in human rights, in general terms and, in particular, regarding those suppliers directly or indirectly linked to XinJiang region, according to the following measures:

1. **CODE OF ETHICS:**
   The company promoted, among all suppliers potentially exposed to this risk, scrupulous compliance with the Iberdrola Group Supplier Code of Ethics. In this regard, the code clearly requests that suppliers shall reject all forms of forced or compulsory labour and all forms of modern slavery and must adopt, within their organisation, appropriate measures to eliminate all such practices and promote the adoption of such measures within their supply chain. Suppliers of the companies of the Iberdrola Group shall be responsible for ensuring that their own suppliers and subcontractors are subject to principles of conduct equivalent to Iberdrola’s Code of Ethic.

2. **CONTRACTS:**
   a. Iberdrola has included specific clauses in photovoltaic module contracts to mitigate risks of "Forced Labour" or "Modern Slavery" for all affected suppliers with whom it has signed a supply contract.
   b. Clauses have also been included in the photovoltaic panels supply contracts that allow the right to carry out social and sustainability audits, both of the manufacturers of the modules and of third companies that are part of their supply chains, to ensure the quality and traceability of the components. Under this right to carry out third-party inspections, two audits have already been performed so far in 2023, with no findings of modern slavery during these audits. Additionally, three ESG audits of solar panels manufacturers are planned to be conducted during 2023. Although carrying our such audits doesn’t guarantee 100% the absence of forced labour, we believe our doing so is sending out a very clear message regarding our zero tolerance in this matter.

3. **TERMINATION OF CONTRACTUAL RELATIONSHIPS:**
   In addition to the previous point, in supplier management and during the procurement process, the measures adopted by the Group to protect human rights are based on the principles that arise from the Corporate and Sustainability System, particularly from its regulatory framework and, especially, the Code of Ethics and, in turn, from the specific clauses
regarding the Group’s corporate social responsibility in the contractual conditions accompanying orders.

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

4. ESG SUPPLIER PERFORMANCE EVALUATION AND IMPROVEMENT: LINKING BUSINESS INCENTIVES

Iberdrola has the responsibility and the ability to encourage its suppliers to improve their environmental, ethical and social (ESG) performance.

In such a way, the company has created an ESG assessment model. This model is integrated in the supplier classification system and in the procurement management system itself, incorporating the sustainability assessment of the Group's suppliers into the procurement decision-making process.

Supplier evaluation includes the supplier’s performance in wide-ranging ESG areas, among them its due diligence in human rights. The supplier must provide evidence and supporting documentation for their claims and performance. Following the analysis, suppliers are classified into two levels: adequate if their score is over 51 points out of a possible 100 with at least 30% of the points in each of the ESG axes, and inadequate in all other cases.

Iberdrola sends customised improvement plans to suppliers whose level of compliance is not adequate for a long-term relationship with Iberdrola. During the period 2020-2022, Iberdrola has sent more than 1,000 plans with more than 50% success (suppliers that improved until they are deemed sustainable).

Iberdrola’s commitment to ESG criteria and its extension to its main suppliers is embodied in the ambitious goal of ensuring that at least 85% of the Group’s main suppliers are subject to sustainable development policies and standards by 2025. This goal is directly reflected in the inclusion of this scale in the assessment of the Strategic Bond 2023-2025, approved at the General Shareholders’ Meeting of Iberdrola, S.A., held on 28 April 2023.

In order to verify compliance with the Group's ESG criteria and to check, at the suppliers' premises, the validity of the responses previously recorded in the supplier classification system a program of ESG audits to suppliers is launched yearly.

The outcome of the 2022 ESG audit campaign has been very satisfactory. The audits have shown that the suppliers audited have a very high level of implementation of ESG policies and good practices. The 2023 plan includes carrying out ESG audits to more than 50 suppliers in the Group's main geographies, as well as in other countries where main suppliers are located.

5. SUPPLY CHAIN MAPPING:

The company makes efforts to fully map its supply chain back to the raw material level. In many cases Iberdrola solar panel suppliers include a full supply chain mapping in their offers, although this does not happen in 100% of the cases. In this sense, a third-party has been hired to help us in better mapping our solar supply chain. In particular, traceability studies of modules up to the polysilicon level to three manufacturers are about to be mapped in 2023. This effort is additional and complements the Solar Stewardship Initiative in which we are also involved.
6. **Engagement – Alliances: Suppliers & Manufacturers:**

The group has been very proactive participating in sectorial and multi-sectorial forums, initiatives, alliances, and associations to better understand the situation and a productive way to find out a solution. In this field, Iberdrola group is actively participating in the main sectorial initiatives, such as Solar Power Europe and WindEurope, in which the operators and manufacturers also participate, with the aim of establishing common high standards and tools that allow obtaining objective evidence that human rights have been respected throughout the manufacturing process of the equipment incorporate in these projects. Under this framework, on site audits in China have been carried out by SolarPower Europe’s Solar Stewardship Initiative.

Other initiatives in which Iberdrola and companies of the group take part are, among many others, the Global Alliance for Energy, Energy for just transition, UN Global Compact Human Rights Accelerator Program, the Slave Free Alliance and the ‘Utilities against Slavery’ working Group in UK, the Solar Industry Forced Labour Prevention Pledge in US.

7. **Engagement Suppliers & Grievances Mechanisms:**

   a. There are specific engagement channels available for suppliers and suppliers’ employees. From a specific section in the webpages of the group (Suppliers - Iberdrola) to speak up and ethic mailboxes. The group actively encourages any employee or third party that has any concerns about its ethical working practices to report those concerns, using several complaint and grievance mechanisms. Each mechanism, provide an independent, confidential speaking out process for employees, suppliers, and their employees to report directly to Iberdrola any conduct believed to be in breach of the Supplier Code of Ethics or of any other wrongful, criminal, or illegal conduct.

   b. By contracting with a company of the group, suppliers undertake to inform their professionals and their subcontractors of the contents of Iberdrola’s Code of Ethics and of the existence of the internal reporting channels, as well as to require their subcontractors to inform their professionals thereof.

8. **Analysis of Legislations:**

In 2022, with the help of the specialized consultancy Pinsent Masons, an analysis of the different legislations against modern slavery and forced labour that exist in the geographies where Iberdrola operates was carried out. This work included an analysis of the measures currently established to prevent this risk in Iberdrola's procurement process, as well as proposals to strengthen these areas:

   a. **Policy:**

   Specific inclusion in the Policy of respect for human rights of the company’s commitment to prevent modern forms of slavery and require it from its suppliers.

   b. **Compliance Onboarding Screening Process:**

   During the onboarding screening process, all new suppliers are subject to a Compliance onboarding screening process using Dow Jones risk assessment tool to identify and resolve potential compliance risks, inclusive of any adverse media
related to Modern Slavery, with suppliers and their connected parties before they registered with Iberdrola.

In collaboration with the Global Compliance team and Huma Rights team, a new set of questions relating to modern slavery in the onboarding process was developed in 2022 and implemented from 2023. Any issues identified through the onboarding process will be highlighted, by the Compliance Division, to relevant business and corporate areas owners to agree any appropriate mitigating actions. Any supplier that has not completed the Registration form will not be eligible to take part in any tendering or contracting activity with Iberdrola.

9. COUNTRY-RISK MAP IN HUMAN RIGHTS

Purchases made in countries considered high risk are periodically analysed, according to the country-risk map in human rights prepared by an independent third party, which reflects the risks considering the operational context and the sector of activity, as recommended by the United Nations Global Compact. This map updated in 2022 covers the 23 countries where the group operates, as well as the 56 countries where it supplies and considers the violation of fundamental ILO conventions on forced labour, freedom of association and collective bargaining, and child labour exploitation, among other violation indicators.

10. Boosting local production:

Given the current market situation and in order to increase supply chain resilience and minimize risks, including forced labour and modern slavery, Iberdrola is working actively to increase local production capacity and is involved in 2 new manufacturing facilities in Spain, a 1GW factory in Asturias with a signed agreement with EXIOM (We form an alliance with Asturian company Exiom to lead the manufacture of photovoltaic solar panels in Spain - Iberdrola) and another 1.6GW project in Extremadura that has been presented to the Innovation Fund, the European Commission's grant programme (We present to Europe a project to manufacture photovoltaic panels in Spain - Iberdrola).

11. Working group

Iberdrola has established a permanent working group to specifically monitor developments and efforts in relation to forced labour related to the solar equipment supply chain. This group has members coming from all relevant affected areas such as ESG – human rights, procurement, compliance, legal services, and the renewable business.

Specifications by regions:

1. Iberdrola is subject to report its anti - forced labor practices performance by Modern Slavery Act in UK and Australia. Both subsidiaries have its own Modern Slavery Policies and procedures in place to address the issue.

   Besides, in contracts for the US market, Iberdrola’s US subholding (Avangrid) establishes additional measures to guarantee the strictly alignment with Uyghur Forced Labour Prevention Act (UFLPA) requirements.

Relevant sources:

Human Rights Report 2022 (iberdrola.com)

Iberdrola Integrated Annual Report and ESG Information 2022 - Iberdrola
1. Public commitment to the defence of human rights:

The group has a firm commitment to the defence of human rights and has a set of tools that ensure and promote the protection of and respect for people, to prevent, mitigate and repair any possible impact on human rights. The Company’s practices are thus in line with the principles underlying the United Nations Global Compact, the Guiding Principles on Business and Human Rights: Implementing the United Nations ‘Protect, Respect and Remedy’ Framework (hereinafter, the UNGP), the OECD Guidelines for Multinational Enterprises, the Tripartite Declaration of Principles Concerning Multinational Enterprises, and the Social Policy of the International Labour Organization.

Since 2015, Iberdrola has had a Policy of Respect for Human Rights drawn up in accordance with the highest standards (last amended in December 2022), the principles of which must be followed by all professionals of the group. Among other principles, it commits to:

a. To respect the human and labour rights recognised in domestic and international legislation, as well as compliance with international standards in those countries in which human rights legislation has not reached an adequate level of development

b. To reject child labour and forced or compulsory labour or any other form of modern slavery and to respect freedom of association and collective bargaining, as well as non-discrimination, the right to freely circulate within each country, and the rights of ethnic minorities and of indigenous peoples in the places in which it carries out its activities.

c. To advance a culture of respect for human rights and promote awareness-raising in this field among its professionals at all companies within the group, and especially at those where there may be a higher risk of violation of such rights.

With this policy, apart from publicly formalising its commitment, Iberdrola wants to transmit to all its Stakeholders the importance of respecting the human and labour rights.

In addition, as a basis for the policy, Iberdrola has defined a general human rights due diligence framework to guide responsible business management, developing mechanisms to prevent and mitigate the risk of human rights violations, with the involvement of Stakeholders. Iberdrola’s Suppliers are a key stakeholder and an ally in compliance with the Policy of Respect for Human Rights, and therefore assume a shared responsibility. Thus, in the performance of their activities, they must show strict respect for the human and labour rights recognised in national and international law.
2. Sustainable management of the supply chain

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

To achieve this objective, several elements that seek to guarantee respect for human rights are included in the different phases of the relationship with suppliers. Below is a summary of how Iberdrola integrates human rights throughout the purchasing management process.

Iberdrola’s procurement process is ISO 9001 accredited and 20400:2017 standard awarded by AENOR certifying its Sustainable Procurement Strategy.

a. Onboarding screening process

All new suppliers are subject to a Compliance onboarding screening process using our Dow Jones risk assessment tool to identify and resolve potential compliance risks, inclusive of any adverse media related to Modern Slavery, with suppliers and their connected parties before they registered with Iberdrola.

Any issues identified through the onboarding process will be highlighted, by the Compliance Division, to relevant business owners to agree any appropriate mitigating actions.

Any supplier that has not completed the Registration form will not be eligible to take part in any tendering or contracting activity with Iberdrola.

Not only are Suppliers subject to screening for any potential human rights or modern slavery issues, at the point of registration but also during their contract. Additional due diligence will be used in some higher risk contracts, with specialist third party due diligence engaged in likely areas of risk when needed.

b. Supplier selection: assessment based on ESG criteria

The selection of suppliers integrates an assessment based on ESG criteria, including human rights.

This process is supported by a platform of suppliers classification, which also allows the improvement and systematization of risk management linked to the supply chain.

c. Contracting phase:

The contracting terms of the group for purchasing equipment, material, works and services, include specific supplier corporate social responsibility clauses based on the UN Universal Declaration of Human Rights, the conventions of the International Labour Organisation, the principles of the Global Compact, and compliance with the Code of Ethics. For fuels, the company aims to include these clauses as new contracts are signed.
d. During the term of the contract:

During the term of the contract, the supplier must allow Iberdrola to review the level of compliance with the principles established in the contracts, and if non-compliance is detected and corrective plans are not adopted, the company reserves the right to cancel the contracts.

We give suppliers that are technically valid and economically competitive the opportunity to comply with ESG aspects. We send customised improvement plans to suppliers whose level of compliance is not adequate for a long-term relationship with Iberdrola. During the period 2020-2022, we have sent more than 1,000 plans with more than 50% success (suppliers that improved until they are deemed sustainable). If non-compliance is detected and corrective plans are not adopted, the company reserves the right to cancel the contracts.

All major suppliers are assessed under this management approach and considering their material risks in relation to human rights and negative social impacts. These risks are mitigated and managed through the quality processes in place and the regular audits carried out by each business unit. This strategy has been reinforced in 2022 with a global campaign of social audits of key general goods suppliers to ensure compliance with the group’s ESG criteria and to validate the supplier assessment model. By year-end 2022 a total of 42 social and sustainability audits had been carried out on the Group’s main suppliers.”