

# Basic Internal Audit Regulations



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## INTRODUCTION

These *Basic Internal Audit Regulations* (the “**Basic Regulations**”) govern the nature, organisation, competencies, powers and duties of the Internal Audit Area of Iberdrola, S.A. (the “**Internal Audit Area**” and “**Iberdrola**” or the “**Company**”, respectively) and of the Internal Audit divisions of the various companies of the group of which Iberdrola is the controlling entity, within the meaning established by law (the “**Internal Audit Divisions**” and the “**Group**”, respectively).

These *Basic Regulations* have been approved by the Company’s Board of Directors upon the terms proposed by the chairman thereof pursuant to the proposal of the Audit and Risk Supervision Committee (the “**ARSC**”), all in accordance with the provisions of the *Regulations of the Audit and Risk Supervision Committee*, and are included within Iberdrola’s Governance and Sustainability System.

## TITLE I. NATURE AND REGULATION

### Article 1. Nature of the Internal Audit Area and of the Internal Audit Divisions

The Internal Audit Area is an internal unit of the Company that hierarchically reports to the chairman of Iberdrola’s Board of Directors and functionally reports to the ARSC. Its basic activity consists of independently and proactively endeavouring to ensure the effectiveness of the governance, risk management and internal control processes of the Group.

For their part, the Internal Audit Divisions shall perform duties equivalent to those of the Internal Audit Area at least at those country subholding and head of business companies of the Group that have audit and compliance committees (the “**ACCs**”).

### Article 2. Regulation

#### 1. Internal regulations

The Internal Audit Area and the Internal Audit Divisions are governed by the provisions of these *Basic Regulations* and, if applicable, by the applicable provisions of the bylaws or regulations of the companies of the Group of which they are a part.

Internal Audit Divisions belonging to listed companies that have their own internal regulations in this area shall be governed by such regulations.

In addition, the Internal Audit Divisions shall conform their activities to the framework of relations of coordination and information among the Internal Audit Area and the Internal Audit Divisions prepared by the head of the Internal Audit Divisions upon the terms of article 5 below.

#### 2. External regulations

Without prejudice to the provisions of the Governance and Sustainability System, these Basic Regulations and the other internal rules of the Company, the Internal Audit Area and the Internal Audit Divisions, as well as the professionals assigned thereto, shall conform their activities to the International Standards for the Professional Practice of Internal Auditing approved by the Institute of Internal Auditors (IIA), which contains, among other things: (i) the definition of internal auditing; (ii) the International Standards for the Professional Practice of Internal Auditing in effect from time to time; and (iii) the *Code of Ethics*.

## TITLE II. ORGANISATION OF THE INTERNAL AUDIT AREA AND OF THE INTERNAL AUDIT DIVISIONS

### Article 3. Internal Audit Divisions

All of the companies of the Group within which ACCs are created shall have an Internal Audit Division, without prejudice to any specific provisions applicable thereto by reason of their status as listed companies, nationality, law or any other circumstances.

Furthermore, those companies that do not have an ACC may also create their own Internal Audit Division.

### Article 4. Director of the Internal Audit Area and Heads of the Internal Audit Divisions

1. The director of the Internal Audit Area and the heads of the Internal Audit Divisions should have the knowledge, skills and experience appropriate to the duties they are asked to perform, especially with respect to internal audit, risk management, internal control and governance.
2. Pursuant to the provisions of the Governance and Sustainability System, the Company’s Board of Directors is responsible for the appointment and removal of the director of the Internal Audit Area, upon a proposal of the ARSC and after a report of the Appointments Committee.

For its part, the board of directors of the company in question is responsible for the appointment and removal of the head of an Internal Audit Division, upon a proposal or prior report (as provided by the internal regulations of the company in question) of the respective ACC (if any).

The appointment of the heads of the Internal Audit Divisions of: (i) country subholding companies with an ACC; or (ii) head of business companies with an ACC, but subordinate to a country subholding company that does not have an ACC, in order to prepare the proposal or report of the respective ACC, the chair thereof shall first consult with the director of the Internal Audit Area.

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In order to appoint the heads of the Internal Audit Divisions of head of business companies with an ACC that are subordinate to country subholding companies that also have an ACC, the chair of the ACC of the head of business company shall have such prior consultations with the head of the Internal Audit Division of its respective country subholding company, who in turn shall consult on this issue with the director of the Internal Audit Area.

In order to appoint the head of the Internal Audit Division of a company without an ACC, the chair of the board of directors of this company shall first consult with the chairman of Iberdrola's Board of Directors.

3. The director of the Internal Audit Area shall be deemed a member of the senior management of the Company, and shall report hierarchically to the chairman of the Board of Directors thereof. The heads of the Internal Audit Divisions shall belong to the management team of their corresponding companies, and shall report hierarchically to the chair of the board of directors thereof.
4. The ARSC is the body that evaluates the operation of the Internal Audit Area and the performance of the director thereof pursuant to the provisions of the *Regulations of the Audit and Risk Supervision Committee*, for which purpose it shall obtain any opinion that might be held by the chief executive of the Company.  
In a similar vein, these duties correspond to the respective ACC, if any, or if none to the board of directors, with respect to the head of an Audit Division.
5. The director of the Internal Audit Area and the heads of the Internal Audit Divisions shall manage the operation and the budget, respectively, of the Internal Audit Area and of the corresponding Internal Audit Divisions, under the principles of independence and efficiency in management, and shall be responsible for implementing the relevant measures and action plans and endeavouring to ensure the proper performance of the duties thereof.

#### **Article 5. Framework for Relations of Coordination and Information between the Internal Audit Area and the Internal Audit Divisions**

1. The director of the Internal Audit Area shall establish an appropriate framework for relations of coordination and information between the Internal Audit Area and the Internal Audit Divisions and shall develop the strategy, guidelines and overall supervision of the Internal Audit function at the Group level.
2. Specifically, the director of the Internal Audit Area shall:
  - a. Define the strategic lines and scale of the internal audit function at the Group level.
  - b. Participate in determining the processes for determining and evaluating the objectives of the heads of the Internal Audit Divisions (of companies that are not listed companies or subsidiaries thereof) and for setting the remuneration thereof, as well as in determining the profiles and development and career plans of its team.
  - c. Supervise and coordinate the annual activities plans of the Internal Audit Divisions, which must be coordinated with the activities plan of the Internal Audit Area, and to which it shall transmit the guidelines and directives of the Board of Directors and of the ARSC of the Company.
  - d. Supervise the annual activity reports of the Internal Audit Divisions.
  - e. Establish directives regarding quality requirements and the promotion of global certifications, and promote periodic evaluations of the Internal Audit Divisions.
3. The director of the Internal Audit Area and the heads of the Internal Audit Divisions shall hold regular coordination and information meetings. Such meetings may also be attended by those internal auditors that the director of the Internal Audit Area deems appropriate for the proper performance of the function.

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### **TITLE III. POWERS OF THE INTERNAL AUDIT AREA AND OF THE INTERNAL AUDIT DIVISIONS**

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#### **Article 6. Scope**

The Internal Audit Area and the Internal Audit Divisions shall independently and objectively provide assurance and consulting services to add value and improve the operations of the Company and of the Group, providing a systematic and disciplined focus in order to evaluate and improve the efficiency of the risk management, control and governance processes of the Group.

The nature and scope of any consulting work performed by the Internal Audit Area and the Internal Audit Divisions shall be previously agreed with the relevant Division of the Group. In no case may the Internal Audit Area or Internal Audit Divisions assume management responsibilities or participate in making executive decisions.

#### **Article 7. Powers relating to the Audit and Risk Supervision Committee or the Audit and Compliance Committees, as applicable**

1. The Internal Audit Area shall assist the ARSC (and the Internal Audit Divisions shall assist their corresponding ACCs) in developing the powers of said committee, especially as regards supervision of the effectiveness of the internal control and risk management system, relations with the statutory auditor, and supervision of the process of preparing the financial and non-financial information of the company in question.
2. The director of the Internal Audit Area and the heads of the Internal Audit Divisions shall be in charge of preparing the information requested of them by the relevant ARSC and ACC, respectively. They shall also attend the corresponding meetings of the ARSC and the ACC to which they are called when dealing with issues within their respective domains (including meetings held to formulate or approve annual or interim financial information and annual non-financial information).

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In particular, the director of the Internal Audit Area and the heads of the Internal Audit Divisions shall provide to the ARSC or the ACC, as appropriate, and within their respective areas of competence, the information required for them to (without limitation): (i) supervise the effectiveness of the internal risk control and management systems; (ii) reach a conclusion as to whether the accounting policies have been properly applied; and (iii) know the significant adjustments identified by the Internal Audit Area or the Internal Audit Division, as applicable, in the review of the financial and non-financial information.

3. The Internal Audit Area shall be the regular body for communication between the ARSC and the rest of the Company's organisation, without prejudice to provisions of the *Regulations of the Audit and Risk Supervision Committee* and the *General Framework for Relations of Coordination and Information among the Audit Committees of Iberdrola, S.A. and its group* regarding the duties entrusted to other areas, particularly the Office of the Secretary of the Board of Directors and other Divisions (like the Risk and Internal Assurance Division).

#### Article 8. Powers to Supervise the Effectiveness of the Internal Control System

1. The Internal Audit Area and the Internal Audit Divisions shall objectively and independently supervise the effectiveness of the Group's internal control system, which is made up of a set of risk management and control mechanisms and systems. By way of example and not limitation, and within the scope of their respective domains, they shall be particularly responsible for supervising:
  - i. **The effective operation** of the comprehensive risk control and management system of the Group, as described in the *General Risk Control and Management Policy*, and the adaptation thereof to ensure compliance with the risk policies.
  - ii. **The effective operation** of the Internal Control over Financial Reporting (ICFR) System established by the Company for preparing and presenting the financial information of the Group, including information that the Company must regularly publish due to its status as a listed company.
  - iii. **The effective application** of the rules, protocols and procedures making up the Group's Compliance System, which is intended to prevent action or conduct that is improper or contrary to ethics or the law, including, without limitation, supervision of the measures established to prevent corruption, fraud and conduct constituting bribery, as well as programmes to prevent the commission of crimes.
  - iv. **The effective operation** of the overall framework for the control and management of the Group's cybersecurity risks, as well as the framework for the governance and management of the processes and actions relating to information technology (IT) within the Group.
  - v. **The effective operation** of the mechanisms established by the Group for implementing the the environmental and social policies.
  - vi. **Verification** that the investment and divestment processes comply with applicable risk policies and guidelines and that the procedures pursuant to which they are performed ensure proper internal control and effective management of the related risks.
  - vii. **The effective operation** of the Internal Control over Non-Financial Reporting (ICNFR) System established by the Company for preparing and presenting the non-financial information of the Group.
2. The Internal Audit Area and the Internal Audit Divisions shall also engage in any other actions needed to perform their duty of ensuring the effective operation of the Group's internal control system.
3. The Internal Audit Area and the Internal Audit Divisions shall also have such other powers of a singular or permanent nature as are assigned thereto by the board of directors of the relevant company or that are vested therein by the Governance and Sustainability System.
4. In performing the above duties, as well as in preparing the annual activities plans provided for in article 10 of these *Basic Regulations*, they must take into account the powers of assurance of other areas of the Company and of the Group in order for the responsibilities of the Internal Audit Area and the Internal Audit Divisions to be clearly defined and in order for there to be proper mechanisms of coordination with other assurance functions.  
 Along these lines, the powers of the Internal Audit Area and of the Internal Audit Divisions set out in this article shall not include the duties assigned to the Risk and Assurance Division in relation to the management and supervision of the Group's risks, and particularly the development and implementation of the risk policies.
5. Furthermore, the Internal Audit Area and the Internal Audit Divisions, as applicable, must be informed of the provision of any assurance services to the Group by outside service providers. When appropriate, the Internal Audit Area and the Internal Audit Divisions shall coordinate such services when related to their respective domains.

## TITLE IV. RESOURCES, BUDGET AND ANNUAL ACTIVITIES PLAN

### Article 9. Material and Human Resources

Both the Internal Audit Area and the Internal Audit Divisions shall have access to the human, financial and technological resources necessary to perform their duties.

### Article 10. Annual Activities Plan and Budget

1. The director of the Internal Audit Area shall prepare a proposed annual activities plan of the Internal Audit Area and shall submit it for the approval of the ARSC. Such proposal:

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- i. shall contain the budget of the Internal Audit Area for engaging in its activities during the next financial year;
  - ii. shall take into account the principal financial and non-financial risk areas of the businesses (including reputational risks);
  - iii. shall clearly identify and define the responsibilities of each business for proper coordination with any other assurance functions, like the risk management and control, financial and non-financial information control, compliance and external audit units.
  - iv. shall establish the audit objectives and the work to be performed, as well as the resources necessary for the implementation thereof, both human (internal and external) and financial and technological; and
  - v. shall take into account any suggestions that the Board of Directors, the ARSC and the members of senior management have communicated thereto.
2. Once approved by the ARSC, the budget for the Internal Audit Area shall be sent to the chairman of the Company's Board of Directors, who shall present it to the Board of Directors for review.
  3. The heads of the Internal Audit Divisions shall present to the relevant ACC the proposed annual activities plan and budget for the performance of their activities during the next financial year, for approval thereof and submission to the chair of the board of directors of the relevant company, who shall submit it to such board of directors for review in the case of the annual activities plan and for approval with respect to the budget.  
If an Internal Audit Division belongs to a company of the Group that does not have an ACC, the board of directors of such company shall be in charge of approving the activities plan and budget proposed by such Internal Audit Division.
  4. The director of the Internal Audit Area and the heads of the Internal Audit Divisions shall periodically review their respective annual activity plans in order to evaluate the adequacy thereof to cover the risks identified and, if applicable, propose to the ARSC or to the relevant ACC for approval the changes they deem appropriate.  
If an Internal Audit Division belongs to a company of the Group that does not have an ACC, the board of directors of such company shall be in charge of approving said changes to the annual activities plan.
  5. Compliance with the annual activities plan shall be one of the objectives of the director of the Internal Audit Area and of the heads of the Internal Audit Divisions.

#### Article 11. Activities Report and Recommendations

1. The director of the Internal Audit Area shall regularly report to the ARSC (and the heads of the Internal Audit Divisions shall report to their corresponding ACCs) on the implementation of the budget and the annual work plan, including any impacts and limitations on scope arising during the development thereof, as well as the results and the conformance to the recommendations of the Internal Audit Area (or Internal Audit Divisions, as applicable). At the end of each financial year, a report on the activities thereof shall also be submitted thereto, which report must contain at least a summary of the activities performed and reports issued during the financial year, explaining what work provided for in the annual plan has not been carried or performed without being provided for in the initial plan, as well as an inventory of weaknesses, recommendations and action plans.
2. In particular, the director of the Internal Audit Area shall regularly report to the ARSC (and the heads of the Internal Audit Divisions shall report to their corresponding ACCs) the recommendations resulting from the audit work thereof and on the status thereof, if applicable.
3. The director of the Internal Audit Area shall also regularly report to the ARSC on whether the members of senior management of the Company take into account the conclusions and recommendations contained in its reports.

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## TITLE V. POWERS AND DUTIES

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### Article 12. Powers

1. The Internal Audit Area, through its director, shall have access to the documentation, information or information systems it deems necessary or appropriate for the exercise of its powers, without prejudice to observing the law and the internal rules of the Company and its Group.
2. In the exercise of its powers, the Internal Audit Area may obtain assistance from any member of the management team or professional of the Company, as well as from other specialised areas both within and outside of the Company.
3. The director of Internal Audit Area shall generally have the powers necessary to carry out the duties he or she is called upon to perform.
4. The director of the Internal Audit Area shall act transparently, informing the affected parties of the purpose and scope of its activities whenever practicable
5. The foregoing shall similarly apply to the heads of the Internal Audit Divisions.

### Article 13. Duties

The members of the Internal Audit Area and of the Internal Audit Divisions must:

1. act with independence of judgement and action with respect to the rest of the organisation and perform their work with the utmost diligence and professional competence.





2. refrain from disclosing any information, data, reports or background information to which they may have access while in office, nor use any of the foregoing for their own benefit or that of third parties, without prejudice to any applicable duties of transparency and reporting. This duty of confidentiality shall survive even after the members no longer hold such position.

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## TITLE VI. COMPLIANCE, INTERPRETATION AND AMENDMENT

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### Article 14. Compliance

1. The members of the Internal Audit Area and of the Internal Audit Divisions have the obligation to know and comply with these Basic Regulations, for which purpose they shall be permanently published on Iberdrola's corporate website and shall form part of the management tools of the Internal Audit Area. The director of the Internal Audit Area and the heads of the Internal Audit Divisions shall also inform all of their members of any change in these *Basic Regulations*.

The professionals of the Group have the obligation to know these *Basic Regulations* to the extent they are affected hereby and to comply with the provisions applicable thereto, for which reason the director of the Internal Audit Area and the heads of the Internal Audit Divisions shall ensure the proper dissemination hereof.

2. The director of the Internal Audit Area and the heads of the Internal Audit Divisions shall have the duty to ensure compliance with these *Basic Regulations*.

### Article 15. Interpretation

1. Any questions or disputes regarding the interpretation of the *Basic Regulations* shall be resolved by the director of the Internal Audit Area, who shall take into consideration the provisions of the Governance and Sustainability System, and if none apply, to the International Standards for the Professional Practice of Internal Auditing approved by the Institute of Internal Auditors (IIA). In the event of questions or conflicts, the director shall request the opinion of the ARSC.
2. The director of the Internal Audit Area shall inform the following of the standards of interpretation that have been adopted: (i) the heads of the Internal Audit Divisions; and (ii) the secretary of the ARSC, who in turn shall communicate them to the secretary of the Company's Board of Directors.

### Article 16. Amendment of the *Basic Regulations*

Any amendment to these *Basic Regulations* must be approved by Company's Board of Directors, which amendment shall be submitted thereto by its chairman, at the proposal of the ARSC.

Without prejudice to the foregoing, the Board of Directors may make amendments to these *Basic Regulations* without a prior proposal from the ARSC within the context of reforms to the Governance and Sustainability System that make advisable or require technical non-substantive amendments to the *Basic Regulations*.