

# Terms of Reference of the Scottish Power Limited Board of Directors

Approved by Scottish Power Limited Board on 7 October 2020

## Article 1. Purpose

1. These Terms of Reference of the board of directors (the “**Board of Directors**”) of Scottish Power Limited (the “**Company**”) contain the guidelines that are to govern all action(s) taken by the Board of Directors of the Company, the basic rules for the organisation and operation thereof and the rules of conduct to be observed by the Board of Directors, in order to achieve the greatest degree of transparency, effectiveness, dynamism, supervision and control in the performance of its management and duties and representation of the interests of the ScottishPower Group (as hereinafter defined), in accordance with the *Purpose and Values of the Iberdrola Group*.
2. These Terms of Reference further develop and supplement the legal provisions applicable to the Board of Directors of the Company and form part of the corporate governance system thereof. The Company’s corporate governance system is the set of documents made up of the *Corporate Policies*, the internal corporate governance rules, and the other internal codes and procedures approved by the appropriate bodies of the Company.
3. These Terms of Reference have been prepared taking into account the good governance recommendations generally recognised in international markets.
4. The guidelines for action and the rules for the organisation and the operation of the management decision-making bodies within the subsidiary companies within the group whose controlling entity, within the meaning established by law, is the Company (the “**ScottishPower Group**”) shall be governed by the terms of reference relevant to those companies.
5. Such terms of reference shall conform to the principles set forth in these Terms of Reference, without prejudice to any adjustments that may be required based on the circumstances of each company, and shall, in all cases, abide by the guarantees required by the Company’s corporate governance system and the principles of coordination and information that must govern the relations among the management decision-making bodies of the various subsidiary companies of the ScottishPower Group in order for them to fully comply with their respective duties.

## Article 2. Scope

1. These Terms of Reference apply to the Board of Directors, the representative decision-making bodies thereof (whether collective or single-person) and its internal committees (if any).
2. The persons and bodies to whom these Terms of Reference apply shall have the duty to be informed of them, to comply with them and to enforce them, for which purpose the secretary of the Company shall provide the Board of Directors with a copy that is to be acknowledged by means of a signed receipt, and that is to be published to the Directors’ website and the Company’s corporate website.

3. The Board of Directors shall comply with and enforce the provisions of the Company's corporate governance system and shall confirm such commitment in writing upon accepting their appointment or re-election in such manner as is determined by the secretary of the Company.

### **Article 3. Approval, Amendment and Priority**

1. These Terms of Reference of the Board of Directors established from time to time further develop and supplement the law and the provisions set out in the current Articles of Association of the Company.
2. In the event of a conflict between these Terms of Reference, the law and Articles of Association, the law and Articles of Association shall prevail.
3. These Terms of Reference shall be interpreted in accordance with the Company's corporate governance system.
4. These Terms of Reference, and any amendment to them, must be approved by resolution of the Board of Directors.

### **Article 4. General Principles**

1. Pursuant to the Board of Directors' powers to establish rules to regulate itself and make provision for the management of its internal activities and its disposal of matters, each Director of the Board of Directors, including the Chief Executive Officer, shall, in accordance with their fiduciary duties (including in particular, but not limited to their duty under section 172 of the Companies Act 2006) independently carry out their functions and competencies with due regard to the corporate interest and common purpose, in accordance with the Iberdrola Group's *Purpose and Values of the Iberdrola Group* and *Code of Ethics*, adopted by the Company from time to time as part of the Company's corporate governance system, and to all applicable legislation, including, in particular, the applicable provisions regarding the separation of regulated activities.
2. These Terms of Reference also express the Company's commitment to the purpose (to continue building, together each day, a healthier, more accessible energy model, based on electricity) and the values (sustainable energy, integrating force and driving force) of the *Purpose and Values of the Iberdrola Group* and the *Code of Ethics* as adopted by the Company from time to time, which, shall form the basis of the Company's corporate ideology and ethical principles, and guide its corporate purpose and strategy and performance. The Board of Directors will take note of the fact that the Company shares (in so far as adopted by the Company and given its place within the group) the corporate interest of the Iberdrola group (being the multinational group of companies whose listed and controlling entity, pursuant to Spanish law is Iberdrola, S.A., hereinafter, the "**Iberdrola Group**"), which is aimed at creating sustainable value for all Iberdrola Group shareholders, taking into consideration and involving all stakeholders related to the Iberdrola Group's business and making them participants in the social dividend generated by its activities, and contributing to the achievement of the Sustainable Development Goals approved by the United Nations (the "**SDGs**").

### **Article 5. Corporate Interest**

The Company, pursuant to its status as the Iberdrola Group's sub-holding company in the United Kingdom, shares with the Iberdrola Group the concept that it is the duty of each Director to act in the way he/she considers, in good faith, would be most likely to be in the corporate interest of the Company, understood as that most likely to promote the success of the Company for the benefit of all shareholders of the Company, taking into account other stakeholders related to its business (including, in relation to the Company and in particular, having regard to the matters set out under section 172 of the Companies Act 2006).

**Article 6. Social Dividend**

1. The performance of the activities included within the Company's corporate objectives, particularly the Company's innovation and digital transformation strategy, must be focused on the sustainable creation of value, in accordance with the *Purpose and Values of the Iberdrola Group* and the commitments made in the *Code of Ethics*.
2. The Company, as the Iberdrola Group's sub-holding company in the United Kingdom, contributes to the Iberdrola Group's social dividend, which is understood as the direct or indirect contribution of value through its activities for all stakeholders, and, in particular, through its contribution to the achievement of the SDGs. In this respect, the Company may collaborate with entities related to the Iberdrola Group in order to promote and carry out activities developed in relation to the sustainable development policies of its business.
3. The Company's performance in social, environmental and sustainability areas, as well as the social dividend generated and shared with its stakeholders, make up the Company's non-financial information, and the Company shall in accordance with any stakeholder engagement policy as may be adopted by the Company (and in coordination with Iberdrola, S.A.) promote the public dissemination of its non-financial information and the corporate dividend generated, especially among its stakeholders.

**Article 7. Applicable Legal Provisions, Corporate Governance System and Compliance System**

1. The Company is governed by its constitutional documents and all applicable laws, rules and regulations, as well as by its corporate governance system which is adopted by the Board of Directors.
2. The corporate governance system is the Company's internal system of rules, made up of the Articles of Association, and those corporate policies and other governance and compliance rules that have been approved or adopted by the Board of Directors, including the *Purpose and Values of the Iberdrola Group* and the *Code of Ethics* and those corporate policies and other governance and compliance rules that have been approved by the board of directors of Iberdrola, S.A. pursuant to its status as the Iberdrola Group holding company and adopted by the Company, and thus incorporated into the Company's corporate governance system.
3. The corporate governance system is founded upon the principles of the *Purpose and Values of the Iberdrola Group*, which define the ideological foundation of the Company's business, which, due to its size and importance, is a focal point for a large number of stakeholders and the economic and social environments in which it and its subsidiaries carry out their businesses.
4. The Board of Directors is responsible for the development, application and interpretation of the rules making up the corporate governance system (along with any rules approved by the sole shareholder of the Company), including in relation to ensuring compliance at all times with the purposes of the corporate governance system and the fulfilment of the corporate interest of the Company.
5. Full or summarised versions of the rules making up the corporate governance system shall be made available on the Company's corporate website (in so far as not confidential or internal in nature).
6. The Company shall have a compliance system to prevent and manage the risk of regulatory and ethical breaches and breaches of the corporate governance system, and to contribute to the full realisation of the *Purpose and Values of the Iberdrola Group* and the corporate interest of the Company.

**Article 8. Powers of the Board of Directors**

1. The principal responsibility of the Board of Directors (subject to their fiduciary duties) is the formulation and implementation of ScottishPower Group strategy and in formulating ScottishPower Group strategy the Directors shall take into account Iberdrola Group strategy where the Directors believe this is in the interests of the ScottishPower Group.
2. In addition, without prejudice to the power of the shareholder(s) of the Company (in such capacity) to take shareholder type decisions in relation to the Company, there are a number of matters reserved exclusively to the Board of Directors (or to any committee of the Board of the Directors duly authorised in this regard), subject to matters delegated to Scottish Power Generation Holdings Limited, Scottish Power Energy Networks Holdings Limited and ScottishPower Renewable Energy Limited boards of directors pursuant to their respective terms of reference in force from time to time.
3. Within the scope of its authority relating to the general duty of supervision, organisation and strategic coordination of the ScottishPower Group, the Board of Directors shall deal with the following matters, among others:
  - a) disseminate, implement and monitor in respect of the head of business sub-holding companies of the ScottishPower Group, the policies, strategies and general guidelines established by Iberdrola, S.A. as the holding company of the Iberdrola Group (and as adopted by the Company) in the interest of all the companies in the Iberdrola Group, taking into account the characteristics and peculiarities of the businesses carried out by the sub-holding companies and respecting their autonomy to carry out the day-to-day administration and effective management of their businesses, as well as their responsibility for the ordinary control thereof;
  - b) approve the annual consolidated budget of the Company and its subsidiaries taking into account their budget forecasts and in accordance with the budgetary bases of Iberdrola, S.A. as the holding company of the Iberdrola Group;
  - c) approve, following a report from the Audit and Compliance Committee, the financial information relating (directly or indirectly) to the Company and its subsidiaries, which shall have also been reviewed by the auditor of the Company, if appropriate;
  - d) approve the non-financial information relating (directly or indirectly) to the Company and its subsidiaries, in so far as required for the non-financial information reporting of Iberdrola, S.A., the Company and/or the ScottishPower Group;
  - e) prepare proposals for the distribution of dividends in accordance with any policy relating to dividends as adopted by the Company and in accordance with the Articles of Association of the Company;
  - f) promote and supervise the strategy relating to the Company's engagement with its respective stakeholders, in accordance with the policy and model established in this respect at the Iberdrola Group level, and approving in particular the framework of collaboration with the ScottishPower Foundation for the promotion and execution of activities relating to sustainable development policies in the United Kingdom;
  - g) oversee compliance by the Company and its subsidiaries with the personal data protection regulations in accordance with any policies in this regard within the corporate governance system of the Company, in respect of which the Data Protection Officer shall periodically provide a report to the Board of Directors (via the Company's Audit and Compliance Committee);
  - h) ensure, within the ScottishPower Group, the effective separation of the regulated activities carried out by the various companies thereof upon the terms required by applicable regulations in the markets and regions in which they operate;
  - i) establish with Iberdrola, S.A., pursuant to its status as the holding company of the Iberdrola Group, the mechanisms that shall enable the exchange of information

between the Company and the head of business sub-holding companies of the ScottishPower Group, which is necessary for strategic coordination at the Iberdrola Group level in the interest of all the companies in the Iberdrola Group, without undermining the autonomy of the Company and its subsidiaries, and the requirements imposed on their Directors by law;

- j) oversee the provision of common services to the head of business sub-holding companies of the ScottishPower Group, in accordance with applicable legislation and, in particular, the legal provisions regarding the separation of regulated activities, supervise contracts for the provision of intragroup services, and oversee and coordinate (as appropriate) any relevant support provided to the governance bodies established within the Iberdrola Group as applicable to the Company or the ScottishPower Group;
  - k) support/promote the presence of the Company and its subsidiaries on social media, and support/promote the development of the Iberdrola Group's communication and innovation strategy and digital transformation;
  - l) establish the structure and accessibility of the Company's corporate website, through which the *Purpose and Values of the Iberdrola Group* as well as the *Code of Ethics* shall be disseminated, which shall identify the Company's activities, its relationship with the Iberdrola Group, and its position on matters of corporate governance, sustainability and the environment, and which shall facilitate the Company's engagement with its stakeholders and the public; while also ensuring an appropriate level of coordination among the Company's corporate website and those of the head of business sub-holding companies of the ScottishPower Group;
  - m) approve, authorise or take note of proposals for the appointment and removal of directors of subsidiaries of the Company in accordance with any Iberdrola Group policy adopted by the Company as it relates to the appointment and removal of directors of the ScottishPower Group;
  - n) review and decide on possible conflicts of interest, significant transactions and related-party transactions among the companies of the ScottishPower Group; and
  - o) approve the creation or acquisition of interests in special purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature that, due to the complexity thereof, might detract from the transparency of the ScottishPower Group.
4. The Board of Directors shall create, pursuant to the Articles of Association of the Company, a permanent Management Committee and Audit and Compliance Committee, as well as any other relevant committees. Such committees will have the composition, duties and powers described in their respective terms of reference.
5. The Board of Directors shall appoint among its members one or more executive Directors, including a Chief Executive Officer, with such powers deemed appropriate and being delegable according to law. The Board of Directors may delegate certain defined executive-type powers to the Chairman.
6. The executive Director(s) shall be responsible for the management and day-to-day administration of the Company under the monitoring of the Board of Directors, and particularly shall deal with the following matters, among others:
- a) to promote the application of the Iberdrola Group's and ScottishPower Group's corporate policies and general management guidelines within the scope of the Company's activities, in accordance with the guidelines established by the Company's Board of Directors;

- b) to apply the strategy and policies approved by the Board of Directors with regard to his/her scope of activities and in accordance with the basic management guidelines of the Iberdrola Group and ScottishPower Group;
  - c) to propose to the Board of Directors the annual objectives of the Company (for which the resource budget necessary to achieve them shall be proposed by the Control and Administration Director);
  - d) to promote among the head of business sub-holding companies of the ScottishPower Group any technological or operational best practices and implement and develop the Iberdrola Group's strategy for innovation and digital transformation as may be approved or adopted by the Company, including by any committee established for that purpose with a view to maximising the value of the ScottishPower Group overall for the benefit of its members;
  - e) to represent the Company within the scope of the Company's activities with respect to any relevant stakeholders; and
  - f) to set any other guidelines, policies and practices and make provision for any other delegations in the normal course of management and day-to-day administration in accordance with the above.
7. The Company expects that its conduct and the conduct of its employees will conform and adhere not only to applicable law and the corporate governance system but also to ethical principles and generally accepted principles of social responsibility. The Board of Directors has the authority for such purpose to approve a corporate code of ethics and a directors' code of ethics, applicable to all professionals of the ScottishPower Group and to the members of the Board of Directors, respectively, which includes this commitment.
8. In the area of corporate organisation, the Board of Directors shall take such measures as are required to ensure that:
- a) the chairman of the Board of Directors, as well as the Management Committee and the chief corporate officer, pursue the interests of the ScottishPower Group;
  - b) the strategies for the coordination of relations between the Company and the companies that are members of the ScottishPower Group are established and reviewed on an ongoing basis in order to maximise benefits for all of them; and
  - c) the professionals of the ScottishPower Group and the Directors comply with the provisions of any corporate code of ethics and/or the directors' code of ethics, respectively, as may be approved or adopted by the Board of Directors.

## **Article 9 Board Reserved Matters**

### **1 General**

- a) The making of any proposal to the shareholder(s) of the Company in relation to the alteration to the Memorandum or Articles of Association of the Company.
- b) The making of any proposal to the shareholder(s) of the Company in relation to the appointment or removal from office of any of the Directors or the secretary of the Company.
- c) The making of any proposal to the shareholder(s) of the Company in relation to the appointment or termination of appointment of the Company's Auditors or its lead advisors.
- d) The establishment of appropriate policies, and any material changes to these policies, concerning:

- (i). corporate governance of the ScottishPower Group;
- (ii). risk management and control;
- (iii). innovation;
- (iv). quality assurance;
- (v). environment;
- (vi). HR;
- (vii). health and safety;
- (viii). compliance and ethics;

and the approval of policies to address novel or contentious issues, which may arise, and which may be capable of affecting adversely the interests of the ScottishPower Group.

## 2 **Strategic and Financial Management and Reporting**

- a) The review and approval of, and any material amendments to:
  - (i). the corporate strategy of the ScottishPower Group;
  - (ii). the business plan (including the annual financing strategy) of the Company and the ScottishPower Group;
  - (iii). the budget for the Company and the ScottishPower Group;
  - (iv). annual and multi-annual Investment Plans of the Company and the ScottishPower Group.
- b) The approval of, and any material amendments to, the foreign exchange and interest rate hedging policy and Treasury counterparty credit limits of the ScottishPower Group.
- c) Any material change to the accounting policies adopted by the Company.
- d) The approval of the statutory accounts and financial statements of the Company.
- e) The declaration (or recommendation to the shareholders) of any dividend payable on the ordinary shares of the Company.

## 3 **Capital Structure**

- a) Subject to the Directors' authority to allot, any change to the share capital of the Company in issue from time to time.
- b) Any change exceeding €6m in the share capital of any (a) subsidiary or joint venture of the Company; or (b) joint venture of a subsidiary of the Company (other than Scottish Power Generation Holdings Limited, Scottish Power Energy Networks Holdings Limited and ScottishPower Renewable Energy Limited and their respective subsidiaries and joint ventures) in issue from time to time, except to the extent previously approved by the Board.
- c) The creation of any new (a) subsidiary or joint venture of the Company; or (b) joint venture of a subsidiary of the Company (other than the creation of any new subsidiary or joint venture of Scottish Power Generation Holdings Limited, Scottish Power Energy Networks Holdings Limited, ScottishPower Renewable Energy Limited and their respective subsidiaries) involving the issue of share capital in excess of €6m except to the extent previously approved by the Board.
- d) The issue by any (a) subsidiary or joint venture of the Company; (b) joint venture of a subsidiary of the Company (other than (i) to another ScottishPower Group company or (ii) by Scottish Power Generation Holdings Limited, Scottish Power Energy Networks Holdings Limited, ScottishPower Renewable Energy Limited and their respective subsidiaries and joint ventures) of any debentures or loan capital (whether

secured or unsecured) or other borrowings, in excess of €6m or any significant variation of the terms of such borrowings.

- e) Any change to the parent/subsidiary shareholding structure within the ScottishPower Group involving the dissolution or “hiving-up” of the Company’s principal subsidiaries, except to the extent previously approved by the Board of Directors.

#### **4 Corporate Actions**

- a) Any proposal to acquire or dispose of an interest in the ordinary shares of another company which would require a public announcement under the rules of any stock exchange on which Iberdrola, S.A.’s securities are traded or any other market regulatory authority (subject to any other requirements under the rules of such stock exchange or market regulatory authority, such as shareholder approval).
- b) Any other transaction which would require a public announcement under the rules of any stock exchange on which Iberdrola, S.A.’s securities are traded or any other market regulatory authority (subject to any other requirements under the rules of such stock exchange or market regulatory authority, such as shareholder approval).

#### **5 Mergers and Acquisitions**

- a) The acquisition or sale of assets or properties, whether in the form of a business undertaking or shares in an incorporated company, by any of the Company’s subsidiaries (other than Scottish Power Generation Holdings Limited, Scottish Power Energy Networks Holdings Limited and ScottishPower Renewable Energy Limited and their respective subsidiaries) where any of the following exceed €6m:
  - (i). the consideration;
  - (ii). the aggregate market value of the assets of the business;
  - (iii). the net present value of the business;
  - (iv). the aggregate value of the debts comprised in the business;
  - (v). the aggregate value of any liabilities (other than debt) attached to the business;

or (regardless of the foregoing) where the net present value of the business is negative.

#### **6 Contracts and Other Commitments**

- a) The issue by the Company of any guarantee or other similar contractual (i.e. potentially binding) undertaking, comfort or support, or of the setting of any policy on the granting of guarantees by subsidiaries.
- b) The grant of any mortgage, charge, encumbrance or other security interest over the undertaking, property or assets of the Company (except in substitution for an existing security interest).
- c) Any item of capital expenditure by the Company or any of the Company’s subsidiaries (other than Scottish Power Generation Holdings Limited, Scottish Power Energy Networks Holdings Limited and ScottishPower Renewable Energy Limited and their respective subsidiaries) exceeding €6m.
- d) Any item of operational expenditure by the Company or any of the Company’s subsidiaries (other than Scottish Power Generation Holdings Limited, Scottish Power Energy Networks Holdings Limited and ScottishPower Renewable Energy Limited and their respective subsidiaries), not specifically provided for elsewhere in this section, where the aggregate amount to be paid (undiscounted) during the minimum contractual period exceeds €6m.

- e) The acquisition of real estate by the Company or any of the Company's subsidiaries (other than Scottish Power Generation Holdings Limited, Scottish Power Energy Networks Holdings Limited and ScottishPower Renewable Energy Limited and their respective subsidiaries):
  - (i). if freehold, for a consideration exceeding €6m;
  - (ii). if leasehold, for an aggregate rental, over the minimum duration of the lease, exceeding €6m.
- f) Any contract, or amendment thereof, by the Company or any of the Company's subsidiaries (other than Scottish Power Generation Holdings Limited, Scottish Power Energy Networks Holdings Limited and ScottishPower Renewable Energy Limited and their respective subsidiaries), not specifically provided for elsewhere in this section, which is "**material**" (as defined below) and, where applicable, in accordance with ScottishPower Group purchasing policy, parameters and criteria. A contract, or amendment thereof, will be material where any of:
  - (i). the price/market value of assets being acquired/disposed of;
  - (ii). the income generated;
  - (iii). the expenditure incurred;
  - (iv). any associated liability or indemnity;

exceeds €6m.
- g) Any development or approval of any group investment plan or group strategic project.

## 7 **Litigation and Regulatory Proceedings**

- a) Any decision by any of the Company's subsidiaries (other than Scottish Power Generation Holdings Limited, Scottish Power Energy Networks Holdings Limited and ScottishPower Renewable Energy Limited and their respective subsidiaries) to initiate legal or arbitration proceedings (other than debt recovery) or to settle such proceedings (other than for an amount greater than 50% of the initial budget or claim objective), where the amount claimed exceeds €6m.
- b) Any decision to settle legal, regulatory or arbitration proceedings brought against any of the Company's subsidiaries (other than Scottish Power Generation Holdings Limited, Scottish Power Energy Networks Holdings Limited and ScottishPower Renewable Energy Limited and their respective subsidiaries), where the amount claimed, or to be paid in settlement, exceeds €6m.
- c) The initiation or settlement of proceedings naming any current or previous director or officer of the Company.

## 8 **Other Operational Matters**

All other decisions related to the effective management of the ScottishPower Group's business in accordance with the ScottishPower Group's business policies, parameters and criteria.