

TERMS OF REFERENCE OF THE SCOTTISH POWER LIMITED BOARD OF DIRECTORS

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Article 1. Purpose

The Terms of Reference of the Board of Directors of Scottish Power Limited (the “**Company**”) contain the guidelines that are to govern all action 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 its 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 corporate interest.

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.

These Terms of Reference have been prepared taking into account the good governance recommendations generally recognised in international markets.

The guidelines for action and the rules for organisation and 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 (hereinafter, the “**Group**”) shall be governed by their respective terms of reference.

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 Group in order for them to fully comply with their respective duties.

Article 2. Scope

The 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).

The persons to whom these Terms of Reference apply shall have the duty to be appraised of them, to comply with them and to enforce them, for which purpose the Secretary of the Board of Directors shall provide them with a copy to be acknowledged by means of a signed receipt, include it within the Directors' website, and publish it on the Company's corporate website.

The 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 Board of Directors.

Article 3. Priority & Interpretation

The 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 Articles of Association of the Company (dated 27 February 2009).

In the event of a conflict between the Terms of Reference, the Law and Articles of Association, the Law and Articles of Association shall prevail.

The Terms of Reference shall be interpreted in accordance with the Company's Corporate Governance System.

Article 4. Powers of the Board of Directors

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.

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 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.

Within the scope of its authority relating to the general duty of supervision, organization and strategic coordination of the ScottishPower Group, the Board of Directors shall deal with the following matters, among others:

- Define and coordinate, within legal limits, the ScottishPower Group's strategies and general management guidelines, entrusting to the decision-making bodies and the management of the subsidiary companies of the ScottishPower Group the duties of day-to-day management and effective guidance of each of the business subsidiaries thereof;
- Monitor the general development of the ScottishPower Group's strategies and management guidelines by the subsidiary companies of the ScottishPower Group, establishing appropriate mechanisms for the exchange of information in furtherance of the interests of the Company and of the companies belonging to the ScottishPower Group;
- Decide on matters of strategic significance at the ScottishPower Group level;
- 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;
- Review and decide on possible conflicts of interest, significant transactions and related-party transactions among the companies of the ScottishPower Group;
- 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.

Article 5. Board Reserved Matters

5.1. General

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) The establishment of appropriate policies, and any material changes to these policies, concerning:
 - Corporate Governance of the ScottishPower Group;
 - Risk management and control;
 - Innovation;
 - Quality assurance;
 - Environment;
 - HR;
 - Health and safety;

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.

5.2. Strategic and Financial Management and Reporting

- (i) The review and approval of, and any material amendments to:-
 - the corporate strategy of the ScottishPower Group;
 - the business plan (including the annual financing strategy) of the Company and the ScottishPower Group;
 - the budget for the Company and the ScottishPower Group;
 - annual and multi-annual Investment Plans of the Company and the ScottishPower Group.
- (ii) 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.
- (iii) Any material change to the accounting policies adopted by the Company.
- (iv) The approval of the statutory accounts and financial statements of the Company.
- (v) The declaration of any dividend payable on the ordinary shares of the Company.

5.3. Capital structure

- (i) Subject to the Directors' authority to allot, any change to the share capital of the Company in issue from time to time.
- (ii) Any change exceeding €6m in the share capital of any subsidiary of the Company (other than Scottish Power Generation Holdings Limited, Scottish Power Energy Networks Holdings Limited and ScottishPower Renewable Energy Limited) in issue from time to time, except to the extent previously considered by the Board.
- (iii) The creation of any new subsidiary involving the issue of share capital in excess of €6m except to the extent previously considered by the Board.
- (iv) The issue by any subsidiary of the Company (other than (i) to another ScottishPower Group company and (ii) Scottish Power Generation Holdings Limited, Scottish Power Energy Networks Holdings Limited and ScottishPower Renewable Energy Limited) 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.
- (v) The issue of shares in any principal subsidiary, joint venture or associated company of the Company (being those companies identified as such in the most recent published report and accounts of the Company) which changes the proportion of that company's share capital or control held by the ScottishPower Group.
- (vi) Any change to the parent/subsidiary shareholding structure within the ScottishPower group involving the dissolution or "hiving-up" of the Company's principal subsidiaries (as defined above), except to the extent previously considered by the Board.

5.4. Corporate actions

- (i) 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).

- (ii) 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).

5.5. Mergers and Acquisitions

- (i) 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) where any of the following exceed €6m:
 - the consideration;
 - the aggregate market value of the assets of the business;
 - the net present value of the business;
 - the aggregate value of the debts comprised in the business;
 - 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.

5.6. Contracts and other commitments

- (i) The issue by the Company of any guarantee or other contractual (i.e. potentially binding) undertaking, comfort or support, or any material change to the procedure for approval of the granting of guarantees by subsidiaries.
- (ii) 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).
- (iii) Any item of capital expenditure 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) exceeding €6m.
- (iv) Any item of operational expenditure 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), not specifically provided for elsewhere in this section, where the aggregate amount to be paid (undiscounted) during the minimum contractual period exceeds €6m.
- (v) The acquisition of real estate 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):
 - if freehold, for a consideration exceeding €6m;
 - if leasehold, for an aggregate rental, over the minimum duration of the lease, exceeding €6m.
- (vi) Any contract 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), not specifically provided for elsewhere in this section, which is material. A contract will be "material" where any of:
 - the price/market value of assets being acquired/disposed of;
 - the income generated by these assets;
 - the expenditure incurred by these assets;
 - any liability or indemnity associated with these assets;
 exceeds €6m.
- (vii) Any development of any approved investment plan or strategic project by any of the Company's subsidiaries.

5.7. Litigation and regulatory proceedings

- (i) 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.
- (ii) Any decision to settle legal 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.
- (iii) The initiation or settlement of proceedings naming any current or previous director or officer of the Company.

