



2021 Annual Activity Report

Scottish Power Limited Audit & Compliance Committee

10 February 2022



PRINCIPAL PARTNER
**UN CLIMATE
CHANGE
CONFERENCE
UK 2021**
IN PARTNERSHIP WITH ITALY

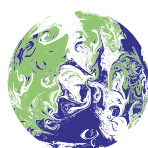
2021 Annual Activity Report

This is the annual report of the Scottish Power Limited Audit & Compliance Committee (the “**Committee**”) prepared in accordance with Article 5 of its Terms of Reference forming part of the Governance and Sustainability System of Scottish Power Limited (the “**Company**”).

This version of the report was presented to and noted at the meeting of the Committee on 10 February 2022, and approved by the Company’s Board of Directors (the “**Board**”) on 14 February 2022.

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I. Introduction

In accordance with the Articles of Association of the Company, the Board originally established the Committee on 27 February 2009 as a permanent internal body with a non-executive, informative and consultative role as defined in its own regulations as updated from time to time and published at: https://www.scottishpower.com/userfiles/file/SPL_ACC_ToRs.pdf (its “**Terms of Reference**”).

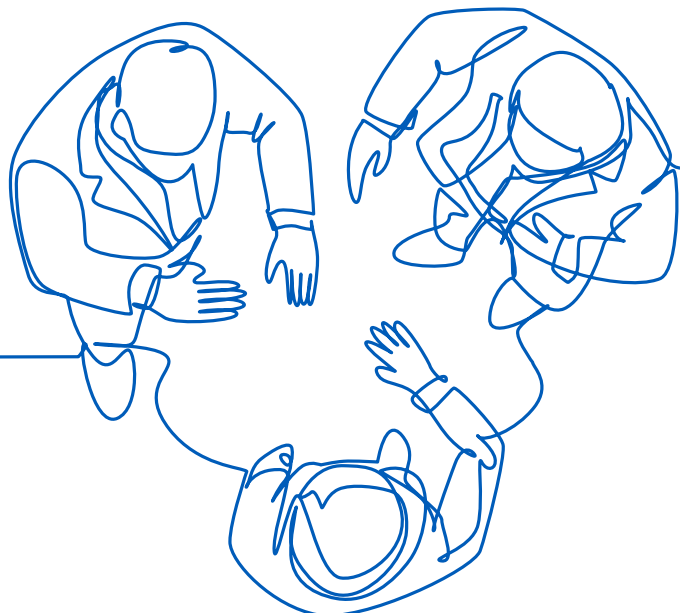
Pursuant to its Terms of Reference, the Committee has powers to gather information, carry out assessments and present proposals to the Board within the scope of its activities.

The Committee provides an additional assurance that the Board supervises the significant risks of the Business of the Company and its Group (generally, “**ScottishPower**”) with the utmost transparency, discipline and rigour. In particular, the Committee is responsible for assessing the effectiveness of ScottishPower’s Internal Control Model, which is integral to the proper attainment of the strategic objectives of ScottishPower in accordance with the Company’s Governance and Sustainability System. While an effective internal control system does not, in and of itself, guarantee the achievement of such goals, it provides formal assurance that the Management of ScottishPower makes its decisions within the framework of the guidelines and standards issued by the Board.

The function and activities of the Committee under its Terms of Reference take into account the fact that the Company is the country sub-holding company in the UK of its ultimate parent

company, Iberdrola, S.A., which is a listed company in Spain and which is the ultimate parent company of the Iberdrola Group. Consequently, the Committee operates, without prejudice to its autonomy, as part of the Iberdrola Group’s wider governance structure and, specifically, an established framework for reporting and collaboration with the Iberdrola, S.A. Audit and Risk Supervision Committee in accordance with both committee’s published regulations.

The Board of Directors of Scottish Power Energy Networks Holdings Limited, an indirectly wholly-owned subsidiary of the Company, has established its own Audit & Compliance Committee (the “**SPENH Committee**”) which undertakes the role and function of the Committee as they relate to the regulated electricity distribution and transmission network operator business within ScottishPower. The relationship between the Committee and the SPENH Committee is governed by both committee’s published regulations, including Article 6 of the Committee’s Terms of Reference.



II. Composition, meetings and attendance

The Committee consists of the following members:

Member	Title	Position
Professor Sir James McDonald	Non Executive Member (Chairman)	Independent Non-Executive Director of Scottish Power Limited
Íñigo Fernández de Mesa Vargas	Non Executive Member	Independent Non-Executive Director of Scottish Power Limited
Daniel Alcaín López	Non Executive Member	Non-Independent, Non-Executive Director of Scottish Power Limited and Iberdrola, S.A. Head of Control and Administration

The composition of the Committee did not change during 2021. The position of secretary of the Committee was held throughout 2021 by Michael Davies, Legal Director – Corporate Services.

All members of the Committee have relevant experience in accounting, financial and/or risk management as per their CVs (published at https://www.scottishpower.com/pages/audit_and_compliance_committee.aspx).

In 2021, the Committee met on 5 occasions and, pursuant to the Committee's procedures under Article 14(6) of the Terms of Reference of the Committee, also passed 4 written resolutions. After the call of each of the meetings, or any procedure to adopt written resolutions, the members of the Committee were provided with all information required to properly prepare for the topics submitted for their consideration.

The meetings of the Committee in 2021 are set out below:

Date	Place where the meeting was held
12 February 2021	Glasgow and by videoconference
4 May 2021	Glasgow and by videoconference
8 July 2021	Glasgow and by videoconference
6 October 2021	Glasgow and by videoconference
9 December 2021	Glasgow and by videoconference

The level of attendance of each of the members of the Committee at the meetings held during 2021 is set forth below:

Member	Meetings attended
Professor Sir James McDonald	Full attendance
Íñigo Fernández de Mesa Vargas	Full attendance
Daniel Alcaín López	Full attendance

III. Committee Highlights 2021

5

Number of meetings

4

Number of written resolutions

31

Reports, Proposals and Updates to the Scottish Power Limited Board of Directors

96

Papers presented to the Committee by Senior Management

(comprising updates from the SPENH Committee) **(20)**

4

Presentations from the External Auditor





IV. MAIN ACTIVITIES

In 2021, the Committee carried out a number of activities in order to effectively discharge the duties entrusted to it by the Board. These functions extend to Scottish Power Limited and all of its subsidiaries ('ScottishPower') (with the exception of those functions carried out by the SPENH Committee for Scottish Power Energy Networks Holdings Limited and its subsidiaries).

The main duties and 2021 activities of the Committee are as set out below.



a) Internal Audit

- Overseeing the independence and efficiency of the Internal Audit Department.
- Approving the guidelines and annual action plans (including objectives) established by the head of the Internal Audit Department.
- Proposing the budget of the Internal Audit Department for its approval by the Board.
- Preparing reports to the Board regarding the appointment, re-election or removal of the head of the Internal Audit Department.
- Overseeing the performance of the head of the Internal Audit Department.
- Receiving regular information on the activities carried out by the Internal Audit Department.
- Ensuring that the managers of ScottishPower take into account the conclusions and recommendations in the reports of the Internal Audit Department.

The Head of Internal Audit presented a report to the Committee at its meeting on 12 February 2021, summarising the main activities and achievements of the Internal Audit department in 2020.

At every meeting in 2021 the Head of Internal Audit presented an update to the Committee on Internal Audit activities, including the current status of management actions.

The Committee approved changes to the 2021 Internal Audit Annual Activities plan on 8 July 2021 and 6 October 2021.

On 9 December 2021, the Committee approved the 2022 Internal Audit Annual Plan, Head of Internal Audit 2022 Objectives and proposed the 2022 Internal Audit Annual Budget for approval by the Board. The annual budget includes the required level of resources to deliver the annual plan, as determined by the Head of Internal Audit. The 2022 Internal Audit Annual Plan was derived in accordance with the guidelines and general plans established by the Director of the Iberdrola Internal Audit Area and ensures that activities are focused on ScottishPower's risks.



b) Internal Monitoring and Risk Management Systems

- Reviewing ScottishPower's internal financial information process and internal risk monitoring and management systems.
- Ensuring that the main risks of ScottishPower are identified, managed and adequately reported.
- Ensuring the establishment of measures necessary to mitigate the impact of any risks identified and introducing information and internal monitoring systems which monitor and manage such risks, including contingent liabilities or off balance-sheet risks.
- Analysing the relevant weaknesses of any internal control system that may have been detected in the course of the audit of ScottishPower.
- Maintaining appropriate relationships with ScottishPower's Risk and Compliance Divisions.
- Promoting a strategy in which risk is a key factor to be taken into account in all decisions and at all levels within ScottishPower.
- Making, at least every six months, a report of the risks of ScottishPower for the Board.
- Informing the Board on the main litigation matters relating to ScottishPower and its subsidiaries, in order to identify the direct or indirect risks and contingent liabilities arising from existing claims and procedures.

The UK Risk Director presented papers to the Committee on 12 February 2021, 8 July 2021, and 9 December 2021 providing an update on the performance against defined key limits and indicators, and the main risks facing ScottishPower.

On 4 May 2021, the ScottishPower Risk Policy Guidelines were presented by the UK Risk Director to the Committee.



c) Risk Department

- Overseeing the activities of the Risk Department and ensuring its effectiveness.
- Approving the Risk Department's annual plan established by the Risk Department.
- Proposing the budget of the Risk Department for its approval by the Board.
- Receiving regular information on the activities carried out by the Risk Department.
- Overseeing and assessing the performance of the Risk Department and its Risk Director (including objectives).

On 9 December 2021, the Committee approved the 2022 Risk Department Activity Plan, Risk Director 2022 Objectives and proposed the 2022 Risk Department Budget for approval by the Board. The annual budget includes the required level of resources to deliver the annual plan, as determined by the Risk Director.



d) Audited Accounts

- Overseeing the preparation, presentation, clarity and accuracy of the financial economic information of ScottishPower.
- Evaluate any proposal regarding any changes within the general accounting practices, policies and procedures of the Iberdrola Group as they relate to ScottishPower and submit proposals or recommendations to the Board.
- Elaborating a report for the Board on the annual, interim semi-annual and quarterly financial statements.
- Gathering information on any adjustments to financial statements identified by the external auditor or resulting from the reviews carried out by the Internal Audit Department, and ScottishPower's position on such adjustments.
- Overseeing compliance with the legal requirements and the correct application of the national and international accounting and financial information principles and practices.
- Informing the Board of the principles which the transactions carried out between any ScottishPower companies and between any such companies and any of the other companies forming part of the Iberdrola group must respect in order to protect the interests of ScottishPower.

On 12 February 2021, the Head of Internal Audit presented a report to the Committee on the independence of the appointed external auditor (KPMG). The Committee noted that the external auditor had confirmed its independence in the letter sent to the Committee on 5 February 2021 and that during 2020 it had not reported any situation or risk that could affect its independence.

On 4 May 2021, the Head of Internal Audit presented the Update Report on ScottishPower's External Audit Fees 2020. The Committee noted the report, approved it and agreed for a presentation of them to the Board. The Committee approved the Proposal on the Terms of Engagement of the 2021 Statutory Audit on 4 May 2021 and agreed for a presentation of them to the Board.

On 9 December 2021, the Committee considered and approved certain non-audit services to be carried out by the external auditor.

As part of the supervision of the auditing of the financial statements by the Committee representatives from the external auditor appeared before the Committee on 12 February 2021 to present the document detailing the results of the external auditor's procedures over the consolidated financial statements of Scottish Power Limited to year end 31 December 2020. Further, representatives from the external auditor appeared before the Committee on 8 July 2021 to present the external auditor's interim review memorandum in respect of the interim financial statements of Scottish Power Limited for the six-month period ended 30 June 2021.

Representatives from the external auditor appeared before the Committee on 6 October 2021 to present the Audit Plan and Strategy for the year ending 31 December 2021 and on 9 December 2021 to provide a verbal update on the external audit.

On 29 April 2021 and 19 May 2021, the Committee passed directors' written resolutions which noted that the audit report and corporate governance report for certain Scottish Power Limited subsidiaries' statutory accounts for the financial year ended 31 December 2020 will require to be extended in connection with the statutory audit of public interest entities.



e) Economic and Financial Information

- Overseeing the preparation, presentation, clarity and accuracy of the financial economic information of ScottishPower.
- Evaluate any proposal regarding any changes within the general accounting practices, policies and procedures of the Iberdrola Group as they relate to ScottishPower and submit proposals or recommendations to the Board.
- Elaborating a report for the Board on the annual, interim semi-annual and quarterly financial statements.
- Gathering information on any adjustments to financial statements identified by the external auditor or resulting from the reviews carried out by the Internal Audit Department, and ScottishPower's position on such adjustments.
- Overseeing compliance with the legal requirements and the correct application of the national and international accounting and financial information principles and practices.
- Informing the Board of the principles which the transactions carried out between any ScottishPower companies and between any such companies and any of the other companies forming part of the Iberdrola group must respect in order to protect the interests of ScottishPower.

One of the most significant activities of the Committee is the periodic submission to the Board of its reports on the approval of the year end and interim economic and financial information of ScottishPower. The Committee approved four reports for the Board, specifically: -

- **Report approved on 12 February 2021 in relation to Year End 2020 Financial Information;**
- **Report approved on 12 April 2021 in relation to Q1 2021 Financial Information;**
- **Report approved on 8 July 2021 in relation to H1 2021 Financial Information; and**
- **Report approved on 6 October 2021 in relation to Q3 2021 Financial Information.**

These four above reports of the Committee provided the Board with an opinion on the following: changes to the accounting policies and practices from those adopted in the 2020 consolidated annual accounts of the Iberdrola Group; and potential risks and sources of uncertainty in the accounting policies and practices adopted with potentially significant impact in the 2021 consolidated annual accounts.

At the Committee meetings held on 12 February 2021 and 8 July 2021, the Head of Internal Audit also provided assurance on the

processes relating to the preparation of the financial information for the 2020 year end and the first half of 2021 in ensuring that all required reviews, guarantees and certification had been completed.

On 12 April 2021, the Committee passed a directors' written resolution which approved and noted various matters in relation to the financial information for Q1 2021.

During 2021, the Control and Administration Director presented to the Committee a quarterly update about financial performance. In addition, the external auditors presented its conclusions of the 2020 statutory audit. The external auditors also presented conclusions of 1H 2021 review, audit plan and strategy for the year end audit and a verbal update on the year end audit.

On 6 October 2021 the Committee reviewed the 2021 list of Intercompany Contracts for the ScottishPower Group together with the standards and principles upon which those transactions were based and informed the Board of the same.

On 12 February, 8 July, 6 October and 9 December 2021, the CEO of SP Retail provided an update on Retail Debt.



f) Non-Financial Information

Supervising the preparation and presentation process (including clarity and integrity) of the non-financial information of the ScottishPower Group.

On 12 February 2021 the Committee reviewed the annual preparation and presentation process of the 2020 non-financial information of ScottishPower and approved its report for the Board in relation to the same.



g) Compliance, Good Governance and Prevention and Correction of Fraudulent and Illegal Behaviours

Receiving information from the Compliance Division in connection with any matter relating to regulatory compliance and the prevention and correction of illegal or fraudulent conduct.

- Reviewing, through the Compliance Division, the internal policies and procedures of ScottishPower to verify the effectiveness thereof to prevent inappropriate conduct and identify any policies or procedures that might be more effective at promoting the highest ethical standards.
- Reporting to the Board on the amendments of the Compliance Division Regulations.
- Reviewing and ratifying the annual operating budget of the Compliance Division for submission to the Board and ensuring that the independence and effectiveness of the unit and that it has the necessary human and material resources to perform its duties.
- Approving the annual activity plan (including objectives) for the Compliance Division.
- Reporting the proposal(s) of the appointment(s) for the Compliance Director.

- Reviewing the status of compliance with laws, regulations and internal procedures and the scope and status of systems designed to promote ScottishPower's compliance with laws, regulations and internal procedures.
- Receiving information from the Compliance Division on matters relating to the effectiveness of the Companies compliance system.

On 12 February 2021, 4 May 2021, 8 July 2021 and 6 October 2021, the Compliance Director presented a report to the Committee to update on the Compliance Unit activities for Q4 2020, Q1 2021, Q2 2021 and Q3 2021 respectively.

On 12 February 2021, the UK Group Tax Director presented a report on the Degree of Compliance with the Corporate Tax Policy which was approved by the Committee.

On 12 February 2021, the Compliance Director presented a report on the effectiveness of the SP Compliance System to the Committee.

On 12 February 2021, the Committee Secretary presented the PWC Governance System Evaluation Report evaluating the governing bodies of the subsidiary companies of Iberdrola, S.A. for 2020. The Committee approved the relevant areas of the report and agreed that a copy of the report would be sent to the Scottish Power Limited Board secretary.

On 4 May 2021, the Compliance Director presented an update on the effectiveness of the 2020 Crime Risk Mitigation Programme.

On May 4 2021, the Finance and Resources Director and the Head of IT Quality, Security and Risk presented an update on GDPR and Cyber Security.

On 6 October 2021, the Compliance Director presented the results of the 2021 Fraud, Bribery and Corruption Risk Assessment and a review of Compliance Policies.

On 6 October 2021, the UK Group Tax Director presented a Tax Strategy Paper setting out, among other things, the approach to risk management and governance arrangements for UK taxation. The Committee approved the paper and agreed that it would be presented to the Board.

On 6 October 2021, the Data Protection Officer presented her report regarding data protection compliance which was also presented to the Board.

On 9 December 2021, the Committee approved the 2022 Compliance Division Activity Plan, Compliance Director 2022 Objectives and proposed the Compliance Division 2022 Annual Budget for approval by the Board. The annual budget includes the required level of resources to deliver the annual plan, as determined by the Compliance Director.



h) Irregular and Improper Financial Conduct

- Establishing and supervising, in coordination with the mechanisms established by the parent company of the Iberdrola group, the channels which permit employees of ScottishPower to communicate confidentially and, if it is deemed appropriate, anonymously, any potentially significant irregularities, especially those which are financial or accounting in nature which they may have witnessed at ScottishPower.
- Undertaking the necessary investigations regarding claims by third parties against ScottishPower or regarding irregular or anomalous conduct.

On 6 October 2021, the ScottishPower General Counsel and Secretary to the Board provided a report for the Committee on Legal Claims and Regulatory Investigations. The aim of this report is to provide the Committee with an update on the status of major legal claims and regulatory investigations and potential legal risks affecting ScottishPower.



i) Special Purpose Vehicles and Tax Haven Companies

- Informing the Board prior to adoption of any decision on the creation or acquisition of holdings in special purpose vehicles or in entities domiciled in countries or territories which are considered tax havens.
- Producing for the Board a report on the monitoring of special purpose vehicles and entities domiciled in countries or territories which are considered tax havens.
- Informing the Board of any other transactions or operations of a similar nature which, due to their complexity, could undermine the transparency of the Iberdrola group.

On 8 July 2021, the ScottishPower General Counsel and Secretary to the Board presented a report for the Committee on Liquidations and Special Purpose Entities (SPVs) which detailed recent changes since July 2020 with respect to ScottishPower SPVs and Iberdrola SPVs in the UK and provided an update on the programme of SPV liquidations. The ScottishPower General Counsel and Secretary to the Board further presented a monitoring report on SPVs or entities domiciled in tax havens. The ScottishPower General Counsel and Secretary to the Board noted that there were no SPVs registered in tax havens within ScottishPower and that all non-essential SPVs have either been successfully liquidated or sold.



j) Business Separation of Activities Compliance

- Giving its opinion and noting on an annual basis the Compliance Director Report on Business Separation which provides an update on compliance with the separation of activities focusing on the effectiveness of the practices, procedures, and systems adopted in accordance with applicable regulatory requirements of ScottishPower.
- Overviewing any regulated activities business separation report of ScottishPower.
- Informing the Board in advance of any changes to the business separation regulatory requirements applicable to ScottishPower.

- Considering the suitability and informing the Board in advance about all proposed directors appointments and removals to all regulated business subsidiaries of Scottish Power Limited in order to protect the effective management independence of the regulated companies.

The Distribution and Transmission licence conditions include a number of requirements relating to separation between electricity network businesses and competitive energy activities. They also require the appointment of a Compliance Officer with specific tasks and duties including the preparation and submission of an Annual Report to the Licensee.

On 8 July 2021, the UK Compliance Director presented the Chief Compliance Officer Report on Business Separation 2021/22 which was noted by the Committee.

On 6 October 2021, the Compliance Director presented to the Committee the 2021 Compliance Policies Review paper which recommended certain changes be made to various compliance policies, including the Business Separation Policy and Code of Conduct, which the Committee agreed to submit to the Board for approval.

On 23 December 2021, the Committee passed a directors' written resolution which considered the suitability of proposed director appointment to a UK regulated business subsidiary and approved report on the same to be sent to the Board.



k) Tax Compliance

- Report to the Board on the level of compliance with the Iberdrola Corporate Tax Policy and tax criteria used during the relevant financial year.

On 12 February 2021, the UK Group Tax Director presented a report on the Degree of Compliance with the Corporate Tax Policy and the Committee approved its report for the Board in relation to the same.



l) Audit Committees of UK Subsidiaries

- Coordinating actions and sharing information with the audit and compliance committees that exist in the group companies controlled by ScottishPower (ie. the SPENH Committee) as channelled through the chairmen of the audit and compliance committees of Scottish Power Limited and each subsidiary in question with the purpose to inform the Committee of any matters dealt with by the subsidiaries that might have a significant impact at group level in the UK, all in accordance with applicable legislation and regulations on the separation of regulated activities.

The Committee Secretary, supported by the Head of Internal Audit, presented to the Committee for noting certain reports of the SPENH Committee throughout the year as part of coordinating and sharing information (as appropriate) between the respective committees.



V. APPEARANCES

In 2021, the following officers appeared before the Committee:

Appearing Party	Dates of Meetings Where Appearing
Audit and Compliance Committee Secretary	Full attendance
Head of Internal Audit	Full attendance
Control and Administration Director	Full attendance
Compliance Director	Full attendance
UK Risk Director	12 February 2021, 4 May 2021, 8 July 2021 and 9 December 2021
UK Group Tax Director	12 February 2021, 6 October 2021 and 9 December 2021
Head of IT Quality, Security and Risk	4 May 2021
Finance & Resources Director	4 May 2021
Head of Data Privacy and Protection	6 October 2021
CEO of ScottishPower Energy Retail	12 February 2021, 8 July 2021, 6 October 2021 and 9 December 2021
UK Corporate Affairs Director	12 February 2021
General Counsel and Secretary to the Board	8 July 2021 and 6 October 2021

Members of the external auditor's team appeared before the Committee on 12 February 2021, 8 July 2021, 6 October 2021 and 9 December 2021.

VI. Training

During 2020, the Committee received briefings and training on a number of areas, including the following topics:

Date	Training Topic
12 February, 8 July, 6 October & 9 December 2021	Retail Debt
4 May 2021	Data Protection & Cyber Security
8 July 2021	Special Purpose Vehicles
6 October 2021	Legal Claims & Regulatory Investigations Data Protection

VII. CONCLUSIONS

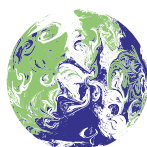
The Committee provided assurance to the Board throughout 2021 with the following being among its key activities:

- **Internal Audit:** Continuous monitoring of Internal Audit activities (including 2021 objectives), approval of the 2022 Internal Audit Annual Activity Plan (including 2022 objectives) and proposal of the 2022 Annual Budget for approval by the Board.
- **Internal Monitoring and Risk Management Systems:** Reviewing risk reporting, noting that risk limits and indicators did not report major risk issues and that the risks identified through the key risk reporting process are the major risks faced by the business.
- **Risk:** monitoring of Risk Department activities, approval of the 2022 Risk Department Annual Activity Plan (including 2022 objectives) and proposal of the 2022 Annual Budget for approval by the Board.
- **Audited Accounts:** Proposal of the terms of engagement and monitoring the independence of the external auditor.
- **Economic and Financial Information:** Monitoring of financial and economic information, noting that no SP Group company had qualified statutory accounts. This included changes in accounting policies and practices.
- **Non-Financial Information:** supervising the preparation and presentation (including the clarity and integrity) of the 2020 non-financial information.
- **Compliance, Good Governance and Prevention and Correction of Fraudulent and Illegal Behaviours:** Continuous monitoring of Compliance Division activities (including Business Separation and 2021 objectives), approval of the 2022 Compliance Division Activity Plan (including 2022 objectives), proposal of the 2022 Annual Budget for approval by the Board and level of compliance with Iberdrola Corporate Tax Policy.
- **Irregular and Improper Financial Conduct:** Monitoring claims against the company noting that there are no material claims outstanding against ScottishPower.
- **Special Purpose Vehicles and Tax Haven Companies:** Ensuring that no Special Purpose Entities or Entities Domiciled in Tax Havens are in existence or have been created within ScottishPower.
- **Other UK Audit Committees:** Noting the reports of the SPENH Committee.
- **Training of Committee Members:** Receiving briefings and training on a number of areas relevant to the Committee.





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