

Scottish Power Limited Audit & Compliance Committee

12 February 2019

**2018 ANNUAL ACTIVITY
REPORT**



SCOTTISHPOWER



2018 ANNUAL ACTIVITY REPORT

Report for the fiscal year 2018 presented at the Scottish Power Limited Audit & Compliance Committee (the '**Committee**') meeting of 12 February 2019 for noting by the Committee and thereafter submitted to the Board of Directors of Scottish Power Limited on 14 February 2019 for approval, pursuant to article 6 of the Terms of Reference of the Committee.

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I. INTRODUCTION

In accordance with the provisions of the Articles of Association of Scottish Power Limited, the board of Directors established the Committee on 27 February 2009. The Committee is a permanent internal body and has an informative and consultative role. The Committee does not have an executive function. It has powers to gather information, carry out assessments and present proposals to the Board of Directors within the scope of its activities.

The Committee provides an additional assurance that the Board of Directors supervises the significant risks of the Business with the utmost transparency, self-discipline and rigour. In assessing the effectiveness of the Internal Control System, the Committee contributes to the attainment of the strategic objectives of ScottishPower. While an effective Internal Control System does not, in and of itself, guarantee the achievement of such goals, it does provide an assurance that the Management of Scottish Power makes its decisions within the framework of the guidelines and standards issued by the Board of Directors.

The Committee's Terms of Reference set out the authority and responsibilities of the Committee together with its method of operation. The Terms of Reference have been prepared taking into account the fact that the ultimate parent company of Scottish Power Limited is a listed company, is the parent company of the Iberdrola Group and also has an Audit and Risk Supervision Committee within its governance structure.

The Committee exercises its functions with full autonomy, notwithstanding the establishment of a framework for collaborating with and reporting on the development of its functions with the Iberdrola Audit and Risk Supervision Committee and the Internal Audit function as defined in the Regulations of the Audit and Risk Supervision Committee of Iberdrola, S.A.

The Committee consists of the following members:

Member	Title	Position
Professor Sir James McDonald	Non Executive Member (Chairman)	Independent Non-Executive Director – Scottish Power Limited
Juan Carlos Rebollo	Executive Member	Administration and Control Director – Iberdrola, S.A. and Non-Independent and Non-Executive Director – Scottish Power Limited
Nicola Brewer	Non Executive Member	Independent Non Executive Director – Scottish Power Limited
Íñigo Fernández de Mesa Vargas <i>(appointed 12 December 2018)</i>	Non Executive Member	Independent Non Executive Director – Scottish Power Limited

On 19 February 2018, Anthony Gardner resigned from the Committee following his resignation from the Scottish Power Limited Board of Directors.

Throughout 2018, Michael Davies, Legal Director – Corporate Services, acted as Secretary to the Committee.

On 31 January 2018, the Board of Directors of Scottish Power Energy Networks Holdings Limited, an indirect subsidiary of Scottish Power Limited, approved the establishment of the SPENH Audit & Compliance Committee to undertake the role and function of the Committee as



they relate to the Regulated Business within ScottishPower. The relationship between the Committee and the SPENH Committee is set out in Article 5 of the Terms of Reference of the Committee.

II. AUDIT AND COMPLIANCE COMMITTEE MEETINGS 2018

a) COMMITTEE HIGHLIGHTS

	2018
Number of meetings	5
Number of written resolutions	4
Reports, Proposals and Updates to the Scottish Power Limited Board of Directors	21
Papers presented to the Committee by Senior Management (of which updates from the SPENH ACC)	63 (8)
Presentations from the External Auditor	4

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

Title	Date
1. Report from the SP ACC in relation to Degree of Compliance with Corporate Tax Policy	13 February 2018
2. Report from the SP ACC in relation to 2017 Year End Financial Information	
3. Report from the SP ACC in relation to External Auditor Independence	
4. Report from the SP ACC in relation to Enterprise Risk Management	
5. SP ACC 2017 Annual Activity Report	
6. Proposed Amendments to SP A&CC Terms of Reference	
7. Report from the SP ACC in relation to 2018 Q1 Financial Information	29 May 2018
8. Update Report from the SP ACC in relation to ScottishPower's External Audit Fees 2017	
9. Business Separation Policy	
10. Anti-Bribery & Corruption Policy	
11. Risk Policy Guidelines for the UK Liberalised, Networks and Renewables Businesses	
12. Proposed Terms of Engagement of 2018 External Auditors	
13. Report from the SP ACC in relation to Special Purpose Entities	9 July 2018
14. Report from the SP ACC in relation to SP's 2018 Half Year Financial Information	
15. Report from the SP ACC in relation to Enterprise Risk Management	
16. Compliance Officer Report	
17. Report from the SP ACC in relation to SP's 2018 Q3 Financial Information	11 October 2018
18. ScottishPower's Tax Strategy	
19. 2019 Internal Audit Budget	11 December 2018
20. 2019 Compliance Division Budget	
21. Report from the SP ACC on Audit Related Assurance Services	

ii) Senior Management Presentations and Papers

Date	Senior Manager	Presentation
13 February 2018	Control & Administration Director	2017 Year End Financial Performance Review
	Head of Internal Audit	Internal Audit Report on 2017 Year End Financial Information & Certification Process 2017 SP ACC Annual Activity Report 2017 Internal Audit Annual Activity Report Internal Audit Activities Update (including Satisfaction Survey) External Auditors Independence Report SP ACC Report on External Auditor Independence Head of Internal Audit Objectives
	Compliance Officer	Q4 2017 SP Compliance Risk Report & Activity Plan Update Report on the effectiveness of the SP Compliance System
	UK Risk Director	Q4 2017 SP Risk Reporting SP ACC Report on Enterprise Risk Management
	Audit & Compliance Committee Secretary	2017 PWC Governance Evaluation Report Proposed Amendments to the SP A&CC Terms of Reference
	UK Group Tax Director	Compliance with Corporate Tax Policy
	UK Systems Director	IT User Access Update
29 May 2018	Control & Administration Director	2018 Q1 Financial Performance Review and April 2018 Results
	Head of Internal Audit	SP ACC Report on 2018 Q1 Financial Information Internal Audit Activities and Plan Update SP ACC Proposal on Statutory Audit Terms of Engagement SPEN ACC Report on Q1 2018 Financial Information SPEN ACC Report on External Auditor Independence SPEN ACC Enterprise Risk Management

	Compliance Officer	Q1 2018 SP Compliance Risk Report & Activity Plan Update Compliance Policies Update (Business Separation Policy, Anti-Bribery & Corruption Policy) Criminal Risk Mitigation Programme Update
	UK Risk Director	Update on ScottishPower Risk Policies
	UK Systems Director	Access Governance Framework paper

9 July 2018	Control & Administration Director	2018 Half Year Financial Performance Review, Authorisation and Certification Process
	Head of Internal Audit	Internal Audit Financial Review on 2018 Half Year Financial Information and Certification Process SP ACC Report on 2018 Half Year Financial Information and Certification Process Internal Audit 2018 Activities and Plan Update
	UK Risk Director	SP Risk Reporting
	Head of Legal and General Secretary	Liquidations & Special Purpose Entities (Tax Havens) Report SP ACC Report in relation to Special Purpose Entities
	SP Compliance Risk Coordination Manager	Compliance Officer Report – Business Separation Q2 Compliance Risk Report and Activity Plan Update
	UK Systems Director	Access Governance Framework Update
	Audit & Compliance Committee Secretary	SPEN ACC Reports on H1 2018 Financial Information and Enterprise Risk Management SPEN 2017/18 Regulatory Submissions

11 October 2018	Head of Legal and General Secretary	Report on Legal Claims & Regulatory Investigations
	Control & Administration Director	2018 Q3 Financial Performance Review ScottishPower Tax Strategy 2018
	Head of Internal Audit	Internal Audit Report about 2018 Q3 Financial Information SP ACC Report in relation to SP's 2018 Q3 Financial Information Internal Audit 2018 Activities Update

Compliance Officer	2018 Q3 Compliance Report Update 2018 Fraud, Bribery & Corruption Risk Assessment
UK Systems Director	Access Governance Framework Update
Audit & Compliance Committee Secretary	SPEN ACC Reports on H1 2018 Financial Information and Enterprise Risk Management UK Regulation Business Proposed Director Appointment

11 December 2018 Control & Administration Director 2018 Year End Financial Performance Review

Head of Internal Audit	Internal Audit Activities Update 2019 Internal Audit Budget 2019 Internal Audit Plan Related Audit Assurance Services
Compliance Officer	2019 Compliance Activity Plan 2019 Compliance Division Budget Interim Report on Business Separation
Audit & Compliance Committee Secretary	SPEN ACC Reports on Enterprise Risk Management and Audit Related Assurance Services 2018 PWC Governance System Evaluation Proposed Calendar of Sessions & Agendas – 2019
UK Systems Director	Access Governance Framework Update

iii) External Auditor Presentations

Subject	Date
Conclusion of 2017 Statutory Audit	13 February 2018
Conclusions of H1 2018	9 July 2018
External Audit Plan and Strategy for 2018 Statutory Audit	11 October 2018
Conclusions of 9 months to September 2018 / Hard Close Audit Highlights Paper	11 December 2018

b) MEETING AGENDAS

In 2018, the Committee held five meetings. The following tables show the business transacted at each of these meetings:

Session 1 – 13 February 2018

Financial Information Review

- External Audit Report
- 2017 Year End Financial Performance Review
- Internal Audit Report on Year End Financial Information & Certification Process
- SP ACC Report – 2017 Year End Financial Information
- SP ACC Report – Compliance with Corporate Tax Policy

Internal Audit Update

- SP ACC 2017 Annual Activity Report
- 2017 Internal Audit Annual Activity Report
- Internal Audit Activities Update (incl. satisfaction survey)
- External Auditors Independence Report
- SP ACC Report – External Auditor Independence
- Head of Internal Audit 2017 / 18 Objectives

Compliance Division Update

- Q4 2017 SP Compliance Risk Report & Activity Plan Update
- Report on the effectiveness of the SP Compliance System

Risk Update

- Q4 2017 SP Risk Reporting
- SP ACC Report – Enterprise Risk Management

Legal Update

- 2017 PWC Governance Evaluation Report & Conclusions

Any Other Business

- IT User Access Update
- Amendment to Audit & Compliance Committee Terms of Reference

Session 2 – 29 May 2018

Financial Information Review

- 2018 Q1 Financial Performance Review
- Internal Audit Report on 2018 Q1 Financial Information
- SP ACC Report – 2018 Q1 Financial Information

Internal Audit Update

- Internal Audit Activities and Plan Update
- SP ACC Proposal on Statutory Audit Terms of Engagement – 2017 Fee increase & 2018 Statutory Audit

SPENHL Audit & Compliance Committee Update

- SPEN ACC Report on Q1 2018 Financial Information
- SPEN ACC Report – External Auditor Independence
- SPEN ACC Report – Enterprise Risk Management

Compliance Division Update

- Q1 2018 SP Compliance Risk Report & Activity Plan Update
 - Compliance Policies Update (Business Separation Policy, Anti Bribery & Corruption)
-

- Policy)
- Criminal Risk Mitigation Programme Update

Risk Update

- SP Risk Policies

Any Other Business

- Access Governance Framework
-

Session 3 – 9 July 2018

Legal Update

- Liquidations & Special Purpose Entities (Tax Havens) Report
- SP A & CC Report in relation to Special Purpose Entities

Financial Information Review

- External Audit Report
- 2018 Half Year Financial Performance Review
- Internal Audit Report on 2018 Half Year Financial Information & Certification Process
- SP A & CC Report in relation to SP's 2018 Half Year Financial Information

Internal Audit Update

- Internal Audit 2018 Activities and Plan update

SPENHL Audit & Compliance Committee Update

- SPEN ACC Report on H1 2018 Financial Information
- SPEN ACC Risk Report – Enterprise Risk Management
- SPEN ACC Report on SPEN's 2017/18 Regulatory Submissions

Compliance Division Update

- Q2 Compliance Report and Activity Plan Update
- Compliance Officer Report – Business Separation

Risk Update

- SP Risk Reporting
- SP A & CC Report in relation to Enterprise Risk Management

Any Other Business

- Access Governance Framework Update
-

Session 4 – 11 October 2018

Legal Update

- Report on Legal Claims & Regulatory Investigations

Financial Information Review

- External Audit Plan & Strategy (year end 31 December 2018)
- 2018 Q3 Financial Performance Review
- Internal Audit Report in relation to SP's Financial Information Q3 2018
- SP A & CC Report in relation to SP's Q3 2018 Financial Information
- Scottish Power Tax Strategy 2018

Internal Audit Update

- Internal Audit 2018 Activities Update
-

SPENHL Audit & Compliance Committee Update

- SPEN ACC Report on SPEN's 2018 Q3 Financial Information
- SPEN ACC Risk Report on Enterprise Risk Management
- SPEN ACC on the UK Regulation Business Proposed Director Appointment

Compliance Division Update

- Compliance Report Update Q3 2018
- 2018 Fraud, Bribery & Corruption Risk Assessment

Any Other Business

- Access Governance Framework
-

Session 5 – 11 December 2018

Financial Information Review

- External Audit Report
- 2018 Year End Financial Performance Review

Internal Audit Update

- Internal Audit Activities Update
- 2019 Internal Audit Budget
- 2019 Internal Audit Annual Plan
- Audit Related Assurance Services

Compliance Division Update

- 2019 Compliance Activity Plan
- 2019 Compliance Division Budget
- Interim Report on Business Separation

SPENHL Audit & Compliance Committee Update

- SPEN ACC Risk Report – Enterprise Risk Management
- SPEN ACC Report in relation to Audit Related Assurance Services

Legal Update

- 2018 PWC Governance System Evaluation
- Proposed Calendar of Sessions & Agendas – 2019

Any Other Business

- Access Governance Framework Update
-

Article 85 of the Scottish Power Limited Articles of Association makes provision for the use of the electronic written resolution process which can be used in relation to the proceedings of any Board committees. The Committee passed four written resolutions during 2018 on the following matters:

- Q1 2018 Financial Information Report
- Scottish Power UK plc 2017 Extended Audit Report
- Scottish Power Compliance Director Appointment
- Report on Proposed Regulated Business Director Appointment

III. MAIN ACTIVITIES

In 2018, the Committee carried out a number of planned activities in order to effectively discharge the duties entrusted to it by the Board of Directors of Scottish Power Limited.

a) Internal Audit

The Terms of Reference indicate that the role of the Committee is “*To oversee the independence and efficiency of the Internal Audit Department... To approve the guidelines and annual action plans established by the head of the Internal Audit Department... To propose the budget of the Internal Audit Department for its approval by the Board of Directors... [To] prepare a report on the same for submission to the Board of Directors following a proposal from the chairman of the Board of Directors regarding the appointment, re-election or removal of the head of the Internal Audit Department... To oversee the head of the Internal Audit Department... To receive regular information on the activities carried out by the Internal Audit Department... To ensure that the managers of the Company 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 13 February 2018, summarising the main activities and achievements of the Internal Audit department in 2017.

At every meeting in 2018 the Head of Internal Audit presented a report to the Committee to update on Internal Audit activities. On 29 May 2018 and 11 October 2018 this update included management actions.

The Committee approved changes to the 2018 Internal Audit Annual Activities plan on 29 May 2018, 9 July 2018, and 11 October 2018.

On 11 December 2018, the Committee approved the 2019 Internal Audit Annual Activity Plan and proposed the 2019 Internal Audit Annual Budget for approval by the SP Board. The annual budget includes the required level of resources to deliver the annual plan, as determined by the Head of Internal Audit. The 2019 Internal Audit Annual Activity 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 Scottish Power’s risks.

b) Internal Monitoring and Risk Management Systems

The Terms of Reference indicate that the role of the Committee is “*To be aware of and keep under review the Company’s internal financial information process and internal risk monitoring and management systems... To ensure... that the main risks of the Company and those of any of the Company’s subsidiaries are identified, managed and adequately reported... [To] ensure the establishment of measures necessary to mitigate the impact of any risks identified and introduce information and internal monitoring systems which monitor and manage such risks, including contingent liabilities or off balance-sheet risks... [To] maintain appropriate relationships with the Company Risk Division... To make, at least every six months, a report of the risks of the Company for the Board of Directors.*”

The UK Risk Director presented papers to the Committee on 13 February 2018 and 9 July 2018 providing an update on the performance against defined key limits and indicators, and the main risks facing ScottishPower.

On 29 May 2018, the ScottishPower Risk Policies were presented to the Committee.

c) Audited Accounts

The Terms of Reference indicate that the role of the Committee is “*To propose to the Board of Directors the appointment, and the terms of engagement of the Company’s auditors, in accordance with the policy as established by the parent company of the Iberdrola Group... To ensure the independence of the Company’s auditors... [To] issue...on an annual basis and prior to the issuance of the Company’s auditors’ report, a report setting forth an opinion on the independence of the auditors... [To] analyse, together with the auditors, any significant weaknesses detected in the internal control system... To serve as a communication channel between the Board of Directors and the auditors*”.

On 13 February 2018, the Head of Internal Audit presented a report to the Committee on the independence of the appointed external auditor (KPMG). The Committee noted various written declarations from the external auditor confirming its independence during the year. The Committee further noted that the external auditor which attended the last three Committee meetings did not express any concerns relating to its independence.

On 11 December 2018 the Committee considered and approved certain audit related assurance services to be carried out by KPMG.

As part of the supervision of the auditing of the financial statements by the Committee, the external auditor appeared before the Committee to present the conclusions of the 2017 statutory audit, conclusions of 1H 2018 review, audit plan and strategy for the 2018 statutory audit and audit conclusions for the 9 months to September 2018.

d) Economic and Financial Information

The Terms of Reference indicate that the role of the Committee is “*To oversee the process for the preparation of and the integrity of the financial economic information of the Company (including half year information), advising on any proposals for changes to the accounting practices and policies with the general accounting practices and policies of the parent company of the Iberdrola Group...[To] elaborate a report for the Board of Directors on the annual, interim semi-annual and quarterly financial statements... To oversee compliance with the legal requirements and the correct application of the national and international accounting and financial information principles and practices...To inform the Board of Directors of the principles on which the transactions carried out between the Company and any of the other companies forming part of the Iberdrola Group, and any of the Company’s subsidiaries, must respect in order to protect the interests of the Company.*”

One of the most significant activities of the Committee is the periodic submission to the Board of Directors 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 ScottishPower Board of Directors, specifically:-

- Results to 31 December 2017 on 13 February 2018;
- Results to 31 March 2018 on 29 May 2018;
- Results to 30 June 2018 on 9 July 2018; and
- Results to 30 September 2018 on 1 October 2018.

The reports of the Committee provide an opinion to the Board of Directors on the following: Changes in accounting policies and practices from those adopted in the 2017 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 2018 consolidated annual accounts.

At the Committee meetings held on 13 February 2018 and 9 July 2018, the report by the Head of Internal Audit also included an opinion on the processes relating to the preparation of the

financial information for the 2017 year end and the first half of 2018 to ensure that all required reviews, guarantees and certification had been completed.

During 2018, the Finance Director presented to the Committee a quarterly update about financial performance. In addition, the external auditors KPMG presented its conclusions of the 2017 statutory audit. KPMG also presented conclusions of 1H 2018 review, audit plan and strategy for the year end audit and the hard close highlights over audit work performed to 30 September 2018.

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

The Terms of Reference indicates that the role of the Committee is “To receive information from the Compliance Division in connection with any matter relating to regulatory compliance and the prevention and correction of illegal or fraudulent conduct... [To r]eview, through the Compliance Division, the internal policies and procedures of the Company to verify the effectiveness thereof to prevent inappropriate conduct and identify any policies or procedures that are more effective at promoting the highest ethical standards...[To] report to the Board of the Directors on the amendments of the Compliance Division Regulations... [To r]eview and ratify the annual operating budget of the Compliance Division, for submission to the Board of Directors, and ensure that the Unit has the necessary human and material resources to perform its duties, also ensuring its independence and effectiveness. [To a]pprove the annual activity plan for the Compliance Division... [To r]eport the proposals of the appointments for the Compliance Director... To review the status of compliance with laws, regulations and internal procedures and the scope and status of systems designed to promote Company compliance with laws, regulations and internal procedures...[To p]roduce, for the Board of Directors, a report(s) on the level of compliance with the Iberdrola Corporate Tax Policy and the tax criteria used throughout the relevant financial year and after the submission of tax returns.”

On 13 February 2018, 29 May 2018, 9 July 2018, 11 October 2018 and 11 December 2018, the Compliance Officer presented a report to the Committee to update on the Compliance Unit activities.

On 13 February 2018 the SP Tax Director presented a report on the Degree of Compliance with the Corporate Tax Policy which was approved by the Committee.

On 29 May 2018, the Compliance Officer presented a report on the effectiveness of the SP Crime Risk Mitigation Programme and a summary of the conclusions of the external legal review of the Programme.

On 13 February 2018, a report on the effectiveness of SP Overall Compliance System was presented to the Committee.

On 11 October 2018 the Compliance Officer presented the results of the 2018 Fraud, Anti-Bribery and Corruption Risk Assessment.

On 13 October 2018, the Committee by resolution in writing reported to the Board of Directors, which subsequently approved, a proposed change of the appointment of the Compliance Officer.

On 11 December 2018, the Committee approved the 2019 Compliance Division Activity Plan and proposed the Compliance Division 2019 Annual Budget for approval by the SP Board. The annual budget includes the required level of resources to deliver the annual plan, as determined by the Compliance Officer.

f) Irregular and Improper Financial Conduct

The Terms of Reference indicates that the role of the Committee is “To establish and supervise, in coordination with the mechanisms established by the parent company of the Iberdrola Group, the channels which permit employees of the Company 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 the Company...To undertake the necessary investigations regarding claims by third parties against the Company or regarding irregular or anomalous conduct.”

On 11 October 2018, the ScottishPower Head of Legal & General Secretary 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 Scottish Power.

g) Special Purpose Vehicles and Tax Haven Companies

The Terms of Reference indicates that the role of the Committee is “To inform the Board of Directors, 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...To produce, for the Board of Directors, a report on the monitoring of special purpose vehicles or in entities domiciled in countries or territories which are considered tax havens...To inform the Board of Directors of any other transactions or operations of a similar nature which, due to their complexity, could undermine the transparency of the Iberdrola Group.”

On 9 July 2018, the ScottishPower Head of Legal & General Secretary provided a report for the Committee on Liquidations and Special Purpose Entities (Tax Havens) summarising the changes to the ScottishPower group structure. The report provided the Committee with the status of the project to reduce/consolidate the number of companies, including any dormant and special purpose vehicles, within the ScottishPower group.

h) Business Separation of Activities Compliance

The Terms of Reference indicates that the role of the Committee is “To give its opinion and note on an annual basis the Compliance Director Report on Business Separation, submitted to the Committee by the Compliance Director to provide 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 the Company and its subsidiaries. To overview any regulated activities business separation report of the Company and its subsidiaries. To inform to the Board of Directors in advance of any changes to the business separation regulatory requirements applicable to the Company and its subsidiaries. To consider the suitability and inform to the Board of Directors in advance about all proposed directors appointments and removals to all regulated business subsidiaries of the Company 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 9 July 2018, the Committee noted the Compliance Officer’s report on Business Separation. On 11 October 2018 the Committee considered the suitability of a proposed director appointment to a UK Regulated Business subsidiary, and informed the Board of Directors accordingly. On 11 December 2018 the Committee noted the Compliance Officer’s Interim Business Separation Report.

i) Audit Committees of UK Subsidiaries

The Terms of Reference provide that there shall be “a general framework for coordinating actions and sharing information between the audit and compliance committees that may exist in the Group companies controlled by the Company. Such a general framework shall be in accordance with applicable legislation and regulations on the separation of regulated activities.” In particular it is provided that “[the] coordination relationships must be channelled through the chairmen of the audit and compliance committees of the Company and of the subsidiary in question and their purpose shall be to inform the Committee of any matters dealt with by the subsidiaries that might have a significant impact at Group level in the UK.”

Further to the establishment during 2018 of the SPENH Audit & Compliance Committee, the Secretary of the Committee, supported by the Head of Internal Audit, presented to the Committee for noting certain reports of the SPENH Audit & Compliance Committee throughout the year as part of coordinating and sharing information (as appropriate) between the respective committees.

IV. 2019 Outlook

At its meeting on 11 December 2018 the Committee agreed a proposed Calendar of Sessions for 2019. This will ensure that the Committee fulfils its duties and responsibilities as defined in Article 3 of the Terms of Reference. The proposed activities to be covered in the sessions of 2019 are set out as follows:

Audit Committee Function	Proposed Activities
Internal Audit	<ul style="list-style-type: none"> ➤ Presentations by the Head of Internal Audit: <ul style="list-style-type: none"> ○ Head of Internal Audit Objectives ○ 2019 Internal Audit Annual Activity Report ○ Internal Audit Activities and Plan Update ○ 2020 Internal Audit Budget ○ 2020 Internal Audit Annual Plan ○ Audit Related Assurance Services
Internal Monitoring and Risk Management Systems	<ul style="list-style-type: none"> ➤ Presentations by Risk Management Director: <ul style="list-style-type: none"> ○ SP Risk Reporting ○ SP ACC Report - Enterprise Risk Management ○ SP Risk Policies
External Audit	<ul style="list-style-type: none"> ➤ Presentations by the External Auditor: <ul style="list-style-type: none"> ○ Conclusion of 2018 Statutory Audit ○ Conclusions: H1 2019 Review ○ Audit Plan and Strategy for 2019 Statutory Audit ○ 2019 Hard Close Highlights ➤ Presentation by the Head of Internal Audit: <ul style="list-style-type: none"> ○ Terms of Engagement for 2019 Statutory Audit ○ Independence Report for 2018 Statutory Audit
Economic and Financial Information	<ul style="list-style-type: none"> ➤ Presentations by the ScottishPower Finance Director: <ul style="list-style-type: none"> ○ Quarterly Performance Reviews ➤ Presentations by the Head of Internal Audit: <ul style="list-style-type: none"> ○ Quarterly Financial Reviews
Compliance and Good Governance	<ul style="list-style-type: none"> ➤ Presentations by the Compliance Director: <ul style="list-style-type: none"> ○ SP Compliance Risk Report & Activity Plan ○ Monitoring of 2019 Compliance Division Activities ○ 2020 Annual Activity Plan and Budget ○ Compliance Director Objectives ➤ Presentation by the UK Tax Director <ul style="list-style-type: none"> ○ Compliance with Corporate Tax Policy ➤ Presentation by the Committee Secretary <ul style="list-style-type: none"> ○ 2018 PwC Governance Evaluation Report ○ ScottishPower ACC Annual Report of Activities.



Irregular and Improper Financial Conduct	➤ Presentations by the Head of Legal & General Secretary: <ul style="list-style-type: none">○ Legal Claims and Regulatory Investigations
Special Purpose Vehicles and Tax Haven Companies	➤ Presentations by the Head of Legal & General Secretary: <ul style="list-style-type: none">○ Liquidations and Special Purpose Entities Report
Business Separation of Activities Compliance	➤ Presentations by the Compliance Officer: <ul style="list-style-type: none">○ Compliance Officer Report – Business Separation
SPENH Audit & Compliance Committee	➤ Presentations by the ACC Secretary: <ul style="list-style-type: none">○ SPENH Audit & Compliance Committee Update

Other potential areas which may require committee attention (depending on activities in 2019) are:

- Creation of Special Purpose Vehicles (SPV) or companies domiciled in Tax Havens.
- Consultancy engagements with the external auditor.
- Transactions between companies within the ScottishPower group and any of the other companies forming part of the Iberdrola Group.

V. APPENDIX

**Terms of Reference of the Scottish Power
Limited Audit and Compliance Committee**

**Implementation of the new business and governance structure of the
Iberdrola Group**

Approved by Scottish Power Limited Board on 14 February 2018

CHAPTER I.- NATURE, PURPOSE AND APPROVAL OF THE TERMS OF REFERENCE

Article 1.- Nature and purpose

1. In accordance with the provisions of the Articles of Association of Scottish Power Limited (the “**Company**”), the board of directors of the *Company* (the “**Board of Directors**”, a director thereof being a “**Director**”) have established the Audit and Compliance Committee (the “**Committee**”), a permanent internal body, having an informative and consultative role, without executive functions, with powers of information, assessment and presentation of proposals to the *Board of Directors* within its scope of action, which shall be governed by the Memorandum and Articles of Association of the *Company* and this Terms of Reference.
2. These Terms of Reference set out the principles of action and the internal operational regime of the *Committee*. They have been prepared taking into account that the ultimate parent of the *Company* is a listed company as well as the parent company of the Iberdrola Group, which also has an Audit and Risk Supervision Committee and a Corporate Social Responsibility Committee within its governance structure.

Article 2.- Approval, amendment and priority

1. These Terms of Reference must be approved by a resolution of a majority of the members of the *Committee* and be ratified by a resolution of the *Board of Directors* of the *Company*.
2. Any amendment of these Terms of Reference must be approved by resolution of the *Board of Directors* on the initiative of the *Board of Directors*, the chairman of the *Board of Directors*, the *Chairman* of the *Committee*, the majority of the members of the *Committee*, or of one third of the *Directors*.
3. These Terms of Reference further develop and supplement the provisions of the Articles of Association of the *Company* and the Terms of Reference of the *Board of Directors* applicable to the *Committee*. The latter provisions shall prevail in the event of conflict with the former.

CHAPTER II.- FUNCTIONS OF THE COMMITTEE

Article 3.- Functions

4. The *Committee*, as well as the ScottishPower internal audit department (the “**Internal Audit Department**”) and the ScottishPower Compliance Division (the “**Compliance Division**”), shall exercise their functions with full autonomy, but without prejudice to the establishment of an adequate framework for collaborating with and reporting on the development of their functions to the Audit and Risk Supervision Committee of the parent company of the Iberdrola Group (the “**Iberdrola Audit and Risk Supervision Committee**”) to the internal auditing department (the “**Iberdrola Internal Audit Department**”) and to the Compliance Unit of Iberdrola Group. The *Committee* shall cooperate with the *Iberdrola Audit and Risk Supervision Committee* in accordance with the General Framework of Relations of Coordination and Information Among the Audit Committees of Iberdrola S.A. and its Group (“**General Framework**”)

5. The *Committee* shall have the following functions:
- a) **Internal Audit:**
- (i) To oversee the independence and efficiency of the *Internal Audit Department*, ensuring that such department has sufficient resources and the professional qualifications necessary to carry out its functions optimally, and ensuring that the Basic Internal Auditing Regulations of the Iberdrola Group are complied with.
 - (ii) To approve the guidelines and the annual action plans established by the head of the *Internal Audit Department*, in accordance with the guidelines and general plans established by the head of the *Iberdrola Internal Audit Department*, but focused in the *Company* risks.
 - (iii) To propose the budget of the *Internal Audit Department*, for its approval by the *Board of Directors*.
 - (iv) The *Committee shall* prepare a report on the same for submission to the *Board of Directors* following a proposal from the chairman of the *Board of Directors* regarding the appointment, re-election or removal of the head of the *Internal Audit Department*.
 - (v) To oversee the head of the *Internal Audit Department*, which will functionally depend on the *Chairman* of the *Committee* and hierarchically on the Chairman of the Board. The head of the *Internal Audit Department* will prepare the information required for the meetings of the *Committee* that he/she will attend. The head of the *Internal Audit Department* is, furthermore, required to inform the *Committee* of any incidents which may occur in the development of the annual work plan, presenting it at the end of each year with an activity report. This internal audit activity report will also be presented to the head of the *Iberdrola Internal Audit Department*.
 - (vi) To receive regular information on the activities carried out by the *Internal Audit Department*. In order to ensure the guidelines and general plans established by the parent company of the Iberdrola Group are followed, the *Internal Audit Department* (through the head of this department) shall also maintain the necessary flow of information between himself/herself and the head of the *Iberdrola Internal Audit Department*.
 - (vii) To ensure that the managers of the *Company* take into account the conclusions and recommendations in the reports of the *Internal Audit Department*. The Head of the *Internal Audit Department* shall be the usual point of contact between the *Committee* and the rest of the *Company* except for risk or compliance matters. The Head of the *Internal Audit Department* will prepare the relevant documents for the *Committee* meetings within the scope of his responsibilities. The *Committee* may gather information and request the collaboration of any manager of the *Company* or of any of the *Company's* subsidiaries. Any such gathering of information and/or requests for collaboration shall also be notified to the chairman of the *Board of Directors* and to the Chief Executive Officer, if there is one, but in any case without prejudice to the provisions of Article 14.5 below.

b) **Internal Monitoring and Risk Management Systems:**

- (i) To be aware of and keep under review the *Company's* internal financial information process and internal risk monitoring and management systems and those of any of the *Company's* subsidiaries, ensuring that these are adequately adapted to the processes and general systems established by the parent company of the Iberdrola Group.
- (ii) To ensure, in accordance with the general monitoring and risk management policy established by the parent company of the Iberdrola Group, that the main risks of the *Company* and those of any of the *Company's* subsidiaries are identified, managed and adequately reported, identifying, on this basis: the different types of risks which may face the *Company*, including financial or economics risks, contingent liabilities and other off balance-sheet risks; the level of risk of that the *Company* deems acceptable; the measures necessary to mitigate the impact of any risks, should any of them materialise; and the information and internal monitoring systems which will be used to monitor and manage the aforementioned risks, including the contingent liabilities or off balance-sheet risks.
- (iii) The *Committee* shall ensure the establishment of measures necessary to mitigate the impact of any risks identified and introduce information and internal monitoring systems which monitor and manage such risks, including contingent liabilities or off balance-sheet risks.
- (iv) Maintain appropriate relationships with the Company Risk and Compliance Divisions. The Company Risk and Compliance Divisions shall be the normal bodies for communication with the *Committee* and the rest of the *Company's* organisation on specific matters of risk and compliance respectively, as it is responsible for preparing the information required on these issues at meetings, with the Director of the Company Risk Division and the Compliance Director attending them if the *Committee* so deems appropriate, but in any case without prejudice to the provisions of Article 14.5 and 14.6 below.
- (v) To make, at least every six months, a report of the risks of the *Company* for the *Board of Directors* that the *Chairman* of the *Committee*, in the frame of the information and coordination of the Iberdrola Group's relationships, will make available to the chairman of the *Iberdrola Audit and Risk Supervision Committee*. in accordance with the *General Framework* in order to allow this *Committee* to fulfill its duties relating to the internal control of the Group as well as its risk management systems.

c) **Audited Accounts:**

- (i) To propose to the *Board of Directors* the appointment, and terms of engagement, of the *Company's* auditors, in accordance with the policy as established by the parent company of the Iberdrola Group. The *Chairman* of the *Committee* shall make such proposal available to the chairman of the *Iberdrola Audit and Risk Supervision Committee* in accordance with the *General Framework*.

For the avoidance of doubt, the *Company's* auditors referred to in these Terms of Reference are the auditors which have been formally appointed in accordance with the relevant applicable law.

- (ii) To ensure the independence of the *Company's* auditors, receiving from them information on those issues related to the audit process which may put their independence at risk, and in general, information on any other issues which may be provided for in applicable legislation and/or the relevant audit practices in force from time to time, and establishing where necessary, information channels between the *Internal Audit Department* and the *Iberdrola Internal Audit Department*. In any event, it shall receive from the *Company's* auditors, on an annual basis, a written confirmation of their independence in respect of the *Company* or entities directly or indirectly related thereto, as well as information regarding additional services of any kind provided to such entities by the said auditors or by persons or entities related thereto, pursuant to the legislation governing the audit of financial statements.
 - (iii) Issue, and provide to the *Board of Directors*, on an annual basis and prior to the issuance of the *Company's* auditors' report, a report setting forth an opinion on the independence of the auditors. This report shall, in all cases, include the provision of the additional services referred to in the preceding paragraph. The *Chairman* of the *Committee* shall make this report available to the chairman of the *Iberdrola Audit and Risk Supervision Committee* in accordance with the *General Framework*.
 - (iv) Analyse, together with the auditors, any significant weaknesses detected in the internal control system during the conduct of the audit and to review the contents of the Auditors Reports before they are issued, in order to avoid qualifications in their preparation and assess the results of each audit, overseeing the reply of the management of the *Company* to their recommendations.
 - (v) To serve as a communication channel between the *Board of Directors* and the auditors, relaying to the *Board of Directors* the regular information updates on the audit process and results received from the auditors.
- d) **Economic and Financial Information:**
- (i) To oversee the process for the preparation of and the integrity of the financial economic information of the *Company* (including half year information), advising on any proposals for changes to the accounting practices and policies with the general accounting practices and policies of the parent company of the Iberdrola Group. The *Committee* will elaborate a report for the *Board of Directors* on the annual, interim semi-annual and quarterly financial statements. The *Chairman* of the *Committee* will make these reports available to the chairman of the *Iberdrola Audit and Risk Supervision Committee* in accordance with the *General Framework* in order to allow this *Committee* to supervise the process of preparation and submission and the integrity of the economic and financial information related to the Group.

- (ii) To oversee compliance with the legal requirements and the correct application of the national and international accounting and financial information principles and practices which may be applicable in relation to the Annual Report and Accounts and the Director's Report of the *Company*.
 - (iii) To inform the *Board of Directors* of the principles on which the transactions carried out between the *Company* and any of the other companies forming part of the Iberdrola Group, and any of the *Company's* subsidiaries, must respect in order to protect the interests of the *Company*.

- e) **Compliance, Good Governance and Prevention and Correction of Fraudulent and Illegal Behaviours:**
 - (i) Receive information from the *Compliance Division* in connection with any matter relating to regulatory compliance and the prevention and correction of illegal or fraudulent conduct.
 - (ii) Review, through the *Compliance Division*, the internal policies and procedures of the *Company* to verify the effectiveness thereof to prevent inappropriate conduct and identify any policies or procedures that are more effective at promoting the highest ethical standards, for submission to the *Board of Directors*. In particular the *Compliance Division* will report to the *Board of the Directors* on the amendments of the *Compliance Division* Regulations.
 - (iii) Review and ratify the annual operating budget of the *Compliance Division*, for submission to the *Board of Directors*, and ensure that the *Unit* has the necessary human and material resources to perform its duties, also ensuring its independence and effectiveness.
 - (iv) Approve the annual activity plan for the *Compliance Division*.
 - (v) Report the proposals of the appointments for the Compliance Director.
 - (vi) Review the status of compliance with laws, regulations and internal procedures and the scope and status of systems designed to promote *Company* compliance with laws, regulations and internal procedures, through review of reports from management, legal counsel and third parties as determined by the *Committee*.
 - (vii) Produce, for the *Board of Directors*, a report(s) on the level of compliance with the Iberdrola Corporate Tax Policy and the tax criteria used throughout the relevant financial year and after the submission of tax returns. The *Chairman* of the *Committee* shall make this available to the chairman of the *Iberdrola Audit and Risk Supervision Committee* in accordance with the *General Framework*.

- f) **Irregular and Improper Financial Conduct:**
 - (i) To establish and supervise, in coordination with the mechanisms established by the parent company of the Iberdrola Group, the channels which permit employees of the *Company* 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 the *Company*. In doing so, the *Committee* shall respect applicable regulations regarding the protection of personal information and the fundamental rights of the parties involved.

- (ii) To undertake the necessary investigations regarding claims by third parties against the *Company* or regarding irregular or anomalous conduct, in accordance with the provisions of the above paragraph.

(g) **Special Purpose Vehicles and Tax Haven Companies:**

- (i) To inform the *Board of Directors*, 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, and produce for the *Board of Directors* a report on any such proposals. The *Chairman* of the *Committee* shall make this report available to the chairman of the *Iberdrola Audit and Risk Supervision Committee* in accordance with the *General Framework*.
- (ii) To produce, for the *Board of Directors*, a report on the monitoring of special purpose vehicles or in entities domiciled in countries or territories which are considered tax havens. The *Chairman* of the *Committee* shall make this available to the chairman of the *Iberdrola Audit and Risk Supervision Committee* in accordance with the *General Framework*.
- (iii) To inform the *Board of Directors* of any other transactions or operations of a similar nature which, due to their complexity, could undermine the transparency of the Iberdrola Group.

h) **Business Separation of Activities Compliance**

- (i) To give its opinion and note on an annual basis the Compliance Director Report on Business Separation, submitted to the *Committee* by the Compliance Director to provide 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 the *Company* and its subsidiaries.
- (ii) To overview any regulated activities business separation report of the *Company* and its subsidiaries.
- (iii) To inform to the *Board of Directors* in advance of any changes to the business separation regulatory requirements applicable to the *Company* and its subsidiaries.
- (iv) To consider the suitability and inform to the *Board of Directors* in advance about all proposed directors appointments and removals to all regulated business subsidiaries of the *Company* in order to protect the effective management independence of the regulated companies.

6. The *Committee* shall similarly assume any other functions which, as the case may be, the Articles of Association of the *Company* or the *Board of Directors* attribute to it.

Article 4.- Scope of functions. Information to the Board of Directors

1. The functions indicated in the above Article shall extend to the *Company* and any and all of the *Company's* subsidiaries with the exception of those functions carried out by the Scottish Power Energy Networks Holdings Limited ("**SPEN**") Audit and Compliance Committee for *SPEN* and *SPEN's* subsidiaries.
2. At the first meeting of the *Board of Directors* subsequent to any meeting(s) of the *Committee* the *Chairman* shall inform the *Board of Directors* of the resolutions and significant events which occurred at the meeting(s) of the *Committee*.

Article 5 – Relationship with the audit committee(s) of any UK subsidiary

1. In order to successfully perform the functions assigned to the *Committee* by these Terms of Reference and subject to its scope, the *Board of Directors*, at the proposal of the *Committee*, shall establish a general framework for coordinating actions and sharing information between the audit and compliance committees that may exist in the Group companies controlled by the *Company*. Such a general framework shall be in accordance with applicable legislation and regulations on the separation of regulated activities.
2. The coordination relationships must be channelled through the chairmen of the audit and compliance committees of the *Company* and of the subsidiary in question and their purpose shall be to inform the *Committee* of any matters dealt with by the subsidiaries that might have a significant impact at Group level in the UK.

Article 6.- Annual Report

The *Committee* shall submit to the *Board of Directors* for its approval an Annual Report of its activities, an evaluation of the adequacy of the *Committee's* Terms of Reference and an evaluation of the *Committee's* performance during the previous year, within the three months subsequent to the end of the year. This Annual Report shall subsequently be made available to the ordinary shareholder and to the chairman of the *Iberdrola Audit and Risk Supervision Committee* in accordance with the *General Framework*. except the portion of the report related to Article 3.2(e) and (h) that will be made available to the chairman of the Iberdrola SA Corporate Social Responsibility Committee.

Article 7.- Specialist Services

3. In order to carry out its functions, the *Committee* may engage or employ, permanently or occasionally, legal advisors, accountants, financiers or other specialists, who, subject to the provisions of Article 14.6, may attend the meetings of the *Committee*, as well as the meetings of the *Board of Directors* when required, and who may speak at the meetings but may not vote.
4. Employment of such specialists shall be made in accordance with the Articles of Association.

CHAPTER III.- FORMATION, APPOINTMENT AND CESSATION OF MEMBERS

Article 8.- Formation

5. The *Committee* shall be formed of three (3) Directors, from among which at least two (2) of them shall be independent Directors.
6. The *Committee* shall have a chairman (the “**Chairman**”) and a secretary, who, in the event of absence, shall be substituted respectively by the two members who have the most seniority on the Board by length of service, on the one hand, and, on the other hand, the least seniority on the Board by length of service. In the event of equal seniority, the independent non-executive director(s) on the *Board of Directors* shall decide.
7. The *Chairman* of the *Committee* must be appointed from among the independent Directors forming part thereof.

Article 9.- Appointment

8. The members of the *Committee*, as well as the *Chairman*, shall be appointed by the *Board of Directors*.
9. The *Board of Directors* shall attempt to ensure that the members of the *Committee* have the necessary experience and knowledge of accounts, audit or risk management, which is adequate for the functions they are asked to provide. It shall not be necessary for them to be experts in these areas.

Article 10.- Duration

10. The Directors sitting on the *Committee* shall exercise this office while their appointment as Directors of the *Company* continues in force, unless the *Board of Directors* agrees otherwise.
11. The Directors which make up the *Committee*, and which are re-elected as Directors of the *Company* in accordance with the Articles of Association, shall continue to carry out their positions on the *Committee* without the need for a new election, unless the *Board of Directors* agree otherwise.

Article 11.- Cessation

The members of the *Committee* shall cease in their positions:

- (a) if/when they cease to be Directors of the *Company*; or
- (b) by resolution of the *Board of Directors*.

CHAPTER IV.- MEETINGS OF THE COMMITTEE

Article 12.- Sessions

12. The *Committee* shall meet as many times as is considered necessary in the opinion of the *Chairman* to comply with their undertakings, and at least four (4) times a year, or when two (2) of its members so request it.
13. The chairman of the *Board of Directors* and, if it exists, the Chief Executive Officer, may request informative meetings with the *Committee*, on an exceptional basis.

Article 13.- Meeting Calls

14. The *Chairman*, or the secretary of the *Committee* at the request of the former, may call a meeting of the *Committee* by means of a letter, email or any other means, addressed to each of its members, indicating the place, date and time of the meeting, as well as the agenda to be followed.
15. The calling of a meeting must be made with a minimum notice period of 48 hours, unless there is a need for an urgent meeting.
16. It shall not be necessary to call meetings of the *Committee* in advance when all the members of the *Committee* are present and unanimously accept holding the meeting and debating the points on the agenda.
17. A meeting of the *Committee* may be held in several places provided that they are connected to each other by a system that permits the recognition and identification of the attendees, and discussion among them.

Article 14.- Quorum, Attendance and Adoption of Resolutions

18. The *Committee* shall be quorate when a majority of its members are present or duly represented.

Any member of the *Committee* may delegate its representation to another member of the *Committee* by means of a letter, email or other communication, which includes specific instructions regarding how to cast his vote, addressed to the secretary of the *Committee*.
19. Meetings of the *Committee* shall be presided over by the *Chairman*, which will be assisted by the secretary.
20. Resolutions shall be adopted by a majority of votes of the members of the *Committee* present or duly represented at the meeting. In the event of a tie, the *Chairman* will have a casting vote.
21. If none of the members of the *Committee* make any opposition, votes may be made in writing and without a *Committee* meeting as permitted by the Articles of Association of the *Company*.
22. At the request of the *Chairman*, addressed for such purpose to the Chairman of the *Board of Directors*, any Director may be requested to attend a meeting of the *Committee*. The *Chairman* may also request, through the Secretary of the *Board of Directors*, the attendance of any director, manager or employee of the *Company* as well as of any member of the management decision-making bodies of the companies in which the *Company* has an interest provided that there is no legal impediment thereto.
23. Persons who are not members of the *Committee* may not attend meetings when the matters dealt with are outside of the scope of the powers or duties of such persons.
24. The *Committee* may request the presence at its meetings of both the *Company's* auditor as well as the auditor of any entity within the *Company*, provided that there is no legal impediment thereto.

25. The secretary of the *Committee* shall:
- a) draw up the minutes of each meeting, which shall be approved at the end of the same meeting or at the start of the immediately subsequent meeting; and
 - b) make, maintain and circulate to the members of the *Committee* records of resolutions passed in writing.

CHAPTER V.- COMPLIANCE, INTERPRETATION AND INTEGRATION OF THE REGULATIONS

Article 15.- Compliance

26. The members of the *Committee*, as well as the other Directors affected, have the obligation to be aware of and comply with these Terms of Reference, for which purpose the secretary of the *Board of Directors* shall provide all of them with a copy.
27. Additionally, the *Committee*, in particular the *Chairman*, shall have the obligation to oversee compliance with these Terms of Reference, adopting any measures necessary for such purpose.
28. Without prejudice to their duties as *Directors* under UK law (as applicable), *Committee* members must 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.

Article 16.- Interpretation and Integration of the Regulation

29. Any doubts or discrepancies as regards the interpretation of these Terms of Reference shall be resolved by a majority of the votes of the members of the *Committee*, and in the absence of such majority, by the *Chairman*, to be assisted by any persons the *Board of Directors* may appoint for this purpose. The interpretation and resolution of any doubts or discrepancies which may arise must be reported to the *Board of Directors*.
30. In the absence of any specific regulations, the provisions of the Articles of Association of the *Company* relating to the operation of the *Board of Directors*, provided they are not incompatible with its nature and function, shall be applicable to the *Committee*.
31. In these Terms of Reference the term "Group" shall mean a group as defined in section 1261 of the Companies Act 2006.