2019 ANNUAL ACTIVITY REPORT

Report for the fiscal year 2019 presented at the Scottish Power Limited Audit & Compliance Committee (‘the Committee’) meeting of 18 February 2020 for noting by the Committee and thereafter submitted to the Board of Directors of Scottish Power Limited (‘the Board’) on 18 February 2020 for approval, pursuant to article 6 of the Terms of Reference of the Committee.
INDEX

I. Introduction 4

II. Composition, Meetings and Attendance 5

III. Committee Highlights 7

IV. Main Activities 8
   a. Internal Audit
   b. Internal Monitoring and Risk Management Systems
   c. Audited Accounts
   d. Economic and Financial Information
   e. Compliance, Good Governance and Prevention and Correction of Fraudulent and Illegal Behaviours
   f. Irregular and Improper Financial Conduct
   g. Special Purpose Vehicles and Tax Haven Companies
   h. Business Separation of Activities Compliance
   i. Audit Committees of UK Subsidiaries

V. Appearances 13

VI. Training 14

VII. Conclusion 15
In accordance with the provisions of the Articles of Association of Scottish Power Limited, the Board 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 within the scope of its activities.

The Committee provides an additional assurance that the Board 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.

The Committee is governed by its regulations (‘the Terms of Reference’) (which can be located at https://www.scottishpower.com/userfiles/file/Terms_of_Reference_of_the_Scottish_Power_Limited_Audit_and_Compliance_Committee.pdf) which set out the authority and responsibilities of the Committee together with its method of operation. The Terms of Reference take into account the fact that the ultimate parent company of Scottish Power Limited, Iberdrola, S.A., which is a listed company in Spain and which is the parent company of the Iberdrola Group, has an Audit and Risk Supervision Committee within its governance structure.

The Scottish Power Energy Networks Holdings Limited Audit & Compliance Committee (‘the ‘SPENH Committee’’) undertakes 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.

The Committee adheres to the Iberdrola group’s 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., which is without prejudice to the functions of the Committee which it exercises with full autonomy.
The Committee consists of the following members:

<table>
<thead>
<tr>
<th>Member</th>
<th>Title</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professor Sir James McDonald</td>
<td>Non Executive Member (Chairman)</td>
<td>Independent Non-Executive Director of Scottish Power Limited</td>
</tr>
<tr>
<td>Juan Carlos Rebollo</td>
<td>Executive Member</td>
<td>Administration and Control Director of Iberdrola, S.A.; and Non-Independent and Non-Executive Director of Scottish Power Limited</td>
</tr>
<tr>
<td>Dame Nicola Brewer</td>
<td>Non Executive Member</td>
<td>Independent Non Executive Director of Scottish Power Limited</td>
</tr>
<tr>
<td>Íñigo Fernández de Mesa Vargas</td>
<td>Non Executive Member</td>
<td>Independent Non Executive Director of Scottish Power Limited</td>
</tr>
</tbody>
</table>

The composition of the Committee did not change during 2019. The position of secretary of the Committee was held throughout 2019 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 (which can be located at https://www.scottishpower.com/pages/audit_and_compliance_committee.aspx).

In 2019, the Committee met in person on 5 occasions and, pursuant to the Committee’s procedures under article 14(4) of the Terms of Reference of the Committee, also adopted 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 2019 are set out below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Place where the meeting was held</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 February 2019</td>
<td>Glasgow</td>
</tr>
<tr>
<td>14 May 2019</td>
<td>Glasgow</td>
</tr>
<tr>
<td>10 July 2019</td>
<td>Glasgow</td>
</tr>
<tr>
<td>9 October 2019</td>
<td>Glasgow</td>
</tr>
<tr>
<td>11 December 2019</td>
<td>Glasgow</td>
</tr>
</tbody>
</table>

The level of attendance of each of the members of the Committee at the meetings held during 2019 is set forth below:

<table>
<thead>
<tr>
<th>Member</th>
<th>Meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professor Sir James McDonald</td>
<td>Full attendance</td>
</tr>
<tr>
<td>Juan Carlos Rebollo</td>
<td>Attended four out of the five meetings</td>
</tr>
<tr>
<td>Dame Nicola Brewer</td>
<td>Full attendance</td>
</tr>
<tr>
<td>Íñigo Fernández de Mesa Vargas</td>
<td>Full attendance</td>
</tr>
</tbody>
</table>
COMMITTEE HIGHLIGHTS

5 Number of meetings
4 Number of written resolutions

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

73 Papers presented to the Committee by Senior Management
(14) (of which updates from the SPENH Committee)

5 Presentations from the External Auditor
In 2019, 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 2019 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 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 2019, summarising the main activities and achievements of the Internal Audit department in 2018.

At every meeting in 2019 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 2019 Internal Audit Annual Activities plan on 14 May 2019, 10 July 2019, and 9 October 2019.

On 11 December 2019, the Committee approved the 2020 Internal Audit Annual Plan and proposed the 2020 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 2020 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 Scottish Power’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.
- Maintaining appropriate relationships with ScottishPower’s Risk and Compliance Divisions.
- Making, at least every six months, a report of the risks of ScottishPower for the Board.

The UK Risk Director presented papers to the Committee on 12 February 2019 and 10 July 2019 providing an update on the performance against defined key limits and indicators, and the main risks facing ScottishPower.

On 14 May 2019, the ScottishPower Risk Policies were presented by the UK Purchasing Director to the Committee.

### C | Audited Accounts

- Proposing to the Board the appointment and the terms of engagement of Scottish Power Limited’s auditors, in accordance with the policy as established by the parent company of the Iberdrola group.
- Ensuring the independence of Scottish Power Limited’s auditors.
- Issuing on an annual basis and prior to the issuance of Scottish Power Limited’s auditors’ report, a report setting forth an opinion on the independence of the auditors.
- Analysing, together with the auditors, any significant weaknesses detected in the internal control system.
- Serving as a communication channel between the Board and the auditor.

On 12 February 2019, 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 12 February 2019 and that during 2018 it had not reported any situation or risk that could affect its independence.
On 14 May 2019, the Head of Internal Audit presented the Update Report on ScottishPower’s External Audit Fees 2018 and the Proposal on the Terms of Engagement of the 2019 Statutory Audit. The Committee noted the report and the proposal, approved them and agreed for a presentation of them to the Board.

On 11 December 2019, the Committee considered and approved certain audit related assurance 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 2019 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 2018. Further, representatives from the external auditor appeared before the Committee on 10 July 2019 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 2019.

On 26 April 2019, the Committee passed a directors’ written resolution 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 2018 will require to be extended to conform with the Audit Directive and Audit Regulation (as amended) of the European Union.

D | Economic and Financial Information

- Overseeing the process for the preparation of and the integrity of the financial economic information of ScottishPower (including half year information) and 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.

- Elaborating a report for the Board on the annual, interim semi-annual and quarterly financial statements.

- 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 2019 in relation to Year End 2018 Financial Information;
- Report approved on 12 April 2019 in relation to Q1 2019 Financial Information;
- Report approved on 10 July 2019 in relation to H1 2019 Financial Information; and
- Report approved on 9 October 2019 in relation to Q3 2019 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 2018 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 2019 consolidated annual accounts.

At the Committee meetings held on 12 February 2019 and 10 July 2019, the Head of Internal Audit also provided assurance on the processes relating to the preparation of the financial information for the 2018 year end and the first half of 2019 in ensuring that all required reviews, guarantees and certification had been completed.

On 12 April 2019, the Committee passed a directors’ written resolution which approved and noted various matters in relation to the financial information for Q1 2019.

During 2019, 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 2018 statutory audit. The external auditors also presented conclusions of 1H 2019 review, audit plan and strategy for the year end audit and the hard close audit highlights over audit work performed for the nine month period to 30 September 2019.

On 12 February 2019, the UK IT Director presented an update on the IT Access Governance project.

On 14 May 2019 and 11 December 2019, the CEO SP Retail provided an update on the UK retail market.
E | 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 are 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 proposals for 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.
- Producing reports for the Board 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 12 February 2019, 14 May 2019, 10 July 2019 and 9 October 2019, the Compliance Director presented a report to the Committee to update on the Compliance Unit activities for Q4 2018, Q1 2019, Q2 2019 and Q3 2019 respectively. On 11 December 2019, the Compliance Director presented the 2020 Compliance Division Activity Plan and the Compliance Division 2020 Annual Budget. The Committee approved the plan and proposed the budget for approval by the Board.

On 12 February 2019, 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 2019, the Compliance Director presented a report on the effectiveness of the SP Compliance System to the Committee.

On 12 February 2019, the Audit and Compliance Committee Secretary presented the PWC Governance System Evaluation Report evaluating the governing bodies of the subsidiary companies of Iberdrola, S.A. for 2018. 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 14 May 2019, the Compliance Director presented a report on the effectiveness of the 2018 Crime Risk Mitigation Programme and a summary of the conclusions of the external legal review of the Programme.

On 9 October 2019, the Compliance Director presented the results of the 2019 Fraud, Bribery and Corruption Risk Assessment.

On 9 October 2019, 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 9 October 2019, the Head of IT Quality, Security and Risk provided an update on the Access Governance Assurance project.

On 9 October 2019, the Data Protection Officer presented her report regarding data protection compliance which was also presented to the Board.

On 9 October 2019, the RIIO-T2 Programme Director provided an update on the RIIO-T2 Price Control.

On 11 December 2019, the Committee approved the 2020 Compliance Division Activity Plan and proposed the Compliance Division 2020 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.

F | 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 9 October 2019, 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.

G | 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 10 July 2019, the ScottishPower General Counsel and Secretary to the Board presented a report for the Committee on Liquidations and Special Purpose Vehicles (SPVs) which detailed recent changes since July 2018 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.

H | 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 20 June 2019, the Committee passed a directors’ written resolution which considered the suitability of a proposed director appointment to a UK regulated business subsidiary and approved a report on the same to be sent to the Board.

On 10 July 2019, the Compliance Director presented to the Committee the 2019 update to the ScottishPower Compliance Policies and Procedures, including in respect to the Business Separation Policy, which the Committee agreed to submit to the Board for approval.

On 25 July 2019, the Committee passed a directors’ written resolution which noted the Compliance Director’s report on Business Separation.

I | 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.

Further to the establishment during 2018 of the SPENH Committee, the Audit and Compliance 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.
In 2019, the following officers appeared before the Committee:

<table>
<thead>
<tr>
<th>Appearing Party</th>
<th>Dates of Meetings Where Appearing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit and Compliance Committee Secretary</td>
<td>Full attendance</td>
</tr>
<tr>
<td>Head of Internal Audit</td>
<td>Full attendance</td>
</tr>
<tr>
<td>Control and Administration Director</td>
<td>Full attendance</td>
</tr>
<tr>
<td>Compliance Director</td>
<td>Full attendance</td>
</tr>
<tr>
<td>UK Risk Director</td>
<td>12 February 2019 and 10 July 2019</td>
</tr>
<tr>
<td>UK Group Tax Director</td>
<td>12 February 2019 and 9 October 2019</td>
</tr>
<tr>
<td>UK IT Director</td>
<td>12 February 2019</td>
</tr>
<tr>
<td>UK Security Director</td>
<td>12 February 2019</td>
</tr>
<tr>
<td>Head of IT Quality, Security and Risk</td>
<td>9 October 2019</td>
</tr>
<tr>
<td>Head of Data Privacy and Protection</td>
<td>9 October 2019</td>
</tr>
<tr>
<td>RIIO-T2 Programme Director</td>
<td>9 October 2019</td>
</tr>
<tr>
<td>CEO SP Retail</td>
<td>14 May 2019 and 11 December 2019</td>
</tr>
<tr>
<td>ScottishPower General Counsel and Secretary to the Board</td>
<td>10 July 2019 and 9 October 2019</td>
</tr>
<tr>
<td>UK Purchasing Director</td>
<td>14 May 2019</td>
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</table>

Members of the external auditor’s team appeared before the Committee on 12 February 2019, 10 July 2019, 9 October 2019 and 11 December 2019.
During 2019, the Committee received briefings and training on a number of areas, including the following topics:

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 February 2019</td>
<td>IT access governance</td>
</tr>
<tr>
<td>14 May 2019</td>
<td>UK retail debt trends</td>
</tr>
<tr>
<td>10 July 2019</td>
<td>Special Purpose Vehicles</td>
</tr>
<tr>
<td>9 October 2019</td>
<td>Legal claims and regulatory investigations</td>
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<tr>
<td></td>
<td>RIIO-T2 price control</td>
</tr>
<tr>
<td></td>
<td>Data Protection</td>
</tr>
<tr>
<td></td>
<td>IT access governance</td>
</tr>
<tr>
<td>11 December 2019</td>
<td>UK retail and UK retail debt</td>
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</table>
The Committee provided assurance to the Board throughout 2019 with the following being among its key activities:

- **Internal Audit:** Continuous monitoring of Internal Audit activities (including 2019 objectives), approval of the 2020 Internal Audit Annual Action Plan (including 2020 objectives) and proposal of the 2020 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.

- **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.

- **Compliance, Good Governance and Prevention and Correction of Fraudulent and Illegal Behaviours:** Continuous monitoring of Compliance Division activities (including Business Separation and 2019 objectives), approval of the 2020 Compliance Division Activity Plan (including 2020 objectives), proposal of the 2020 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 (Tax Havens) have been created, and monitoring the project to reduce the number of companies 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.