14 February 2018

Terms of Reference of the Scottish Power Limited Audit and Compliance Committee
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
1. 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”)

2. 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 any of the Company's subsidiaries. Any such gathering of information and/or requests for
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 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 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, to 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 Officer Report on Business Separation, submitted to the Committee by the Compliance Officer 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.

3. 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, S.A. Corporate Social Responsibility Committee.

Article 7.- Specialist Services

1. 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.

2. Employment of such specialists shall be made in accordance with the Articles of Association.

CHAPTER III.- FORMATION, APPOINTMENT AND CESSION OF MEMBERS

Article 8.- Formation

1. The Committee shall be formed of three (3) Directors, from among which at least two (2) of them shall be independent Directors.

2. 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 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 of Directors shall decide.

3. The Chairman of the Committee must be appointed from among the independent Directors forming part thereof.

Article 9.- Appointment

1. The members of the Committee, as well as the Chairman, shall be appointed by the Board of Directors.

2. 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

1. 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.

2. 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
1. 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.
2. 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
1. 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, fax, telegram, 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.
2. 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.
3. 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.
4. 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
1. The Committee shall be quorate when at least two (2) 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, fax, telegram, email or other communication, which includes specific instructions regarding how to cast his vote, addressed to the secretary of the Committee.
2. Meetings of the Committee shall be presided over by the Chairman, which will be assisted by the secretary.
3. 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.
4. If none of the members of the Committee make any opposition, votes may be made in writing and without session as permitted by the Articles of Association of the Company.
5. 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 the meetings thereof. 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 whose appointment has been proposed by the Company, provided that there is no legal impediment thereto.
6. 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.
7. 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.
8. 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
1. 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.
2. 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.
3. 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

1. 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.

2. 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.

3. In these Terms of Reference the term “Group” shall mean a group as defined in section 1261 of the Companies Act 2006.