

**TERMS OF REFERENCE
OF THE SCOTTISH
POWER LIMITED AUDIT
AND COMPLIANCE
COMMITTEE**

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CHAPTER I.- NATURE, PURPOSE AND APPROVAL OF THE TERMS OF REFERENCE	3
Article 1.- Nature and purpose	3
Article 2.- Approval, modification and regulatory ranking	3
CHAPTER II.- FUNCTIONS OF THE COMMITTEE	3
Article 3.- Functions	3
Article 4.- Scope of functions. Information to the Board of Directors	5
Article 5.- Annual Report	5
Article 6.- Specialist Services	6
CHAPTER III.- FORMATION, APPOINTMENT AND CESSATION OF MEMBERS	6
Article 7.- Formation	6
Article 8.- Appointment	6
Article 9.- Duration	6
Article 10.- Cessation	6
CHAPTER IV.- MEETINGS OF THE COMMITTEE	6
Article 11.- Sessions	6
Article 12.- Meeting Calls	6
Article 13.- Quorum, Attendance and Adoption of Resolutions	6
CHAPTER V.- COMPLIANCE, INTERPRETATION AND INTEGRATION OF THE REGULATIONS	7
Article 14.- Compliance	7
Article 15.- Interpretation and Integration of the Regulation	7

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 (hereinafter, the "**Company**"), the board of directors of the Company (the "**Board of Directors**") have established the Audit and Compliance Committee (hereinafter, 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 sole ordinary shareholder 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, modification and regulatory ranking

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. Further to the proposal of either the *Chairman* of the *Committee* or the majority of its members, these Terms of Reference may be modified by means of a resolution of the *Committee*, which shall submit the modifications to the *Board of Directors* for approval.

CHAPTER II.- FUNCTIONS OF THE COMMITTEE

Article 3.- Functions

1. The *Committee*, as well as the internal audit department (the "**Internal Audit Department**") and the Compliance Unit (the "**Unit**"), 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.
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) To propose to the *Board of Directors* the appointment, re-election or cessation of the head of the *Internal Audit Department*. In order to prepare any such proposal the **Chairman** (as defined below) shall hold any meetings necessary with the head of the *Iberdrola Internal Audit Department* and inform the *Committee* of the nature and content of any such meetings.
 - (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 and which will prepare the information required for the meetings of the *Committee* that 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 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 the risk 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 13.5 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 Division. The Company Risk Division shall be the normal body for communication with the *Committee* and the rest of the *Company's* organisation on specific matters of risk, as it is responsible for preparing the information required on these issues at meetings, with the Director of the Company Risk Division attending them if the *Committee* so deems appropriate, but in any case without prejudice to the provisions of Article 13.6 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 *Audit and Risk Supervision Committee of Iberdrola, S.A.* 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 terms of engagement of the *Company's* auditors, in accordance with the policy as established by the parent company of the Iberdrola Group.
For the avoidance of the doubt, the *Company's* auditors referred to in these Terms of Reference are the auditors which have been formally appointed in accordance with the Articles of Association of the *Company*.
- (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, 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.
- (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 *Audit and Risk Supervision Committee of Iberdrola, S.A.* 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 *Unit* in connection with any matter relating to regulatory compliance and the prevention and correction of illegal or fraudulent conduct
 - (ii) Review, through the *Unit*, 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 *Unit* will report to the *Board of the Directors* on the amendments of the the *Unit* Regulations.
 - (iii) Review and ratify the annual operating budget of the *Unit*, 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 *Unit*
 - (v) Report the proposals of the appointments for the Compliance Officer.
 - (vi) 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, through review of reports from management, legal counsel and third parties as determined by the *Committee*.
 - (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:**

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, as well as any other transactions or operations of a similar nature which, due to their complexity, could undermine the transparency of the Iberdrola Group. The *Committee* shall also inform the chairman of the *Iberdrola Audit and Risk Supervision Committee* of the same.
 - 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.
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.- 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*, 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 6.- Specialist Services

1. In order to carry out its functions, the *Committee* may employ, permanently or occasionally, legal advisors, accountants, technicians, financiers, salesmen or other specialists, who 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 those experts shall be made in accordance with the Articles of Association.

CHAPTER III.- FORMATION, APPOINTMENT AND CESSATION OF MEMBERS

Article 7.- Formation

1. The *Committee* shall be formed of three (3) Directors, from among which at least one of them shall be an independent director.
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* shall decide.

Article 8.- 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 9.- 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 10.- 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 11.- 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 12.- 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.

Article 13.- 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 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.

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

Article 14.- 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.

Article 15.- 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.

