

## Terms of Reference

### Scottish Power Energy Networks Holdings Limited

Dated 26 November 2020

#### 1 Purpose

- 1.1 The principal responsibility of the board of directors (the “**Board of Directors**”) of Scottish Power Energy Networks Holdings Limited (the “**Company**”) is to facilitate the effective management of the businesses comprising the electricity transmission and distribution regulated activities within the ScottishPower Group and of the Iberdrola Group in Great Britain (“**SP Energy Networks Business**”) in accordance with the strategy set by Scottish Power Limited Board of Directors.
- 1.2 These Terms of Reference of the Board of Directors of the Company contain the guidelines that are to govern all action taken by the Board of Directors of the Company, the basic rules for the organisation and operation thereof and the rules of conduct to be observed by its directors, in order to achieve the greatest degree of transparency, effectiveness, dynamism, supervision and control in the performance of its management and duties and representation of the interests of the ScottishPower Group (being, for the purposes of these Terms of Reference, Scottish Power Limited and its subsidiaries), in accordance with the *Purpose and Values of the Iberdrola Group*, adopted by the Company from time to time as part of the Company’s corporate governance system, and all applicable legislation, including, in particular, the applicable provisions regarding the separation of regulated activities.
- 1.3 These Terms of Reference further develop and supplement the legal provisions applicable to the Board of Directors of the Company and form part of the corporate governance system thereof. The Company’s corporate governance system is the set of documents made up of the *Corporate Policies*, the internal corporate governance rules, and the other internal codes and procedures approved by the appropriate bodies of the Company.
- 1.4 These Terms of Reference have been prepared taking into account the good governance recommendations generally recognised in international markets.
- 1.5 The guidelines for action and the rules for organisation and operation of the management decision-making bodies within the subsidiary companies within the group whose controlling entity, within the meaning established by law, is the Company (hereinafter, the “**Group**”) shall be governed by these Terms of Reference.
- 1.6 The principles set forth in these Terms of Reference, without prejudice to any adjustments that may be required based on the circumstances of each company, and shall, in all cases, abide by the guarantees required by the Company’s corporate

governance system and the principles of coordination and information that must govern the relations among the management decision-making bodies of the various subsidiary companies of the ScottishPower Group in order for them to fully comply with their respective duties, all so far as in accordance with all applicable legislation, including, in particular, the applicable provisions regarding the separation of regulated activities.

## **2 Scope**

- 2.1 These Terms of Reference apply to the Board of Directors, the representative decision-making bodies thereof (whether collective or single-person) and its internal committees (if any).
- 2.2 The persons and bodies to whom these Terms of Reference apply shall have the duty to be informed of them, to comply with them and to enforce them, for which purpose the secretary of the Company shall provide the Board of Directors with a copy that is to be acknowledged by means of a signed receipt, and that is to be published to the Directors' website and the Company's corporate website.
- 2.3 The Board of Directors shall comply with and enforce the provisions of the Company's corporate governance system and shall confirm such commitment in writing upon accepting their appointment or re-election in such manner as is determined by the secretary of the Company.

## **3 Approval, Amendment and Priority**

- 3.1 These Terms of Reference of the Board of Directors established from time to time further develop and supplement the law and the provisions set out in the current Articles of Association of the Company.
- 3.2 In the event of a conflict between these Terms of Reference, the law and Articles of Association, the law and Articles of Association shall prevail.
- 3.3 These Terms of Reference shall be interpreted in accordance with the Company's corporate governance system.
- 3.4 These Terms of Reference, and any amendment to them, must be approved by resolution of the Board of Directors.

## **4 General Principles**

- 4.1 Pursuant to the Board of Directors' powers to establish rules to regulate itself and make provision for the management of its internal activities and its disposal of matters, each Director of the Board of Directors, including the Chief Executive Officer, shall, in accordance with their fiduciary duties (including in particular, but not limited to their duty under section 172 of the Companies Act 2006) independently carry out their

functions and competencies with due regard to the corporate interest and common purpose, in accordance with the Iberdrola Group's (as defined below) *Purpose and Values of the Iberdrola Group* and *Code of Ethics*, adopted by the Company from time to time as part of the Company's corporate governance system, and all applicable legislation, including, in particular, the applicable provisions regarding the separation of regulated activities.

- 4.2 These Terms of Reference also express the Company's commitment to the purpose (to continue building, together each day, a healthier, more accessible energy model, based on electricity) and the values (sustainable energy, integrating force and driving force) of the *Purpose and Values of the Iberdrola Group* and the *Code of Ethics* as adopted by the Company from time to time, which, shall form the basis of the Company's corporate ideology and ethical principles, and guide its corporate purpose and strategy and performance. The Board of Directors will take note of the fact that the Company shares (in so far as adopted by the Company and given its place within the group) the corporate interest of the Iberdrola group (being the multinational group of companies whose listed and controlling entity, pursuant to Spanish law is Iberdrola, S.A., hereinafter, the "**Iberdrola Group**"), which is aimed at creating sustainable value for all Iberdrola Group shareholders, taking into consideration and involving all stakeholders related to the Iberdrola Group's business and making them participants in the social dividend generated by its activities, and contributing to the achievement of the Sustainable Development Goals approved by the United Nations (the "**SDGs**"), all so far as in accordance with all applicable legislation, including, in particular, the applicable provisions regarding the separation of regulated activities.

## 5 Corporate Interest

The Company, pursuant to its status as head of business sub-holding company of the SP Energy Networks Business, shares with the Iberdrola Group the concept that it is the duty of each Director to act in the way he/she considers, in good faith, would be most likely to be in the corporate interest of the Company, understood as that most likely to promote the success of the Company for the benefit of all shareholders of the Company, taking into account other stakeholders related to its business (including, in relation to the Company and in particular, having regard to the matters set out under section 172 of the Companies Act 2006), all so far as in accordance with all applicable legislation, including, in particular, the applicable provisions regarding the separation of regulated activities.

## 6 Social Dividend

- 6.1 The performance of the activities included within the Company's corporate objectives, particularly the Company's innovation and digital transformation strategy, must be focused on the sustainable creation of value, in accordance with the *Purpose and Values of the Iberdrola Group* and the commitments made in the *Code of Ethics*.

6.2 The Company, as the head of business sub-holding company of the SP Energy Networks Business, contributes to the Iberdrola Group's social dividend, which is understood as the direct or indirect contribution of value through its activities for all stakeholders, and, in particular, through its contribution to the achievement of the SDGs, and, in this respect, the Company may collaborate with entities related to the Iberdrola Group in order to promote and carry out activities developed in relation to the sustainable development policies of its business, all so far as in accordance with all applicable legislation, including, in particular, the applicable provisions regarding the separation of regulated activities.

6.3 The Company's performance in social, environmental and sustainability areas, as well as the social dividend generated and shared with its stakeholders, make up the Company's non-financial information, and the Company shall in accordance with any stakeholder engagement policy as may be adopted by the Company (and in coordination with Iberdrola, S.A.) promote the public dissemination of its non-financial information and the corporate dividend generated, especially among its stakeholders.

## 7 **Applicable Legal Provisions, Corporate Governance System and Compliance System**

7.1 The Company is governed by its constitutional documents and all applicable laws, rules and regulations, as well as its corporate governance system which is adopted by the Board of Directors.

7.2 The corporate governance system is the Company's internal system of rules, made up of the Articles of Association, and those corporate policies and other governance and compliance rules that have been approved or adopted by the Board of Directors, including the *Purpose and Values of the Iberdrola Group* and the *Code of Ethics* and those corporate policies and other governance and compliance rules that have been approved by the board of directors of Iberdrola, S.A. pursuant to its status as the Iberdrola Group holding company or those approved by the board of directors of Scottish Power Limited pursuant to its status as the country sub-holding company of the Iberdrola Group in the United Kingdom and adopted by the Company, and thus incorporated into the Company's corporate governance system.

7.3 The corporate governance system is founded upon the principles of the *Purpose and Values of the Iberdrola Group*, which define the ideological foundation of the Company's business, which, due to its size and importance, is a focal point for a large number of stakeholders and the economic and social environments in which it and its subsidiaries carry out their businesses.

7.4 The Board of Directors is responsible for the development, application and interpretation of the rules making up the corporate governance system (along with any rules approved by the sole parent(s) of the Company), including in relation to ensuring

compliance at all times with the purposes of the corporate governance system and the fulfilment of the corporate interest of the Company.

- 7.5 Full or summarised versions of the rules making up the corporate governance system shall be made available on the Company's corporate website (in so far as not confidential or internal in nature).
- 7.6 The Company shall have a compliance system to prevent and manage the risk of regulatory and ethical breaches and breaches of the corporate governance system, and to contribute to the full realisation of the *Purpose and Values of the Iberdrola Group* and the corporate interest of the Company.

## **8 Powers of the Board of Directors**

The provisions of this section 8 are all so far as in accordance with all applicable legislation, including, in particular, the applicable provisions regarding the separation of regulated activities:

- 8.1 The principal responsibility of the Board of Directors (subject to their fiduciary duties) is the effective management and day to day operation of the SP Energy Networks Business in accordance with the Group's strategy, in the carrying out of which the Board of Directors shall take into account the ScottishPower Group strategy where the Board of Directors believe this is in the interests of the Group.
- 8.2 The effective management and operation of the Company will be administered by the Board of Directors.
- 8.3 In addition, without prejudice to the power of the shareholder(s) of the Company (in such capacity) to take shareholder type decisions in relation to the Company, there are a number of matters reserved exclusively to the Board of Directors or to any Committee of the Board of Directors duly authorised in this regard (subject to their fiduciary duties).
- 8.4 These are as follows:
- (a) Coordinate with Scottish Power Limited as the Iberdrola Group's sub-holding company in the United Kingdom with regard to the establishment of the ScottishPower Group's management guidelines and strategic objectives in the United Kingdom;
  - (b) The Company shall remit to Scottish Power Limited relevant information and proposals regarding its annual objectives, results and required budget, in order to facilitate the performance of the parent company's own functions in the monitoring and strategic coordination of the ScottishPower Group in the United Kingdom;

- (c) Approve objectives (short or long-term as the case may be) and performance programmes and indicators of the Company (and such of its officers) as may be determined from time to time;
- (d) Prepare proposals for the distribution of dividends in accordance with any policy relating to dividends as adopted by the Company and in accordance with the Articles of Association of the Company;
- (e) Promote and supervise the strategy relating to the Company's engagement with its respective stakeholders, in accordance with the policy and model established in this respect at the Iberdrola Group level, and approving in particular the signing of any collaboration agreement(s) (or accession agreement thereto) with Scottish Power Limited and the ScottishPower Foundation for the promotion and execution of activities relating to sustainable development policies;
- (f) Oversee compliance by the Company and its subsidiaries with the personal data protection regulations in accordance with any policies in this regard within the corporate governance system of the Company, in respect of which the Data Protection Officer shall periodically (and in any case annually) as deemed necessary provide a report to the Board of Directors;
- (g) Approve the annual consolidated budget of the Company and its subsidiaries;
- (h) Approve the financial information relating (directly or indirectly) to the Company and its subsidiaries, which shall have also been reviewed by the auditor of the Company, if appropriate;
- (i) Approve the non-financial information relating (directly or indirectly) to the Company and its subsidiaries, in so far as required for the non-financial information reporting of Iberdrola, S.A., the Company and/or the ScottishPower Group;
- (j) Consider the recommendations or other output of business groups or committees charged with the development of the Company's business which may promote or maximise the value of the SP Energy Networks Business as a whole;
- (k) Oversee participation in any intragroup provision of common services as well as the corporate functions operating at Iberdrola Group or ScottishPower Group levels, which shall promote or maximise the value of the SP Energy Networks Business as a whole;
- (l) Oversee the effective separation (to the extent required by law) of the SP Energy Networks Business's activities in relation to companies of the Iberdrola Group which perform liberalised activities, as well as oversee the

compliance by employees, managers and directors with the independence criteria stated by law and other applicable regulations, including (without limitation) the *ScottishPower Business Separation Policy*;

- (m) Oversee the implementation and development of stakeholder engagement by the SP Energy Networks Business;
- (n) Promote the presence of the Company on social networks, and promote the development of the Iberdrola Group's communication and innovation strategy and digital transformation;
- (o) Establish the structure and accessibility of the Company's corporate website, through which the *Purpose and Values of the Iberdrola Group* as well as the *Code of Ethics* shall be disseminated, which shall identify the Company's activities, its relationship with the Iberdrola Group, and its position on matters of corporate governance, sustainability and the environment, and which shall facilitate the Company's engagement with its stakeholders and the public; while also ensuring an appropriate level of coordination among the Company's corporate website and those of Scottish Power Limited; and
- (p) Authorise or note any proposal for the appointment and removal of directors of subsidiaries of the Company in accordance with any Iberdrola Group policy adopted by the Company as it relates to the appointment and removal of directors of the ScottishPower Group.

## **9 Board Reserved Matters**

The Board of Directors shall further have reserved to it the following powers, all so far as in accordance with all applicable legislation, including, in particular, the applicable provisions regarding the separation of regulated activities:

- 9.1 The making of any proposal to the shareholder(s) of the Company in relation to the alteration to the Articles of Association of the Company
- 9.2 The making of any proposal to the shareholder(s) of the Company in relation to the appointment or termination of appointment of the Company's Auditors or its lead advisors

### **Financial Management and Reporting**

- 9.3 Approval of the statutory accounts of the Company and, as required, the consolidated financial statements of the Company and the SP Energy Networks Business
- 9.4 The declaration of any dividend payable to the immediate parent company

## **Investments and Divestments**

- 9.5 The approval of investment/divestment proposals and investment/divestment plans for the SP Energy Networks Business in accordance with the ScottishPower Group's *Investment Policy*, parameters and criteria exceeding €6 million (or such other sum as may from time to time be substituted therefore pursuant to the *Standard for the Supervision of Investments and Divestments in the Companies Belonging to the Iberdrola Group*)

## **Company Operations**

- 9.6 The acquisition or sale of assets or properties, whether in the form of a business undertaking or shares in an incorporated company, by the Company or any of its subsidiaries where the value exceeds €6 million (or where the value is negative)

## **Procurement/Purchasing**

- 9.7 Approval of procurement/purchasing proposals for the SP Energy Networks Business in accordance with the ScottishPower Group's purchasing policy, parameters and criteria exceeding €1 million

## **Operation & Maintenance (O&M)**

- 9.8 Approval, identification and implementation of O&M proposals and operational efficiency initiatives for the SP Energy Networks Business all in accordance with any policy adopted relating to the foregoing, and parameters and criteria

## **Contracts and Other Commitments**

- 9.9 Approval of any contract awards, items of operational expenditure or items of capital expenditure for the SP Energy Networks Business exceeding €6 million

## **Other Operational Matters**

- 9.10 All other decisions related to the effective management of the SP Energy Networks Business in accordance with the ScottishPower Group's business policies, parameters and criteria