

# Introduction to the Governance and Sustainability System

## 1. Scottish Power Retail Holdings Limited and the Iberdrola Group

1. Scottish Power Retail Holdings Limited (the **Company**) is a wholly-owned (business) sub-holding company of the Iberdrola Group in the United Kingdom whose activities comprise Retail (including customer registration, billing and handling enquiries in respect of those services, and associated metering activity, including the smart meter installation programme, and managing the group's Energy Services activities) and Wholesale (managing the group's exposure to the United Kingdom's wholesale electricity and gas markets for Energy Retail and the ScottishPower Renewables Business, and the optimisation of gas storage) (the **ScottishPower Retail Business**).
2. "Iberdrola S.A." is the parent company of a group of leading companies including ScottishPower, in the production, transmission, distribution and supply of electricity in different geographical areas. It is a company with its registered office in Biscay, with an international reach which is independent, traded and publicly listed on the Spanish stock market.
3. The origin of the various companies owned by Iberdrola, S.A. ("Iberdrola") or the various companies in which it holds an interest has a long history, starting on both sides of the Atlantic. It goes back to 1840 in the United States of America with the incorporation of "Hartford City Light Co", which was in charge of lighting cities by gaslight, and to 1901 on the other side of the Atlantic, in Spain and in the United Kingdom, firstly with the founding of "Hidroeléctrica Ibérica, S.A" in Bilbao in order to meet the growing demand for electric power in the main industrial regions in the north of Spain, and also "Clyde Valley Electrical Power Co", in Glasgow to generate and sell electricity to engineering companies in the area.
4. The Iberdrola Group's activities are focused on energy, an essential commodity for millions of users and customers, through the use of environmentally-friendly energy sources and technologies and the promotion of the energy transition and digital transformation.
5. The development of the Company's object and its business activity is focused on the achievement of a purpose and certain values which make up the corporate ideology and identity of the Companies of the Iberdrola Group.
6. The purpose of the companies of the Iberdrola Group, as adopted by the Company is to "continue working together each day to build a healthier, more accessible and more electric energy model", which contributes to the United Nations' (UN) Sustainable Development Goals (**SDGs**) (especially those relating to universal access to electricity, the supply of affordable and clean energy and climate action, protects and responds to the most demanding standards and requirements in terms of environmental protection, climate action, social commitment, good governance and compliance (ESG), within the general framework of respect and the protection of human rights, the social market economy, sustainability and the ethical principles generally accepted in its scope of activities.

The corporate values which define the manner in which the Company functions are known within the Iberdrola group as the fundamental notions and guidelines of: "sustainable energy", "integrating force", and "driving force". These notions, together with the purpose described above, constitute the ideological basis of the Company and its business.

7. The Company's adoption of the *Purpose and Values of the Iberdrola Group* means that it has a purpose, not purely limited to the achievement of financial benefit, but rather one which aspires to the creation of sustainable business value, and the delivery of results and benefits with which to remunerate capital investors and other stakeholders via the 'social dividend'.
8. Consequently, the Company shares Iberdrola's corporate interest in its focus on creating shared sustainable value in line with its purpose, distinct set of values and the commitments undertaken in accordance with the *Code of Ethics*.

In this regard, the Company considers its stakeholders to be integral to the Company's identity and necessary to its business which generates the 'social dividend' that is ultimately shared with those stakeholders.

9. In acknowledgement of the Company's size, and the essential nature of its activities for the economy and society, it is further recognised that those activities and the scope of the Purpose and values of the Iberdrola group on the whole extend beyond the widest definition of its stakeholders in the countries and jurisdictions in which the Company operates.

From this perspective, and in accordance with its purpose and values, the Company recognises its role as a key actor and driver as part of a global collective effort in sustainable development and progress.

10. Finally, the Company's identity is further defined by its internal rules, which are grouped around three main principles: its environmental performance and its reaction to climate change, its social commitment and the application of best corporate governance practices. These principles act as a framework for all the members of the Company's Group to achieve its purpose and corporate interest, deliver its social dividend, and realise its stated values, with guarantees to each member's defined business, identity and independence.
11. In short, the Company aspires to identify itself as an institution that exceeds corporate precepts, that is open and committed to its stakeholders and that comprehensively delivers its business in accordance with its economic and ESG undertakings.

## **2. The corporate and governance structure of the Iberdrola Group**

12. Iberdrola, S.A and the companies making up the Iberdrola Group are present in Spain, Portugal, other Member States of the European Union, the United Kingdom, the USA, Australia, Mexico and Brazil, among other countries.
13. The Iberdrola Group does not have its own legal personality separate from that of each of the companies that comprise it, nor does it have its own management bodies as such. References in the Governance and Sustainability System to "Iberdrola" or to the "Iberdrola Group" or to the "Group" refer to Iberdrola, S.A. and to the companies belonging to the group which Iberdrola, S.A. is the controlling entity, within the meaning established by law, which operate autonomously under a common purpose and values, in a coordinated manner and within a corporate and governance structure designed on three levels (ultimate holding company, country subholding companies and head of business companies, as described below) to best further the corporate object and the achievement of the corporate interest of each of the companies that comprise it.
14. The Iberdrola Group is structured into three corporate tiers of governance, with: (1) Iberdrola, S.A., as the ultimate holding company, being responsible for the supervision of the overall group and its strategy, (2) (country) sub-holding companies, including Scottish Power Limited (**ScottishPower**), being responsible for the ownership, organisation and coordination of the business divisions operating within that country, and (3) the heads of business companies, being responsible for the day-to-day administration and effective management of each of the business divisions (which in the context of the ScottishPower Group includes the Retail Business ), all without prejudice to each subsidiary's corporate independence.
15. This corporate and governance structure is designed to operate in tandem with the Iberdrola Group's business model, to enable the global integration of the businesses, maximise operational efficiency amongst the business divisions, and ensure the effective dissemination, implementation and monitoring of the general group strategy, management guidelines and best practice.

Accordingly, the business model is designed around a decentralised decision-making structure (based on the principle of subsidiarity), coupled with robust coordination mechanisms to facilitate the global integration of the business carried out by the companies making up the Iberdrola Group. This model includes a system of checks and balances as part of this decentralised management structure.

## **3. ScottishPower Retail's Governance and Sustainability System and the Compliance System**

16. The Company's corporate governance system is called the Governance and Sustainability System, which comprises the internal regulatory framework for the Company and its group. This framework is established, independently by the Company, to govern the Company's adherence to the stated purpose

and values, and how its business goals and aims are achieved.

17. This Governance and Sustainability System, as approved by the Company, covers the other companies of the Group, to the extent that the various policies that apply and the subsequent amendments thereof are formally adopted by the country subholding companies and head of business companies as their own or they approve their own policies with content that is consistent with the policies of the Company. This ensures the consistency of the internal rules of the group of companies making up the Group, while respecting the autonomy of the management bodies, and particularly the special framework of strengthened autonomy of the listed country subholding companies.
18. The Company also has a Compliance System, which is intended to ensure that the Company acts in accordance with ethical principles, the law and internal rules, particularly the Governance and Sustainability System to contribute to the full realisation of the *Purposes and Values of the Iberdrola Group* and the corporate interest and to prevent, manage and mitigate the risk of legislative and ethical breaches that may be committed by the directors, professionals or suppliers thereof within the organisation. The Company's Compliance Unit proactively and autonomously oversees the implementation and effectiveness of its Compliance System, which is under continuous review in order to adopt the most advanced international practices and new requirements in this area,

For their part, the country subholding companies and the head of business companies have their own compliance systems, the application and effectiveness of which are proactively and autonomously monitored by their respective compliance units, without prejudice to the appropriate coordination carried out at all levels of the Group.

19. The Company's Governance and Sustainability System consists of (i) the constitutional rules approved by the Company's governing bodies, and (ii) rules applying to the whole Iberdrola Group which have been approved by Iberdrola's Board of Directors (in the exercise of Iberdrola's duty to approve the organisational model of the Iberdrola Group) and which have been adopted by the Company, thus incorporating them into its Governance and Sustainability System. The Governance and Sustainability System is formally arranged into five principal sections or 'chapters': (i) Chapter One, which contains the Company's by-laws; (ii) Chapter Two, regarding the Company's corporate Purpose, which includes the *Purpose and Values of the Iberdrola Group*, the *Code of Ethics*, the *General Sustainable Development Policy* and the *Stakeholder Engagement Policy*; (iii) Chapter Three, containing the Company's policies on the environment and climate action; (iv) Chapter Four, containing the Company's social commitment policies; and (v) Chapter Five, regarding corporate governance and regulatory compliance policies, risk policies, rules on governance of the corporate decision-making bodies and other functions and internal committees, included here are also ScottishPower or Business-specific policies which have been approved or adopted by the Board of Directors of the Company, as appropriate to the Company's operations in the UK and as required by local laws and regulations
20. The first chapter of the Company's Governance and Sustainability System comprises the by-laws of the Company, i.e. its *Articles of Association*, as adopted (and amended from time to time) by the sole shareholder of the Company in accordance with the UK Companies Act 2006.
21. The *Articles of Association* of the Company are its legal constitution. They set out the Company's basic administrative and management structure, and govern its legal relationship with its parent company, The *Articles of Association* empower the Directors of the Company to make all the relevant arrangements as they deem fit for the proper management and transaction of the Company's affairs.
22. The second chapter of the Governance and Sustainability System is entitled 'Purpose'. It contains the *Purpose and Values of the Iberdrola Group*, the *Code of Ethics*, the *General Sustainable Development Policy* and the *Stakeholder Engagement Policy*.

The *Purpose and Values of the Iberdrola Group* define the Iberdrola Group's corporate philosophy which applies to all its businesses, including the Company. Building on that philosophy, the *Code of Ethics* defines the ethical practice and sustainable development commitments (for the benefit of all the stakeholders that participate in the Group's value creation chain) to which all directors, employees and suppliers of the group are to be held. The *General Sustainable Development Policy* and the *Stakeholder Engagement Policy* expand further on those topics, in line with Iberdrola's sustainable development strategy.
23. Building upon the above themes, the remaining three Chapters of the Governance and Sustainability System are structured around three categories of corporate policies: (i) 'Environmental and Climate Action', containing the Iberdrola Group's environmental policies; (ii) 'Social Commitment', containing the Iberdrola Group's policies promoting equal opportunity, diversity, and non-discrimination; and finally, (iii)

'Corporate Governance', containing the necessary 'traditional' rules and policies governing the main corporate decision-making bodies, administration and management and the development of the Company and its business(es).

The function of these corporate policies is to explicitly set out the expected standards of conduct around the values stated in those policies, against which all management decisions on the relevant topics are to be made. Accordingly, these corporate policies are intended to be clear guidelines of conduct for directors and employees as to the proper performance of their duties, including their exercise of any discretion thereon. It is therefore implicit in this approach that, any business action or decision taken in adherence to these policies may be assumed to have thereby complied with the Company's purpose, values and corporate interest in relation to that subject matter.

24. Consistent with the *Purpose and values of the Iberdrola group* and the commitment to contribute to the achievement of the SDGs approved by the United Nations (UN) and ESG requirements, the Company's Governance and Sustainability System differentiates those corporate policies which are general key policies (such as the *General Sustainable Development Policy* and the *Stakeholder Engagement Policy*) from those with a specific purpose.
25. In the third Chapter of the Governance and Sustainability System, the Environmental and Climate Action policies, which are aligned with the goals and the commitments established by the Paris Agreement and the United Nations' (UN) 2030 Agenda for Sustainable Development, constitute Iberdrola's response to environmental challenges such as climate change and biodiversity loss. They recognise that there are opportunities arising from, and for, the energy and ecological transition. In line with the *Purpose and Values of the Iberdrola Group* and its sustainable development strategy, these policies reflect the Company's commitment to combating climate change, to green recovery and to the environment in all its forms, while generating value for its customers, its shareholders and other stakeholders.
26. Similarly, and within the framework of the Company's sustainable development strategy, the Social Commitment policies in the fourth Chapter of the Governance and Sustainability System reflect the Iberdrola Group's commitment to human rights, the development of professional relationships based on diversity, inclusion and sense of belonging, recognising that these principles are essential for promoting equal opportunity and non-discrimination in the management of people.
27. Finally, in the fifth Chapter of the Governance and Sustainability System the corporate governance and compliance policies and rules, incorporating best practices and designed to promote the company as a benchmark thereof, are grouped into three Parts: (i) 'corporate governance and regulatory compliance policies; (ii) risk policies; (iii) rules on the governance of the corporate decision-making bodies and of other internal functions.
28. The corporate governance and regulatory compliance policies define the directives, ethical principles and guidelines for the conduct of the shareholders, directors and professionals of the Group. These policies contain the detailed guidelines and directives regarding conduct which ensure that the Group's strategy is consistent with its values and principles, including in particular those which are defined in the *Purpose and Values of the Iberdrola Group* and its sustainable development strategy, all to the benefit of both the Group and the communities in which it operates. These reflect the Company's firm commitment to the *Purpose and Values of the Iberdrola Group*, to ethical principles, and to the ongoing monitoring and correction of improper conduct and acts that are illegal or contrary to the Governance and Sustainability System.
29. The purpose of the risk policies is to establish the basic principles and general framework for the control and management of the risks that the Company and its Group may be vulnerable to, especially including corporate risks and the specific risks of the various Iberdrola Group businesses.
30. The governance rules of the corporate decision-making bodies and of other internal functions include regulations, codes and procedures that establish, among other things, the composition, powers and rules of operation thereof, as well as the duties and obligations of their members. Specifically, this section includes the *Terms of Reference of the Company's Board of Directors* and any committees of that Board, as relevant. The *Terms of Reference of the Company's Board of Directors* (amongst other things) states the Company's purpose and its business in the context of its position within the Iberdrola Group. They expressly recognise that the Company's corporate interest is focused on creating shared sustainable value, a commitment to the social dividend and engagement with stakeholders, the Company's role as a corporate pioneer, and other basic principles underpinning the key aspects and parameters of the Company's corporate structure, including any unique commercial, corporate and institutional features of the Iberdrola Group.

31. As summarised above, the Company's Governance and Sustainability System is formally organised into five Chapters, which are consistent with the five books of the Iberdrola Governance and Sustainability System. The Company's Governance and Sustainability System is updated from time to time in accordance with the Group's decision-making regulations and procedures to reflect any updates made to the Iberdrola policies, strategies and guidelines to the extent applicable, and in compliance with the model and structure described above.
32. In the interests of ensuring compliance and regulatory transparency, the full text and/or a summary of the documents comprising the Company's Governance and Sustainability System shall be made digitally available online on the Company's corporate website at [www.spretailholdings.com](http://www.spretailholdings.com).
33. The Company's Governance and Sustainability System is subject to a process of continuous review to ensure that it remains relevant, conforms to the facts and circumstances in which the Company operates, and includes the best practices and benchmarks in this area.






In Glasgow, on 17 April 2024

The Board of Directors

# The driving principles behind the Governance and Sustainability System

Leadership in corporate governance and transparency is one of the hallmarks of the Company's identity. The Board of Directors therefore regularly reviews the Governance and Sustainability System, keeping it updated and including in it the good governance recommendations and best practices generally accepted in international markets.

In order to disseminate the key ideas behind the Governance and Sustainability System, and to assist in searching by subject matter, the Company utilises the logos indicated below to refer to each principle and the main drivers behind them:

 <p><b>Sustainable Development Goals (SDGs)</b></p>	<p>The Company is committed to contributing to the achievement of the Sustainable Development Goals (SDGs) approved by the United Nations (UN). It not only contributes decisively to meeting objectives seven and thirteen relating to the supply of affordable and clean energy and the fight against climate change, but in its daily activities, also considers the seventeen goals as guidance in its decision-making processes, the principles of which inform its conduct and its daily tasks, rejecting actions that contravene them or hinder the achievement thereof.</p>
 <p><b>Climate Action</b></p>	<p>Climate change is one of the most important challenges that humanity must currently cope with. The Company recognises the contribution of its activities to climate goals and commits itself to taking on a leadership role in the fight against climate change, as well as to protecting the environment and biodiversity.</p>
 <p><b>Diversity and Inclusion</b></p>	<p>The Company has established the development of professional relationships based on diversity, inclusion and a sense of belonging, equal opportunity and non-discrimination, as well as the management of people as a strategic objective. In particular, it regards the achievement of gender equality within the Company to be one of the essential values of the organisation.</p>
 <p><b>Decentralised Structure</b></p>	<p>The corporate and governance structure of the Iberdrola Group is based on a recognition of its multinational character, which is diversified, organised efficiently and coordinated around Iberdrola, as the holding company, the Company and the other sub-holding companies and head of business companies, subject to basic common guidelines and the principle of subsidiarity, which seeks a balance between decentralised management and the exploitation of the synergies that arise from belonging to the Group.</p>
 <p><b>Compliance</b></p>	<p>The Company promotes a preventive culture based on the principle of "zero tolerance" towards improper conduct and acts that are illegal or contrary to the Governance and Sustainability System, on the one hand, and on the other the application of ethical principles and principles of responsible behaviour that should govern the conduct of all members of the management decision-making bodies, professional and suppliers of the Company. This culture inspires its effective, autonomous, independent and robust Compliance System, which is under continuous review in order to adopt the most advanced international practices and trends and new regulatory requirements in this area.</p>