

# Introduction to the Governance and Sustainability System

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

1. Scottish Power Retail Holdings Limited is a subsidiary company of Scottish Power Limited (the principal country sub-holding company of the Iberdrola Group in the United Kingdom) (generally, “**ScottishPower**” or the “**ScottishPower Group**”). The Company is the head of business company within the ScottishPower Group whose activities comprise the supply of electricity and gas to millions of domestic and business customers throughout the United Kingdom, including customer registration, billing, and handling enquiries in respect of those services, as well as associated metering activity (including the smart meter installation programme), and managing the Company’s group’s Energy Services activities (generally, “**ScottishPower Retail**”, or the “**ScottishPower Retail Group**”).
2. ScottishPower is wholly-owned by Iberdrola, S.A., one of the largest utility companies in the world and a leader in renewable energy. In turn, the Company is wholly-owned by ScottishPower. The history of the Iberdrola Group dates back over 170 years to the incorporation of its parent company, Iberdrola, S.A. (“**Iberdrola**”) under the name Hidroeléctrica Ibérica, S.A. in 1901 in Bilbao in order to meet the growing demand for electricity at that time in the main industrial regions of northern Spain. It is now a global energy leader, the number one producer of wind power and one of the world’s biggest electricity utilities companies by market capitalisation, supplying energy to millions in dozens of countries.
3. The Iberdrola Group principally operates in Spain (Iberdrola España), the UK (ScottishPower), the USA (Avangrid), Mexico (Iberdrola México) and Brazil (Neoenergia) in which it is a leading energy utility and benchmark in terms of its sustainable energy model. It is currently leading a transition towards a sustainable energy model through investments in renewable energy, smart grids, large-scale energy storage and digital transformation, offering the most advanced products and services to our customers.
4. The Company’s activities and corporate philosophy are underpinned by its express commitment to the *Purpose and Values of the Iberdrola Group* as well as its *Code of Ethics*.
5. The *Purpose and Values of the Iberdrola Group* are adopted by the Company as a core policy of the Company and as a fundamental statement to its business’s purpose and values. Their key principles are to build a healthy, accessible energy model, based on electricity, which contributes to the United Nations’ Sustainable Development Goals (the “**SDGs**”) (especially those relating to universal access to electricity, the supply of affordable and clean energy and the fight against climate change, as well as to others such as promoting innovation, furthering education, protecting biodiversity, developing professional relationships based on diversity, inclusion and a sense of belonging, equal opportunity and non-discrimination in managing people, empowering women and special attention on marginalised social groups), as well as respect for and protection of human rights in its scope of activities.
6. The Company shares Iberdrola’s corporate interest focused on creating shared sustainable value through its activities in accordance with the *Purpose and Values of the Iberdrola Group* and with the commitments stated in the *Code of Ethics*.
7. As part of its aspirations to be a driver for social and environmental change, the activities of the Company are geared towards responsibly and sustainably delivering value for all stakeholders in its social dividend and to achieving the United Nation’s Sustainable Development Goals.
8. The Company also promotes a framework to foster strong relationships with its stakeholders, based on principles of active listening and constructive dialogue, responsibility and transparency, participation in the Company’s purpose and its values, and sense of belonging to and trust in the Company.
9. Finally, the Company’s identity and activities are further defined by its internal rules, which are grouped around three main principles: environmental and anti-climate-change performance, social commitment and the application of best corporate governance practices. These principles have been developed as for 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 businesses, identity and independence.

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

10. As the ultimate parent company, Iberdrola heads a group of companies in Spain, Portugal, other EU member States, the United Kingdom, the USA, Australia, Mexico and Brazil, among other countries. 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 and control of the overall group and its strategy, (2) (country) sub-holding companies, including Scottish Power Limited, being responsible for the ownership, organisation and coordination of the business divisions operating within that country (i.e. ScottishPower), and (3) the heads of business companies, being responsible for the day-to-day administration and effective management of each of the business divisions (including ScottishPower Retail).
11. This corporate and governance structure is designed to operate in tandem with the Iberdrola Group's business model, to enable 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.
12. Accordingly, the Iberdrola Group's business model is designed around a decentralised decision-making structure (subsidiarity), coupled with robust coordination mechanisms to facilitate the global integration of the Iberdrola Group's various businesses. This model includes a system of checks and balances, as part of this decentralised structure.

## 3. ScottishPower Retail's Governance and Sustainability System

13. As with that of ScottishPower, ScottishPower Retail's corporate governance system is called the Governance and Sustainability System, which constitutes the internal regulatory framework for the Company and its group.
14. ScottishPower Retail's Governance and Sustainability System consists of (i) the constitutional rules and proprietary standards that have been approved by the Company's governing bodies, and (ii) the group policies, rules and standards of the Iberdrola Group which have been adopted by the Company. This is formally arranged into five principle 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 change; (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 internal functions.
15. The first chapter of the ScottishPower Retail Governance and Sustainability System is the by-laws of the Company, i.e. Scottish Power Retail Holdings Limited's *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.
16. 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 think fit for the management and transaction of the Company's affairs.
17. 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*.
18. The *Purpose and Values of the Iberdrola Group* define the Iberdrola Group's corporate philosophy which applies to all its businesses, including those of the Company. Building on that philosophy, the *Code of Ethics* defines the ethical practice and sustainable development commitments (for the benefit of all stakeholders participating 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.
19. 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 Change', 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).

20. The function of these corporate policies is to explicitly set out expected standards of conduct around the values stated in those policies, against which 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 the exercise of any discretion thereof. The adherence to such policy in any action taken on the relevant topic means that such action can be assumed to have complied with the Company's purpose, values and corporate interest in relation to that subject matter.
21. In the third chapter of the Governance and Sustainability System, the Environmental and Climate Change policies, which are aligned with the goals and the commitments established by the Paris Agreement and the United Nations' 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, they reflect the Company's commitment to combating climate change, to green recovery and to the environment, while generating value for its customers, shareholders and its other stakeholders.
22. 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 respect for human rights, the development of professional relationships based on diversity, inclusion and a sense of belonging, recognising that these principles are essential for promoting equal opportunity and non-discrimination in the management of people.
23. Finally, in the fifth chapter of the Governance and Sustainability System, the 'Corporate Governance' policies and rules are divided into three sections: (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. Included here are also ScottishPower-specific policies which have been approved by the Board of Directors of the Company as appropriate to the ScottishPower Retail Group's operations in the UK and as required by local laws.
24. The corporate governance and regulatory compliance policies define the directives and guidelines for the conduct of the shareholders, directors and professionals of the Group. These policies contain the detailed guidelines and directives on conduct ensuring that the Group's strategy is consistent its values and principles, including in particular those defined in the *Purpose and Values of the Iberdrola Group* and its sustainable development strategy.
25. The purpose of the risk policies is to establish the basic principles and general framework for controlling and managing the risks that the Company and its Group are vulnerable to, especially including corporate risks and the specific risks of the various Iberdrola Group businesses.
26. 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, 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, and other basic principles underpinning the business of the Company.
27. The full text and/or a summary of the documents comprising the Company's Governance and Sustainability System shall be available in on the Company's corporate website at [www.spretailholdings.com](http://www.spretailholdings.com).
28. 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 under which it operates, and includes the best practices in this area.






In Glasgow, on 30 April 2021

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, the Company utilises the logos indicated below to refer to different principles and the main drivers behind each of them:

 <p><b>Sustainable Development Goals (SDGs)</b></p>	<p>The Company is committed to achieving the Sustainable Development Goals (SDGs) approved by the United Nations. It contributes decisively to meeting objectives seven and thirteen relating to the supply of affordable and clean energy and the fight against climate change and also takes the seventeen goals as guidance in its decision-making processes into consideration in its daily activities, the principles of which inform its conduct and its daily tasks, rejecting actions that contravene or hinder the SDGs.</p>
 <p><b>Climate change</b></p>	<p>Climate change is one of the most important challenges that humanity must address in the 21st century. The Company recognises the seriousness of the threat of global warming and is committed to a leadership role in the fight against climate change.</p>
 <p><b>Gender Diversity</b></p>	<p>The Company has established the development of professional relationships based on diversity, inclusion and a sense of belonging, equal opportunities and non-discrimination and managing people as a strategic objective. In particular, it regards the achievement of gender equality within the Company to be one of the organisation's essential values.</p>
 <p><b>Decentralised Structure</b></p>	<p>Iberdrola Group's corporate and governance structure 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 common guidelines and the principle of subsidiarity, which seeks a balance between decentralised management and harnessing the synergies that arise from belonging to the Group.</p>
 <p><b>Compliance</b></p>	<p>The Company promotes a culture of "zero tolerance" towards corruption and fraud due to its awareness that these are phenomena that stifle economic growth, weaken democracy and undermine social justice and the Rule of Law, causing serious harm to the economy and to society. This culture inspires its effective and independent compliance system, which is under continuous review in order to incorporate the most advanced international practices in this area.</p>