



REMUNERATION & NOMINATION COMMITTEE

TERMS OF REFERENCE

1. CONSTITUTION

- 1.1 The Remuneration Committee shall, effective on and from 1 January 2004, be called the "Remuneration & Nomination Committee".
- 1.2 The terms of reference of the Remuneration & Nomination Committee shall be as set out herein.
- 1.3 The ELEXON Remuneration & Nomination Committee is a sub-committee of the ELEXON Board.
- 1.4 It will be chaired by the Chairman of the Board unless and until the Board resolves to appoint someone other than the Chairman.
- 1.5 Its membership will comprise the Chairman of the Board and all non-executive Board Members. The quorum will be 2.
- 1.6 The secretary to the Committee will be the Company Secretary or his/her nominee.

2. ATTENDANCE AT THE REMUNERATION & NOMINATION COMMITTEE

- 2.1 Only members of the Committee shall have the right to attend Committee meetings.
- 2.2 The Committee may require the Chief Executive and the Chief Finance Officer to attend its meetings, or certain agenda items to be considered by it. The Committee may also invite other individuals (including the Head of Human Resources) to attend all or part of any meeting as and when appropriate.

3. FREQUENCY OF MEETINGS

The Committee shall meet at least twice in each year in relation to remuneration matters, and at such other times in relation to remuneration and/or nomination matters as the Chairman of the Committee shall require.

4. ANNUAL GENERAL MEETING

The Chairman of the Committee shall attend the Annual General Meeting of the Company.

5. DUTIES OF COMMITTEE IN RELATION TO REMUNERATION MATTERS

- 5.1 The Committee shall :-
 - 5.1.1 make recommendations to the Board on changes to the terms and conditions of appointment of the Chief Executive, the Chief Finance Officer and the Senior Management Level where such changes are outside the parameters of their respective existing contracts and the provisions of the existing

policies. The Senior Management Level comprises the Associate Directors, the Head of Legal/Company Secretary and the Head of HR;

- 5.1.2 make recommendations to the Board on the terms and conditions of any new appointments to the positions of Chief Executive, Chief Finance Officer and the Senior Management Level.
 - 5.1.3 determine the framework or broad policy for the remuneration of the Chief Executive, the Chief Finance Officer and the Senior Management Level. The objective of this policy shall be to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company;
 - 5.1.4 in determining such remuneration policy, take into account all factors which it reasonably considers necessary, including matters relating to the positioning of the Company relative to other companies;
 - 5.1.5 review the ongoing appropriateness and relevance of the remuneration policy;
 - 5.1.6 within the terms of the agreed remuneration policy determine the total individual remuneration package for the Chief Executive, the Chief Finance Officer and the Senior Management Level, and in determining such packages give due regard to any relevant legal requirements, the provisions and recommendations of the Combined Code on Corporate Governance ("the Combined Code") and any relevant guidance;
 - 5.1.7 review and make recommendations to the Board on the Senior Management Bonus Scheme, and agree targets annually and recommend payments under the scheme in accordance with its rules. In determining such a scheme the Committee will give due regard to the contents of the Combined Code;
 - 5.1.8 determine the policy for, and scope of, pensions arrangements for the Chief Executive, the Chief Finance Officer and the Senior Management Level;
 - 5.1.9 ensure that the directors, the Chief Executive, the Chief Finance Officer and the Senior Management Level are not involved in any decisions as to their own remuneration;
 - 5.1.10 ensure that contractual terms on termination, and any payments made on termination, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
 - 5.1.11 be aware of and advise on any major changes in employee benefit structures throughout the Company;
 - 5.1.12 ensure that applicable provisions regarding disclosure of remuneration, including pensions, as set out (and if applicable) in the Directors Remuneration Report Regulations 2002 and the Combined Code, are fulfilled; and
 - 5.1.13 oversee any major changes in employee benefits structures throughout the Company.
- 5.2 The remuneration of the :-
- 5.2.1 Chairman, shall be a matter for the Gas and Electricity Marketing Authority;

- 5.2.2 Panel non-executive directors, shall be in accordance with Section C4.4.3 of the Balancing & Settlement Code; and
- 5.2.3 other non-executive directors, shall be a matter for the Chairman after consultation with the Panel in accordance with Section C4.4.2 of the Balancing & Settlement Code, and after consultation with the other directors.
- 5.3 The Committee will review, and make recommendations to the Board on, proposals for change which have a material impact on the remuneration policies within the Company.
- 5.4 The Committee shall produce whatever report is necessary for the purposes of incorporation (in the appropriate format) into the annual report.

6. DUTIES OF COMMITTEE IN RELATION TO NOMINATION MATTERS

Objective

- 6.1 The objective of the Committee is to identify and make nominations for approval by the Board in relation to candidates to fill board vacancies (other than board vacancies in respect of "Panel directors" falling within Sections C4.1.1 (a) and (b) of the Balancing & Settlement Code) as and when such vacancies arise. The Committee shall specifically consider in this regard the balance of skills, knowledge and experience on the Board.

Duties

- 6.2 The duties of the Committee shall include :-
 - 6.2.1 planning for orderly succession for non-executive Directors, Board attendees and the Senior Management Level;
 - 6.2.2 the responsibility for identifying and nominating for the approval of the Board candidates to fill Board vacancies (and similarly in relation to Board attendees) as and when they arise; and
 - 6.2.3 any matters relating to the continuation in office of any director at any time.
- 6.3 The Committee shall:
 - 6.3.1 give full consideration to succession planning in the course of its work, taking into account the challenges and opportunities facing the Company and its subsidiaries and the nature of the skills and expertise which are therefore needed on the Board in the future. The Committee should make recommendations to the Board as regards plans for succession of executive and non-executive Directors and the Senior Management Level;
 - 6.3.2 before recommending an appointment, evaluate the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment;
 - 6.3.3 review annually the time required from a non-executive Director. The Committee should use performance evaluation to assess whether non-executive Directors are spending enough time to fulfil their duties;

- 6.3.4 regularly review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes;
- 6.3.5 keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to perform effectively;
- 6.3.6 prepare a description of the role and capabilities required for a particular appointment. This description shall be prepared in light of an evaluation of the balance of skills, knowledge and experience on the Board;
- 6.3.7 make a statement for the annual report :-
- about its activities;
 - about the process used for appointments and explain if an external search consultant or open advertising has not been used in the appointment of a non-executive Director (other than a Director falling within Sections C4.1.1 (a) and (b) of the Balancing & Settlement Code); and
 - setting out the membership of the Committee, the number of Committee meetings and attendance over the course of the year; and
- 6.3.8 ensure that prior to appointment to the Board, non-executive Directors and Senior Management Level receive a formal letter of appointment setting out clearly what is expected of them. In particular, in the case of non-executive Directors, the letter of appointment should set out clearly what is expected of them in terms of time commitment, Committee service and involvement outside Board meetings.

7. AUTHORITY

- 7.1 The Committee shall have full authority to appoint any remuneration consultants or other professional advisers and to commission any reports from remuneration consultants or professional advisers which it considers necessary in order to fulfil its obligations.
- 7.2 The Committee shall be responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants and/or professional advisers who advise the Committee.
- 7.3 The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties.
- 7.4 The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required.

8. ANNUAL REVIEW

- 8.1 The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure that it is operating at maximum effectiveness and recommend any changes considered necessary to the Board for approval.

9. REPORTING PROCEDURES

- 9.1 The Company Secretary shall circulate the minutes of the meetings of the Committee to all members of the Board and, subject to Item 6.2, to the attendees referred to in Item 2.2.
- 9.2 In the event that the minutes (or an item therein) relate to an attendee referred to in Item 2.2, the Company Secretary may withhold the minutes (or the relevant item) from the attendee or all such attendees.
- 9.3 The Committee shall make whatever recommendations to the Board it considers appropriate on any area within its remit where action or improvement is required.
- 9.4 The Committee shall, if required, produce an annual report on the Company's remuneration policy and practise which will form part o the Company's annual report.