

## Remuneration Committee Terms of Reference

### 1 Membership

- 1.1 The Committee shall comprise at least four members. The shareholder shall have a right to nominate up to two members of the Committee<sup>1</sup>. The other members shall all be independent non-executive directors.
- 1.2 In addition to the members described in paragraph 1.1, the Chairman of the Board may also serve on the Committee as an additional member if he/she was considered independent on appointment as Chairman.
- 1.3 Members of the Committee shall be appointed by the Board<sup>2</sup>, with all appointments (subsequent to the appointment of the inaugural members of the Committee) being on the recommendation of the nomination committee and in consultation with the chairman of the remuneration committee.<sup>3</sup>
- 1.4 The Committee notes that the Board shall make such appointments in compliance with the Articles of Association and any rights of the shareholder to nominate a director or directors to be appointed to the Committee.
- 1.5 Only members of the Committee have the right to attend Committee meetings. However, other individuals, such as the Chief Executive, human resources manager and external advisers, may be invited to attend for all or part of any meeting, as and when appropriate and necessary.
- 1.6 Appointments to the Committee shall be for a period of up to three years extendable by no more than two additional three year periods, so long as members (other than the Chairman of the Board, if he/she is a member of the Committee) continue to be independent.
- 1.7 The Board shall appoint the Committee chairman who shall be an independent non-executive director. In the absence of the Committee chairman and/or an appointed deputy at a meeting, the remaining members present shall elect one of themselves to chair the meeting. Such person must be a person who would qualify under these terms of reference to be appointed to that position by the Board. The Chairman of the Board shall not be chairman of the Committee.

### 2 Secretary

- 2.1 The Company Secretary or his/her nominee shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

### 3 Quorum

- 3.1 The quorum necessary for the transaction of business shall be three.

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<sup>1</sup> Article 23(1) of the Articles of Association states that the shareholder may appoint the chairman of any committee. Article 23(2) states that the shareholder has the right to appoint up to two directors to be members of each Board committee. The Framework Document between the Secretary of State for Energy and Climate Change (who is also the sole shareholder) provides that one director on the remuneration committee and one director on the audit and risk committee must be a director who is a shareholder representative.

<sup>2</sup> The UK Corporate Governance Code notes that it is useful to refresh the membership of Committees after an appropriate period.

<sup>3</sup> The recommendation of the nomination committee and consultation with the chairman of the remuneration committee is a requirement of the Framework Document.

#### **4 Meetings**

4.1 The Committee shall meet at least twice a year and otherwise as required.

#### **5 Notice of meetings**

5.1 Meetings of the Committee shall be called by the secretary of the Committee at the request of the Committee chairman.

5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members, and to other attendees as appropriate, at the same time as the confirmatory notice of the meeting.

#### **6 Minutes of meetings**

6.1 The secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

6.2 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee.

6.3 Once approved, minutes should be circulated to all other members of the Board unless in the opinion of the Committee chairman it would be inappropriate to do so.

#### **7 Annual general meeting**

7.1 The Committee chairman should attend the annual general meeting to answer any shareholder questions on the Committee's activities.

#### **8 Duties**

8.1 The Committee shall:

8.1.1 have responsibility for setting the overall remuneration policy for the company;

8.1.2 have responsibility for setting the remuneration policy for the company's Chairman, the executive directors and all staff who report directly to the Chief Executive (including the Head of Legal & Company Secretary and the Head of the Internal Audit function) or who have a base salary of over £110k (or such other amount as determined from time to time by the Board);

8.1.3 in determining the remuneration policy(s), take into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code and associated guidance. The objective of the remuneration policy(s) shall be to attract, retain and motivate executive management of the quality required to run the company successfully without paying more than is necessary, having regard to views of shareholders and other stakeholders. The policy(s) should also have regard to the risk appetite of the company and alignment to the company's long strategic term goals. A significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and designed to promote the long term success of the company;

- 8.1.4 in setting the remuneration policy(s), the Committee shall also take into account the fact that the Articles of Association and the Framework Document<sup>4</sup> both state that the prior written consent of the Secretary of State is required to:-
- the approval of or agreement to (or material variation or amendment to) (i) the remuneration, (ii) the terms and conditions on which such remuneration is to be paid or granted, or (iii) the terms of employment or engagement of any director, or (iv) the remuneration of any executive officer or other employee that is equal to or higher than the threshold outline in the cabinet office guidance for approval of senior pay (or equivalent pro-rata amount). This consent applies to any new appointment or re-appointment to a role, regardless of whether this is at the same level as has been previously consented to by the shareholder; and
  - any material pay rise for any director or employee of the company whose fees or salary have been approved under the above bullet point. A material pay rise is that which is above the then current rate of the Consumer Price Index (CPI).
- 8.1.5 recommend the level of actual remuneration of non-executive directors to the Board. The Board shall then determine such actual remuneration subject, where this is required by the Articles of Association or the Framework Document, to the shareholder's consent;
- 8.1.6 review the on-going appropriateness and relevance of the remuneration policy(s) and advise on the extent to which the arrangements resulting from the remuneration policy(s) are effective at improving performance;
- 8.1.7 when it is setting the remuneration policy for executive directors, review and have regard to pay and employment conditions across the company, especially when determining annual salary increases;
- 8.1.8 monitor the level and structure of remuneration for directors and senior management (including any performance related remuneration) and recommend the relevant remuneration arrangements to the Board for approval, having due regard to the public sector status of the organisation as well as taking account of appropriate benchmarks within the private and public sectors<sup>5</sup>;
- 8.1.9 no director or senior manager shall be involved in any decisions as to their own remuneration;
- 8.1.10 subject to the Articles of Association and Framework Document, within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive, as appropriate:-
- determine the total individual remuneration package (including bonuses) of each executive director, the company Chairman and other designated senior executives (including the Head of Legal & Company Secretary and Head of Internal Audit). It is recognised that the annual salary and bonus review of the Head of Legal & Company Secretary and Head of Internal Audit shall be expressly reported to the committee, and
  - approve the salary of all staff (or proposed new staff) whose base salary is or is proposed to be over £110k (or such other amount as is determined from time to time by the Board);

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<sup>4</sup> Article 20 of the Articles of Association and paragraph 6.7 of the Framework Document.

<sup>5</sup> Reflects the requirements of the Framework Document (paragraph 6.6).

- 8.1.11 obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity. To help it fulfil its obligations the committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary at the expense of the company but within any budgetary restraints imposed by the Board;
- 8.1.12 be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee;
- 8.1.13 approve the design of, and determine targets for, any performance related pay schemes operated by the company and approve the total annual payments made under such schemes. The remuneration committee should determine an appropriate balance between fixed and performance related, immediate and deferred remuneration. Performance conditions, including non-financial metrics where appropriate, should be relevant, stretching and designed to promote the long term success of the company. Remuneration incentives should be compatible with risk policies and systems. Upper limits should be set and disclosed.
- 8.1.14 determine the policy for, and scope of, pension arrangements for each executive director and other designated senior executives. In general, only basic salary should be pensionable. The Committee should consider the pension consequences and associated costs to the company of basic salary increases and any other changes in pensionable remuneration, especially for directors close to retirement.
- 8.1.15 ensure that contractual terms on termination, and any payments made, are fair to the individual, and the company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- 8.1.16 oversee any major changes in employee benefits structures throughout the company;
- 8.1.17 agree the policy for authorising claims for expenses from the directors; and
- 8.1.18 work and liaise as necessary with all other Board committees.

## **9 Reporting responsibilities**

- 9.1 The Committee chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The Committee shall ensure that any applicable provisions regarding the disclosure of information, including in relation to pensions, as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the UK Corporate Governance Code, are fulfilled.
- 9.4 The Committee shall produce a report of the company's remuneration policy and practices to be included in the company's annual report and ensure each year that it is put to the shareholder for approval at the AGM. If the Committee has appointed remuneration consultants, the annual report should identify such consultants and state whether they have any other connection with the company.

9.5 Through (as appropriate) the Chairman of the Board, the Committee chair, the Chief Executive or the Chief Finance Officer ensure that the company maintains contact as required with its shareholder about any remuneration matters required by the Articles of Association, the Framework Document and any other relevant documents governing the relationship between the shareholder and the company.

## **10 Other matters**

10.1 The Committee shall:

10.1.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;

10.1.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;

10.1.3 give due consideration to laws, regulations and any published guidelines or recommendations regarding the remuneration of directors of non-listed companies, including but not limited to the provisions of the UK Corporate Governance Code; and

10.1.4 arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## **11 Authority**

The Committee is authorised:

11.1 to seek any information it requires from any employee of the company in order to perform its duties; and

11.2 obtain, at the company's expense, outside legal or other professional advice on any matters within its terms of reference. In doing so the Committee shall take into account the requirements of the company's Procurement Policy.