

ELEXON NOMINATIONS COMMITTEE TERMS OF REFERENCE

1. Purpose

- 1.1 The committee is responsible for overseeing the process for appointments to the board.

2. Proceedings of the Committee

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| Chair | The committee chairman shall be the chairman of the board. In the absence of the chairman, the remaining members present shall elect one of themselves to chair the meeting. Where the business of the committee relates to the appointment or re-appointment of the chairman of the board, the senior independent director shall be the committee chairman. |
| Membership | The membership is made up of all Non-Executive Directors. |
| Secretary | The company secretary or his or her nominee shall act as the secretary of the committee. Minutes of each meeting will be kept and filed by the secretary. |
| Attendees | The committee may invite other non-members to attend. |
| Quorum | Three directors including at least one industry director and one non-industry director. |
| Authority | The committee is authorised by the board to undertake any activity within these terms of reference. It is further authorised to obtain, at the company's expense, outside legal or other professional advice on any matters within its terms of reference. |
| Reporting | The committee shall produce a report to be included in the company's annual report about its activities. The committee shall, at least once a year, review its own performance and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the board for approval. |

3. Duties

Composition of the Board and its Committees

The committee shall:

- 3.1 regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the board and make recommendations to the board with regard to any changes;
- 3.2 ensure that the structure, size and composition of the board:
- reflects different classes of, or categories of, industry participants;
 - includes a majority of directors (excluding the chairman and any executive directors but including a director appointed under Section C4.1.3(e) of the Code if such person is different from the board chairman¹) who have relevant electricity industry experience;

¹ If the Board and Panel chairman are not the same person then the Panel Chairman shall be appointed to the Board or, if the Panel Chairman has been voted off the Board then the Panel may recommend an alternative Panel Member.

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- c) with respect to those directors appointed under paragraph 3.2(b) above, such group shall include, at all times, a director (or directors) appointed from amongst the BSC Parties;
- d) includes at least two directors who are independent of industry within the meaning of Section C4.1.3(c) of the Code and paragraph 3.11;
- e) reflects the needs of the company based on its role and function as specified in the Code (which may include appointing non-executive directors with skill, knowledge and experience in areas including finance and IT);

Succession Planning

- 3.3 formulate plans for succession for the chairman, the chief executive and non-executive directors taking into account the challenges and opportunities facing the company, and the skills and expertise needed on the board in the future;
- 3.4 satisfy itself that there are appropriate succession plans for the Executive Team;
- 3.5 keep under review the leadership needs of the organisation with a view to ensuring the continued ability of the organisation to operate effectively including whether to:
 - a) appoint a chairman independently from the Panel or agree joint arrangements with the Panel for the appointment of a shared chairman;
 - b) appoint the chief executive as a director; and
 - c) appoint any other employee as an executive director.

Appointments to the Board

- 3.6 be responsible for identifying and nominating, for the approval of the board, candidates to fill non-executive board vacancies as and when they arise;
- 3.7 be responsible for identifying and appointing the Chief Executive Officer as and when a vacancy arises;
- 3.8 before any appointment is made to the board, evaluate the balance of skills, knowledge, experience and diversity on the board. In identifying suitable candidates the committee shall:
 - a) use open advertising or the services of external advisers to facilitate the search;
 - b) consider candidates proposed by BSC Parties;
 - c) consider candidates from a wide range of backgrounds;
 - d) consider candidates on merit and against objective criteria and with due regard for the benefits of diversity on the board, including gender, taking care that appointees have enough time available to devote to the position;
- 3.9 prepare a job specification for the appointment of a chairman, non-executive director or chief executive officer. In respect of the chairman and the non-executive directors the job specification should include the time commitment expected.

Conflicts and Independence

- 3.10 ensure that, prior to the appointment of a director, the proposed appointee discloses any other interests that may result in a conflict of interest and that each director reports, to the board, any future interests that could result in a conflict of interest;
- 3.11 prior to the appointment or re-appointment of a non-industry director, determine whether the individual is independent from industry in character and judgment and whether there are relationships or circumstances

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which are likely to affect, or could appear to affect, the individual's judgment². The committee should take into account whether the individual:

- a) has, within the last two years, been an employee or director of any BSC Interested Party³, other agent of the company or electricity industry trade association;
- b) holds a significant shareholding (either personally, or with or on behalf of the individual's spouse or partner or dependent children) in any BSC Interested Party or any other company that has entered into, or is tendering for, any material contract with the company;
- c) has, within the last two years, represented the interests of a BSC Interested Party in relation to matters arising under, or in relation to, the BSC;
- d) has held, within the last two years, any other employment, office or membership at any body or organisation which forms part of the electricity industry during which time such individual has performed a role which has had a direct impact on the company;

Board Effectiveness

- 3.12 review the results of the board performance evaluation process that relate to the composition of the board;
- 3.13 review annually the time required from non-executive directors. Performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfil their duties;

Other Appointments

- 3.14 review the chief executive's recommendation for appointments to the Executive Team⁴;
- 3.15 make recommendations to the board concerning:
 - a) suitable candidates for the role of senior independent director;
 - b) membership of the audit and remuneration committees, and any other board committees as appropriate, in consultation with the chairmen of those committees;
 - c) the re-appointment of any non-executive director at the conclusion of their specified term of office;
 - d) any matters relating to the continuation in office of any director at any time including the suspension or termination of service of a member of the Executive Team as an employee of the company subject to the provisions of the law and their service contract.

4. EFFICIENT DECISION MAKING

- 4.1 Any matter that these Terms of Reference require to be recommended to the board for its approval may be decided by a meeting of the Committee where any remaining directors of the company are in attendance and are invited to vote on such matter.

² The independence requirements were incorporated into these Terms of Reference as a result of Modification P303

³ A BSC Interested Party means a BSC Party, a Party Agent, a BSC Agent or any other entity that participates in, or seeks to participate in, the GB balancing and settlement arrangements

⁴ the Executive Team comprises the Chief Financial Officer and all other members of the executive management group for the time being

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MATRIX OF COMMITTEE MATTERS

| Month | Matters | Committee Decision or Recommendation to Board |
|---------------------|---|---|
| May | Composition - Review Results of Board Performance Evaluation | Committee |
| | Composition - Review of Board Skills Matrix and Composition of Board | Committee |
| | Review of NED Time Commitment | Committee |
| September | CEO and Chairman Succession Plans | Committee |
| | Review Executive Succession Plans | Committee |
| Ad Hoc Matters | Appointment of Chairman | Recommendation |
| | Appointment of NEDs | Recommendation |
| | Membership of Committees | Recommendation |
| | Appointment of SID | Recommendation |
| | Appointment of CEO | Committee* |
| | Review of Executive Team Appointments | Committee |
| | Termination of Appointments | Recommendation |
| Appointment Process | Appointing external advisers, approving job descriptions, shortlisting and interviewing – Chairman and NEDs | Committee |
| | Appointing external advisers, approving job descriptions, shortlisting and interviewing – CEO | Committee |

* This is a decision of the Committee because the only executive director is the CEO who should not automatically be involved in decisions about his successor.