

# Drax Group plc

## Remuneration Committee Terms of Reference

Approved by the Board on 10 November 2015

### 1 Introduction

- 1.1 The board of directors of Drax Group plc (the “**Board**”) hereby constitutes and establishes a remuneration committee (the “**Committee**”). These terms of reference have been produced to identify and formalise the roles, tasks and responsibilities of the Committee for compliance with the UK guidance on corporate governance and to assist the Committee in achieving best practice in corporate governance for Drax Group plc and its subsidiaries (the “**Group**”).

### 2 Role

- 2.1 The Committee has delegated authority on behalf of the Board:
- 2.1.1 to set the Group's policy in relation to the remuneration of the executive directors of the Group (“**Executive Directors**”) and the members of Group Executive Board;
- 2.1.2 to determine the specific remuneration packages and terms of employment of each of the Executive Directors and the members of Group Executive Board; and
- 2.1.3 to set the fee payable to the Chairman of the Company

### 3 Appointment of Members

- 3.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the chairman of the Committee. The Committee shall consist of a minimum of three members all of whom shall be independent non-executive directors. In addition the Chairman of the Board may be a member of the Committee.
- 3.2 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, the remaining members present shall elect one of themselves to chair the meeting. The Chairman of the Board shall not be chairman of the Committee.
- 3.3 Only members of the Committee have the right to attend Committee meetings. As appropriate, other members of the Board (including, but not limited to, the Chief Executive), the head of human resources, and external advisers may be invited to attend the Committee's meetings, but Executive Directors shall not be entitled to vote at any meeting of the Committee.
- 3.4 No member of the Board (or of the Committee) shall attend part(s) of the meeting(s) of the Committee where his or her own remuneration arrangements are determined.
- 3.5 Each member of the Committee shall be appointed for a term of up to three years with effect from the date of their appointment subject to their continuing to be a member of the Board. This appointment may be extended by two further three-year periods, provided the director remains an independent non-executive director.

### 4 Secretary

- 4.1 The company secretary or their nominee shall act as the secretary of the Committee.

## **5 Quorum**

- 5.1 The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## **6 Meetings**

- 6.1 The Committee shall meet at least three times per annum and at such other times as the chairman of the Committee shall require.

## **7 Notice of Meetings**

- 7.1 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any of its members.
- 7.2 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 three 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.

## **8 Minutes of Meetings**

- 8.1 The secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 8.2 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

## **9 Annual General Meeting**

- 9.1 The chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

## **10 Duties**

- 10.1 The Committee shall:
- 10.1.1 determine and recommend for approval by the Board the policy for the remuneration of Drax Group plc's Chairman, Chief Executive the other Executive Directors, and the members of Group Executive Board – including recruitment remuneration, base salary, bonus, long term incentives, pension and other benefits, termination payments, any compensation payments, and any other key components of remuneration. The remuneration of non-executive directors shall be a matter for the Chairman and the executive members of the Board. No director or manager shall be involved in any decisions as to their own remuneration;
  - 10.1.2 in determining such policy, take into account all factors which it deems necessary. The objective of such policy shall be to ensure that members of the executive management of the Group 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 Group;
  - 10.1.3 review the ongoing appropriateness and relevance of the remuneration policy;
  - 10.1.4 approve the design of, and determine targets for, any performance related pay schemes operated by the Group in respect of Executive Directors and the members of Group Executive Board, and approve the extent to which those targets are satisfied under such schemes;

- 10.1.5 review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to Executive Directors and the members of Group Executive Board and the performance targets to be used;
- 10.1.6 ensure that contractual terms on termination of any Executive Director or any member of Group Executive Board, and any payments made, are fair to the individual, and the Group, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- 10.1.7 within the terms of the agreed policy:
- (a) determine the total individual remuneration package of each Executive Director and member of Group Executive Board including bonuses, incentive payments and share options or other share awards;
  - (b) determine the fee payable to the Chairman of the Company; and
  - (c) review and monitor the remuneration levels of each Executive Director and each member of Group Executive Board.
- 10.1.8 in determining such packages and arrangements, give due regard to any relevant legal requirements, the provisions and recommendations in the UK Corporate Governance Code and the UK Listing Authority's Listing Rules and associated guidance; the Group's risk appetite and the Company's long term strategic goals;
- 10.1.9 review and note annually the remuneration trends across the Group; especially when determining annual salary reviews;
- 10.1.10 oversee any major changes in employee benefits structures throughout the Group;
- 10.1.11 agree the policy for authorising claims for expenses from the Chief Executive and Chairman; and
- 10.1.12 be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee: and obtain reliable, up-to-date information about remuneration about remuneration trends and relevant best practice.

## **11 Reporting Responsibilities**

- 11.1 The Committee chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 11.2 The Committee shall:
- 11.2.1 make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;
  - 11.2.2 ensure that all provisions regarding disclosure of remuneration as set out in the Large and Medium Sized Companies (Accounts and Reports) (Amendments) Regulations 2013 and the UK Corporate Governance Code are fulfilled;
  - 11.2.3 in consultation with the Chairman of the Board, ensure that the Company maintains contact as required with its principal shareholders about remuneration.

## **12 Other**

- 12.1 The Committee shall, at least every two years, review its own performance, 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.

## **13 Authority**

- 13.1 The Committee is authorised by the Board to seek any information it requires from any employee of the Group in order to perform its duties.
- 13.2 In connection with its duties the Committee is authorised by the Board to obtain, at Drax Group plc's expense, any outside legal or other professional advice.

## **14 General**

- 14.1 The Committee shall make publicly available these terms of reference, explaining its role and the authority delegated to it by the Board.