

**NATIONAL GRID plc  
REMUNERATION COMMITTEE  
TERMS OF REFERENCE**

Reference to the “Company” shall mean National Grid plc.  
Reference to the “Committee” shall mean the Remuneration Committee.  
Reference to the “Board” shall mean the Board of Directors of the Company.

**1. Membership**

- 1.1 The Committee shall be appointed by the Board and shall comprise at least 4 members.
- 1.2 The members of the Committee shall all be independent Non-executive Directors, as determined by the Board after considering UK and US regulations and best practice.
- 1.3 The Board on the recommendation of the Nominations Committee shall appoint the Committee Chairman, determining the period for which he or she shall hold office, and the Committee members. .
- 1.4 If a regular member is unable to act due to absence, illness or any other cause, the Chairman of the Committee may appoint another independent Non-executive Director of the Company to serve as an alternate member on a short term basis.
- 1.5 In the absence of the Chairman of the Committee and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting 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.
- 1.6 The Chairman of the Board (if not a member), Chief Executive, Global Human Resources Director and Global Head of Compensation & Benefits may attend the meetings of the Committee at the request of the Committee Chairman as and when considered appropriate by the Committee.

**2. Secretary**

- 2.1 The Company Secretary and General Counsel or his or her nominee shall act as the Secretary of the Committee.

**3. Quorum**

- 3.1 The quorum necessary for the transaction of business shall be 2. 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 or exercisable by the Committee.

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#### **4. Meetings**

- 4.1 The Committee shall meet as required to coincide with the Company Board meetings or at such other times as the Chairman of the Committee or any of its members shall require.

#### **5. Notice of Meetings**

- 5.1 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of the Chairman of the Committee or any of its members.
- 5.2 Unless otherwise agreed, Notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers, shall be circulated to each member of the Committee and any other person required to attend no fewer than 5 working days prior to the date 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 others in attendance.
- 6.2 Minutes of Committee meetings shall be circulated to all members of the Committee and, following the approval of the Committee and attendees, to the Board unless it would be inappropriate to do so.
- 6.3 The Chairman of the Committee or, in his or her absence, another member of the Committee shall keep the Board advised of matters resolved, recommended and/or reviewed by the Committee.

#### **7. Annual General Meeting**

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

#### **8. Duties**

The Committee shall:

- 8.1 determine and recommend to the Board the framework or broad policy for the remuneration of the Chairman of the Board, Chief Executive, other Executive Directors, Company Secretary and General Counsel and other members of the executive management reporting directly to the Chief Executive. The remuneration of Non-executive Directors shall be a matter for the Executive members of the Board with the guidance of the Chairman of the Board, after

taking appropriate external advice. No Director or employee shall be involved in any decisions as to his or her own remuneration;

- 8.2 in determining this framework or policy, take into account all factors which it is required or otherwise deems appropriate to consider. The objective of such policy shall be to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage stretch performance and are rewarded, in a fair and reasonable manner, for their individual contributions towards the success of the Company. To ensure the Company is acting in accordance with best practice, the Committee shall always obtain relevant data in order to undertake comparator analysis of the Company's remuneration packages for Directors in comparison with other companies in its peer group and industrial sector;
- 8.3 within the terms of the agreed policy and based on individual performance, determine the total individual remuneration package for the individuals set out in 8.1 including, where appropriate, bonuses, incentive payments, awards of shares, share options and pension arrangements;
- 8.4 determine targets for any performance related plans operated by the Company or any of its subsidiaries in respect of the individuals set out in 8.1;
- 8.5 determine the policy for and scope of service agreements and termination payments for the individuals set out in 8.1;
- 8.6 in determining such packages and arrangements, give due regard to the provisions of and recommendations in the UK Corporate Governance Code as well as the UK Financial Services Authority's Listing, Prospectus and Disclosure and Transparency Rules and other requirements of legislation, regulation and good governance, including to the extent deemed appropriate, the rules of the New York Stock Exchange and any other exchange on which the Company's equity securities are listed;
- 8.7 be informed of any major changes in employee benefit structures including bonuses and performance related plans in the Company and any of its subsidiaries to ensure alignment throughout the Company;
- 8.8 review and authorise the reimbursement of any claims for expenses from the Chairman provided that the Committee may delegate this to the Finance Director;
- 8.9 ensure that provisions relating to the disclosure of remuneration including pensions, required by applicable law and regulation, are complied with in particular the production an annual report on the

Committee's remuneration policy, which will form part of the Company's Annual Report and Accounts and be voted on at each Annual General Meeting;

- 8.10 make recommendations to the Board with respect to the establishment of, and changes to, the rules of employee equity participation arrangements and administer these arrangements where their rules specify the involvement of the Committee or any other Committee of the Board, unless the Board decides otherwise;
- 8.11 make recommendations to the Board with respect to the policy on the grant of executive share options and long term incentive share awards;
- 8.12 authorise for those individuals set out in 8.1 who are eligible their participation in employee share plans from time to time operating in the Company;
- 8.13 in the case of authorising subsidiary companies to participate in existing all employee share plans, delegate authority to the Company Secretary and General Counsel and the relevant Executive Director;
- 8.14 determine the principles on which outside directorships may be accepted by Executive Directors;
- 8.15 ensure that contractual terms on termination, and any payments made, are fair to the individual and the company, and that failure is not rewarded and that the duty to mitigate loss is fully recognised; and
- 8.16 review on a regular basis but no less than annually its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness (the Board should also review the Remuneration Committee's effectiveness annually).

## **9. Committee Interface with Other Committees**

The Committee shall interface with:

- 9.1 the Nominations Committee with respect to the pay and conditions upon appointment of Directors and direct reports to the Chief Executive recruited on the recommendation of the Nominations Committee; and
- 9.2 the Share Schemes Sub-Committee with respect to the matters delegated to it.

## 10. Authority

- 10.1 Subject to any restrictions imposed by law, the Committee is authorised by the Board to seek any information it requires from any employee of the Company and its subsidiaries in order to perform its duties.
- 10.2 The Committee may call any Director or employee to be present at a meeting of the Committee as and when required.
- 10.3 The Committee has the authority to access sufficient resources and professional advice, as is reasonable at the Company's expense, in order to carry out its duties, including access to the Company Secretariat for assistance as required. This also includes obtaining the advice of independent remuneration consultants, to secure the attendance of external advisers at its meetings if it considers this necessary, and to obtain reliable, up-to-date information about remuneration in other companies. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations. If a decision is made to engage such advisers or consultants, the Committee shall have the sole authority to retain and terminate them, and to approve their fees and other retention terms.
- 10.4 Members shall be provided with training as appropriate, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 10.5 The Committee shall have the authority to establish the Share Schemes Sub-Committee comprising any two Directors and either the Global Human Resources Director or the Company Secretary and General Counsel and to delegate to it all the powers, authorities and discretions given to the Committee in relation to the operation and/or administration of the employee equity participation arrangements to that Sub-Committee (and for further sub-delegation where appropriate) save in respect of any matters relating to those individuals set out in 8.1 (other than giving effect to decisions made by the Committee) or any other matters specifically reserved by the Committee.
- 10.6 Save as expressly provided herein, the Committee shall not be entitled to sub-delegate all or any of the powers and authorities delegated to it.