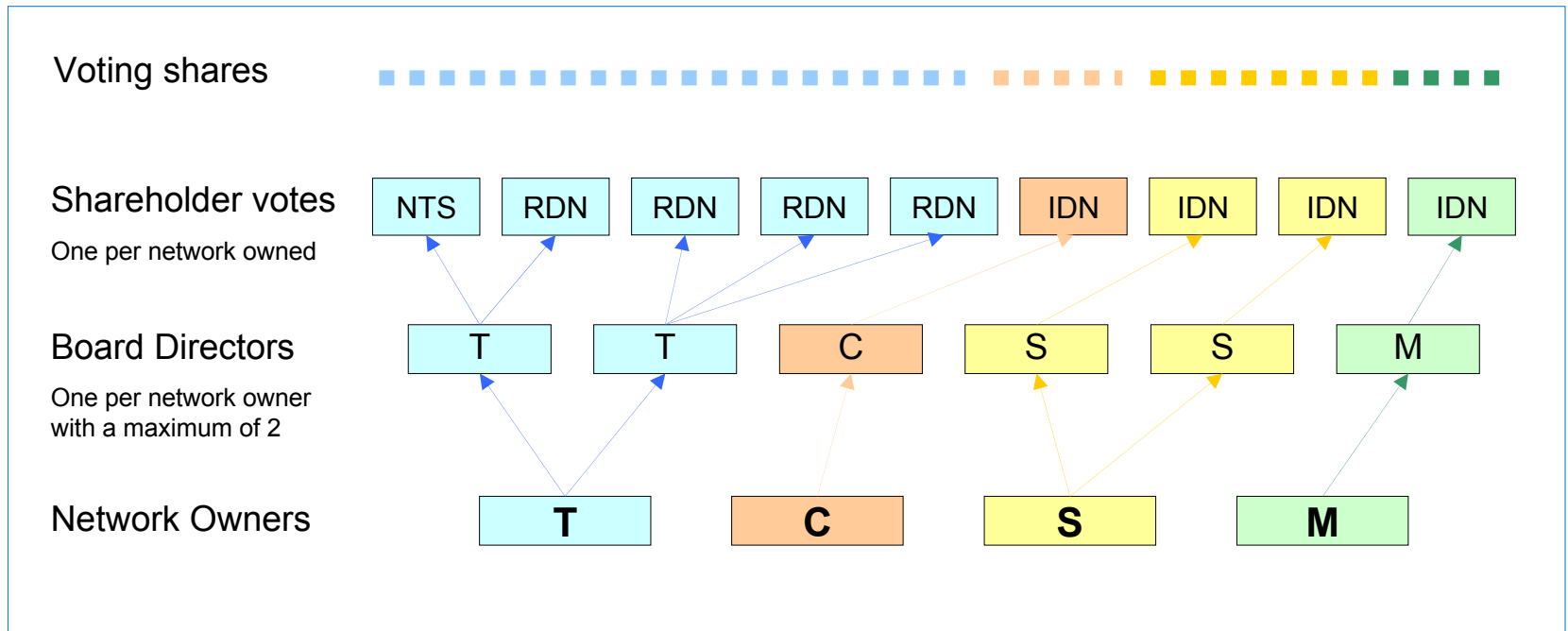


xoserve: review of Board voting arrangements

Presentation for DISG 22

19 October 2004

Ownership, control and accountability will be shared by the four parties



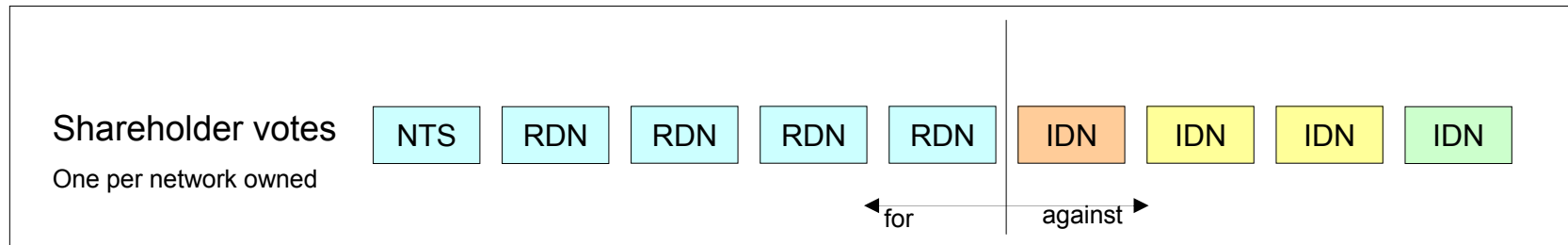
There will be 4 classes of voting: simple majority, special majority, written consent and unanimity.

Together these voting classes are designed to deliver **effective decision making** and **protection against undue influence by any one network owner**.

Effective decision making through Simple Majority Voting

Simple Majority Voting

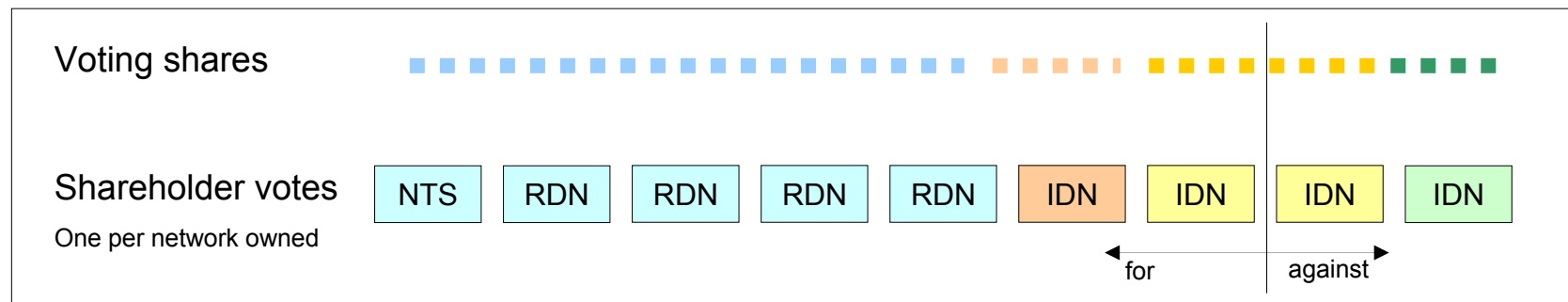
- For all decisions except those defined in Schedule 3
- One vote per network owned
- Designed to avoid deadlock in decision making



Minority interests protected through Special Majority Board Voting

Special Majority Voting

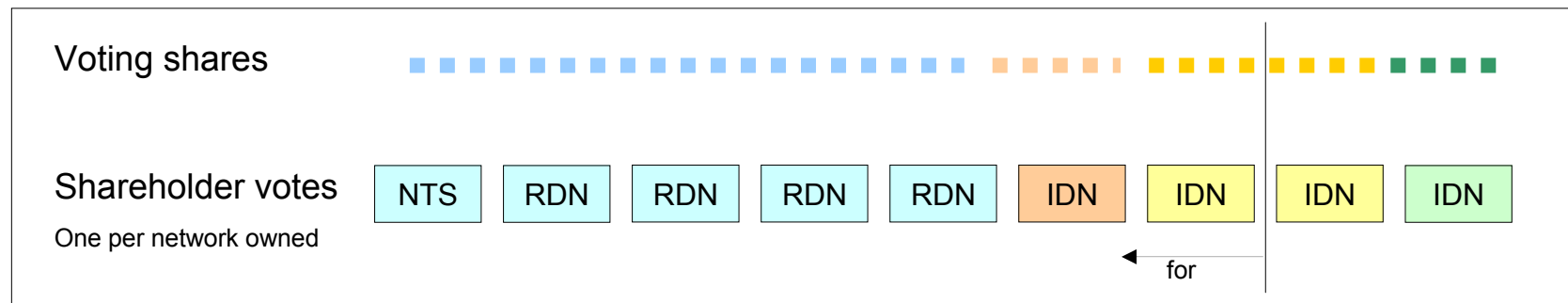
- For major decisions defined in Schedule 3
- Requires:
 - a majority from at least 3 separately owned networks, and
 - a vote representing at least 50% of voting shares
- Designed to prevent Transco from taking major decisions unilaterally
- Prevents a single minority party from causing deadlock: avoids requirement for unanimity



Minority shareholder interests protected through Written Consent

Written Consent Voting

- For major decisions defined in Schedule 3
- Requires:
 - Written consent from at least 3 independent shareholders, and
 - consent from a cumulative holding of at least 50% of voting shares
- Designed to avoid undue influence from Transco in major decisions

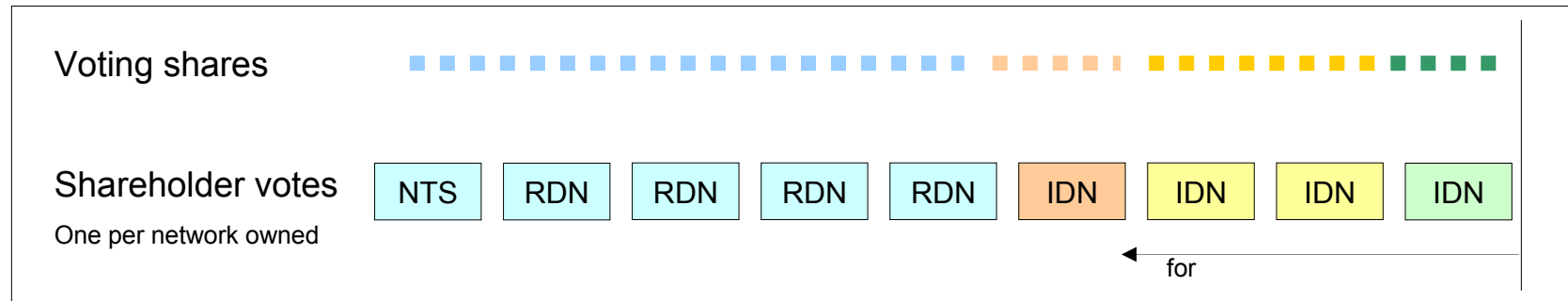


Note: all parties have recourse to Ofgem

Minority shareholder interests protected through Unanimity

Unanimity – Written consent from all shareholders

- For major fundamental shareholder decisions defined in Schedule 3
- Requires written consent from all shareholders
- Gives minority interests the right of veto on fundamental shareholder decisions, in particular for
 - changes to Shareholder's agreement
 - Schedule 3 updates



Agency Governance arrangements prevent Transco control & deadlock in decision making

Transco control of decision making:

- Decision making at xoserve Agency level concerns implementation of modifications, not whether the mods go ahead or not
- Special majority decisions mean Transco-appointed Directors cannot take important decisions unilaterally
- Independent non-exec introduces another layer of governance
- Fundamental decisions made by unanimity – gives right of veto to all parties
- All parties still have recourse to Ofgem

Deadlock in decision making:

- A large proportion of decisions will be made by the simple, quick and decisive majority voting of the Directors
- Special majority stops a single minority party causing deadlock (unanimity not required)
- Independent non-exec has role in coaching Board and encouraging functional decision making