

# UK Corporate Governance Code (the “Code”)

## Main Principles

### Compliance for the year ending 31 March 2017

#### **A LEADERSHIP**

##### **A1 The Role of the Board**

**Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.**

- Board has been structured to ensure that correct mix of skills and experience are in place to allow it to operate effectively.
- Board meetings are scheduled regularly, with supplementary meetings held as required. An annual rolling plan of items for discussion is reviewed and adapted regularly to ensure all matters reserved to the Board, with other items as appropriate, are discussed.
- The structure and business of the Boards is designed to ensure that the Directors focus on the strategy, monitoring, governance and performance of AO World plc (the Company). There is an established procedure for the preparation of each meeting which normally includes a report on current trading and detailed papers as appropriate.
- There is a clear schedule of Matters Reserved for the Board for decision making which includes; setting and reviewing the Group’s long-term objectives, commercial strategy, business plan and annual budget; overseeing the Group’s operations and management; governance and risk control issues and major capital projects.

##### **A2 Division of Responsibilities**

**There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of discretion.**

- The roles of Chairman of the Board and Chief Executive are not exercised by the same individual.

- The division of responsibilities between the two roles is set out in writing and will be reviewed by the Board annually to ensure that it remains relevant and accurate.
- The Chairman's role is to lead and manage the Board, and to play a role in facilitating the discussion of the Company's strategy by the Board.
- The Chief Executive Officer and the Chief Financial Officer are responsible for the day-to-day management of the Company's operational activities, and for the proper execution of strategy, as set by the Board.
- There is no dominant individual or group of individuals on the Board unduly influencing its collective decision-making ability.

### **A3 The Chairman**

**The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.**

- With support from the Company Secretary the Chairman has full responsibility for setting the Board's agenda.
- The Chairman sets the meeting timetable, actively encourages contribution from all Directors in Board meetings, and is responsible for ensuring that constructive interaction is on-going between the individual members of the Board.

### **A4 Non-executive directors**

**As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.**

- The Chairman encourages an open environment in Board meetings and ensures that Non-Executive Directors are provided with adequate time and opportunity in such meetings to give their views and challenge the Executive Directors.
- The Chairman and Non-Executive Directors met during the year without the Executive Directors being present in order to scrutinise the performance of Executive Management and for any significant issues or problems arising to be discussed.
- The Senior Non-Executive Director acts as an intermediary between the Chairman and the other Directors.

## **B EFFECTIVENESS**

### **B1 The Composition of the Board**

**The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.**

- Board has been structured to ensure that correct mix of skills and experience are in place to allow it to operate effectively.
- The Board acknowledges that the Company is not in compliance with paragraph B.1.2 of the Code, which requires at least half of the Board, excluding the Chairman, to be independent Non-Executive Directors. Chris Hopkinson is a Non-Executive Director, but is not considered independent under the Code due to his long tenure with the Company. However, in part due to his continuity of service and in-depth knowledge of the Company, the contribution that Chris Hopkinson makes as a Non-Executive Director is highly valued by other Board members. Additionally, as the Board has two experienced independent Non-Executive Directors the Board is satisfied that no individual will dominate its decision taking, no undue reliance will be placed on particular individuals, there has been sufficient challenge of executive management in meetings of the Board and the Board is capable of operating effectively.
- The composition of the Board is regularly reviewed by the Nomination Committee to ensure that it has the appropriate balance of skills, experience and knowledge of the Company.

### **B2 Appointments to the Board**

**There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board.**

- The appointment of new Directors to the Board is led by the Nomination Committee who has the responsibility for nominating candidates for appointment as Directors to the Board, bearing in mind the need for diversity and a broad representation of skills across the Board.
- The Board acknowledges that the Company is not in compliance with paragraph B.2.1 of the Code, which requires that the Nomination Committee comprises a majority of

independent Directors. Only Brian McBride is considered independent and while the Chairman of the Company was considered to be independent on appointment, the Code provides that thereafter the test of independence is not appropriate in relation to the Chairman. However, the Board considers that it has a strong independent non-executive component and that the continuity, experience and knowledge of Chris Hopkinson ensures that he made a significant contribution to the work of the Committee over the period under review. The composition of the Committee will be continually reviewed to ensure it remains effective.

- Further detail on the work of the Nomination Committee can be found on page 60 of the 2017 Annual Report and Accounts.

### **B3 Commitment**

**All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.**

- The time commitment required from each Director is stipulated within his/her letter of appointment and discussed openly between the Chairman and relevant Director prior to appointment.
- The Nomination Committee is responsible for considering on an annual basis, whether each Director is able to devote sufficient time to their duties.

### **B4 Development**

**All directors should receive an induction on joining the board and should regularly update and refresh their skills and knowledge.**

- Upon joining the Board, each Director will receive a comprehensive induction programme, tailored to his/her specific background and requirements. New Directors will receive an induction pack which contains information on the Group's business, its structure and operations, Board procedures, corporate governance related matters and details regarding Directors' duties and responsibilities.
- All new Directors are introduced to the Group Executive Team.

## **B5 Information and Support**

**The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.**

- The Chairman, with the assistance of the Company Secretary, ensures that the Directors receive accurate, timely and clear information.
- All Directors receive appropriate documentation in advance of each Board and Committee meeting including detailed briefings on all matters in order to discharge their duties effectively in considering a matter and reaching a decision on it.
- The Chief Executive Officer and Chief Financial Officer provide reports to the Board and members of the Group Executive Team are also invited to attend Board meetings and to present on specific business issues and proposals. This way the Board is given the opportunity to meet with the next layers of management and gain a more-in depth understanding of key areas of the business. Additionally, over the current financial year, external speakers will be invited to present to Board on topical industry issues. All of these topics lead to discussion, debate and challenge amongst the Directors.

## **B6 Evaluation**

**The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.**

- The Board acknowledges that it does not comply with B.6.2 of the Code which states that an externally facilitated evaluation of the Board should take place every three years. However, an internal evaluation of the performance of the Board was undertaken by the Chairman following his appointment in July 2016 and therefore an external review was not considered necessary. The Board expects to undertake an external review of its performance during the financial year to 31 March 2018 in line with Code requirements.
- Additionally the Board acknowledges that it does not comply with Code provision A.4.2 and B.6.3 as the Non-Executive Directors, led by the Senior Independent director, did not meet without the Chairman present to appraise and evaluate his performance. Geoff Cooper became Chairman at the conclusion of the Company's AGM in July 2016. It was therefore not appropriate to appraise his performance until he had been in the role for an

appropriate length of time. However, an appraisal of his performance was conducted by the Non-Executive Directors shortly following the Company's reporting period in May 2017.

- The Chairman met with the Non-Executive Directors during the year without the Executive Directors present to discuss Board balance, monitor the powers of individual Executive Directors and raise any issues between themselves as appropriate. Led by the Senior Independent Director, the Non-Executive Directors also met during the year without the Chairman present to appraise his performance and to discuss any other necessary matters as appropriate.

### **B7 Re-election**

**All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance**

- The Company's Articles of Association require a Director to be subject to election at the first Annual General Meeting ('AGM') following his or her appointment and thereafter every third year.
- However, in accordance with the Code, all Directors will be subject to election / re-election at the 2017 AGM.

## **C ACCOUNTABILITY**

### **C1 Financial and Business Reporting**

**The board should present a fair, balanced and understandable assessment of the company's position and prospects**

- The Directors' report is set out in full in the AO World plc 2017 Annual Report and Accounts. This report includes an explanation concerning the Directors' responsibility for preparing the Annual Report and Accounts and a statement that the Directors' consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

- The Strategic Review section of the Company's Annual Report and Accounts set out the strategic objectives of the Company and how these will be delivered and the details of AO's business model on pages 36 and 37 describes how the Company will generate and preserve value over the longer term.

## **C2 Risk Management and Internal Control**

**The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.**

- As is set out within the Risk and Uncertainties section on pages 41 and 42 of the 2017 Annual Report and Accounts, the Board takes overall responsibility for risk management with a particular focus on determining the nature and extent of the significant risk it is willing to take in achieving its strategic objectives ("risk appetite"). The activities of the Audit Committee and the Risk Management Committee are also set out on pages 64 and 41 respectively of the 2017 Annual Report and Accounts.
- The Board has overall responsibility for maintaining and reviewing the Group's systems of internal control and ensuring that the controls are robust and effective in enabling risks to be appropriately assessed and managed.
- On behalf of the Board, the Audit Committee conducts an annual review of the effectiveness of the systems of internal control including financial, operational and compliance controls and risk management systems.

## **C3 Audit Committee and Auditors**

**The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.**

- Whilst the Board sets the Group's risk appetite, it reviews the operation and effectiveness of the Group's risk management activities through the Audit and Risk Management Committees, which undertake the day-to-day oversight of the risk management framework on behalf of the Board. The Chairman of the Audit Committee regularly provides an update on the work carried out by the Audit Committee to the Board.

## **D REMUNERATION**

### **D1 The Level and Components of Remuneration**

- Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied. The Board delegates responsibility for setting appropriate levels of remuneration for its Executive Directors to the Remuneration Committee.
- As is clearly explained within the Annual Statement by the Chairman of the Remuneration Committee in the Annual Report and Accounts, ensuring an appropriate alignment of interests between Executive Directors and shareholders through remuneration is a key goal of the Remuneration Committee, and an underlying principle for its decision-making.

### **D2 Procedure**

**There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.**

- The activities of the Remuneration Committee and an explanation of how it aligns executive remuneration with shareholder interests, is set out from pages 67 to 88 of the Remuneration Committee report in the 2017 Annual Report and Accounts.
- The Remuneration Committee report also contains AO's Remuneration Policy to be approved at the Company's Annual General Meeting held on 21 July 2017 and outlines possible future considerations of the Committee in setting remuneration for each of the Executive and Non-Executive Directors. External advice was taken from New Bridge Street having regard to prevailing levels of remuneration in the market.

## **E RELATIONS WITH SHAREHOLDERS**

### **E1 Dialogue with shareholders**

**There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.**

- The Board recognises and values the importance of meeting the Company's shareholders to obtain their views, and has established a programme to communicate with shareholders, based on its financial reporting calendar.
- Meetings are held with major shareholders following both the full-year and half-year results. Normally, these meetings are with the Chief Executive Officer and Chief Financial Officer. The whole Board is briefed on the outcome of these meetings and any issues raised are discussed.
- The Chairman and the Senior Independent Director are contactable at the Company's registered office address to answer any queries that both institutional and individual shareholders may have.

## **E2 Constructive Use of general meetings**

**The board should use general meetings to communicate with investors and to encourage their participation.**

- All of the Directors aim to attend the AGM and value the opportunity of welcoming individual shareholders and other investors to communicate directly and address their questions.
- In addition to the mandatory information required, a full, fair and balanced explanation of the business of all general meetings is sent in advance to shareholders.