



**AO WORLD PLC (the "Company")**  
**TERMS OF REFERENCE FOR THE REMUNERATION COMMITTEE**

**1. CONSTITUTION**

The Committee has been established by resolution of the board of directors of the Company (the "**Board**") and is to be known as the Remuneration Committee.

**2. MEMBERSHIP**

- 2.1 The Board shall appoint the chairman of the Remuneration Committee (the "**Chairman**"), who shall not be the chairman of the Board. In the absence of the Chairman or any appointed deputy, the remaining members present shall elect one of themselves to chair the meeting from those who would qualify under these terms of reference to be appointed to that position by the Board.
- 2.2 The members of the Remuneration Committee shall be appointed by the Board, on the recommendation of the Nomination Committee and in consultation with the Chairman.
- 2.3 The Remuneration Committee shall consist of at least three members, two of whom are independent non-executive directors. The chairman of the Board may also serve on the Remuneration Committee as an additional member if he or she was considered independent on appointment as chairman.
- 2.4 Appointments to the Remuneration Committee shall be for a period of up to three years, which may be extended by no more than two further three-year periods, provided the director still meets the criteria for membership of the Remuneration Committee.
- 2.5 The Board shall regularly review the membership of the Remuneration Committee to ensure that membership is refreshed and undue reliance is not placed on particular individuals.
- 2.6 If executive directors or senior management are involved in advising or supporting the Remuneration Committee, that role should be clearly separated from their role within the business and care should be taken to recognise and avoid conflicts of interest.

**3. QUORUM**

A quorum necessary for the transaction of business shall be two members, one of whom must be an independent non-executive director.

**4. ATTENDANCE AT MEETINGS**

- 4.1 No one other than the Chairman, and members, of the Remuneration Committee is entitled to attend or vote at a meeting of the Remuneration Committee.
- 4.2 However, other individuals, such as the chairman of the Board, chief executive, chief financial officer, members of senior management, the head of human resources and external advisers, may be invited by the Remuneration Committee to attend for all or part of any meeting, as and when appropriate and necessary.

4.3 No director or senior executive shall be involved in any decisions as to his or her own remuneration.

5. **SECRETARY**

5.1 The Company Secretary or his or her nominee shall act as the secretary of the Remuneration Committee (the "**Secretary**").

5.2 The Secretary shall ensure that the Remuneration Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

5.3 The Secretary shall keep a record of:

5.3.1 the membership, and the dates of any changes to the membership, of the Remuneration Committee; and

5.3.2 any person who, or firm which, provides advice or services to the Remuneration Committee or materially assists the Remuneration Committee on matters relating to directors' remuneration and the nature of any other services provided by that person to the Company during the year.

6. **FREQUENCY OF MEETINGS**

Meetings shall normally be held at such times as the Remuneration Committee deems appropriate and in any event shall be held not less than three times a year.

7. **PROCEEDINGS**

7.1 Unless varied by these terms of reference, meetings and proceedings of the Remuneration Committee will be governed by the provisions of the Company's Articles of Association regulating the meetings and proceedings of directors.

7.2 Meetings of the Remuneration Committee shall be called by the Secretary at the request of the Chairman or any other member thereof.

7.3 Unless otherwise agreed or determined by the chairman of the Remuneration Committee, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed and supporting papers, shall be sent to each member of the Remuneration Committee, any other person required to attend and all other non-executive directors not later than 48 hours prior to the date of the meeting.

7.4 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The Secretary shall record the proceedings and resolutions of all meetings of the Remuneration Committee, including the names of those present and in attendance. The Secretary shall circulate the draft minutes of such meetings to all members of the Remuneration Committee promptly. Once agreed, the minutes shall be circulated by the Secretary to all members of the Board, unless a conflict of interest exists or the Remuneration Committee decides it would be inappropriate to do so.

7.5 The Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

8. **AUTHORITY**

8.1 The Remuneration Committee is authorised by the Board at the expense of the Company to investigate any matter within its terms of reference. It is authorised to seek any information it requires from any employee in order to perform its duties and all employees are directed to co-operate with any requests made by the Remuneration Committee.

8.2 The Remuneration Committee is authorised by the Board, at the expense of the Company, to obtain external legal or other professional advice on any matters within its terms of reference. The Remuneration Committee is also authorised, at the expense of the Company and at all times within budgetary restraints imposed by the Board, to appoint external remuneration consultants and set their terms of reference and to commission or purchase any relevant reports, surveys or information which it deems necessary to help fulfil its duties.

8.3 These terms of reference may be amended from time to time by the Board.

## 9. DUTIES

The Remuneration Committee shall be responsible for all elements of the remuneration of the executive directors and the chairman of the Company, including pension rights and compensation (i.e. damages) payments. The Remuneration Committee should also recommend and monitor the level and structure of remuneration for the senior management of the group. The senior management for this purpose shall include the first level of management below board level. The duties of the Remuneration Committee shall be:

9.1 to determine the policy for the remuneration (including benefits, pension arrangements and termination payments) of the chairman of the Board, the executive directors, the Company Secretary and the senior management of the Company;

9.2 in determining such policy for remuneration, to take into account all factors which it deems necessary (including relevant legal and regulatory requirements, the provisions of the UK Corporate Governance Code (the "**Governance Code**"), institutional shareholder guidelines in relation to directors' remuneration and associated guidance), the objective of such policy being to attract, retain and motivate executive management of the quality required to run the Company successfully without paying more than is necessary whilst having regard to views of shareholders and other stakeholders. The remuneration policy should have regard to the risk appetite of the Company and alignment with the Company's long-term strategic goals. A significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and be designed to promote the long-term success of the Company;

9.3 having regard to the provisions of the Companies Act 2006 (the "**2006 Act**") to put said remuneration policy to shareholders for approval at a general meeting at least once every three years, or sooner in the event of a change in policy, and to put the report relating to the implementation of the remuneration policy to shareholders annually at the AGM, as appropriate;

9.4 to determine the Company's policy on the duration of contracts with executive directors, notice (which should be set at one year or less unless considered necessary for the purpose of recruitment of new executive directors) and termination payments under executive directors' contracts, with a view to ensuring that any termination payments are fair to the individual and the Company, that failure is not rewarded and the duty to mitigate loss is fully recognised;

9.5 to consider and make recommendations in respect of any other terms of the service contracts of the executive directors and any proposed changes to these contracts, and to review the Company's standard form contract for executive directors from time to time;

9.6 within the terms of the agreed framework or broad policy, and in conjunction with the chairman of the Board or chief executive as appropriate, to determine the total individual remuneration packages of the chairman of the Board, each executive director, the Company Secretary and the senior management of the Company, including, where appropriate, bonuses, incentive payments, share options, other share awards and pension arrangements;

- 9.7 having regard to the provisions of the Governance Code, including Schedule A of the Governance Code, to approve the design of and determine all formulae and targets for any performance-related schemes operated by the Company, the methods for assessing whether performance conditions are met and to approve the total annual payments made under such schemes;
- 9.8 to review the design of all share incentive plans for approval by the Board and shareholders and, 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 the executive directors, the Company Secretary and the senior management of the Company and the performance targets to be used;
- 9.9 to identify to the Board, for its consideration and final determination, any performance measures, performance targets and formulae which may be considered commercially sensitive for the Company;
- 9.10 to request the Board seek shareholder approval of all new employee share plans where required to do so by the Listing Rules or any other applicable rules or regulations;
- 9.11 to administer and review all aspects of any share option scheme operated by or to be established by the Company, (subject always to the rules of that scheme and any applicable legal and regulatory requirements) including but not limited to:
  - 9.11.1 the selection of those eligible directors and employees of the Company and its subsidiary companies to whom options should be granted,
  - 9.11.2 the timing of any grant of options,
  - 9.11.3 the numbers of shares over which options are to be granted,
  - 9.11.4 the exercise price at which options are to be granted, and
  - 9.11.5 the imposition of any objective condition which must be complied with before any option may be exercised.
- 9.12 to liaise with the Nomination Committee to ensure that the remuneration of newly-appointed executive directors and senior management is within the Company's overall policy and to work and liaise as necessary with all other Board committees;
- 9.13 to consider any other matters relating to the remuneration of or terms of employment applicable to the chairman of the Board, the executive directors, the Company Secretary and the senior management of the Company and referred to the Remuneration Committee by the Board;
- 9.14 when setting remuneration policy for directors, review and have regard to pay and employment conditions across the Company or group, especially when determining annual salary increases;
- 9.15 to obtain reliable, up-to-date information about remuneration in other companies, particularly in those companies of a comparable scale and complexity;
- 9.16 to be aware of and oversee any major changes in remuneration policy or employee benefit structures throughout the Company or group;
- 9.17 to review the ongoing appropriateness and relevance of the remuneration policy for the chairman of the Board, the executive directors, the Company Secretary and the senior management of the Company;
- 9.18 to have regard to any applicable laws and regulations including, to the Governance Code, the Listing Rules, the Disclosure and Transparency Rules, and to any published guidelines

or recommendations regarding the remuneration of directors of listed companies and the formation and operation of share incentive schemes (in particular the guidelines published by the Association of British Insurers and National Association of Pension Funds), and to any other applicable rules or guidelines which the Remuneration Committee considers relevant or appropriate;

- 9.19 to help it fulfil its obligations the Remuneration Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary at the expense of the Company but within any budgetary restraints imposed by the Board. The Remuneration Committee shall be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Remuneration Committee;
- 9.20 to agree the policy for authorising claims for expenses including corporate entertainment expenses of all directors appointed to the Board;
- 9.21 to ensure that it is in a position to justify all of its actions and proposed courses of action;
- 9.22 in exercising its powers, to take into account the duties of directors under Chapter 2 of Part 10 of the Companies Act 2006 (the "**2006 Act**") including, in particular, section 172 of the 2006 Act, which requires a director to act in a way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:
- 9.22.1 the likely consequences of any decision in the long term,
  - 9.22.2 the interests of the company's employees,
  - 9.22.3 the need to foster the company's business relationships with suppliers, customers and others,
  - 9.22.4 the impact of the company's operations on the community and the environment,
  - 9.22.5 the desirability of the company maintaining a reputation for high standards of business conduct, and
  - 9.22.6 the need to act fairly as between members of the company;
- 9.23 to promptly provide the Board with such information as may be necessary or desirable in the opinion of the Board to enable the Board to monitor its conduct in order that each member of the Board may fulfil his duties and responsibilities as a director;
- 9.24 at least once a year to review its own performance, constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval, in accordance with the Governance Code;
- 9.25 to ensure that these terms of reference are made available on the Company's website in accordance with the Governance Code; and
- 9.26 to make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

## 10. **EXCLUSIONS**

- 10.1 The terms of reference of the Remuneration Committee do not encompass decisions to appoint, employ or dismiss executives or directors.
- 10.2 The remuneration of non-executive directors shall be a matter for the executive directors and the chairman of the Board (subject to the Articles of Association of the Company).

Where permitted by the Articles of Association, the Board may, however, delegate this responsibility to a smaller sub-committee of executive directors, which may include the chief executive.

**11. REPORTING TO SHAREHOLDERS**

- 11.1 The Remuneration Committee shall ensure that the Company maintains a dialogue with shareholders about the remuneration of executive directors and senior management and the work of the Remuneration Committee.
- 11.2 The Remuneration Committee shall, in conjunction with the Board, draft and approve all required parts of the directors' remuneration report, having regard to the provisions of the 2006 Act, Listing Rules, the Governance Code and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008, and ensure that all provisions regarding disclosure of remuneration are fulfilled and put to shareholders for approval at the AGM as appropriate.
- 11.3 The Remuneration Committee shall assist in the drafting of the section in the Company's Annual Report relating to the activities of the Remuneration Committee in accordance with the Governance Code and to liaise with the Board in relation to the same.
- 11.4 The Annual Report shall include, where remuneration consultants are used, details of the consultants and a statement of any other connection they have to the Company.

**12. ANNUAL GENERAL MEETING**

The Chairman shall be available at the Annual General Meeting to answer questions arising from the directors' remuneration report and generally on remuneration principles and practice and the activities of the Remuneration Committee.