6 June 2017

AO WORLD PLC

FULL YEAR RESULTS FOR THE YEAR ENDED 31 MARCH 2017

BUILDING FOR GROWTH; 40+% INCREASE IN UK ADJUSTED EBITDA Y-O-Y FROM £17.2M TO £24.4M; GAINING MARKET SHARE IN ALL CATEGORIES AND COUNTRIES

AO World plc ("the Company" or "AO"), a leading European online electrical retailer, today announces its audited financial results for the year ended 31 March 2017.

Financial Highlights[1]

- Total revenue for the period increased by 17.0% to £701.2m (2016: £599.2m) with both the UK and Europe businesses growing sales:
    - AO website sales[2] for the UK[3] up 14.5% to £557.9m (2016: £487.1m), with total UK revenue up 12.7% to £629.7m (2016: £558.5m) demonstrating further market share gains.
    - Europe[4] revenue for the year was £71.5m/€84.7m (2016: £40.7m/€55.6m), up 52.3% in constant currency, as The AO way gained excellent traction with customer and reflecting a full year of trading in The Netherlands.
- UK profitability improved significantly, contributing to Group Adjusted EBITDA[5] losses reducing by 46.2% to £2.1m from losses of £3.9m:
    - UK Adjusted EBITDA was up 41.7% to £24.4m (2016: £17.2m), with UK Adjusted EBITDA margin[6] of 3.9% (2016: 3.1%) due to increased sales and improvements in gross margin.
    - Europe Adjusted EBITDA losses increased by 25.5% to £26.5m/€31.5 (2016: £21.1m/€30.4) reflecting losses in The Netherlands over its first full year of trading and further trading losses in Germany as we build scale.
- Group operating loss of £12.0m (2016: £10.6m) reflecting further trading losses incurred in Germany and The Netherlands with operating profit for the UK up 25.9% to £15.6m (2016: £12.4m) and operating losses for Europe increasing to £27.6m (2016: £23.0m).
- Group net funds position[7] as at 31 March 2017 was £12.0m (2016: £25.4m), with cash being £29.4m (2016: £33.4m) and the balance sheet was strengthened further after year end through the placing of 9% of existing share capital, raising gross proceeds of £50m.
- Basic loss per share of 1.56p (2016: 1.44p). [8] Diluted loss per share of 1.55p (2016: 1.44p).

Operational Highlights

- Continued to grow market share in all our categories across all our countries.
- Launched the computing category in the UK and AV in Germany and saw an encouraging customer response.
- Excellent customer experience metrics which demonstrate the amazing service we provide through simply caring more:
    - Industry leading scores on customer review websites (UK Trustpilot 9.5/10; Germany trusted shops 4.8/5; Netherlands Trustpilot 9.6/10).
    - Excellent net promoter scores (UK: over 80, Europe: over 85). [9]

- Opened Bergheim, our regional distribution centre and head office which services our European operations and will allow us to drive further growth.
- Built a state of the art recycling facility in Telford in the UK, providing vertical integration, capacity to process all AO WEEE and further opportunities for new revenue streams.

Outlook

The challenging trading environment we saw in the UK in the second half of last year has continued into the start of our new financial year. Accordingly, these macro-economic factors combined with strong comparables in Q1FY17[10] (driven by changes to stamp duty at the end of March 2016) means we expect our UK Q1 growth rate to slow significantly year on year, but overall we continue to expect to fall within the range of market expectations.

In spite of the uncertainties in the market the drivers for success of our business are unchanged; our customer service metrics remain exceptional and we continue to innovate to create a customer experience for tomorrow. Following the placing we have strengthened our balance sheet to support the Group’s growth notwithstanding market conditions.

Trading in Europe in our new financial year has started well and we are on track with our plans for this year, confident in the long-term prospects of our overseas territories (as set out in at our Capital Markets Day).

We remain relentless in pursuing our goal to be the best electrical retailer in Europe and, through focussing on our 4 C’s strategy (culture, customers, categories and countries), we are confident we can deliver against that objective.

Commenting on these results, Steve Caunce, Chief Executive Officer said:

“It’s been another year of great progress for AO with the UK seeing improved profitability and we have continued to build a solid platform for future growth. In Europe, we opened our new regional distribution centre in Bergheim which will enable us to scale our European operations profitably in the years to come and have improved our gross margin, building on our relationship with suppliers. We have built a state-of the art recycling facility in the UK, we have added new categories to our offering in both the UK and Europe and, in launching computing, we have developed systems and infrastructure to operate a different distribution model, which we can leverage for future category roll-out across territories.

Our customer service metrics remain exceptional across all of the countries in which we operate because we make it our mission to care more and we continue to innovate to create the best customer experience for tomorrow. This has helped us to continue to gain market share in our categories and countries, notwithstanding the challenging trading environment in the UK.

We remain as committed as ever to doing business The AO Way and continuing to deliver outstanding results for our customers, our people, our supplier partners and our investors. I would like to thank every single AO’er for their passion and dedication over the year and look forward to working together to grow the business further in the year ahead.”

Webcast details

A results presentation hosted by Steve Caunce and Mark Higgins for analysts and investors will be held today, 6 June 2017 at 9:00am (GMT) at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. Please register your attendance in advance with Tulchan Communications using the contact details below.

A webcast of the presentation will be available to watch live and later in the day at www.AO.com/corporate where the results presentation can also be viewed or the presentation can be heard live by dialling in on +44 20 3713 5011 using access code 492-915-541.[11]

For further information, please contact:

AO World plc	Tel: +44(0) 1204 672403
Steve Caunce	ir@ao.com
Mark Higgins	

Tulchan Communications	Tel: +44(0) 20 7353 4200
Susanna Voyle	ao@tulchangroup.com
Michelle Clarke	

[1] The highlights are for the year ended 31 March 2017 and the comparative 2016 period. Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.
[2] This includes AO.com and the UK AO-branded eBay shops.
[3] UK is defined by the Group as entities operating within the United Kingdom. (It excludes AO Deutschland Limited which is a company registered in England but operates in Germany and therefore is included in the Europe segment).
[4] Europe is defined by the Group as entities operating within the European Union but excluding the UK and also includes exploratory costs in other European territories.
[5] Adjusted EBITDA is defined by the Group as profit/(loss) before tax, depreciation, amortisation, profit on disposal of fixed assets, net finance income, "adjustments" and exceptional items. Adjustments is defined by the Group as (i) set-up costs relating to overseas expansion namely strategic post go-live costs incurred in connection with our European expansion strategy of £0.7m (2016: £2.3m) and (ii) share-based payment charges of £3.6m (2016: £0.4m credits) attributable to the exceptional LTIP awards which the Board considers one-off in nature.
[6] Adjusted EBITDA margin is defined by the Group as Adjusted EBITDA divided by revenue.
[7] Net funds are defined by the Group as cash as per the consolidated statement of financial position less borrowings.
[8] Please refer to the Earnings Per Share paragraph on page 13 of this announcement for further information.
[9] Net Promoter Score is an industry measure of customer loyalty and satisfaction.
[10] For the first quarter of the year ended 31 March 2017, AO branded UK sales delivered 29% growth against the same quarter for the year ended 31 March 2016, with total UK revenue growing 25% against the same period. For the full financial year ended 31 March 2017, growth against the prior year was 14.5% for AO branded UK sales and 12.7% for total UK sales respectively.
[11] The content of the AO.com website should not be considered to form a part of or be incorporated into this announcement.

Cautionary statement

This announcement contains certain forward-looking statements (including beliefs or opinions) with respect to the operations, performance and financial condition of the Group. These statements are made in good faith and are based on current expectations or beliefs, as well as assumptions about future events. By their nature, future events and circumstances can cause results and developments to differ materially from those anticipated. Except as is required by the Listing Rules, Disclosure, Guidance and Transparency Rules and applicable laws, no undertaking is given to update the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise. Nothing in this document should be construed as a profit forecast or an invitation to deal in the securities of the Company. This announcement has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to AO World plc and its subsidiary undertakings when viewed as a whole.

PERFORMANCE AT A GLANCE

Summary Results[1]

	31 March 2017			31 March 2016			*Change*		
	UK	Europe[2]	Total	UK	Europe	Total	*UK*	*Europe*	*Total*
Income Statement									
AO website sales	557.9	71.5	629.4	487.1	40.7	527.8	*14.5%*	*75.9%*	*19.3%*
Third-party website sales	46.0	-	46.0	53.6	-	53.6	*(14.2%)*	*n/a*	*(14.2%)*
Other[3]	25.8	-	25.8	17.8	-	17.8	*44.9%*	*n/a*	*44.9%*
Revenue	629.7	71.5	701.2	558.5	40.7	599.2	*12.7%*	*75.9%*	*17.0%*
Adjusted EBITDA[4]	24.4	(26.5)	(2.1)	17.2	(21.1)	(3.9)	*41.7 %*	*25.5%*	*46.2%*
Adjusted EBITDA margin[5]	3.9%	(37.0%)	(0.3%)	3.1%	(51.9%)	(0.7%)	*+0.8ppts*	*+14.9ppts*	*+0.4ppts*
Adjusted operating profit/(loss)[6]	19.9	(27.6)	(7.7)	13.1	(21.8)	(8.7)	*51.6%*	*26.7%*	*10.9%*
Adjustments[7]									
Europe set-up costs[8]	(0.7)	-	(0.7)	(1.1)	(1.2)	(2.3)	*(43.9%)*	*n/a*	*(73.2%)*
Non-cash share-based payment (charge)/credit [9]	(3.6)	-	(3.6)	0.4	-	0.4	*(1008.3%)*	*n/a*	*(1008.3%)*
Operating profit/(loss)	15.6	(27.6)	(12.0)	12.4	(23.0)	(10.6)	*25.9%*	*20.1%*	*13.2%*
Loss per share (pence)									
Basic loss per share			(1.56)			(1.44)			*8.1%*
Diluted loss per share			(1.55)			(1.44)			*7.8%*
Adjusted loss per share[10]			(2.62)			(2.07)			*26.9%*
Cash flow									
Cash generated/(absorbed) from operating activities	3.2	0.3	3.5	(7.0)	3.4	(3.6)	*(144.6%)*	*(90.5%)*	*(195.7%)*
Cash generated/ (absorbed) from operating activities before intercompany funding[11]	31.2	(23.3)	7.9	2.4	(20.4)	(18.0)	*1201.2%*	*14.4%*	*(143.8%)*
Period end net funds/(debt) position[12]	15.5	(3.5)	12.0	26.7	(1.3)	25.4	*(42.2%)*	*169.0%*	*(53.0%)*

---

[1] Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.
[2] Europe is defined by the Group as entities operating within Europe but excluding the UK and also includes exploratory costs in other European territories.
[3] Other revenue relates to Third party logistics revenue and recycling revenue.
[4] Adjusted EBITDA is defined by the Group as profit/(loss) before tax, depreciation, amortisation, profit on disposal of fixed assets, net finance income, "adjustments" and exceptional items.
[5] Adjusted EBITDA margin is defined by the Group as Adjusted EBITDA divided by revenue.
[6] Adjusted operating profit/(loss) is defined by the Group as profit/(loss) before tax, net finance income, "adjustments" and exceptional items but after depreciation, amortisation and profit on disposal of fixed assets.
[7] Adjustments is defined by the Group as (i) set-up costs relating to overseas expansion namely strategic post go-live costs incurred in connection with our European expansion strategy of £0.7m (2016: £2.3m) and (ii) share-based payment charges of £3.6m (2016: £0.4m credits) attributable to the exceptional LTIP awards which the Board considers one-off in nature.
[8] Relates to Europe post go-live strategy costs incurred by UK.
[9] Share-based payment charges or credits attributable to exceptional LTIP awards which the Board considers one-off in nature, due to the magnitude and timing of the awards. The credit in 2016 reflects the cumulative adjustment to the LTIP charge based on the assessment of the achievement of certain performance criteria.
[10] Adjusted loss per share is basic earnings per share plus foreign exchange gains arising from inter-group funding. See note 6 on page 26.
[11] This eliminates the intercompany funding provided by the UK to Europe.
[12] Net funds/ (debt) are defined as cash as per the consolidated statement of financial position less borrowings.

Chief Executive Officer's Review

Looking back at the year, we have strengthened our foundations for future growth. In Europe, we opened our new regional distribution centre in Bergheim, near Dusseldorf; we have built a state-of the art recycling facility in the UK, we have added new categories to our offering in both the UK and Europe and, in launching computing, we have developed systems and infrastructure to operate a different distribution model, which we can leverage for future category roll-out across territories.

Trading this year has been mixed (particularly for our UK business). In the first half of the year, in the UK, our investment in marketing and brand translated into encouraging sales growth with some tailwinds from stamp duty changes in March 16. In the second half of the year, trading in the UK became more challenging as we began to feel the impacts of dampening consumer confidence following the UK's vote to leave the EU, subsequent price inflation and a slow-down in the UK housing market.

However, our customer service metrics remain exceptional across all of the countries in which we operate and we continue to innovate to create the best customer experience for tomorrow. This has helped us to continue to gain market share in our categories and countries, notwithstanding the challenging trading environment in the UK.

We remain as committed as ever to doing business The AO Way and continuing to deliver outstanding results for our customers, our people, our supplier partners and our investors. Our online market-leading proposition and the solid foundation we have built in mainland Europe have positioned us well for the future. Since year end we completed a share placing which will ensure our balance sheet is suitably capitalised to support our continued growth and increasing scale as we deliver our strategy. We will continue to be bold but responsible on where we allocate our resource.

In the past year we have demonstrated how to scale up in new countries and how to expand and grow product categories. When the time is right, we will replicate this approach in new geographies and categories. We have strengthened our foundations for growth and in line with our strategy we will continue to focus on and drive AO own-branded sales. Although our brand awareness has continued to grow during the period, it remains our greatest challenge and the key to longer-term success; we must push to drive this metric. We will achieve this through highlighting and explaining why customers should shop with AO: it's simply that we care more. Going forward we will continue to work hard to ensure that AO becomes a household name and the obvious choice when shopping for electricals.

Progress against our strategic objectives

AO has continued on its mission to become the best electrical retailer in Europe delivering on all aspects of its four pillar strategy, the "4 Cs":

- Developing and protecting our unique culture that underpins our brand;
- Delivering a market leading proposition to customers;
- Rolling out new categories in existing and new countries; and
- Developing new countries.

Culture and Brand

• ***UK***

Building brand awareness remains our biggest opportunity. During the year we continued to grow overall brand awareness and develop our brand strategy.

AO has historically been known for selling white goods and so, during the year, we have focussed on educating our customers that AO is a multi-category electrical retailer, building momentum as we add more categories and products to our range. We sought to increase the effectiveness of our brand investment as we honed our TV adverts to illustrate the strong customer testimonials we receive. We also explored new advertising channels including radio, both national and local, together with print media through press advertising, billboards and other large formats. In the early part of the financial year we invested in those audiences where our sales profile was under-indexed, in particular in Greater London and amongst male shoppers.

Towards the end of the year we also commenced the process of significantly increasing the level of branding on our 3.5 tonne delivery truck fleet. This will continue to promote our brand on a daily basis across the country.

As a result of the initiatives highlighted above our brand awareness continued to improve slightly over the period (including spontaneous and prompted awareness), although we have seen a slight dip in the final quarter as marketing was postponed in anticipation of our Britain's Got Talent sponsorship. Our strong customer advocacy together with manufacturer endorsement (through joint advertisings campaigns) have helped build trust in our brand and have helped to drive revenue growth. Our customer acquisition costs continued to fall during the 12 months to 31 March 2017 as we refined our online advertising strategy, improved our SEO (Search Engine Optimisation) rankings and benefited from an increase in direct traffic following our improved brand awareness and customer recommendations.

However, more work needs to be done; our biggest opportunity remains for us to grow our brand to the recognition levels enjoyed by our competitors, and so, in March 2017 prior to our year-end, we agreed to sponsor the 11th series of Britain's Got Talent ("BGT"). The series has been aired over the past two months and our sponsorship deal included on-air and mobile companion app branding, plus numerous other opportunities to bring our sponsorship to life outside of the BGT TV show. This investment is designed to build long-term brand awareness rather than drive short-term sales as we seek to develop and instil trust and confidence. Going forward we must use our brand investment to very clearly highlight the difference of AO to the customer.

Our culture goes to the heart of our brand and is our greatest asset, providing us with a real advantage over our competitors; we continue to protect it fiercely. To achieve our goal we need to nurture it, attracting the best people who live our values and then, retaining them. That means being the best employer we can be for our people, so high employee engagement and development is fundamental to the growth of our brand, and ultimately, to the Group. Our emerging talent schemes, such as our Future and Star Programmes, Apprenticeship Schemes and Duke of Edinburgh scheme all progressed during the year. Each is sponsored by a member of the Group Executive Team ("GET") in order to identify and develop our talent and ensure our winning team gets even stronger in the future. Following my appointment as CEO we implemented some changes to the structure of our GET and senior management teams to ensure that we remain robust and scalable as our business continues to grow.

- ***Europe***

As planned, we limited our promotional activity during our period of consolidation with no TV exposure from April to October 2016. In the second half of the year we resumed limited activity such as joint TV advertising campaigns with manufacturers alongside some print media advertising and continued use of AO branded fleet, but beyond that advertising has been limited. Accordingly, there has been modest growth in brand awareness during the year to 31 March 2017. Despite this, our customer base is growing well, our direct traffic statistics are encouraging and repeat purchases are already coming through. Our sales growth is being driven by the strength of the customer recommendations we are receiving, replicating the evolution of our UK business, albeit at a faster pace.

We are pleased that our culture and values have been fully embedded into our operations in Germany and The Netherlands, thanks in part to the use of a recruitment process focussed on our central values. Our European team has also been restructured and during the year we were pleased to welcome a new European retail director into the team who is already making a difference to both culture and performance.

Customers

We are continuing to drive our market-leading proposition forward. Our key offering remains strong; our unbeatable prices, huge range, wide availability, smart and innovative web content and amazing service mean our customer satisfaction levels remain exceptional. Repeat customer metrics are healthy as are the number of new customers we are attracting to our brand.

• ***UK***

We made good progress with our customer metrics over the reporting period. AO's customer base is now a huge asset to the business as we approach four million UK customers (defined as an individual customer who has purchased from us) giving us a fantastic foundation from which to leverage our growth. Our repeat business remains very healthy and we continue to attract new customers. Notwithstanding progress this year whilst customers continue to repeat the time taken to repeat has fallen slightly which we think, in part, is driven by market dynamics.

Growth in traffic remained encouraging during the 12 months to 31 March 2017 and we experienced particularly strong growth in visits to our mobile site, although we have some work to do to increase our conversion rates to levels similar with those on Desktop and Tablet devices.

We have worked hard to make the customer journey as easy and effortless as possible, whilst remaining personal. Our Customer Labs allow us to thoroughly research and understand our customers' needs. In order to work towards our best service goal, we have continued to develop and enhance the retail experience. During the year we launched our app "MyAO". This currently provides "track your order" functionality and will be developed further to provide transactional capability and to tie into the "My Account" feature launched last year. We have also streamlined our interactive voice response ("IVR") system to take the customer through the most efficient route of service, based on the stage of the customer's journey. This maximises efficiency and is part of our developing self-service strategy, should customers choose to shop that way and we continue to ensure we have the best staff at the end of the phone to give a bit more of a personal touch. The use of functions such as Live and Nano chat (an automated alternative to live chat) together with the learnings identified from our Customer Labs really help us to understand our customers so we can meet their needs and tailor our offering appropriately. The way in which consumers shop is ever evolving and we must work hard to keep up with changing preferences.

During the year we invested further in our digital content team, which is now 40+ strong as we evolve our content strategy and apply the learnings from our Customer Lab sessions. The team creates innovative and essential content, for example through 3D video's and features, as we continue with our goal for our website to be the destination for information for customers. This content adds value to the customer journey and to the manufacturers we buy from and we are investing in rolling this out further.

Our CRM strategy continues to evolve and we are keen to build on all aspects of the customer life cycle, not just the point of purchase. AO Life, our online lifestyle magazine, together with social media and personalised email programmes provide handy hints on how to use and maintain products. We have also been working on how to improve what happens when, unfortunately, products break down and to this end have renegotiated a deal with Domestic and General ("D&G"), our extended warranty partner. Our new pan-European 10 year deal [signed yesterday] will see some exciting developments in the extended warranties that we can offer to customers (as agent for D&G) that demonstrate our values and excels in service delivery and care, whilst at the same time ensuring that customers really do get value for money from this type of product.

We added two additional outbases to our UK logistics infrastructure over the reporting period, one in Slough and the other in Dundee. This will help ensure resilience in our delivery network and maintain market-leading product availability for customers, whilst reducing stem mileage and improving efficiencies in our logistics. Our premier fleet has grown significantly as we respond to increasing demand for more complex installation services. In addition to developing a trainee programme for newly-qualified engineers, some of our self-employed subcontractors now have the skillset to connect electric cookers and integrated products.

Further, as part of our responsible retailing programme, we have now completed the build of our recycling facility at Telford. The official launch of AO Recycling will happen later in 2017, but our state-of-the art recycling plant is now operational and ensures WEEE is safely and properly disposed of and that re-use is optimised. This vertical integration ensures further end-to-end control of our reverse supply chain with the associated environmental benefits. It is another great example of how we have applied The AO Way to an underinvested section of the market which we believe can make a very exciting contribution to the business in the future.

The results of the above initiatives can be seen in our Net Promoter Score ("NPS" an industry measure of customer loyalty and satisfaction) which over the year has been maintained at a consistently high level of over 80 and our UK Trustpilot score was an excellent 9.5 at the period end. In addition, we were proud to be voted 2nd best online retailer in the UK in the annual Which? Survey in October 2016 and just after our year end AO was named Best UK Retailer by the public in GlobalData's 2017 Customer Satisfaction Awards (previously the Verdict Retail Awards). There is no better testament to our service than the feedback from our customers and this award highlights the continuing strength of our commitment to ensure our customers receive the best possible service.

• ***Europe***

We are enjoying good customer feedback in both territories with NPS scores remaining outstanding at over 85. AO.de had a Trusted Shops score of 4.81 out of 5 and AO.nl had a Trustpilot score of 9.6 out of 10 at our year end and repeat business is already building momentum.

Our brand new regional distribution centre (RDC) in Bergheim, serving Germany and The Netherlands, became fully operational in September 2016. With 35,000m2 of warehouse space, the RDC allows us to improve product availability for our customers and promote brand awareness. The RDC comprises a head office allowing the retail and logistics divisions to become more cohesive, drive efficiencies and embed a consistent AO culture. With a capacity of five times our previous facility we are well resourced to fulfil our future growth.

We have partnered with third party logistics firms to better serve customers in more remote areas while also reducing delivery costs, working closely with them to ensure that their service meets our high expectations. As we increase scale and drive efficiencies, we plan to add additional outbases to our existing infrastructure, replicating our UK model.

To improve the customer proposition further during the year, we introduced electrical premium installations in Germany and plan to extend this offering in The Netherlands during the current financial year. We have also introduced Live Chat functionality and have launched the MyAO app. As in the UK, we also intend to implement Customer Labs into our European operations as we seek to understand customer needs and behaviours in these territories and tailor our offering accordingly.

As reported at the half year, the warranty product we offer on behalf of D&G has not achieved the volumes we were expecting in Europe, but as part of our new agreement with D&G, we are seeking to work together to develop the product and its promotion to be more effective in and promote a more appropriate product for this market. We will also look to launch a Dutch warranty offering during the course of the year ahead.

Categories

AO is now an electrical retailer; not just a white goods one. We have continued to extend our MDA model to the SDA and AV categories in the UK and this year we have launched computing in the UK. In Europe we now sell the AV category in addition to MDA and Floorcare. We believe we can replicate the model further and we are exploring other categories within the "electricals" sphere where we can leverage our existing relationships with the brands and also our infrastructure.

• ***UK***

One of our greatest achievements during the reporting period was the successful launch of our computing category. We are delighted by our progress so far, leveraging the investments we have previously made in our web content, IT and product teams to add the category seamlessly to ao.com.

Customers tend to shop this category differently to others and we therefore had to develop ways of demystifying products to make them easier to understand to give customers the best choice, whilst changing our back-end operations to utilise drop-ship vendor methodology. Additionally, as there are different pre and post-sales requirements, we had to ensure that our call centre staff were trained to handle and deal with specific and sometimes rather technical queries. Product information and customer advice are the key areas where we believe AO can demonstrate a difference to the existing market and hardware and software brands have been supportive of our different approach to the category.

We are now in the process of defining the next stage of the Computing category, making logical additions to our existing range. Research into new complementary areas continues and we are confident we can utilise the disciplines we have learnt from the launch of computing to bring more value to customers in the future.

We have seen some challenges in the MDA category over the past few months with market data suggesting the market in the UK has decreased year-on-year. However, we have continued to gain market share and our increasing importance as a channel to market for the leading brands has helped us grow product margin in this category. Whilst we had a strong performance in the first half of the year, in the second half MDA margin was under pressure following price inflation.

We have gained further market share in both SDA and AV as our credibility and authority, with both customer and manufacturers, in these categories continues to build momentum. We now have all major manufacturers on board in the SDA category and have grown further market share in the floorcare sub-set of this category.

In the UK sales in our AV category have significantly increased year on year, helped by a wider product range including premium models with cutting-edge technologies and some exclusive branded products. We have also expanded the audio offering this year adding ultra-HD Blu-ray and turntables into our range.

• ***Europe***

We have made significant progress with our product manufacturers over the period as our local strategy gains momentum and relationships continue to improve. During the current financial year we will continue to build on our partnerships with them and further educate them about The AO Way. We will increase marketing campaigns to produce engaging content for their customers, build marketing support and leverage group-wide media assets.

Category development has continued with the launch of AV on ao.de in early October 2016. We now sell TVs, home cinema equipment, satellite receivers and Blu-ray players and sales to date have been encouraging. We continue to build on the range, adding new brands and recently expanded the category to include audio headphones. We were able to apply our learnings from our roll-out in the UK: ensuring local to local supplier engagement with an AO industry expert, leveraging and utilising UK content at a low cost and drawing on UK knowledge and experience. The ability to utilise our existing UK content should help us attract additional support from the manufactures as we look to expand our categories and ranges.

Countries

Our ultimate goal is to become the best electrical retailer in Europe and we now operate in three countries, the UK, Germany and The Netherlands. Progress in Germany and The Netherlands gives us further confidence that the model can be successfully replicated and gives a very strong platform for future growth.

We are continuing to drive our European operation responsibly with controlled growth. It has been a year of consolidation and whilst financial performance has not met our expectations (with investment losses being more than internally planned), we are nonetheless pleased with the strategic progress made and now have a firm foundation from which to further build our German and Dutch market offerings.

Our new territories are taking the same journey that our UK operation experienced in its infancy, which we communicated to analysts and investors at our Capital Markets Day in February. The strategy across Europe is identical to the focus we have in the UK; to develop the customer proposition, categories, culture and brand, to build and deliver a sustainable business.

We launched in The Netherlands in March 2016 and have been extremely pleased with the way our brand has resonated with our Dutch customers over the full year of trading. We applied the learnings from our launch in Germany for example in terms of supplier engagement, the recruitment of key personnel and customer acquisition. This resulted in a smooth launch and we hit the ground running, giving us the confidence to replicate this bolt-on model in other territories when appropriate.

Chief Financial Officer's Review

During the year we maintained our focus on delivering value for all our stakeholders through our 4C's strategy and have made good progress against all these objectives. Furthermore we have continued to grow Group revenue, increased profits across our core UK business and ensured we are suitably capitalised to continue to accelerate our growth across Europe. Going forward we will continue to increase sales and profits by leveraging the assets we have built, driving out further efficiencies and, in the short to medium term, reinvesting our free cash flow in the growth of our European operations.

We experienced a strong start to our financial year, driven in part by the stamp duty change in March 2016 which had a positive impact on the overall MDA market. During the second half we began to feel the impacts of dampening consumer confidence and a reduction in consumer spending power as a result of growing inflationary pressures. Sterling deflation in our market saw cost prices increase by 10-15% through 2016. Despite these factors and the impact of lower trading days against the prior year (due to 2016 being a leap year), we achieved a 17.0% increase in Group revenue to £701.2m.

In the first half of the year the Group made a profit (on an Adjusted EBITDA basis) with UK profits exceeding Europe losses, however with margin pressures in the UK in the second half of the year our UK profitability growth reduced and Europe losses exceeded such profit giving an overall Group Adjusted EBITDA loss for the year.

Nonetheless, we have grown market share across all countries and categories and have achieved a gross margin improvement of 0.7% across the Group due to product margin gains and increased efficiencies in our delivery network in Europe as our volumes build. We are confident that we will be able to drive further efficiencies and build margin by leveraging our increased scale, although in the UK product margins are under pressure as we enter the new financial year.

In the UK, our focus on educating our customers that AO is a multi-category electrical retailer began to deliver results as we experienced particularly strong performances in our SDA category where we have continued to expand our range. Sales in our new Computing category performed better than we initially anticipated further highlighting that our innovative way of retailing and demystifying products is resonating well with our customers and we continued to see ancillary sales (including that of product protection plans) perform well.

This financial year was a period of physical consolidation for our European operations as we commenced operations from our new regional distribution centre in Bergheim. This resulted in us investing more than we had anticipated in Europe with operating losses increasing to £27.6m (2016: £23.0m). The gross loss in Europe reduced from £4.9m in 2016 to £4.0m in 2017, reflecting the significant progress we have made with our supplier relationships and improvements in delivery costs. Our increasing scale has helped to leverage European SG&A Costs which have reduced to 33.2% of revenue (2016: 44.4%), and we expect to make further progress in the year ahead as volumes increase.

Over the next few years we will continue to apply our UK learnings in Europe and undertake initiatives to continue to improve product margins to a mature state, make supply chain and cost-to-deliver efficiencies and utilise our UK assets where possible, leveraging our cost base through growth, as we set out at the Capital Markets Day in February 2017.

In March 2017 we announced that we had raised £50m of gross proceeds via a placing of new shares in the Company from both new and existing investors. The new shares were admitted to trading on 3 April 2017 which was outside our reporting period and therefore the proceeds are not included in the balance sheet as at 31 March 2017 but are detailed within the "Events after the reporting period" note on page 28. The placing was undertaken to suitably capitalise the business to support our continued growth and increasing scale, providing us with the flexibility to react to market opportunities and changes whilst we capitalise on our increased brand awareness.

Our customer base and repeat purchase metrics are healthy, highlighting the benefits of our model which will help drive continued growth across our new territories. Our expanding range and categories ensures resilience as we broaden our revenue streams. This, together with our strong balance sheet and outstanding customer proposition, will ensure that we are well positioned to trade well through possible challenging market conditions.

Revenue (see Table 1)

For the year ended 31 March 2017 total Group revenue increased by 17.0% to £701.2m (2016: £599.2m) missing our internal expectations.

Revenue in the UK increased by 12.7% to £629.7m (2016: £558.5m) largely driven by a 14.5% increase in "AO" website sales, which includes AO.com and AO branded eBay shops which accounted for £557.9m of revenue (2016: £487.1m). This growth has been achieved through continuing to attract new customers to the website and our existing customers continuing to repeat, our investment to continue to raise awareness of the AO brand and our consistently strong customer proposition, all of which have helped ensure a good mix of demand from both new and repeat customers. It has however, been hampered by some challenges in the major domestic appliance ("MDA") category in the final few months of the year with overall market data suggesting the free-standing market in the UK has decreased year-on-year.

In Europe, AO website sales from our German website, AO.de, and also our Netherlands website, AO.nl, totalled revenues of £71.5m (2016: £40.7m) equating to €84.7m (2016: €55.6m) and an increase of 52.3% on a constant currency basis. This growth reflects (i) a full year of trading in The Netherlands (with AO.nl only being launched in March 2016) and (ii) growth in our AO.de sales. Growth in the German operation is particularly pleasing as it has been achieved despite a low level of promotional activity during the year as we consolidated our cost base and opened our new regional distribution centre in Bergheim, currently serving both our German and Dutch markets. Growth in sales was therefore largely driven by the strong testimonials received from customers who have experienced The AO Way of shopping and digital marketing (Google, affiliates etc).

AO branded website sales (including AO.com, AO.de, AO.nl and AO branded eBay shops) now account for 89.8% of total Group revenue (2016: 88.1%).

Sales from third-party websites in the UK reduced to £46.0m (2016: £53.6m) as our focus remains on promoting the AO.com brand, eroding the market share of some of these clients and indicating the overall challenging market conditions.

Included within "Other sales" is revenue from UK third-party logistics services and, from this year, our recycling business. This segment experienced a 44.9% increase in revenue to £25.8m (2016: £17.8m) driven by revenue from the recycling business and as we benefitted from the extension of a short term logistics contract which commenced in the final quarter of the previous financial year. This contract has now expired and going forward we would expect to see revenue from third party logistics services fall. Recycling income includes revenue from the sale of evidence notes following our treatment of WEEE, packaging recycling income and revenue from the sale of materials derived from the recycling process. The new plant at Telford became operational towards the end of the year and therefore we would expect revenue from this operation to increase going forward although it will be very small part of overall Group revenue.

“AO website sales” and, for the UK, “Third-party website sales” includes revenue earned from the sale of physical products and also ancillary services such as delivery, the installation of products, unpack, inspect, together with commission earned from the promotion of Domestic and General’s product protection plans and, in the UK, customer finance. Revenue from such ancillary service sales in the period achieved growth consistent with product sales representing 11.6% of total sales at £81.0m (2016: 10.6%, £63.7m).

Table 1

	2017			2016			% change		
	UK	Europe	Total	UK	Europe	Total	UK	Europe	Total
AO website sales	557.9	71.5	629.4	487.1	40.7	527.8	14.5%	75.9%	19.3%
Third-party website sales	46.0	–	46.0	53.6	–	53.6	-14.2%	n/a	-14.2%
Other sales	25.8	–	25.8	17.8	–	17.8	44.9%	n/a	44.9%
Revenue	**629.7**	**71.5**	**701.2**	**558.5**	**40.7**	**599.2**	**12.7%**	**75.9%**	**17.0%**

Gross margin (see table 2)
Gross margin for the Group, which includes product margin, delivery costs, commissions from selling product protection plans and other ancillaries (which attract a higher margin as a percentage of revenue than product sales) grew to 18.4% for the reporting period. This was an improvement of 0.7ppts against the prior year with gross profit increasing by 22.0% to £129.2m (2016: £105.9m), largely driven by leverage in Europe.

In the UK, gross margin increased by 1.4ppts to 21.2% (2016: 19.8%). The improvement was predominately due to improved supplier product margin in our MDA and AV categories reflecting strengthening relationships with our product manufacturers and our ability to leverage our brand and scale. We also benefitted from continuing volume efficiencies realised from our delivery bases as we continue to grow. However, we had margin headwinds during the second half of the year due to supplier pricing pressures following adverse currency movements post the Brexit referendum.

In line with the increase in revenue relative to the prior period, in the UK the contribution from ancillaries increased slightly with additional next day delivery charges. The contribution to profit relative to revenue from other ancillaries increased slightly year-on-year reflecting the increase in delivery income described above. The contribution to profit from product protection plans and other ancillaries (excluding delivery) relative to revenue remained consistent with the previous year.

In Europe the gross loss reduced by 18.2% to £4.0m (2016: £4.9m) and gross margin improved by 6.5ppts to -5.6% (2016: -12.1%), with the losses and negative margin continuing to represent the early stage of these operations (with relatively low product margins and higher costs to deliver due to low drop densities at our current scale). However, during the period we have made significant progress with our supplier relationships resulting in solid improvements in product margin. In addition, our individual costs of delivery have improved following (i) internal efficiency drives (ii) a full year's trading in The Netherlands which leverages our German infrastructure cost base (iii) increasing order levels which improved our drop densities and (iv) the use of a third party logistics delivery model in areas with very low population density.

Table 2

	2017			2016			% change		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Gross profit/(loss)	133.2	(4.0)	129.2	110.8	(4.9)	105.9	20.2%	-18.2%	22.0%
Gross margin %	21.2%	-5.6%	18.4%	19.8%	-12.1%	17.7%	1.4	6.5	0.7

Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

Selling, General & Administrative Expenses ("SG&A") (see Table 3)
Total Group SG&A expenses increased by 22.2% over the year by £25.9m to £142.4m (2016: £116.5m).

UK SG&A expenses for the year to 31 March 2017 increased by 20.6% to £118.6m (2016: £98.4m) and represented 18.8% of sales (2016: 17.6%). UK advertising and marketing expenditure as a percentage of revenue remained broadly unchanged year on year at 4.1% (2016: 4.3%) as we continue our strategy to grow brand awareness. We achieved a strong reduction across our traditional customer acquisition costs as a result of an increase in direct traffic (following improved brand awareness), improved efficiencies and improved Search Engine Optimisation ("SEO") performance. This has enabled us to further invest in TV and other advertising costs to accelerate our brand awareness strategy, which has continued into the new financial year with the sponsorship of Britain's Got Talent.

UK warehousing costs increased by £6.2m to £27.3m (2016: £21.1m) representing 4.3% of revenue (2016: 3.8%) as we incurred a full year of trading from our second warehouse in Crewe and strengthened our distribution network via the opening of two new stockless outbases in Slough and Dundee. The additional outbases helped to reduce stem mileage thus creating further efficiencies in delivery costs reflected in gross margin and part of the cost of the second warehouse in Crewe was offset by the sub-let of part of it (the income from which sits in other Operating Income). As we continue to grow we should achieve greater efficiencies due to scale.

"UK Other administration" expenses increased by £9.0m to £61.4m (2016: £52.4m) and as a percentage of sales increased moderately to 9.7% (2016: 9.4%). The increase is largely related to investments made in trading teams for our new categories, our multi-media and IT teams in advance of anticipated further growth.

UK Administrative expenses also includes £4.3m of costs in relation to (i) share based payment charges which relate to a three year scheme introduced during the year (which the Board considers one-off in nature) and (ii) European set-up costs (namely strategic post-go-live costs) (2016: £0.7m, which included a share based payment credit of £0.4m).

Our increasing scale has helped to leverage European SG&A costs which have reduced to 33.2% of revenue (2016: 44.4%). Whilst this level of costs still reflects the relatively young nature of these operations we expect to make further progress in the year ahead as volumes increase and we continue to apply our well established UK business model, for example in respect of customer acquisition costs. We expect that such costs will not rise significantly going forward and we are ready for growth.

Europe advertising and marketing expenses have been held in line with the prior year at £6.2m (2016: £6.2m). This was a conscious decision by the Group to ensure a smooth transition as we consolidated our European operations. Warehousing costs incurred in our European operations increased by £1.8m in the period to £4.0m (2016: £2.2m) reflecting the opening of our Bergheim facility (although one chamber of the warehouse is currently sub-let) and we will continue to leverage this asset as we grow our volume. Other administration expenses increased by 59.8% to £13.6m (2016: £8.5m) as our headcount increased to a level ready for our next phase of growth.

Table 3

	2017			**2016**			**% change**		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Advertising and marketing	25.7	6.2	31.9	24.2	6.2	30.4	6.2%	-0.7%	4.8%
% of revenue	*4.1%*	*8.6%*	*4.5%*	*4.3%*	*15.3%*	*5.1%*			
Warehousing	27.3	4.0	31.3	21.1	2.2	23.3	29.4%	82.3%	34.4%
% of revenue	*4.3%*	*5.6%*	*4.5%*	*3.8%*	*5.5%*	*3.9%*			
Other administration	61.4	13.6	75.0	52.4	8.5	60.9	17.1%	59.8%	23.1%
% of revenue	*9.7%*	*19.0%*	*10.7%*	*9.4%*	*20.8%*	*10.2%*			
Adjustments[1]	4.3	-	4.3	0.7	1.2	1.9	507.2%	-100.0%	123.7%
% of revenue	*0.7%*	*n/a*	*0.6%*	*0.1%*	*2.8%*	*0.3%*			
Administrative expenses	118.6	23.8	142.4	98.4	18.1	116.5	20.6%	31.2%	22.2%
% of revenue	*18.8%*	*33.2%*	*20.3%*	*17.6%*	*44.4%*	*19.4%*			

Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

[1] Adjustments is defined by the Group as (i) set-up costs relating to overseas expansion namely strategic post go-live costs incurred in connection with our European expansion strategy of £0.7m (2016: £2.3m) and (ii) share-based payment charges of £3.6m (2016: £0.4m credits) attributable to the exceptional LTIP awards which the Board considers one-off in nature.

Operating Loss and Adjusted EBITDA (see Table 4)

Our operating loss was £12m for the period, with operating losses increasing by £1.4m against the prior period.

However, when reviewing profitability, the Directors use an adjusted measure of EBITDA in order to give a meaningful year-on-year comparison and it is a performance criteria for the purposes of both the Executive management's annual bonus and recent LTIP awards. Whilst we recognise that the measure is an alternative (non-Generally Accepted Accounting Practice ("non-GAAP")) performance measure which is also not defined within IFRS, this measure is important and should be considered alongside the IFRS measures. The adjustments are separately disclosed below.

Group Adjusted EBITDA losses reduced to £2.1m (2016: £3.9m losses) after allowing for £26.5m of Europe Adjusted EBITDA losses (2016: £21.1m). In local currency (removing the impact of foreign exchange movements), European losses increased by 3.3% to €31.5m (2016: €30.4m), reflecting losses incurred in The Netherlands operation in its early stages of trading and further losses in the German business as we continue on our journey to build critical mass.

UK Adjusted EBITDA for the 12 months to 31 March 2017 was £24.4m (2016: £17.2m) representing a significant increase of 41.7% against the prior year period following growth in sales and improvement in gross margin.

Overall, Group Adjusted EBITDA missed our internal expectations but fell within our guided range.

Table 4

	2017			**2016**			**% change**		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Operating profit/(loss)	**15.6**	**(27.6)**	**(12.0)**	**12.4**	**(23.0)**	**(10.6)**	**25.9%**	**20.1%**	**13.2%**
Add adjustments: *Europe set-up costs*	*0.7*	*-*	*0.7*	*1.1*	*1.2*	*2.3*	*-43.9%*	*-100%*	*-73.2%*
Non-cash share-based payments charge/(credit) for exceptional LTIP awards	*3.6*	*-*	*3.6*	*(0.4)*	*–*	*(0.4)*	*-1,008.3%*	*N/A*	*-1,008.3%*
Adjusted operating profit	**19.8**	**(27.6)**	**(7.8)**	**13.1**	**(21.8)**	**(8.7)**	**51.6%**	**26.7%**	**-10.9%**
Add: Depreciation and amortisation	*4.9*	*1.1*	*6.0*	*4.1*	*0.7*	*4.8*	*17.3%*	*62.9%*	*23.9%*
Less: Profit on disposal	*(0.3)*	*-*	*(0.3)*	*0.0*	*0.0*	*0.0*	*N/A*	*N/A*	*N/A*

	2017			2016			% change		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Adjusted EBITDA	**24.4**	**(26.5)**	**(2.1)**	**17.2**	**(21.1)**	**(3.9)**	**41.7%**	**25.5%**	**-46.7%**
Adjusted EBITDA as % of revenue	**3.9%**	**-37.0%**	**-0.3%**	**3.1%**	**-51.9%**	**-0.7%**	**0.8ppts**	**-14.9ppts**	**0.4ppts**

Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

Adjustments

Europe set-up costs

These are costs incurred in connection with our European expansion strategy prior to the "go-live" of that territory, namely the launch of AO.de and AO.nl and our continuing research into other further countries along with strategic post "go-live" costs.

Exceptional share-based payment charges/ (credits)

LTIP awards were made to a number of senior staff under the Performance Share Plan at the time of the Company's IPO in 2014 and also under the Employee Reward Plan (ERP) in July 2016. The Board considers that the magnitude and timing of these awards are one-off in nature and so add-back any charge/ (credit) in arriving at Adjusted EBITDA. The difference in the add-back year on year reflects the cumulative adjustment to the LTIP charge based on the assessment of certain performance criteria during the period (with the credit in 2016's numbers reflecting the likelihood that the IPO award would not vest, whilst the charge this year relates to the ERP which, having been granted during the year under review, was not in the previous year).

AO Sharesave scheme charges and LTIP charges relating to the LTIP awards which are not considered to be one-off in nature are included in trading numbers.

Depreciation, amortisation and profit on disposal of fixed assets

These are non-cash costs in relation to the Group's tangible and intangible fixed assets which are added back to operating profit to arrive at EBITDA which is considered to be a relevant proxy for "cash operating profit". Profit on disposal of £0.3m (2016: £nil) represents the gain on the disposal of the Group's existing trailers as part of our trailer replacement programme.

Taxation

The tax charge for the year was £0.4m (2016: tax credit of £0.6m). The effective rate of tax for the year was -6.3% (2016: 9.2%).

The Group is subject to taxes in the UK, Germany and The Netherlands. Through its registered branch structure in Germany, the Group is able to fully offset its German losses against profits within the UK. Tax losses for prior years remain as carried forward losses within Germany. Due to the start-up nature and losses in Germany and The Netherlands, no overseas tax was attributable to the period. Losses to date not utilised that are subject to overseas tax are not recognised for deferred tax purposes on the basis that the Group does not expect these territories to be profitable until 2020. The above, along with the release of the deferred tax asset in connection with the 2014 IPO LTIP scheme results in a small Group tax charge despite the overall Group loss.

Retained loss for the year and loss per share

Retained loss for the year was £7.4m (2016: £6.1m). Basic loss per share was 1.56p (2016: 1.44p loss) which is positively affected by a foreign exchange gain of £4.4m (2016: £2.7m) arising from intra-group funding arrangements.

The foreign exchange gain has arisen as a result of the significant movement in the exchange rate between Sterling and the Euro in the period. This has impacted the value of intra-group loans held in GBP in the European entities and EUR loans held in the UK giving rise to the £4.4m gain referenced above.

Below shows the adjusted basic loss per share excluding the foreign exchange gain mentioned above.

Year ended 31 March (£m)	**2017**	**2016**
Loss		
Loss attributable to owners of the parent company	(6.6)	(6.0)
Foreign exchange gains on intra-group loans	(4.4)	(2.7)

Adjusted loss attributable to owners of the parent company	(11.0)	(8.7)
Number of shares		
Basic and adjusted weighted average number of ordinary shares	421,052,631	421,052,631
Loss per share (in pence)		
Basic loss per share	(1.56)	(1.44)
Adjusted basic loss per share	(2.62)	(2.07)

Cash resources and cash flow
Year-end net funds position was £12.0m (2016: £25.4m), as cash decreased to £29.4m (2016: £33.4m) principally reflecting capital expenditure in the UK and investment in the new RDC in Bergheim offset partly by a positive operating cash-flow of £3.5m (2016: outflow of £3.5m), whilst total borrowings (comprising asset finance and bank borrowings) increased to £17.4m from £8.0m in 2016. The increase principally reflects the funding for investment in the UK's logistics fleet and the new recycling plant in the UK.

In June 2016, the Group put in place a revolving credit facility of £30m with Lloyds Bank Plc and Barclays Bank Plc in order to fund UK working capital movements.

Working capital (see Table 5)
At 31 March 2017, the Group had net current liabilities of £28.5m (31 March 2016: net current liabilities of £8.7m) principally as a result of improved terms with the Group's suppliers offsetting an increase in inventories.

As at 31 March 2017 UK inventories were £35.7m (2016: £30.9m) reflecting an increase in sales volumes and an increase in our stock-holding to support the AV category which is generally only bought in bulk loads and to lock in prices prior to supplier price increases. As a result UK average stock days increased to 31 days (2016: 29 days).

UK trade and other receivables (both non-current and current) were £76.9m as at 31 March 2017 (2016: £59.3m) reflecting an increase in accrued income in respect of commissions due on product protection plans as a result of the higher retail volumes. UK trade and other payables increased to £129.0m (2016: £102.8m) reflecting increased inventory and manufacturers continuing to extend credit on the higher volume of sales.

At 31 March 2017, European inventories were £9.1m (2016: £3.1m) principally as a result of the increase in sales volumes in both territories during the year. This is also reflected in the increase in trade and other payables from £6.3m to £11.2m. Trade and other receivables remained broadly in line with the prior year at £4.0m (2016: £4.6m) with the increase in trade being offset by improvement in terms with certain payment providers.

Table 5

		2017			**2016**	
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Inventories	35.7	9.1	44.8	30.9	3.1	34.0
As % of COGS	7.2%	11.9%	7.8%	*6.9%*	*6.8%*	*6.9%*
Trade and other receivables	76.9	4.0	80.9	59.3	4.6	63.9
As a % of revenue	12.2%	5.6%	11.5%	*10.6%*	*11.2%*	*10.7%*
Trade and other payables	(129.0)	(11.2)	(140.2)	(102.8)	(6.3)	(109.0)
As a % of COGS	26.0%	14.8%	24.5%	*23.0%*	*13.7%*	*22.1%*
Net working capital	**(16.3)**	**1.8**	**(14.5)**	**(12.6)**	**1.4**	**(11.2)**
Change in net working capital	(3.7)	0.4	(3.3)	(4.2)	0.8	(3.4)

Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

Capital expenditure
Total capital expenditure for the year was £16.9m (2016: £8.7m), which comprised expenditure in relation to our new distribution centre in Bergheim and two new outbases in the UK, our recycling facility at AO recycling in Telford and the refresh of trailers in our logistics operation. £10.9m of such expenditure has been funded by finance leases.

Events after the reporting period
On 3 April 2017 we completed a placing of new shares in the Company to raise £50m gross proceeds to suitably capitalise the business to support our continued growth and increasing scale.

Steve Caunce	**Mark Higgins**
CEO	CFO

6 June 2017

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2017

	Note	31 March 2017 £m	31 March 2016 £m
Revenue	2	**701.2**	**599.2**
Cost of sales		(572.0)	(493.3)
Gross profit		**129.2**	**105.9**
Administrative expenses		(142.4)	(116.5)
Other operating income		1.2	-
Operating loss		**(12.0)**	**(10.6)**
Finance income	4	6.8	4.2
Finance costs	5	(1.8)	(0.3)
Loss before tax		**(7.0)**	**(6.7)**
Tax (charge)/credit	7	(0.4)	0.6
Loss for the period		**(7.4)**	**(6.1)**
Loss for the year attributable to:			
Owners of the parent company		(6.6)	(6.0)
Non-controlling interest		(0.8)	(0.1)
		(7.4)	(6.1)
Loss per share (pence)			
Basic loss per share	6	**(1.56)**	(1.44)
Diluted loss per share	6	**(1.55)**	(1.44)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2017

	31 March 2017 £m	31 March 2016 £m
Loss for the period	(7.4)	(6.1)
Items that may be subsequently recycled to Income Statement		
Exchange differences on translation of foreign operations	(3.5)	(2.5)
Total comprehensive loss for the period	**(10.9)**	**(8.6)**
Loss for the year attributable to:		
Owners of the parent company	(10.1)	(8.5)
Non-controlling interest	(0.8)	(0.1)
	(10.9)	**(8.6)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 March 2017

		At 31 March 2017 £m	At 31 March 2016 £m
Non-current assets			
Goodwill		13.5	13.5
Other intangible assets		1.8	2.1
Property, plant and equipment		29.3	18.0
Trade and other receivables		39.8	29.5
Derivative financial asset		1.3	0.8
Deferred tax asset		1.8	1.5
		87.5	**65.4**
Current assets			
Inventories		44.8	34.0
Trade and other receivables		41.1	34.4
Corporation tax receivable		0.2	0.7
Cash and cash equivalents	8	29.4	33.4
		115.5	**102.5**
Total assets		**203.0**	**167.9**
Current liabilities			
Trade and other payables		(140.2)	(109.0)
Borrowings	8	(3.7)	(2.2)
Provisions		(0.1)	-
		(144.0)	**(111.2)**
Net current liabilities		**(28.5)**	**(8.7)**
Non-current liabilities			
Borrowings	8	(13.7)	(5.8)
Derivative financial liability		(3.4)	(2.7)
Provisions		(1.4)	(0.8)
Total liabilities		**(162.5)**	**(120.5)**
Net assets		**40.5**	**47.4**
Equity attributable to owners of the parent			
Share capital		1.1	1.1
Share premium account		55.7	55.7
Other reserves		1.0	3.8
Retained losses		(15.6)	(12.3)
Total		**42.2**	**48.3**
Non-controlling interest		**(1.7)**	**(0.9)**
Total equity		**40.5**	**47.4**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2017

			Other reserves								
	Share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Share-based payments reserve £m	Translation reserve £m	Other reserve £m	Retained losses £m	**Total £m**	Non-controlling interest £m	**Total £m**
Balance at 1 April 2015	1.1	55.7	4.4	(1.1)	2.8	0.4	-	(4.7)	**58.6**	-	**58.6**
Loss for the year	-	-	-	-	-	-	-	(6.0)	**(6.0)**	(0.1)	**(6.1)**
Foreign currency gains arising on consolidation	-	-	-	-	-	(2.5)	-	-	**(2.5)**	-	**(2.5)**
Share-based payments charge net of tax	-	-	-	-	0.3	-	-	-	**0.3**	-	**0.3**
Put option over non-controlling interest	-	-	-	-	-	-	(2.1)	-	**(2.1)**	-	**(2.1)**
Transfer between reserves	-	-	-	1.6	-	-	-	(1.6)	**-**	**-**	**-**
Acquisition of subsidiary	-	-	-	-	-	-	-	-	**-**	(0.8)	**(0.8)**
Balance at 1 April 2016	**1.1**	**55.7**	**4.4**	**0.5**	**3.1**	**(2.1)**	**(2.1)**	**(12.3)**	**48.3**	(0.9)	**47.4**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(6.6)	**(6.6)**	(0.8)	**(7.4)**
Share-based payments charge net of tax	**-**	**-**	**-**	**-**	4.0	-	**-**	**-**	**4.0**	-	**4.0**
Foreign currency gain on consolidation	**-**	**-**	**-**	**-**	-	(3.5)	**-**	**-**	**(3.5)**	-	**(3.5)**
Movement between reserves	**-**	**-**	**-**	**-**	(3.3)	-	**-**	3.3	-	-	**-**
Balance at 31 March 2017	**1.1**	**55.7**	**4.4**	**0.5**	**3.8**	**(5.6)**	**(2.1)**	**(15.6)**	**42.2**	**(1.7)**	**40.5**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2017

	2017 £m	2016 £m
Cash flows from operating activities		
Loss for the period	(7.4)	(6.1)
Adjustments for:		
Depreciation and amortisation	6.0	4.8
Finance income	(6.8)	(4.2)
Finance costs	1.8	0.3
Profit on disposal of property, plant and equipment	(0.3)	-
Taxation charge/(credit)	0.4	(0.6)
Increase in provisions	0.7	-
Share-based payment charge	4.0	0.2
Operating cash flows before movement in working capital	**(1.6)**	**(5.6)**
Increase in inventories	(10.3)	(2.4)
Increase in trade and other receivables	(13.3)	(15.8)
Increase in trade and other payables	28.9	20.3
	5.3	**2.1**
Taxation paid	(0.2)	-
Cash generated from/(absorbed by) operating activities	**3.5**	**(3.5)**
Cash flows from investing activities		
Interest received	0.2	0.2
Proceeds from sale of property, plant and equipment	0.9	-
Acquisition of property, plant and equipment	(5.7)	(6.1)
Acquisition of intangible assets	(0.3)	(0.5)
Cash used in investing activities	**(4.9)**	**(6.4)**
Cash flows from financing activities		
Proceeds from new borrowings	8.1	0.9
Interest paid	(1.1)	(0.3)
Repayments of borrowings	(6.4)	-
Payment of finance lease liabilities	(3.4)	(2.4)
Net cash used in financing activities	**(2.8)**	**(1.8)**
Net decrease in cash	**(4.2)**	**(11.7)**
Cash and cash equivalents at beginning of period	**33.4**	**44.9**
Exchange gains on cash & cash equivalents	0.2	0.2
Cash and cash equivalents at end of period	**29.4**	**33.4**

NOTES TO THE FINANCIAL INFORMATION

1. Basis of preparation

The financial information has been prepared under International Financial Reporting Standards (IFRSs) issued by the IASB and as adopted by the European Union (EU).

Whilst the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2017 or 2016, but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the Company's Annual General Meeting. The auditor has reported on those accounts; the report was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498(2) or (3) Companies Act 2006.

Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. This takes into consideration the forecasted cash flow of the Group, the availability of a £30m Revolving Credit Facility and the net proceeds of the share placing which raised £50.0m gross. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Non statutory measures

One of the Group's key performance indicators is Adjusted EBITDA. EBITDA is adjusted for one off items that do not reflect the underlying trading of the business. Such adjustments include:

- ***Europe set-up costs***

These are costs incurred in connection with our European expansion strategy prior to the "go-live" of that territory, namely the launch of AO.de and AO.nl and our continuing research into other further countries along with strategic post "go-live" costs.

- ***Exceptional share-based payment charges/ (credits)***

LTIP awards were made to a number of senior staff under the Performance Share Plan at the time of the Company's IPO in 2014 and also under the Employee Reward Plan (ERP) in July 2016. The Board considers that the magnitude and timing of these awards are one-off in nature and so add-back any charge/ (credit) in arriving at Adjusted EBITDA. The difference in the add-back year on year reflects the cumulative adjustment to the LTIP charge based on the assessment of certain performance criteria during the period (with the credit in 2016's numbers reflecting the likelihood that the IPO award would not vest, whilst the charge this year relates to the ERP which, having been granted during the year under review, was not in the previous year).

AO Sharesave scheme charges and LTIP charges relating to the LTIP awards which are not considered to be one-off in nature are included in trading numbers.

2. Revenue

An analysis of the Group's revenue is as follows:

Year ended 31 March (£m)	2017	2016
Own website sales	629.4	527.8
Third-party website sales	46.0	53.6
Other sales	25.8	17.8
	701.2	599.2

Year ended 31 March (£m)		2017			2016	
	UK	**Europe**	**Total**	UK	Europe	Total
Product sales	552.5	67.7	620.2	497.6	37.9	535.5
Service sales	77.2	3.8	81.0	60.9	2.8	63.7
	629.7	**71.5**	**701.2**	558.5	40.7	599.2

3. Segmental analysis

The Group has two reportable segments, online retailing of domestic appliances to customers in the UK and online retailing of domestic appliances to customers in Europe (excluding the UK).

Operating segments are determined by the internal reporting regularly provided to the Group's Chief Operating Decision Maker. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors and has determined that the primary segmental reporting format of the Group is geographical by customer location, based on the Group's management and internal reporting structure.

a. Income statement

The following is an analysis of the Group's revenue and results by reportable segments.

Year ended 31 March (£m)		2017			2016	
	UK	**Europe**	**Total**	UK	Europe	Total
AO website sales	557.9	71.5	629.4	487.1	40.7	527.8
Third-party website sales	46.0	-	46.0	53.6	-	53.6
Other sales	25.8	-	25.8	17.8	-	17.8
Total revenue	**629.7**	**71.5**	**701.2**	**558.5**	**40.7**	**599.2**
Cost of sales	(496.5)	(75.5)	(572.0)	(447.7)	(45.6)	(493.3)
Gross profit/(loss)	**133.2**	**(4.0)**	**129.2**	**110.8**	**(4.9)**	**105.9**
Administrative expenses	(118.6)	(23.8)	(142.4)	(98.4)	(18.1)	(116.5)
Other operating income	1.1	0.1	1.2	-	-	-
Operating profit/(loss)	**15.6**	**(27.6)**	**(12.0)**	**12.4**	**(23.0)**	**(10.6)**
Finance income	3.3	3.5	6.8	1.5	2.7	4.2
Finance cost	(1.7)	(0.1)	(1.8)	(0.3)	-	(0.3)
Profit/(loss) before tax	**17.2**	**(24.2)**	**(7.0)**	**13.6**	**(20.3)**	**(6.7)**
Tax (charge)/credit	(0.5)	0.1	(0.4)	0.5	0.1	0.6
Profit/(loss) after tax	**16.7**	**(24.1)**	**(7.4)**	**14.1**	**(20.2)**	**(6.1)**

One of the Group's key performance indictors is Adjusted EBITDA and each segment is measured by the Chief Operating Decision Maker on this basis. Adjusted EBITDA is calculated by adding back those material items of income and expense which, because of the nature and expected infrequency of events giving rise to them, merit separate presentation to allow shareholders to better understand the financial performance of the Group in the period.

The adjustments include:

- ***Europe set-up costs***

These are costs incurred in connection with our European expansion strategy prior to the "go-live" of that territory, namely the launch of AO.de and AO.nl and our continuing research into other further countries along with strategic post "go-live" costs.

- ***Exceptional share-based payment charges/ (credits)***

LTIP awards were made to a number of senior staff under the Performance Share Plan at the time of the Company's

IPO in 2014 and also under the Employee Reward Plan (ERP) in July 2016. The Board considers that the magnitude and timing of these awards are one-off in nature and so add-back any charge/ (credit) in arriving at Adjusted EBITDA. The difference in the add-back year on year reflects the cumulative adjustment to the LTIP charge based on the assessment of certain performance criteria during the period (with the credit in 2016's numbers reflecting the likelihood that the IPO award would not vest, whilst the charge this year relates to the ERP which, having been granted during the year under review, was not in the previous year).

AO Sharesave scheme charges and LTIP charges relating to the LTIP awards which are not considered to be one-off in nature are included in trading numbers.

Adjusted EBITDA		**31 March 2017**			31 March 2016	
Operating profit/(loss)	**15.6**	**(27.6)**	**(12.0)**	**12.4**	**(23.0)**	**(10.6)**
Depreciation	4.3	1.0	5.3	3.8	0.5	4.3
Amortisation	0.6	0.1	0.7	0.3	0.2	0.5
Profit on disposal	(0.3)	-	(0.3)	-	-	-
EBITDA	**20.1**	**(26.5)**	**(6.4)**	**16.5**	**(22.3)**	**(5.8)**
Share-based payments (credit)/charge attributable to exceptional LTIP awards	3.6	-	3.6	(0.4)	-	(0.4)
Europe set-up costs	0.7	-	0.7	1.1	1.2	2.3
Adjusted EBITDA	**24.4**	**(26.5)**	**(2.1)**	**17.2**	**(21.1)**	**(3.9)**

b. Geographical analysis

Revenue by location is the same as that shown in section (a) by reportable segment. Information on non-current assets by geographical location is shown in section (c).

c. Other information

	Additions				
2017 (£m)	**Intangible assets**	**PP&E**	**Depreciation**	**Amortisation**	**Profit on disposal**
UK	0.2	14.1	4.3	0.6	(0.3)
Europe	-	2.6	1.0	0.1	-
	0.2	**16.7**	**5.3**	**0.7**	**(0.3)**

	Additions			
2016 (£m)	**Intangible assets**	**PP&E**	**Depreciation**	**Amortisation**
UK	0.4	4.4	3.8	0.3
Europe	0.1	3.8	0.5	0.2
	0.5	8.2	4.3	0.5

Due to the nature of its activities, the Group is not reliant on any individual major customers or group of customers.

No analysis of the assets and liabilities of each operating segment is provided to the Chief Operating Decision Maker in the monthly board presentation, therefore no measure of segmental assets or liabilities is disclosed in this note.

4. Finance income

Year ended 31 March (£m)	2017	2016
Bank interest	0.2	0.2
Foreign exchange gains on intra-group loans	4.4	2.7
Movement in valuation of put and call option	0.5	0.2
Unwind of discounting on long term receivables	1.7	1.1
Total	**6.8**	4.2

5. Finance costs

Year ended 31 March (£m)	2017	2016
Interest on obligations under finance leases	0.5	0.3
Other Interest	0.6	-
Movement in valuation of put and call option	0.7	-
Total	**1.8**	**0.3**

6. Loss per share

The calculation of the basic and diluted loss per share is based on the following data:

Year ended 31 March (£m)	2017	2016
Loss		
Loss for the purposes of basic and diluted earnings per share being loss attributable to the owners of the parent company	(6.6)	(6.0)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	421,052,631	421,052,631
Potentially dilutive shares options	1,337,071	-
Weighted average number of diluted ordinary shares	422,389,702	421,052,631
Loss per share (pence)		
Basic loss per share	(1.56)	(1.44)
Diluted loss per share	(1.55)	(1.44)

Adjusted loss per share

The basic loss per share is positively affected by foreign exchange gains arising from intra-group funding arrangements therefore an adjusted loss per share has been calculated below excluding this impact. The foreign exchange gain has arisen as a result of the significant movement in the exchange rate between Sterling and the Euro in the period. This has impacted the value of intra-group loans held in GBP in the European entities and EUR loans held in the UK giving rise to the £4.4m gain referenced below.

Year ended 31 March (£m)	**2017**	2016
Loss		
Loss attributable to owners of the parent company	(6.6)	(6.0)
Foreign exchange gains on intra-group loans	(4.4)	(2.7)
Adjusted loss attributable to owners of the parent company	(11.0)	(8.7)
Number of shares		
Basic, and adjusted weighted average number of ordinary shares	421,052,631	421,052,631
Potentially dilutive shares options	1,337,071	-
Weighted average number of diluted ordinary shares	422,389,702	421,052,631
Loss per share (in pence)		
Basic loss per share	**(1.56)**	**(1.44)**
Diluted loss per share	**(1.55)**	**(1.44)**
Adjusted basic loss per share	**(2.62)**	**(2.07)**

7. Taxation

Year ended 31 March (£m)	**2017**	2016
Corporation tax:		
Current year	0.6	-
	0.6	-
Deferred tax	(0.2)	(0.6)
Total **tax charge/(credit)**	**0.4**	(0.6)

Corporation tax is calculated at 20% (2016: 20%) of the taxable loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The credit for the year can be reconciled to the loss in the income statement as follows:

Year ended 31 March (£m)	**2017**	2016
Loss before tax on continuing operations	(7.0)	(6.7)
Tax at the UK corporation tax rate of 20% (2016: 20%)	(1.4)	(1.3)
Ineligible expenses/non-taxable income	0.3	0.2
Movement in unrecognised tax	1.7	0.5
Difference in overseas and UK tax rates	(0.3)	(0.1)
Impact of difference in current and deferred tax rates	0.1	0.1
Tax charge/(credit) for the year	**0.4**	(0.6)

8. Net Funds

	2017 £m	2016 £m
Cash and cash equivalents at year end	29.4	33.4
Borrowings – Repayable within one year	(3.7)	(2.2)
Borrowings – Repayable after one year	(13.7)	(5.8)
Net funds	**12.0**	**25.4**

Reconciliation of net cash flow to movement in net funds:

	2017 £m	2016 £m
Net decrease in cash and equivalents	(4.0)	(11.6)
Net decrease in debt and lease financing	9.8	2.4
New loans in the year	(8.1)	(0.9)
Acquired debt on acquisition	-	(0.4)
Non cash movements		
- Asset acquired under finance leases	(10.9)	(1.9)
- Foreign exchange on cash and cash equivalents	(0.2)	(0.1)
Movement in net debt	**(13.4)**	**(12.5)**
Opening net funds	25.4	37.9
Net funds at the year end	**12.0**	**25.4**

9. Events after the reporting period

On 3 April 2017 the Company completed a placing of new shares (37,735,849 ordinary shares) in the Company to raise £50.0m of gross proceeds to suitably capitalise the business to support our continued growth and increasing scale.