# We're on a journey.


AO World Plc
Annual Report and Accounts 2016

# Full year 2016 highlights

## Group revenue

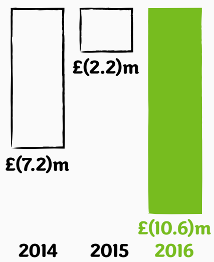
**+25.7%**


## UK AO website sales

**+27.7%**

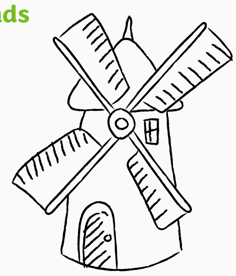

## Group operating loss

(with UK operating profit of £12.4m and Europe operating loss of £23m for 2016)




## Launched AO.nl in the Netherlands

**March 2016**

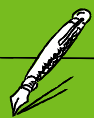


**Commonly used abbreviations/definitions**

MDA – major domestic appliances.
SDA – small domestic appliances.
AV – audio and visual products.
SKUs – stock keeping units.
Adjusted EBITDA means profit/(loss) before tax, depreciation, amortisation and net finance costs, 'Adjustments' and exceptional items.
Adjustments means set-up costs relating to overseas expansion and share-based payment charges or credits attributable to LTIP awards which the Board considers one-off in nature.

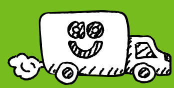
## Contents





**John's pen.**

**As Chief Executive Officer and Founder, John is our customer champion, ensuring an exceptional customer journey, with a little bit of pixie dust.**



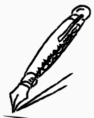
**Steve's van.**

**As Chief Operating Officer, Steve drives the business forward, ensuring the Company and our culture stay on track.**


**Mark's sums.**

**As Chief Financial Officer, Mark keeps a strict eye on the numbers to allow us to grow the business in a profitable way.**

**Look out for their notes throughout this Report!**



## In our first Annual Report we told you we'd come a long way.

## Well, by being exceptional in the moments that matter, we've now come even further.

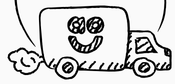
By 'best' we mean having a market-leading proposition and a brand that customers love.

## We're on a journey to be the best electrical retailer in Europe. It's a destination we'll reach simply because we care more about being exceptional in the moments that matter. And we won't stop when we get there.

**We're well on our way to delivering our objectives. We've expanded our product categories and our unique culture continues to thrive with our values at its heart.**

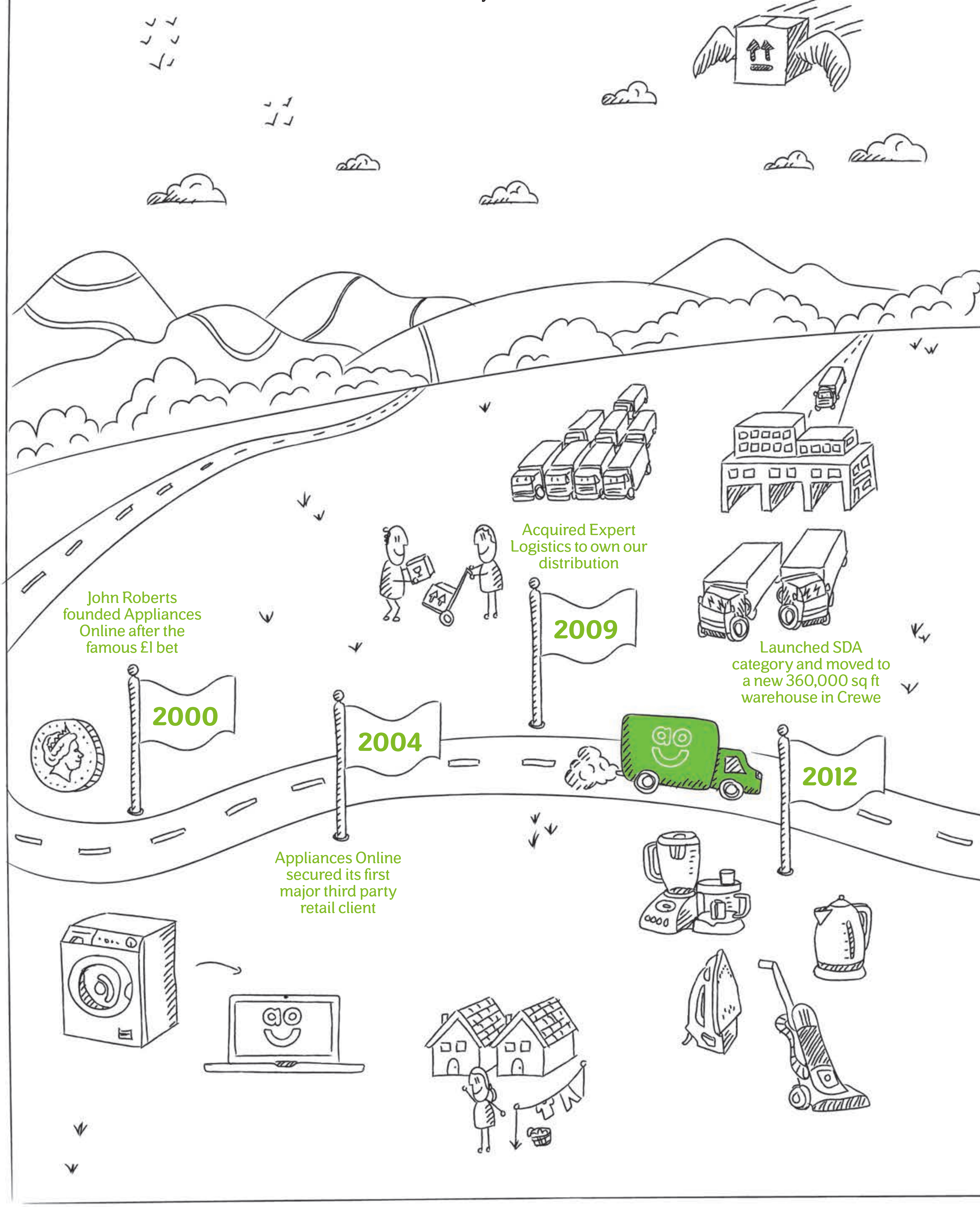
**This year we launched our business in the Netherlands and continued to grow our market share in Germany and the UK.**

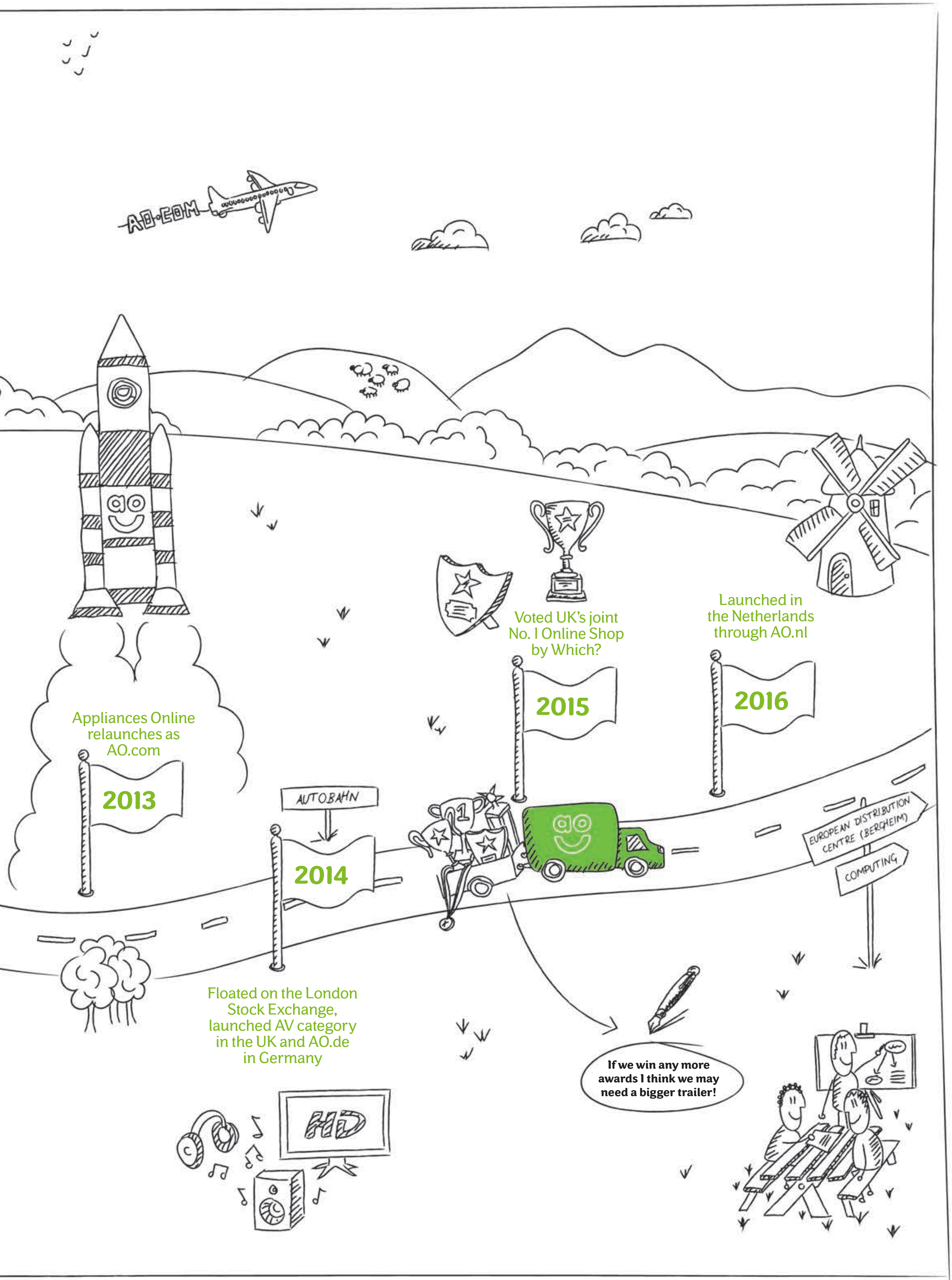
More on page 19.



# Welcome to AO World

A place where the customer always comes first,
and we make everyone smile.




AO.COM
Appliances Online relaunches as AO.com
2013
AUTOBAHN
2014
Floated on the London Stock Exchange, launched AV category in the UK and AO.de in Germany
HD
Voted UK's joint No. 1 Online Shop by Which?
2015
Launched in the Netherlands through AO.nl
2016
EUROPEAN DISTRIBUTION CENTRE (BERGHEIM)
COMPUTING
If we win any more awards I think we may need a bigger trailer!

# Three countries launched.


| Potential market value of European expansion | Eventual goal |
|---|---|
| **£93bn*** | **Best Electrical Retailer in Europe** |

* Includes the market value of categories we currently sell plus broader electricals in the UK, Germany, the Netherlands plus seven other countries that we are exploring. See page 21 for details. (Information source: Euromonitor and GfK.)

# Chairman's statement



**Richard Rose**
Chairman

This will be the final statement I give as Chairman of AO and I feel very fortunate to have been a part of its remarkable growth story over the last eight years.

## Results

The long-term strategy we set out at the time of our IPO is firmly on track and we have delivered another year of good top-line growth with revenue increasing by 25.7% to £599.2m across the Group. Year-on-year UK 'AO' branded sales were up 27.7% to £487.1m and sales for our European segment increased six fold to £40.7m for the full year.

Group Adjusted EBITDA losses were £3.9m (2015: £8.5m, Adjusted EBITDA). We continued to invest in start-up trading losses in the Europe segment over the year as we build scale, and over the full year these exceeded the profits made by our UK segment. However, performance for the Group for the last six months of the financial year moved to profit (on an Adjusted EBITDA basis) following the loss on the same basis in the first six months. The UK has been performing particularly strongly with UK Adjusted EBITDA of £17.2m (up 4.6%) and we saw improvements in marketing and advertising costs and margin in the second half of the year.

## Delivering on our strategic objectives

At IPO we set out our strategy to build, drive and broaden the business and we continue to deliver against plan by focusing on four key areas: culture and brand, customers, categories and countries.

In March we launched our business in the Netherlands, leveraging the infrastructure and teams we have built in Germany, but establishing a local team to provide customer services and, crucially, our own last mile delivery network. Whilst the business is still very much in its infancy we have been able to apply the learnings from our roll-out in Germany. Dutch customers have welcomed our proposition, the culture is embedding well and early signs are encouraging, although trading losses incurred as we build scale in the Netherlands will increase the losses for the Europe segment as a whole.

We are continuing to drive sales in both the UK and Germany by offering unbeatable prices, a wide range of products and outstanding customer service. During the year we have added another two outbases to our UK infrastructure and a further one in Germany which help to drive efficiencies by reducing stem mileage but also enable us to enhance delivery availability to customers. Customer satisfaction remains exceptional.

## Board

During the year we further strengthened the composition of our Board, appointing Mark Higgins as an Executive Director and Chief Financial Officer. The CFO role was previously held by Steve Caunce, in conjunction with his role as Chief Operating Officer, but given the increasing scale and complexity of AO's operations and the financial reporting and corporate governance requirements of a public company, the Board felt it was an appropriate time for these two roles to be separated. As well as assuming responsibility for the finance and IT functions and focusing on appropriate controls, Mark leads our investor relations department, ensuring that good dialogue takes place between the Company and its investors to understand any issues and concerns that shareholders may have.

In March 2016 I announced my intention to step down from the Board at the Company's AGM in July, after almost eight years as Chairman. Our Senior Independent Director Brian McBride has been conducting a search for my successor and the Board has recently resolved to appoint Geoff Cooper. Geoff has over 20 years' experience of serving on Boards of UK public companies and is highly experienced in both the world of retail and high-growth companies. I'm confident he will be a great asset to the Board, ensuring that the good governance and controls we have put in place over the years are continued.

## Outlook

We are on track with our plans at this early stage of the new financial year and we look forward to delivering further on our long-term growth objectives. The Netherlands launch in particular gives us further confidence that our model can be replicated and gives a very strong platform for future growth.

I wish the team all the best for the future and I have no doubt that AO will continue to delight customers both home and away with its dedication to exceptional service which ultimately should ensure it continues to achieve its goals.

## AGM

AO's AGM will be held on 21 July 2016 at the Company's headquarters in Bolton at 11.00 am and I look forward to welcoming shareholders.

**Richard Rose**
Chairman
8 June 2016

# What makes us special?

Lift here to find out...

Caring Bold Fun Smart Driven

# It's just the way we make you feel.

It's our pixie dust.

It sits on our balance sheet at zero but we invest heavily in it.

A bit like Coca-Cola, we can't tell you exactly what's in it, however, we can say that five of the key ingredients are our core values: caring, bold, fun, smart and driven.

# Chief Executive's letter

We do love a letter. See some from our customers on page 36.



**John Roberts**
Founder and Chief Executive Officer

Writing this letter is a great opportunity to reflect and take stock of just quite what has been achieved since our first Annual Report.

Our mission is still to be the best electrical retailer in Europe through being exceptional in all the moments that matter because our tribe of amazing people just care more. The strategy is the same, the progress against it is significant and the belief in the destination stronger than ever.

Since 2014 we have moved from being a single category business in a single territory with nine operating locations to a multiple category, multiple country business with operations in 18 locations and over 2,000 people.

As the front cover says... We're on a journey...

The UK business continues to gain market share and has established itself as a retailer not just of MDA but of small domestic appliances and TVs too.

Last summer we entered a 'drive' phase and spent our time applying our learnings and driving the model rather than building many new things. This has been the case right across the business from supply chain to margin to fleet optimisation and brand building. The results, particularly in the latter half of the year, speak for themselves.

Our brand is growing well and the impact is filtering into almost every line of the P&L. We have continued with our customer-led TV adverts and have done more joint advertising with the brands than ever. Having such customer advocacy and manufacturer 'endorsement' is a structural advantage for the business and highlights the progress of the levels of trust in our brand. Our quality metrics remain exceptional and we continue to obsess about them. We always will because it isn't the fact that we offer the best proposition or next day delivery; what really matters is *how* we do it and *how* we leave the customer feeling. It is worth a visit to Trustpilot to see what they say.

Our trust and relationships with the manufacturer brands continues to build both in existing categories and new ones. This is a big part of our journey and being the best electrical retailer means being the destination of choice for the brands as well as the customer so we will continue to invest here to tell their stories and explain the investments in technology they make for the benefit of our mutual customers.

We have recently confirmed that our next category will be computing. We have thoroughly researched the market and I am very excited by the opportunity to disrupt the category by applying the same principles and customer obsession to make sure we make the category so much easier to shop and understand. It simply baffled me when I tried to shop it!

My summary of the UK wouldn't be complete without a mention of Black Friday. I am pleased to say that it was the epitome of the importance we attach to stitching every bit of the business together. The way the teams acted and executed the lessons from 2014 was just brilliant to see. It really was a classic case of being exceptional in a moment that mattered.

Internationally we have made good progress too. We have bolted-on our business in the Netherlands and have increased the scale of our German business.

The strategy in Germany is very much the same as in the UK; over recent months we have moved away from the heavy lifting phase of actually building the infrastructure to driving the efficiencies, allowing the operation to bed down and applying the same lessons we have learned in the UK.

The relationships with the manufacturer brands are developing as they see the reality of what we are delivering for customers and how much the customers like it. We have done what we said we would do, staying true to our word. We have built a vast infrastructure and presented a market leading proposition for a better way to shop the category that customers are loving. Slowly but surely this is translating into trust with suppliers and provides the foundation for strong relationships for the years ahead.

Sound familiar? It should. It is exactly the journey we have been on for a long time in the UK. The benefit of this does transfer and we are able to leverage all the customer journey innovations and lessons we have in the UK but it still takes time for people to see it in reality and practice and to win hearts and minds. They are being won and we are ever more confident of the destination and success.

So much so, we were confident enough to roll to our next territory and so are now live in the Netherlands leveraging the German infrastructure. The distance from our warehouse in Bergheim to Utrecht is not too dissimilar to that from Crewe to Croydon. It is early days but all signs are very encouraging and we have a great team in place who live our culture and understand the business. Feedback from customers has been fantastic.

Across Europe, the growth of online shopping seems now to be comprehensively accepted driven by technological advances, improving connectivity and cultural generational change. When you layer on to that a simply better customer journey, executed brilliantly by a brand customers trust with a great *feel*, it is a powerful cocktail and more and more people are both discovering it and telling their friends and family about it.

Underpinning all this is our culture. The job of protecting it and continuing to drive it is a lot more complicated than it was and so whilst I didn't think we could obsess about it more, we have. Steve and I spend a lot of our time nurturing it and I am delighted to report that it is thriving and we are continuing to invest in the next generation of our home grown talent to prepare us to be able to realise the scale of our ambition.

It is because our people care more than anyone else about being exceptional in the moments that matter that we are able to deliver that *feel* to fuel another fantastic year of progress on our journey and so I would like to thank every single AO'er for their passion on our journey to become Europe's Best Electrical Retailer.

**John Roberts**
Founder and Chief Executive Officer

# Being exceptional in the moments that matter.

My journey to the Croydon depot

I talk a lot about exceptional customer service, but it's critical to really understand the practical realities of what makes it possible and also how things can go wrong. So, over the course of the year I've been travelling around our business more than ever. I want to get a personal feel for how we're ensuring we can deliver great service, especially as we grow the business and expand into new categories and countries.

Of all the visits, one of my favourites was in the middle of the night with Steve and Mark to our Croydon outbase. Our outbases don't hold stock. Instead products are trunked down in big double deck trailers from the NDC at Crewe and trans-shipped at the outbase to the local delivery vans. It's a slick operation; we've got trans-shippers transferring the stock, shunters backing up and parking the vans, and people checking that the right stock is allocated to the right drop and ensuring the vans are perfect and ready to roll; all to ensure our customers get what we promised. Some people might not find those roles very sexy and most organisations would struggle to inspire the people doing these jobs to care about the micro detail or even think about their impact on the end customer, but they did.

It made me immensely proud to see the passion these guys had to just make sure that the turn-around was as quick as possible and their jobs were done well. They even put cold bottles of water into the cabs for the drivers. They understood that if they did a great job then our drivers would have a better day, which in turn means they're more likely to be exceptional in the moments that matter. It was clear that they lived it that way. It wasn't because I was there; you just can't fake it to that level and certainly not at 2am!

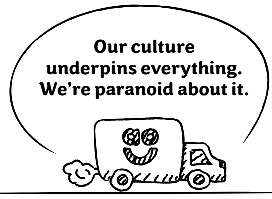
It sounds simple doesn't it? But it really isn't. Mobilising a tribe the size of ours to care about every detail more than anyone else does is the smart thing to do, but exceptional customer service can't be switched on overnight. It's the cumulative effect of thousands of little things coming together that make it look easy, but again things that look effortless very rarely are.

JR

# Our strategy: the 4 Cs

AO is on a mission to be the best electrical retailer in Europe…

To do this we're focusing on four key aspects: culture and brand, customers, categories and countries. We think this is a more helpful way of bringing to life the build, drive and broaden phrase we have used previously.




## Culture & Brand

Our culture and values are fundamental to our business and through nurturing and growing this culture we will be able to deliver the best customer experience, broaden our categories, expand into new countries, drive our operations and, ultimately, achieve our goal.

We recruit and retain the best talent and look for people who are smart, bold and driven. They must care more, not only about our customers but other stakeholders of the business too, be it the manufacturers and suppliers, other employees and, of course, our drivers, and do it all with a sense of fun.

Our values can be found in every single one of our AO people. We hire and fire against them and they are everything our brand stands for; our culture and how our people act will be how our brand is perceived externally.

The risks affecting our culture and brand are highlighted on page 23 to 25.

### Performance this year

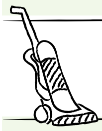
Towards the end of last year we formalised our five core values to ensure consistency as our international footprint increases (see page 26). We are delighted by our success in translating and replicating our culture in both Germany and the Netherlands. It is this culture and these values that have helped AO become the brand that customers love.

Over the period we've spent a lot of time, effort and money in communicating our brand to potential customers and reinforcing it with existing customers. We have invested in TV advertising in both the UK and Germany and also print media, including posters on the London Underground. Branded traffic (i.e. people who click through to our website having searched for AO, rather than "washing machine" for example) has increased and we have seen spontaneous awareness jump from c.15% at the end of last year to c.25% in recent months, with prompted brand awareness also making good progress.

### Priorities next year

Building brand awareness will continue to be a key focus for the year ahead; it remains our biggest weakness and therefore our biggest opportunity. We will look to simplify our brand message and create consistency across all media. TV advertising, print and content marketing will continue and we aim to build on the increase in spontaneous and prompted brand awareness and branded traffic to reduce our reliance on paid forms of direct marketing.

We will continue to embed our culture in our overseas operations as they grow and build scale and fiercely protect it in the UK. As more and more people join the AO family it is critical that we do not lose sight of our values. Values workshops will be held across all areas and levels of the business and will take a key role in the development programmes we are running for the AO leaders of the future.



## Categories

We have extended our MDA model to the SDA and AV categories in the UK and we continue to take market share across all three categories. 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.

Risks affecting our category roll-out are discussed in the Risk Review on page 24.

### Performance this year

We continue to offer one of the broadest ranges in the MDA category, with most products available for next day delivery. We still trade across over 4,000 SKUs which includes a trading range that enables us to focus our scale and offers us exclusivity, better margin, higher average product value. It also enables us to offer better deals to customers. This approach also benefits our supplier partners to mix their margin, plan stock and therefore support AO more than ever before. In the UK sales in our AV category have 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 made progress in our SDA category, in particular with Floorcare and also the introduction of Heating and Air Treatment products, which are performing well. We have launched Floorcare in Germany and this has been well received by customers.

### Priorities next year

In the year ahead we will further develop our categories as we look to launch computing in the UK, AV in Germany and SDA in the Netherlands.

Our exceptional customer service and our understanding of customer needs means we can offer our cross category manufacturers significant opportunities to develop brand loyalty. In the year ahead we will explore how best to leverage this ability.

We will continue to broaden ranges as far as possible within existing categories, including growing exclusive SKUs.

Our research of further complementary categories will continue.

Computing is a natural extension to our current categories and there is good potential for cross-selling and leveraging our existing customer base. The customer journey offered by existing players is complex and confusing to the customer. We will aim to simplify and move away from a purely traditional feature-led model, offering non tech-savvy consumers a need and lifestyle based journey which they can relate to and understand when choosing products.

**Customer satisfaction levels must remain exceptional.**

# Customers

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

The risks affecting our customers are highlighted on page 23 to 25.

## Performance this year

Over the year we have delighted over 1.3 million customers with our proposition across our three territories. We have improved all aspects of the customer journey; by enriching the content on our website and striving to be the destination for information; by simplifying the checkout process and improving installation and delivery options.

New for the reporting period was the introduction of the AO Customer Lab, where we have invited members of the public to test the website and see how the customer journey works for them. This has provided real insight into the way different people think and shop and has helped us to tailor the website accordingly.

Our customers love us, as can be seen by our NPS results, Trustpilot reviews and the awards we have won over the period. In October 2015 we were awarded joint best online shop and named as recommended provider for Electrical Online Retailer by Which? In April 2016 we won Best Retailer at the Verdict Customer Service Awards and recently were shortlisted for Best Retailer in the Which? Awards 2016. These awards demonstrate the continued industry-wide recognition and that we are 100% focused on and committed to the needs and wants of our customers. Our customers love us and they are returning faster and buying across categories.

## Priorities next year

We will do more of the same. As we grow across categories and countries we need to ensure we do not lose our focus on delighting our customers. We are looking to build on the results of the Customer Lab and tailor the web journey to meet different customers' needs, to be the destination for information but to do so in bite-size chunks so as not to overwhelm the customer in need of a quick replacement product, but to provide in-depth information to the tech-savvy customers out there.

Repeat customers are on the increase as are the number of new customers we are attracting to the AO brand. However, many UK customers still think of us as playing solely in the MDA category and we will educate customers on our wider electrical offering in the year ahead.

Across all territories we will strive to improve upon our already excellent NPS scores and market leading Trustpilot scores. As we enter new markets we will ensure that we deliver a great proposition and the same level of exceptional customer service we offer in existing countries and categories so that our reputation and industry-wide acknowledgements will be maintained and our brand never compromised.

# Countries

Since our IPO, we have focused on our goal to become the best electrical retailer in Europe by expanding our offering and we now operate in three countries, leveraging our relationships, infrastructure and lessons learned to date. Our recent Netherlands launch gives us further confidence that the model can be replicated and gives a very strong platform for future growth.

The risks affecting our expansion are highlighted on page 23 to 25.

## Performance this year

Our operational progress in Germany continues. As we are doing in the UK, we are investing in better content and web architecture to deliver the best customer journey, tailored to the German consumer and our market share continues to grow. We are consolidating the business to be ready for the next stage of growth and as part of this we are combining the head office and two distribution centres into a new European Regional Office and Distribution Centre in Bergheim.

In March we launched our business in the Netherlands, leveraging the infrastructure and teams we have built in Germany and applying the learnings from our German roll-out.

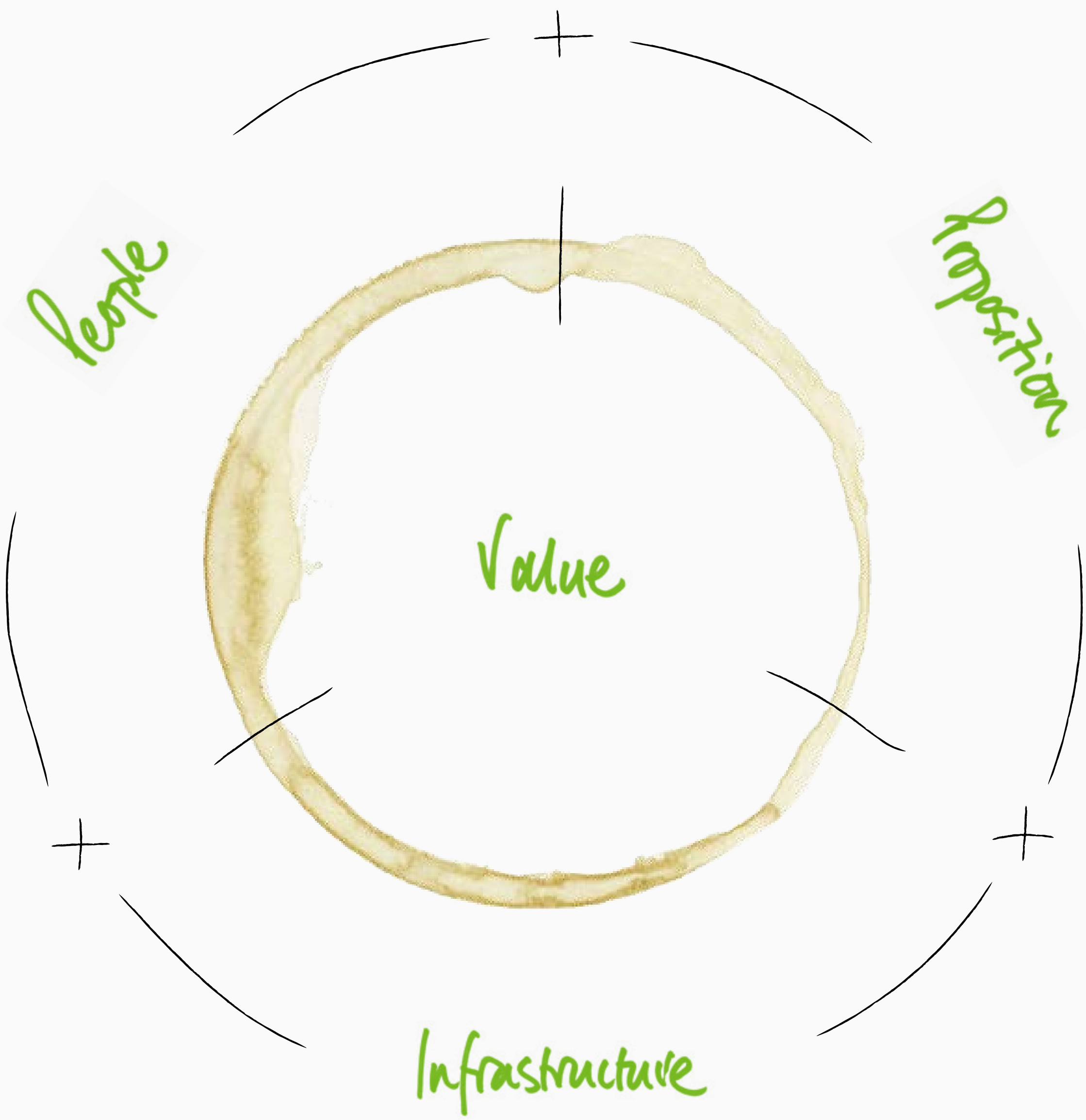
## Priorities next year

Our key priority in the year is to embed and develop our culture and raise brand awareness in our overseas countries. We will strive to improve efficiencies and product margin, and optimise the customer proposition ensuring always that service levels remain best-in-class and customers continue to make repeat purchases.

We will pursue this strategy through continued careful assessment of the European electricals market, being selective of which opportunities to progress or put on hold, to ensure that we deliver the best possible proposition for our customers and maximise value in the long term for our stakeholders.

# Our business model

AO's business model of end-to-end control throughout the supply chain has allowed us to offer a successful combination of **price, range, speed of delivery** and **customer service**.




**There are two key facts about our business model. The first is that it is proven: we built it, we understand it and it works. We believe that our fully in-sourced online proposition provides structural advantages over our competitors. It allows us to:**

**Control the customer experience from order to delivery;**
**Control the margin end-to-end from supplier to customer; and**
**Maintain a lower fixed-cost base as compared to competitors with significant store-based assets, while providing the customers with a simply better experience.**

**The second key fact is that our model is based on a wealth of knowledge and proprietary systems built over many years, creating a significant barrier to entry and making it difficult for competitors to copy but easy for us to replicate in new territories.**

The model itself consists of three main elements. These are our:

- **Proposition**
- **People** and
- **Infrastructure**.

The factors that could impact our business model and future performance are considered in our disclosures around principal risks and uncertainties on pages 23 to 25.

## Proposition

Our mission is to become the best electrical retailer in Europe. We will do this by being exceptional in the moments that matter and simply by caring more.

We put customers first in everything we do and engineer the supply chain accordingly to provide the best service possible for them in the most efficient, intelligent and economic way. We aim to be the shortest and smartest link between the customer and the manufacturer and thus to offer the best proposition at the lowest cost.

Our unbeatable prices, huge range and availability and great content, complemented by outstanding service means that our customer satisfaction levels are exceptional.

*Price*: We aim to offer the best price and will match any price in the market but we are not a price leader.

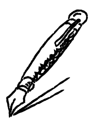
*Range and Availability*: We offer an extensive range of MDA items – over 4,000 SKUs in the UK and we are growing our range of SDAs and TVs. In Germany we have almost 2,000 MDA SKUs and a number of SDAs. Most of our SKUs are available for next day delivery – not many of our competitors can offer that!

*Delivery and Installation*: Our in-sourced seven-day delivery (six in Germany and the Netherlands) is the best in the market for free delivery. We also offer a wide range of delivery options including next-day and time-slots. We can also install new appliances and remove and recycle the old ones too.

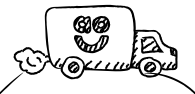
*Content*: We ensure our content is clear but detailed, explaining product benefits to customers better than anyone else, with feature-led reviews and 3D animation which tells the manufacturer's stories.

*Product Protection Plans*: We offer to customers, as agent on behalf of Domestic & General, product protection plans. These include a number of benefits and customers pay monthly, with the ability to cancel at any time. The plans can remain in force as long as a customer has the product, giving complete peace of mind. The promotion and sale of these plans provides the Group with additional revenue and incremental profit.

*Service*: Of course we can claim that our service is wonderful but independent customer feedback scores are exceptionally high. We give customers a flexible and personal approach and make clear commitments to them – that we then deliver on.



**Customer feedback scores are exceptionally high. See our Trustpilot ratings online.**



**Last month we topped Glassdoor's list of the Top 15 Retailers to work for in 2016.**

## People

We ensure that our staff enjoy what they do and we trust them to run the business, and to do the right thing. That is what we mean by "empowerment".

All of our people must live and breathe our values.

Because of this we are an employer of choice.

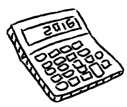
See our CSR Report on pages 26 to 31 for further details on our people.

## Infrastructure

Most of the IT systems we use are developed in-house. This means that we can – and do – adapt them in order to improve customer experience. It also means that they are scalable, transferable and reduce our reliance on third parties while making sure we get all the benefit of operational gearing and pace from our investments and long-term view.

Key bespoke systems include our website and subsequent order management and warehouse management systems. Our existing IT infrastructure has the capacity to handle planned growth and more. We have proven in the year how successfully our operations can be replicated internationally.

For both operating segments, we also have our own national delivery fleet operating out of a central distribution centre with a network of outbases across each country, which gives us control over our entire distribution chain – from the online purchase of a product through to its delivery to the customer.




**Our scalable and transferable in-house IT systems mean we benefit from operational gearing as we grow.**

# Our resources and relationships

Our success to date has been based on a number of key elements: our customer service; our strong management and culture; our supplier relationships and our processes and systems.

## Supplier relationships

### A trusted partner

We are reliant on our suppliers and see our role as being the most direct and smartest link between them and the end user – our customers.

There is considerable interdependence between us and most of the relationships have been in place for many years. These relationships are becoming increasingly strategically important to our suppliers as we grow our customer base, sales volumes and influence on customer demand, but also to us as we seek to launch in new countries and try to leverage existing relationships.

### Bringing products to life

We understand they invest millions in research to develop product features so we think a lot about and invest in how we add value for supplier brands to be the trusted partner in our channel and we always think long term.

Our innovative content offers our manufactures a great platform to showcase their products and deliver our brand messages as our 3D animation and feature-led reviews bring products to life.

## Customer relationships

Our online platform includes detailed technical information, customer reviews and product and price comparison tools, which are not always available in stores.

### Destination for information

One of our aims is to become the "destination for information" helping our customers decide which product best matches their needs. We provide 3D animation and feature led-reviews to bring products to life, we simplify complex technologies, highlight user-benefits and then deliver it to the customer with our market leading standard.

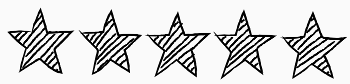
We offer over 5,500 SKUs in the UK, close to 2,000 in Germany and over 600 so far in the Netherlands, a price match promise and deliver seven days a week (six in Germany and the Netherlands) at no extra charge. Our AV and SDA ranges are growing along with the range of ancillary services we offer such as customer finance options, an unpack and recycle service, product care packs and disposal and connection services.

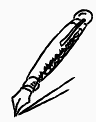
### What do customers want?

Best products, Best service, Best price!

So that's what we offer...

...as a result customer satisfaction levels are high and our customers love us. As at 1 June 2016 we ranked an "excellent" 9.6 on Trustpilot for AO.com, AO.de and AO.nl. Our NPS and DTP scores remain consistently high too.





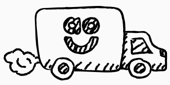
**It says it all really!**

## Strong management and culture

### Our employees
Happy people care more and require a lot less management. So we make sure they're happy by giving them autonomy where appropriate, support where needed and a great environment to work in. They are empowered; they are incentivised; and they know they are trusted. We love watching them grow and thrive.

### Our values
We recruit and retain the best talent and look for people who are smart, bold and driven. They must care more, not only about our customers but other stakeholders of the business too, be it the manufacturers and suppliers, other employees and, of course, our drivers, and do it all with a sense of fun.

### Our team
There are 10 of us on the Group Executive Team, including the Executive Directors, and we have an average length of service of over eight years.



**It means we know the business inside out and trust each other implicitly.**

## Processes and systems

### Distribution
Our UK in-house delivery network runs from Crewe and 10 stockless outbases around the UK. We operate a similar model in Europe and currently have a distribution centre in Bedburg and a number of outbases and customer service centres across Germany and the Netherlands. We plan to start operating from our European Regional Office and Distribution Centre in Bergheim later in the year.

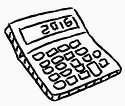
Delivery and installation options, speed and reliability are important as are the removal and recycling of the old appliances.

We believe that the standard of the delivery service we provide is crucial; it's a key part of our 'pixie dust', given that delivery teams are typically the only face-to-face interaction that customers have with the Company.

In the UK, we run a dual branded fleet as our two-man delivery service is also used by a small number of third parties who ask us to deliver their own products through our network on their behalf.

### IT
Our core IT systems have all been developed in-house. The systems are bespoke; built for and continuously adapted to fit the needs of the business. They are therefore not easily replicable by any competitor and they are scalable and resilient.

Our automated stock forecasting and ordering system is integrated with suppliers' systems meaning that we can combine high levels of availability for next-day delivery with the efficient use of working capital. It also means that we can optimise resources by, for example, loading trucks most efficiently.




**In financial terms... we will earn more money through driving efficiencies and leveraging infrastructure.**

# Operational review

**Steve Caunce**
Chief Operating Officer

We are on a mission to be the best electrical retailer in Europe. Our culture and values are fundamental to our business and through nurturing and growing them we will be able to deliver the best customer experience, broaden our categories, expand into new countries, drive our operations and, ultimately, achieve our goal and create value for our shareholders.

In the year to 31 March 2016 we continued to grow our business by offering customers a better way to buy electricals and striving to be the destination brand in the category. Our core proposition hasn't changed; we offer unbeatable prices, a huge range and great availability coupled with amazing service and we've continued to invest in the AO customer journey.

## Culture & Brand

Towards the end of last year we documented our five core values to ensure consistency as our international footprint increases. As more and more people join the AO family it is critical that we do not lose sight of our values and we are delighted by our success in translating and replicating our culture in both Germany and the Netherlands. It is this culture and these values that have helped AO become the brand that customers love in all the markets in which we operate.

Over the period we've spent a lot of time, effort and money in communicating our brand to potential customers and reinforcing it with existing customers. We have invested in TV advertising in both the UK and Germany and the customer-led advertisements have resonated well across both countries. We've continued and improved joint advertising campaigns with the manufacturer brands, including on the London Underground and TV advertising.


Branded traffic (i.e. people who click through to our website having searched for AO, rather than "washing machine" for example) has increased and in the UK we have seen spontaneous awareness jump from c.15% at the end of last year to c.25% in recent months, with prompted brand awareness also making good progress. Repeat customers are on the increase as are the number of new customers we are attracting to the brand. However many customers still think of us as solely a MDA retailer and we will educate customers on our wider electrical offering in the year ahead.

## UK Retail and Operations

Our UK product range now stands at nearly 5,500 SKUs across our MDA, AV and SDA categories. In our MDA category we continue to offer one of the broadest ranges in the market and are able to deliver most products the next day. Sales in our AV category have increased, helped by a wider product range including premium models with cutting-edge technologies and some exclusive branded products. We have also made some progress in our SDA category, in particular with Floorcare which is now becoming a meaningful category for the business and one supplier has gone from not wanting to supply us 18 months ago to us being their champion of quality retail. Over the period we have also introduced Heating and Air Treatment products which have performed well. We have continued with our exploratory work in further categories and offering computing products for sale will be our next step.


The strength of our partnerships with the manufacturers continues to grow giving us a key competitive advantage. We understand they invest millions in research to develop product features to increase customer benefits. Over the year we invested in our innovative content, offering manufacturers a great platform to showcase their products and to deliver brand messages as our 3D animation and feature-led reviews bring their products to life. There are a number of new, exciting technologies coming to market and we can simplify and consistently communicate these by animating key product features and user benefits.

New for the 2016 financial year was the introduction of a number of initiatives such as "My Account", "LiveChat" and a track your order function to our website. During the year we also established the AO Customer Lab, where we have invited members of the public to test the website and see how the customer journey works for them. This has provided real insight into the way different people think and shop and has helped us to tailor the website accordingly. We are looking to build on the results of the Customer Lab and further refine the web journey to meet different customers' needs and wants. To give our customers further choice we are currently developing an app which, following our usual safe launch process, we expect to roll-out later in the current financial year. All these features provide our customers with a quick and simple buying process and enhanced complementary content.

During the year we have strengthened our logistics infrastructure, by adding two further outbases to our UK operations bringing our total to 10. These sites, one in Basildon, Essex and the other in Heywood, North Manchester will help ensure resilience in our delivery network and maintain product availability for our customers when they want it. We have also made a number of changes to our fleet to drive efficiencies. We added 20 new mega double-decker trailers which give a c.20% increase in capacity and we also added 30 new 3.5 tonne "Hi-Cube" trucks to our home delivery fleet. These trucks are lighter and have a greater space and weight capacity than our previous fleet and also help to mitigate the 7.5 tonne vehicle driver shortage issue which arose in the industry following changes in legislation in 2015.

To complement our offering in SDA and certain AV products, we have partnered with Collect+ to give our customer base even more flexibility with delivery options with the ability to collect their products from over 5,000 locations. We will continue to research ways to ensure our customers buying habits are satisfied.

We offer our customers a number of ancillary services through AO.com, for example customer finance options, product protection plans, an unpack and recycle service, product care packs and disposal and connection services, all of which help us maintain our superior customer offering and are accretive to revenue and profit. Our premium installations service was brought in-house during the year and this area continues to grow and now includes the installation of integrated appliances. We are excited by the growth opportunities in this area and to develop the fleet further we will be working closely with local colleges to help support our trainee programmes. Acting as an agent for Domestic & General, we offer product protection plans to customers of the Group. In common with the other ancillary services that the Group offers to customers purchasing appliances, the sale of such product protection plans generates incremental gross profit for the Group in addition to any gross profit generated from the sale of the related appliances. Over the year we commenced a strategic review of our opportunities in this area to understand how we can better delight our customers, to improve the product and to ensure we are working with the right partner, to give real value to our customers. We have strengthened the management team in this area of the business and we have grown our outbound sales team, both in number and in the quality of their delivery.

Across the retail industry it was clear that Black Friday became largely an online event with some bricks and mortar retailers choosing not to participate but with many of those that did finding their stores quieter than expected. We were extremely proud of our performance this year across all our business functions, as highlighted in John's letter. The strength of our systems and the dedication of our AO teams ensured that we did not let our customers down and maintained our high levels of service and offering.

A core part of our strength and offering is our end-to-end service. In November 2015 we invested in a majority equity stake in The Recycling Group Ltd, our product recycling partner. We would expect this to become a wholly owned subsidiary in the fullness of time. This investment secures a WEEE (Waste Electrical & Electronic Equipment) processing facility for the Group and gives us control in ensuring that waste is dealt with responsibly. In the long term this will allow us to benefit from efficiencies in product recycling costs.

The Recycling Group Ltd
TRG

Our Net Promoter Score (an industry measure of customer loyalty and satisfaction) remains at an exceptionally high level of over 80 and our repeat purchase metrics continue their upward trend. We are encouraged by the growth in the volume of new customers and look forward to the repeat business these customers will bring. Our Deliver-To-Promise rate ("DTP") – which represents the average monthly number of deliveries made successfully, on the customer's first chosen delivery date and with the desired or higher specification product as no extra cost – remained outstanding. These metrics highlight that we are continuing to offer an unbeatable customer proposition through the use of bespoke technology and end-to-end supply management. This will build customer loyalty to drive our revenue and profitability.

During the reporting period, we were awarded joint best online shop and named as recommended provider for Electrical Online Retailer by Which? and also Customer Experience Initiative of the Year at the 2016 Retail Week Awards. In April 2016 we won Best Retailer at the Verdict Customer Service Awards and most recently have been shortlisted for Best Retailer in the Which? Awards 2016. These awards demonstrate the continued industry-wide recognition and that we are 100% focused on and committed to the needs and wants of our customers. Our customers love us and they are returning faster and buying across categories. Repeat customer metrics are improving as are the number of new customers we are attracting to our brand.

Recommended Provider
Which?
Electrical Online Retailer October 2015

# Ensuring our culture strikes a chord with all our customers.

A day out on the vans

That day out on the van was a pivotal moment for me, and highlighted a massive opportunity for the business.

It was back in April 2015, and our existing brand campaign just didn't seem to be cutting through. I wanted to get a sense of how people felt about us as a business, so I met with Dave and Paul in Leeds and joined them on their delivery route, posing as a Head Office researcher.

The first thing that struck me was how much our culture shone through in all aspects of the delivery. Nothing's more important to me than retaining that culture and our values, and it was incredible to see them actually touch every part of the process. Our customers continually tell us this but seeing it in action was brilliant.

As the drivers made their deliveries, I got to quiz the customers about AO. I honestly couldn't believe the feedback; our customers love us but I'd never realised quite how much. I was absolutely blown away by it. We'd been recommended to one customer by her mother, who came round during the delivery just to tell us, and her, how great we are.

It also became clear that we were still a relatively well-kept secret, and that a massive part of our success was down to recommendations. As a brand we were still a little underground, but once a customer shopped with us they became our biggest advocate.

John has always been a strong advocate for the customer, and the whole experience reinforced just how much we need to treasure them. No one can tell the story quite like they can, I could see that we needed to do something that focused on that. At this point it hit me, we should be using real customers in our ads.

I drove away from the Leeds depot that day feeling absolutely inspired. In true AO spirit, we had the new style customer recommendation TV ads made and on air within a couple of weeks. Using real people, not actors, we invited everyone to join our million happy customers.

Almost a year later, in February 2016, I went back on the van. We didn't feel quite as underground, but that was the only difference; the love was exactly the same. When I asked "why choose AO?", I got the feeling that we were a more obvious choice, not so much that we'd been recommended. Kids were running after the vans and singing "AO Let's Go", and I knew that the culture that matters so much to me had really struck a chord with the people that matter most to us.

Steve Caunce

# Operational review
continued

## Europe Retail and Operations

In March 2016 we were pleased to announce the successful launch of AO.nl as we progress with our strategy to launch the AO business in further countries. Although we have only been trading for a few months we are extremely encouraged by the initial acceptance of our customer offering.

Our operational progress in Germany continues materially as expected as we maintain our focus on driving efficiencies, building on our achievements and continuing to develop our relationships with the manufacturer brands. As in our UK operations, we are investing in our brand awareness, enhancing content and web architecture in order to deliver the best customer journey, tailored to the German consumer. Our range and proposition continues to evolve and during the year we commenced selling a range of Floorcare products on AO.de. Product margin remains a challenge in this market but we are encouraged by the progress we made in the second half of the financial year.

During the year we commenced selling the AO Schutz+ protection policy, where we again have partnered with Domestic and General to provide a market-leading protection plan which provides great benefits and real value to our customers which should contribute to margin in the long term.

Over the year we have been focusing on consolidating the German operation and in June 2015 we entered into an agreement for the lease of our European regional office and distribution centre in Bergheim. The site is owned by Pro-Logis (the landlord of our facility at Crewe) who are developing a 35,000 square metre warehouse space and office. The site in Bergheim will combine with our existing distribution centre in Bedburg and office in Heppendorf and so will enable us to service additional territories outside of Germany. We are pleased to report that construction is on track and we expect the warehouse to be operational from this summer with the office following in the autumn when, following our preparations to drive efficiency, we will look to accelerate volume growth. The additional product volumes from the Netherlands will also increase volumes processed in Germany, helping it leverage the fixed assets and resources and move faster towards a break-even position.

This is the architect's image of our new hub at Bergheim. It's almost finished and the picture doesn't do it justice. It will be able to serve our German customers and others in Western Europe.

During the year we also established a further outbase on the outskirts of Frankfurt and expect to increase infrastructure in line with the growth in sales volumes to optimise availability for our customers and ensure our service levels are maintained.

We are delighted by the feedback we have received so far from our customers in our new territories. As at 1 June 2016 we ranked an "excellent" 9.6 on Trustpilot for both AO.de and AO.nl and repeat customer metrics are also very encouraging. This is particularly pleasing given the relatively short amount of time we have been trading in these countries, especially the Netherlands. Additionally our NPS and DTP scores have been consistently high.

As in the UK, in Europe our brand represents both our biggest weakness and our greatest opportunity. Over the coming year we will continue to invest to raise awareness of the AO brand in both Germany and the Netherlands to encourage customers to try our market-leading proposition, convinced that once they have experienced our exceptional level of customer service they will become a major advocate of AO.

### Summary

Our operational achievements over the reporting period illustrate that we are continuing to make strong progress in achieving our strategic objectives. Key to this is nurturing our culture, building our brand awareness and maintaining our market-leading customer proposition; we will be exceptional in the moments that matter and execute brilliantly, by simply caring more.

# Trends and insights in our markets

## UK overview

In the UK AO operates in three categories (Major Domestic Appliances "MDA", Small Domestic Appliances "SDA" and Audio Visual "AV") with a total addressable market size estimated at £9.2bn[1].

MDA, SDA and AV are all forecast to grow in the UK during the 2016 calendar year driven by continued growth in the housing market and new technologies[2], presenting AO with the opportunity to take further market share. We are also exploring other categories within the "electricals" sphere and we expect to launch in computing during the current financial year.

### MDA

AO's most established category is MDA. The total MDA market grew by 5% to £3.5bn for year ended 31 March 2016[1], driven by strong growth in the built-in appliance market of 15% over the year[3]. This represents a significant opportunity for AO as this section of the market is currently dominated by trade suppliers. Management estimates our share of the MDA market has increased between 1% and 2% in the year[4].

The UK MDA supplier landscape experienced some disruption following the acquisition by Whirlpool Corporation of market leader Indesit Company and Bosch moving back to a higher price index after building volume in the previous year. Despite these changes, the top five suppliers continue to represent over 50%[2] of the market by value. AO has strong relationships with all of these and many others. During the year we broadened our range to include a number of new suppliers including Fisher & Paykel, Daewoo and Amica. Branded MDA (as opposed to own branded products) now represent c.86%[2] of the market and we have access to almost all of these.

Market growth has been strongest in the top and bottom price brackets, with the mid-market declining slightly[5]. Our focus continues to be on the mid to premium brackets.

### SDA

The SDA market (comprising Small Appliances, Food Preparation and Floorcare) was worth £2.0bn in the year to 31 March 2016[1]. AO's target market is 75% of this as we focus on products with a price of £40 or more[2]. We experienced year-on-year sales growth largely driven by premium appliances, Floorcare, and small cooking appliances, with an average price index of 230% of the average product price of goods in this category[2]. In the year we have introduced Heating and Air Treatment products which are performing well, and there are future opportunities within other sub-categories.

The SDA category is more fragmented than the MDA market with the top 10 suppliers representing 55% of the overall market[2] with all of whom AO has a relationship, including Dyson and Vax who dominate Floorcare. We have also been working hard to develop new relationships and over the reporting period, with Nutribullet, KitchenAid and Kenwood/ Delonghi being recently added to our range.

### AV

The AV market was estimated to be worth £3.6bn as at 31 March 2016 comprising TVs, audio, set-top boxes, DVD and Blu-Ray players etc[1].

The top four TV brands represent 95% of the TV market (excluding own brands)[2], and we have a relationship with all of them. We have increased our range by 27% over the year. There is a steady trend towards larger screens with over 50% of the market now above 46 inches[5]. This along with 4K, is our area of focus.

| Estimated value of UK combined MDA, SDA and AV market[1] | Estimated value of Germany and the Netherlands combined MDA, SDA and AV market[1] |
|---|---|
| **£9.2bn** | **£14.7bn** |

During the year we have expanded our Audio offering to include headphones and radios, although there remains a good opportunity in this market. Connected home audio systems and emerging tech are on the increase giving us a chance to capitalise on these areas of growth by providing relevant and useful content for customers. As with SDA, the Audio market is highly fragmented.

As for the remainder of AV, the Blu-Ray market is in decline and we will look to optimise our product ranges in this sphere to address market developments.

### Computing

We are proposing to add the computing category to the AO range, comprising hardware (tablets, mobile computing and desktops), software and accessories. In the UK, this could give us an addressable market of £4.0bn[1]. In the market there is currently a lack of choice of outlets, poor, confusing content, thus there is a good opportunity for AO to take market share by overlaying its better customer journey.

## Europe

The total Germany and Netherlands MDA addressable market size is estimated at £6.9bn[1] with online sales representing 17% and 19% of the total respectively[2].

### Germany

AO launched in Germany in October 2014 with MDA and expanded its offering in February 2016 with the introduction of Floorcare on AO.de. The combined MDA and Floorcare categories in this territory represent an addressable market for AO of £6.4bn[1].

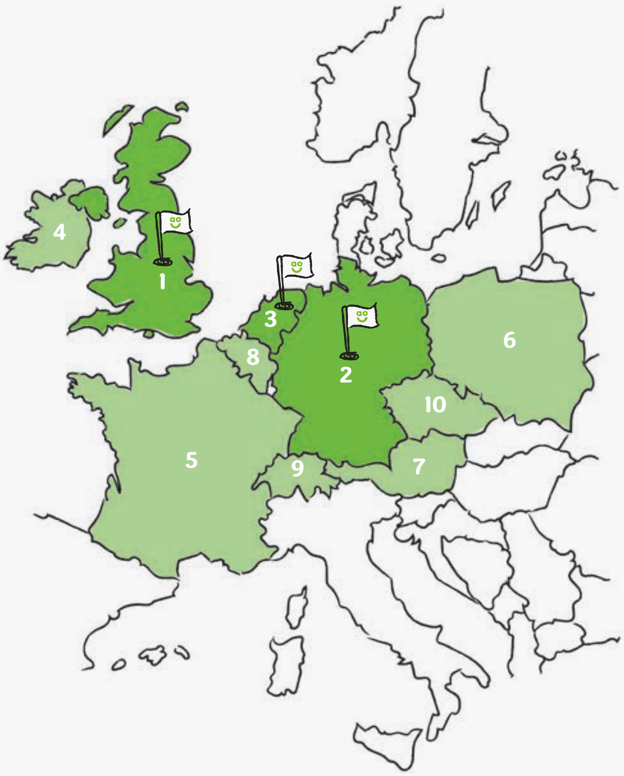
The MDA market in Germany is more fragmented than the UK. We range all key manufacturer brands and estimate we now stock brands representing 75% of this market[2].

Germany continues to represent a significant market opportunity due to the relatively low online penetration rates when compared to the UK.

### The Netherlands

AO's international expansion strategy took a step further in February 2016 with the launch of MDA in the Netherlands, representing a £1.1bn[1] market opportunity for AO. AO has strong relationships with the majority of the key suppliers.

Category roll-out is likely to follow that of the UK and there are good opportunities for us in SDA and AV where we will look to leverage supplier relationships and our customer base.




## Current and future potential markets

**1. The UK**
MDA, SDA, AV: **£9.2bn**
Broader electricals: **£14.4bn**

**2. Germany**
MDA, SDA, AV: **£12.5bn**
Broader electricals: **£16.6bn**

**3. The Netherlands**
MDA, SDA, AV: **£2.2bn**
Broader electricals: **£3bn**

**4. Ireland**
MDA, SDA, AV: **£0.4bn**
Broader electricals: **£0.4bn**

**5. France**
MDA, SDA, AV: **£8.1bn**
Broader electricals: **£12bn**

**6. Poland**
MDA, SDA, AV: **£2.2bn**
Broader electricals: **£2.7bn**

**7. Austria**
MDA, SDA, AV: **£1.2bn**
Broader electricals: **£1.3bn**

**8. Belgium**
MDA, SDA, AV: **£1.5bn**
Broader electricals: **£1.2bn**

**9. Switzerland**
MDA, SDA, AV: **£0.9bn**
Broader electricals: **£1.3bn**

**10. Czech Republic**
MDA, SDA, AV: **£0.7bn**
Broader electricals: **£0.9bn**

Current[1]: **£39bn**
Broader[6]: **£54bn**

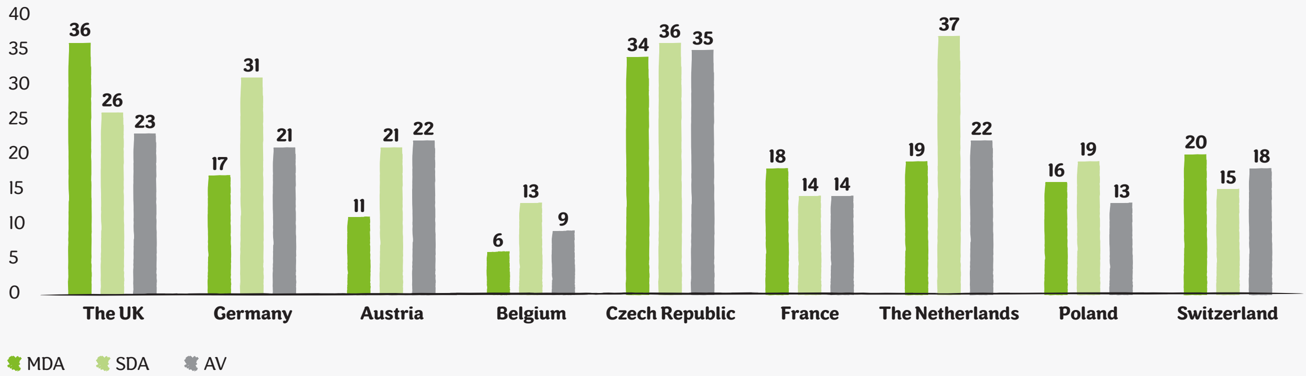
Total: **£93bn**

Note:
These are countries we are currently exploring, but the numbering is not indicative of our plans for rolling-out the AO business in any particular order.

## Online migration is set to continue

The growth of online shopping across Europe is increasing overall, driven by technological advances, improving connectivity and cultural generational change, and is now widely accepted. It can provide detailed information on the benefits of products, greater choice and flexibility in the purchase process for consumers. With the increase of tablets and smartphones, consumers are finding it easier to shop online and we are well placed to benefit from such continued migration.

### Online penetration by category FY16[1]
(%)



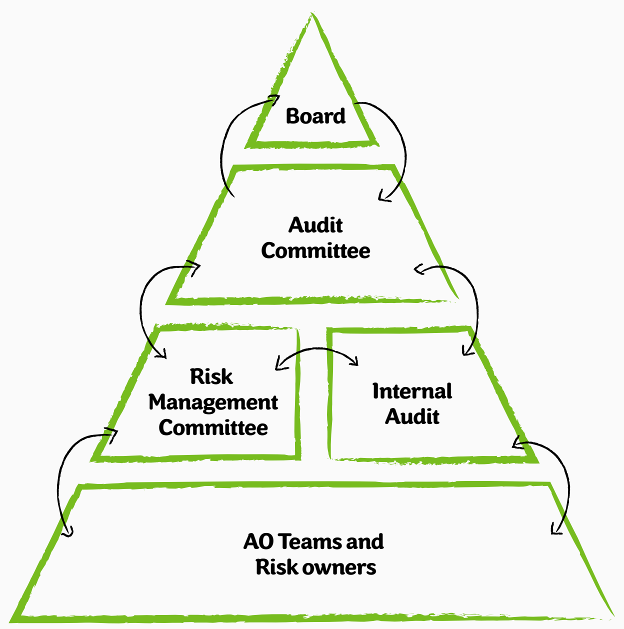

Sources:
1 Gross, GfK, year to 31 March 2016.
2 GfK.
3 GfK, year-on-year from year to 31 March 2015 to 31 March 2016.
4 Management best estimate using a variety of sources including GfK and Euromonitor.
5 GfK year to February 2016.
6 Gross, Euromonitor, year to December 2015. Computing, personal care, in-car devices, portable CE, mobile, gaming.

# How we manage our risks

In common with many businesses, AO faces a broad range of risks due to the scale and nature of our operations. These risks have varying likelihoods and impacts and range from operational risks in our day-to-day activities; strategic risks due to our high growth and international expansion strategy and external risks such as the market environment and the regulatory frameworks to which we are subject. Effective risk management allows us to identify, appropriately manage and monitor these risks in line with our risk appetite so that we can deliver our strategic objectives and protect value for our key stakeholders.

## Risk Management Framework

Over the last 12 months the Group has continued to enhance and embed its risk governance and oversight structure throughout the business. We have clearly defined lines of responsibility, accountability and delegation of authority.




**Board**

- Overall responsibility for effectiveness of AO's internal control and risk management process
- Approves risk appetite statement against strategic objectives
- Monitors performance

**Audit Committee**

- Delegated responsibility from the Board to oversee risk management and internal controls
- Review internal financial controls and risk management systems
- Reviews and oversees Corporate Risk Register and advises Board on risk appetite

**Internal Audit**

- Facilitates Risk Management Committee process
- Shares risk management information and best practice across the AO
- Compliance checking; identifies gaps and improvements; recommends corrective action

**Risk Management Committee**

- Oversees day-to-day risk management; monitors performance; reports back to Audit Committee
- Comprises members from a range of management levels to ensure widest engagement in risk management practice
- Promotes a culture to encourage risk awareness and integrity
- Critically reviews risk register; assesses materiality/ measurement of risk and monitors mitigation and controls
- Supports AO teams in assessing risk
- Ensures robust risk management procedures are implemented and complied with

**AO Teams**

- Continuous identification and assessment of day-to-day risks and mitigation
- Communicates significant risks to Risk Management Committee

## Risk identification and assessment

Our risk landscape covers all risks that could affect our business, customers, supply chain and communities. We have a formal risk identification and management process to ensure that risks from our day-to-day operations and from the general economy and our sector, are continually identified, evaluated and, where possible, mitigated throughout all of our operations. Our Internal Audit function meets with AO team representatives on a bi-monthly basis to assess new and existing risks, how these are being mitigated and how changes from within the business or the wider corporate landscape may impact them. It is this risk assurance process which forms the basis of our Group Corporate Risk Register ("CRR").

Our Risk Management Committee, chaired by our Chief Operating Officer, meets every other month to review the status of the existing CRR and whether all risks are still current and relevant, and to appraise newly identified risks to determine whether these impact existing risks or require inclusion on the CRR in their own right. The review includes an assessment of how each risk is being mitigated, its inherent and residual risk and any changes. The likelihood and impact of each risk is assessed against the Group's Risk Assessment matrix which determines its risk factor and resulting risk category which ranges from minimal to aggressive. This process allows us to regularly understand the strength and performance of the controls in place and to address any potential gaps and weaknesses.

The CRR is reviewed by the Audit Committee at least annually and it is notified of any significant changes in risk as appropriate. Individual risks which are considered to be AO's principal risks are reviewed by the Board annually and assessed against the Group's risk appetite and capacity. The Audit Committee annually appraises the Group's Risk Management and Internal Control Framework and makes a recommendation to the Board as to its effectiveness.

Our risk management programme can only provide reasonable, not absolute assurance that key risks are managed at an acceptable level where possible.

### Risk appetite

Overall, the Group has a "balanced" approach to risk taking; we will not be unduly aggressive with our risk taking but we may accept a limited number of significant risks at any one time in order to foster innovation and to facilitate growth. We recognise that it is not possible or necessarily desirable to eliminate some of the risks inherent in our activities. However, these must be reviewed against the assessment of other principal risks to ensure that the level of net risk remains within the overall accepted risk appetite. For example, where it has already accepted an aggressive or material risk, this would then limit the acceptance of additional material risks. The Risk Appetite Statement is reviewed annually, in line with the strategic direction of the Group, recent experience and the regulatory environment and is subject to Board approval.

### This year's achievement and future actions

This year we have continued to enhance our Risk Management Framework and have allocated roles and responsibilities. Our Board has approved our Risk Appetite Statement which is clearly defined. Our aim now is to ensure that this is understood across our business, and there is a consistent approach to risk.

We have broadened our Risk Management Committee meetings to allow employees from across the Group to present on risk areas and mitigating actions. This helps to facilitate open discussion and debate about our risks and helps to foster a culture where risk management becomes part of our everyday decision making process. Additionally we have worked with our strategy team to ensure that our risk management process and assessment matrix is fully integrated into our assessment of strategic projects.

We have and will continue to embed our risk culture throughout our Group, in all territories and areas in which we operate.

### Principal risks

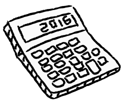
Our principal risk categories have been defined as: Culture and People; Failure of European Expansion, Brand Recognition and Damage; IT Systems Resilience; Compliance with Laws and Regulation and Business Interruption.

The table below summarises our assessment of these risks and how we seek to mitigate them.

| Key risk | Nature of the risk | Mitigating activities | Overall change during the year |
|---|---|---|---|
| **Culture and People**<br><br>**Impact on strategic objectives:**<br>Culture & Brand<br>Customers<br><br>**Impact on business model:**<br>– People | Culture is a key ingredient in the success of the business and a unique differentiator from our competitors. If we fail to maintain the culture in conjunction with our growth this could affect all areas of the business from our ability to attract customers, our dealings with suppliers and the way we deliver.<br><br>We rely on members of our Group Executive Team and Senior Management Team to provide strategic direction to the business. The loss of key member(s) of the team would have a significant impact on our strategy being realised. | – Improved development plans introduced to strengthen internal succession planning<br>– AO culture supported by a wide range of tools and events with a dedicated employee events team<br>– Senior employees receive attractive remuneration packages including long-term share options and career structures to encourage retention<br>– Strengthened operational management teams in each territory give the benefit of localised decision making and reduce reliance on individuals<br>– Group Executive Team and Senior Management Team have a shared responsibility to drive culture throughout the business on the basis of AO's values | **Risk increase**<br><br>Following the launch of the business in the Netherlands we now have a new team of people who are learning the culture and values.<br><br>However, we have strengthened the Executive component of the Board and also the Group Executive Team over the year, which has helped to mitigate some of the increase. |
| **Failure of European Expansion**<br><br>**Impact on strategic objectives:**<br>Countries | Expanding into new territories is a key part of our strategy. Failure in these territories would limit our long-term growth and negatively impact the Group's finances. | – Expansion into new territories is only undertaken after extensive research<br>– Expansion leverages AO's existing UK online retailing expertise and experience that has been built up over many years<br>– Capital requirements are relatively low and investment is managed in stages<br>– Specific targets are in place for new territories to enable focus on objectives and measurement of performance | **Risk increase**<br><br>We have launched the business in the Netherlands in the year under review which has given us confidence that the model can be replicated. However in both Germany and the Netherlands there is still much to do. |

| Key risk | Nature of the risk | Mitigating activities | Overall change during the year |
|---|---|---|---|
| **Brand Recognition and Damage**<br><br>**Impact on strategic objectives:**<br>Customers<br><br>**Impact on business model:**<br>– People | Damage to our brand or failing to achieve growing recognition would lead to a reduction in customer loyalty, a failure to attract new customers or suppliers or affect existing relationships. | – There is a dedicated social media team in place to increase brand awareness and generate consumer interest in AO.com<br>– Ongoing marketing campaigns to raise brand awareness through different mediums<br>– Rigorous monitoring of customer feedback through quality processes<br>– In-house PR teams established to deal with press and events | **Risk decrease**<br><br>Brand awareness has increased over the reporting period and we know our customers love us and our proposition resonates.<br><br>We still need to be vigilant and protect the brand at all times. |
| **IT Systems Resilience**<br><br>**Impact on strategic objectives:**<br>Customers<br>Categories<br>Countries<br><br>**Impact on business model:**<br>– Infrastructure | AO's main IT systems are interlinked and critical for ongoing operations. Therefore failure of one system may disrupt others.<br><br>The majority of customer orders are taken through our website AO.com and therefore significant downtime as a result of a successful systems breach or failure would affect the ability to accept customer orders and may affect customer loyalty, AO's reputation or our competitive advantage and result in reduced growth.<br><br>The loss of sensitive information relating to strategic direction or business performance may compromise our future strategies or the loss of data relating to individuals may result in an ICO complaint and negative publicity. | – Physical and system controls in place to minimise data breaches<br>– There is a continual improvement cycle in respect of access levels, housing of critical data, encryption and penetration testing for customer data<br>– Software is rigorously tested and follows a robust release process before being deployed in live environment<br>– Operation of the IT environment is continuously monitored, disaster recovery plans are in place to ensure business can recover from any interruptions with minimal impact<br>– The AO.com website and internal network is protected by a firewall, a holistic view of routers and switches with potential for individual configuration change, frequently updated anti-virus and penetration testing | **No change**<br><br>During the year we have established fail-over systems to enable the website and telephony to be run from any one of our sites. However, we acknowledge that the risk of cyber-crime is ever increasing and is a particular area of focus given we operate mainly online. |
| **Compliance with Laws and Regulation**<br><br>**Impact on strategic objectives:**<br>Customers<br>Categories<br>Countries<br><br>**Impact on business model:**<br>– Proposition<br>– People | Changes in regulations or compliance failures may affect our strategy or operations. | – Regulatory developments are routinely monitored both in the UK and in Europe to ensure that potential changes are identified, assessed and appropriate action is taken<br>– AO are supported by a Legal team who promote awareness and best practice and an Internal Audit team who provide assurance on compliance<br>– Third-party legal advice is sought were necessary and any recommendations are implemented and subject to ongoing monitoring<br>– AO's business is supported by a qualified health and safety team<br>– Changes to the macro environment and legislation are monitored and implemented promptly | **No change**<br><br>During the year we strengthened the composition of our legal team. Our health and safety team was relocated to our distribution centre to be more on-hand in areas where we perceive the most risk. Against this we acknowledge that a Brexit may bring with it changes to laws and regulations which may affect our operations. |

| Key risk | Nature of the risk | Mitigating activities | Overall change during the year |
|---|---|---|---|
| **Business Interruption**<br><br>**Impact on strategic objectives:**<br>Customers<br>Countries<br><br>**Impact on business model:**<br>– Proposition<br>– People<br>– Infrastructure | A disastrous event occurring at or around one or more of the Group's sites, including our main distribution centre in each of the UK and Germany, may affect the ongoing performance of our operations and negatively impact the Group's finances and our customers. | – In the UK we have expanded into an additional warehouse to increase capacity and reduced reliance on the existing distribution centre and in Germany the distribution centre is separated into chambers to reduce the impact of fire or damage<br>– Dedicated engineering teams on-site with daily maintenance programmes to support the continued operation of the NDCs<br>– A number of standalone controls are in place to mitigate a major event occurring at one of the Group's sites<br>– The development of a revised business continuity plan is underway<br>– Insurance policies are also in place to further mitigate this risk | **Risk decrease**<br><br>We increased the number of outbases in the UK by two, one of which can be used to store stock in emergencies. Since year-end we have also secured a second NDC in the UK. |




**Further risks in relation to significant financial accounting matters are discussed in the Corporate Governance section on page 54.**

## Assessment of Group's Prospects

### Viability Assessment

In accordance with Code C2.2 of the UK Corporate Governance Code ('the Code') the Directors are required to assess the longer-term viability of the Company taking into account the principal risks facing the Company.

The Directors have considered whether the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 March 2019. This period was considered appropriate due to: the rapid growth plans of the Group and changes in its strategic opportunities; changes in the economic environment which may alter consumer demand patterns and the Group's business planning processes which cover this period and help to support the Board's assessment.

In making its assessment of the longer-term viability of the Group, the Board have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, or liquidity. These risks and how they are mitigated are set out above on pages 23 to 25 and in the Corporate Governance Statement on page 54. The Directors have also reviewed the Group's annual and longer-term financial forecasts and have considered the resilience of the Group using sensitivity analysis to test these metrics over the three-year period. This analysis involves varying a number of main assumptions underlying the forecasts (including, without limitation revenue, margin and working capital), and evaluating the monetary impact of severe but plausible risk combinations and the likely degree of mitigating actions available to the Company over the three-year period if such risks did arise.

Based on the Company's current position and principal risks, together with the results of the assessment detailed above and the Group's enhanced risk management processes (see pages 22 to 25) and internal controls (see page 52), the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

### Going concern statement

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 7 to 35. The financial position of the Company and its cash flows are described in the Chief Financial Officer's Review on pages 33 to 35. In addition, the notes to the financial statements include the Company's policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

In making their assessment of going concern, the Directors considered the Board-approved budget, the three-year business plan, cash flow forecast, the availability of a £30m Revolving Credit Facility and the Principal Risks set out on pages 23 to 25.

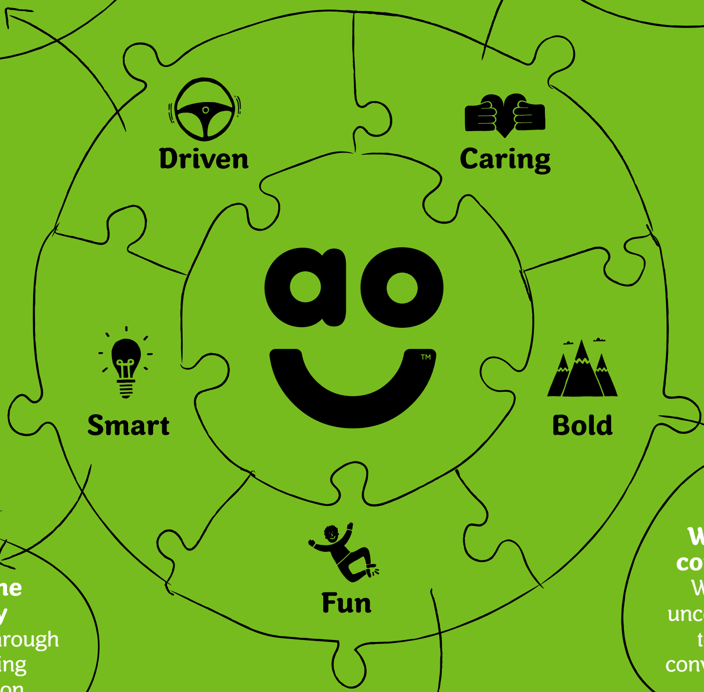
The Directors have a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this Report. Accordingly, the financial statements have been prepared on a going concern basis.

The external auditors have reviewed these statements and have nothing to report (see the Independent Auditors' Report on pages 76 to 79).

## Last year we defined our core values, this year we've been busy living them.

**We are relentless**
We deliver what others can't. We don't give up and do whatever it takes.

**Genuine people make the difference**
You can't pay people to care.




**We find the best way**
We are smart through understanding and innovation.

**We have the courage to try**
We think in an unconstrained way to go beyond conventional limits.

**If you enjoy what you do, you do it better**
Work is serious and we do it with a smile on our face.

## They're what make us exceptional in the moments that matter.

**People are our business...**
As we've continued on our journey this year, never has living and breathing our values been more important. And as we expand and broaden our horizons, embedding our unique culture across three different territories has been a key focus.

At AO we've always maintained that happy staff equal happy customers. Underpinning our culture is the belief that you can't pay people to care and you can't tell people to have fun with customers; they've got to want to. Recruiting, engaging and retaining staff with the right AO DNA is of the utmost importance to us and this year we've put our unique environment and culture to the test in the UK, Germany and the Netherlands, by striving to be exceptional in the moments that matter.

Simply put, we care more, about our people, our customers and our partners, something that easily translates across territories. It's what truly sets us apart and allows us to articulate what it really means to have the AO DNA. We continue to do what's best for our employees, supporting them through good and bad, and providing an environment in which they can really flourish. We celebrate together when things go right and rally round each other if things don't go quite to plan. Above all, we work together as a team.

## Driven

### Adrian Hassan – Our Employee Of The Year

**Adrian has been with AO since 2010. He's now one of our Regional Outbase Managers, responsible for 105 employees and 240+ self-employed drivers throughout Potters Bar, Basildon and Croydon. He was voted our Employee Of The Year because of his incredible commitment to the business and his colleagues. His team find it difficult to describe just how hard he works, but love the fact that he's always on hand, day or night, to offer help and support, even when at home. He devotes his life to the business and represents all of the values.**

## Caring

### The AO Cycle Challenge for Derian House

**No two kids are the same, but they all love to play. That's why 20 AO employees set out to raise an incredible amount of money for an incredible cause; a state-of-the-art playground for children living with disabilities. Our team of cyclists travelled roughly 600 miles from our German office in Heppendorf all the way to our Bolton-based HQ. Together we raised a whopping £70,000 to create a unique environment where life-threatened children can finally share playtime. The journey was tough, but definitely worth it for our cyclists when they were able to declare Derian House's Smile Park open for the very first time.**

We're proud to say that our employees put the customer at the heart of everything we do and, as a result, our review scores speak for themselves. Not only that, we were named joint Best Online Shop by Which? and placed in the Nunwood Customer Experience Top Ten.

## Employee empowerment

Empowering our people is as important as ever. After all, happy employees are more engaged, deliver better service and require less management. We give our employees autonomy, where appropriate and support where needed, and it works. With staff empowered and trusted to do what's right and fair, we've seen more customers than ever returning to AO to shop.

After last year's launch of our Group intranet, "The Fridge", we have a strong platform that allows people to connect with each other and share ideas, best practice and latest news through status updates, comments, likes, shares and groups. We've also introduced a number of other features such as "Success Story of the Week", and John's own blog, which are really popular ways to share some of the great work being done throughout the business, to help motivate staff and ensure staff understand our vision and strategy.


We also have our monthly "state of the nation", which updates our colleagues on business activities as well the social side of life across the Group, which is live streamed to all our locations. At each session we present awards based on our values to recognise those going above and beyond in terms of both work and culture. Once again, we'll be carrying out our employee survey, which provides an invaluable insight and allows us to be constantly improving as an employer. In January this year we launched our third save-as-you-earn scheme which was open to all employees who had passed their probationary period. Once again the take-up was strong with almost 20% of eligible employees participating in the option scheme.

## Equal opportunities

AO is also committed to an equal opportunities policy. We aim to ensure that no employee is discriminated against, directly or indirectly, on the grounds of colour, race, ethnic or national origins, sexual orientation or gender, marital status, disability, religion or belief, being part time or on the grounds of age or frankly anything else and recruit on this basis. See pages 47 and 51 "Diversity" for further details.

Disabled persons have equal opportunities when applying for positions at AO and we ensure they are treated fairly. Procedures are in place to ensure that disabled employees are also treated fairly in respect of career development. Should an employee become disabled during their course of employment with the Group, we would seek whenever practical, to ensure they could remain as part of our team. In the opinion of the Directors, our equal opportunities policies are effective and adhered to.

### Fun

### Carl Belshaw – The German Integration

**Trying to take the values and culture of a business and integrate it overseas is no easy task. When we launched in Germany, one of our biggest tasks was replicating the AO spirit in an entirely new territory. Luckily we had Carl to take that spirit over there with him and showcase it in true AO style. Our German colleagues say he's one of the funniest guys they've ever met and that nothing is too much trouble. He has a great sense of humour that puts everyone at ease and encourages them to really enjoy what they do. He's incredibly hard working, yet shows everyone around him the true meaning of the fun value.**

## Investing for the future

Still a huge challenge facing UK businesses is the predicted shortage in digital skills, with the UK needing a minimum of 745,000 digitally skilled workers by 2017, over 169,000 of these being young people. With this in mind we continue to initiate programmes specifically designed to build and nurture a future AO talent pool. This investment in the next generation allows us to fill any skills gaps and strengthen our culture from within.

As part of our programme to develop the next generation of leaders, we enrol our younger colleagues on the Duke of Edinburgh ("DofE") scheme. The programme is focused on instilling the values and behaviours that make AO what it is and what it will be in the future. It enables employees to develop their own skills while also enabling them to give back to the local community. Nine people achieved their DofE Golden Business Award during the reporting period, and 18 others continue to progress on the scheme.

We also have our apprentices working in a number of departments throughout the business, such as: IT, design, digital, PR, social media, and eCommerce. To date we have taken on 21 apprentices in the UK, with 16 of these joining the Company in the last year. We continue to build on this foundation with a number of other apprenticeship positions currently being filled in new departments ranging from our Spa (Health and Beauty Apprentice) to Digital Marketing Apprentices and with roles opening up in our Strategy, Business Analyst and Project Management departments. We're even supporting the programme by recruiting an apprentice for our Training and Development team. We were proud to be named Top 100 Apprenticeship Employer by the National Apprenticeship Service in January 2016.

Our Star programme is set to roll out across the business for those who show potential, to nurture and develop their ability for future roles. We also have our Future programme, designed to help our frontline managers become the next leaders.


Matt Woodcock and Chris Havard pick up the award for AO.com at the North West National Apprenticeship Awards 2015.

**Bold**

### Chloe Burgon – Duke of Edinburgh's Gold Award

**The Duke of Edinburgh's Gold Award is a huge achievement and something we encourage all our younger colleagues to take part in. It's a real test of strength, both mentally and physically, and sometimes we see people go above and beyond. With amazing spirit and determination, Chloe earned her award despite a serious, long-standing back problem. Knowing what she'd be up against, just the decision to commit to the challenge was hard enough. She underwent tough physical training to allow her to take part and she never gave up, completing a gruelling final expedition and taking away a Giving Something Back award at the DofE presentation evening.**

### Community engagement

AO actively encourages all employees to support and give back to their local community and the AO Smile Foundation continues to facilitate this. Fifty-two per cent of our UK employees make a regular monthly gift to the charity, and during the year over £75,000 was raised through payroll giving, which makes the process of giving as easy, flexible and tax efficient as possible. The Foundation holds a Gold Award from the Institute of Fundraising, and the Group supports the charity by providing, free of charge, a charity manager and other services such as financial, payroll and legal support.

This year, the Group has supported AO Smile with a number of community projects, including a DIY SOS challenge that saw our employees volunteer to help transform the home of a local family in need. We also encourage colleagues to have a positive impact within their local communities and give each employee two "make a difference" days per year to work with a charity.

Once again, our call centre was chosen to be an official call centre for Sport Relief fundraising. 123 of our people gave up their Friday night to man the phones and we helped raise a whopping £35,000 for the charity.

### Keeping people safe

We are committed to maintaining the highest standards of health and safety practices for our employees, drivers, customers, visitors, contractors and anyone affected by our business activities. During the year we continued to invest in staff training and education to promote a culture where our employees take individual responsibility for reducing the risk to both them and their colleagues though improved reporting of incidents and near-misses. We also made a number of significant operational improvements at our UK National Distribution Centre including the introduction of a new traffic management system, a segregated de-brief area for drivers and upgraded lighting.

We have expanded our health and safety team in line with the growth in our business. Our established safety practices and ways of working are being replicated across our new territories and a quarterly formal inspection schedule has been implemented at all sites across all our operations.

Our health and safety policies and procedures include:

- Regular internal audits on our health and safety performance by an independent expert. The audit reviews legal compliance, best practice and maintaining a safe environment.
- Managing risk and promoting health and safety culture in the Board's agenda.
- Seeking accreditation and aligning long-standing Company programmes and procedures to internationally recognised Quality Assurance standards.
- Appropriate training and education of all staff to adhere to legal compliance and best practice.
- Proactively creating a safe environment to significantly reduce occupational injuries or illnesses.

**Smart**

### Colin Steele – Our Hack Manchester Winner

**Along with three of his colleagues, our User Interface Manager, Colin Steele took part in the annual 24-hour coding competition at The Museum of Science and Industry, walking away with a top prize from LADbible. The challenge was to design a programme that would help people become more involved in their local community. They worked for 24 hours straight to design, create and code a fully functioning app. Their winning programme, Community Hero, would give community members everything they needed to start volunteering. As well as including fundraising resources, the map interface gave users an overview of what projects where going on around them. From small scale missions to larger projects, the app was designed to turn anyone into a community superhero.**

## Environment

We are mindful of the effects of our business on our environment. We are committed to meeting or exceeding legislative requirements across the board, in particular with regard to packaging and waste electrical and electronic equipment ("WEEE") waste in the territories in which we operate.

To ensure minimum environmental impact all handling processes are developed to fully utilise supplier packaging with less than 0.5% additional packaging added from receipt into our warehouses to delivery to our consumers. During the year we introduced an unpack and recycle service and have been particularly pleased with the level of take up. The majority of packaging collected during delivery to the consumer is recycled with more than 1,300 tonnes of card and plastic (including Expanded Polystyrene) recycled in 2015 across all our operations.

We offer a collection and recycling service to our customers for their old appliances (for a small charge) or, alternatively, we accept any WEEE (Waste Electrical and Electronic Equipment) free of charge which is delivered directly to our warehouse. Old appliances are mostly broken down into recyclable parts. A proportion are refurbished and put back into the market; re-use is, after all, the ultimate in recycling. Last year over 25,000 tonnes of WEEE was processed.

In November 2015 we acquired a majority equity stake in The Recycling Group Ltd, our product recycling partner. This investment secures a WEEE processing facility for the Group and gives us control in ensuring that waste is dealt with responsibly.

## Energy efficient operations

We aim to run our operations with a strong focus on environmental impact, fuel management and operational efficiency and constantly seek at both a corporate and local level to help improve our performance in all areas.

In order to drive energy efficiencies:
- We have added 3.5 tonne "Hi-Cube" trucks to our home delivery fleet – these trucks are lighter and have a greater space and weight capacity;
- We have opened two new outbases in the UK and one in Germany during the year to service demand and improve the efficiency of our fleet; and
- We also try to maximise our fuel efficiency by, for example, employing double-decker trunking so that we can deliver more products in one go to our outbases.

## Greenhouse Gas Emissions Statement

As AO is listed on the London Stock Exchange we are required to measure and report our direct and indirect greenhouse gas (GHG) emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The methodology used to calculate our emissions is based on the Greenhouse Gas Protocol Corporate Standard and emissions reported correspond with our financial year. This year we have reported on all material emissions from both our owned and leased assets for which we are responsible across the UK, Germany and the Netherlands (from commencement of trading to 31 March 2016). Last year's comparable figures have therefore been restated as appropriate. Emission factors used are from UK Government (Defra) conversion factor guidance current for the year reported.

Our emissions predominately arise from the fuel used in the vehicles we use to deliver orders to customers and from gas combustion and electricity used at our offices, national delivery centres and outbases.

In order to express our annual emissions in relation to a quantifiable factor associated with our activities, we have used revenue as our intensity ratio as this is a relevant indication of our growth and is aligned with our business strategy.

## Greenhouse Gas Emissions data

| | Tonnes of $CO_2e$* | |
|---|---|---|
| **Year ending 31 March** | **2016** | **2015** |
| Emissions from operations and combustion of fuel (Scope 1) | 24,408 | 20,192 |
| Emissions from energy usage (Scope 2) | 2,735 | 3,245 |
| **Total** | **27,143** | **23,437** |
| Intensity ratio: tonnes of $CO_2e$ per £m of revenue | 45.25 | 49.16 |

Scope 1 comprises vehicle emissions in relation to the delivery of orders to customers and operational visits and combustion of fuel (gas).

Scope 2 comprises our energy consumption in buildings (electricity, heat, steam and cooling).

* $CO_2e$ conversion factor in respect of the Group's German and Netherlands operations unavailable therefore $CO_2$ was used.

**Steve Caunce**
Chief Operating Officer

# The Black Friday buzz.

The story behind the numbers

In last year's report we told you it was the first time Black Friday really mattered. This year it mattered even more, and not just from a numbers perspective. The figures were great; yes, it was an exceptional day for traffic and sales, but the real triumph was happening behind the scenes, and it was incredible to see.

Planning for Black Friday and the sales period that surrounds it starts a good eight months in advance and it touches every single department. It's a business-wide team effort, and just as John found on his visit to Croydon, it's the combined effect of lots of little details coming together to make everything look easy. Of course, it's never easy, but by being driven, bold and smart we deliver; it's what we do best.

We had just come back from the UK leg of our results roadshow and arriving in to the office early on Black Friday I could really feel the buzz about the place. The IT team had worked in shifts testing and monitoring the systems through the night; we had redesigned and implemented a website platform that could scale to handle a significant increase in traffic without requiring a large financial investment to make it happen. Sometime in the early hours a war room was commissioned to monitor performance and deal with any queries, issues or concerns, with regular comms being sent out regarding stats and system health. IT, trading, ecommerce and supply chain came together to make any decisions necessary to ensure the day was as successful as it could be. TVs in the office were full of information, making sure live data on everything was communicated to the relevant teams.

And it wasn't just the website systems that were put through their paces; we recorded the highest number of call centre agents simultaneously logged on at any time, we sent more SMS messages than we'd ever sent in a 24-hour period, and we scanned more products in the warehouse operation over Black Friday weekend than we'd ever scanned before.

It was an all-time record sales day for AO, and a big step on our journey from appliances to electricals; our bestselling SKU was a soup maker and TVs were our bestselling category. The passion for the business, the determination to get it right for the customer, that's what made it all happen, along with the 400+ coffees served up in Starbucks. It was a proud and exhilarating moment for us, one of my all-time favourites. It's a real honour to witness just how exceptional our people are when it matters.

Mark Higgins

# Financial review

**Mark Higgins**
Chief Financial Officer

| Financial KPIs (£m) | 2016 | 2015 | % change |
|---|---|---|---|
| Group revenue | 599.2 | 476.7 | 25.7% |
| UK revenue | 558.5 | 470.8 | 18.6% |
| Europe revenue | 40.7 | 5.9 | 596.9% |
| UK Adjusted EBITDA | 17.2 | 16.5 | 4.6% |
| Europe Adjusted EBITDA losses | (21.1) | (8.0) | 165.2% |
| **Non-Financial KPIs** | | | |
| Non-Financial KPIs, such as NPS, DTP, Trustpilot scores and awards won are covered in the Operational Review on pages 16 to 19 | | | |

## Revenue (see table 1)

For the year ended 31 March 2016 total Group revenue increased by 25.7% to £599.2m (2015: £476.7m). Year-on-year growth in the first quarter of the year was less than our expectations as previously announced. Growth improved in the remaining quarters to the level we expected as we moved to more normalised comparisons.

Revenue growth in the UK during the year was largely attributable to the performance of our AO website which experienced a strong increase of 27.7% to £487.1m (2015: £381.5m). This was driven by our improving brand recognition, the continued migration of consumers to the online channel and our commitment to exceptional levels of customer service which continues to stimulate repeat business and attract new customers.

Sales from our German website, AO.de, and also our Netherlands website AO.nl (which were delivered from 1 March 2016) totalled revenue of £40.7m (2015: £5.9m) reflecting the investments in advertising and promotional activity.

AO branded website sales (including AO.com, AO.de, AO.nl and AO branded eBay shops) now account for 88.1% of total Group revenue (2015: 81.3%).

Sales from third-party websites in the UK reduced to £53.6m (2015: £70.3m) as our focus remains on promoting the AO.com brand.

Consequently AO branded sales eroded the market share of some of our partners. As previously announced, the loss of a third-party logistics contract in the latter half of the previous financial year, coupled with the share gains of AO impacted the performance of our UK third-party logistics services which experienced a 6.5% reduction in revenue to £17.8m (2015: £19.0m). The fall in third-party logistics revenue was offset, to a degree, by a short-term logistics contract in the last quarter of the year.

"AO website sales" and, for the UK, "Third-party website sales" include revenue earned from the sale of physical products and also ancillary services such as delivery, installation, unpack and inspect and recycling, 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 was £63.7m; increasing to 10.6% of total sales from 10.2% in the previous year. This percentage increase was largely due to a reduction in "Free Next Day Delivery" promotions in the UK in the second half of the year compared to the prior period.

## 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) decreased to 17.7% for the reporting period. This was a reduction of 0.7ppts against the prior year although gross profit grew by 20.9% to £105.9m. In the UK gross margin increased to 19.8% (2015: 19.0%). A small increase in MDA margin combined with the opening of additional outbases masked the dilutive effect of AV product margin, which is likely to have an increased effect going forward as the AV category takes an increasing share of the overall UK business. 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 relative to revenue from other ancillaries increased slightly year-on-year reflecting the increase in delivery income described above. The contribution from product protection plans and other ancillaries (excluding delivery) relative to revenue remained consistent with the previous year.

Table 1:

| | 2016 | | | 2015 | | | % change | | |
|---|---|---|---|---|---|---|---|---|---|
| Year ended 31 March (£m) | UK | Europe | Total | UK | Europe | Total | UK | Europe | Total |
| AO website sales | 487.1 | 40.7 | 527.8 | 381.5 | 5.9 | 387.4 | 27.7% | 596.9% | 36.2% |
| Third-party website sales | 53.6 | – | 53.6 | 70.3 | – | 70.3 | -23.7% | N/A | -23.7% |
| Third-party logistics services | 17.8 | – | 17.8 | 19.0 | – | 19.0 | -6.5% | N/A | -6.5% |
| **Revenue** | **558.5** | **40.7** | **599.2** | **470.8** | **5.9** | **476.7** | **18.6%** | **596.9%** | **25.7%** |

Table 2:

| | 2016 | | | 2015 | | | % change | | |
|---|---|---|---|---|---|---|---|---|---|
| Year ended 31 March (£m) | UK | Europe | Total | UK | Europe | Total | UK | Europe | Total |
| Gross profit/(loss) | 110.8 | (4.9) | 105.9 | 89.7 | (2.1) | 87.6 | 23.5% | 134.3% | 20.9% |
| Gross margin % | 19.8% | -12.1% | 17.7% | 19.0% | -36.1% | 18.4% | 0.8% | 24.0% | -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.

In Europe the gross loss of £4.9m (and a margin of -12.1%) reflected the early purchasing prices achieved in that operation, which are significantly behind those enjoyed in the UK. Whilst our European delivery volumes are comparatively small the drop densities of our routes mean that individual delivery costs are high, reflecting the start-up nature of the operation.

Product margin remains a challenge in this market but we are encouraged by the progress we made in the second half of the year. During the period we commenced selling the AO Schutz+ protection policy, where we again have partnered with Domestic and General to provide a market-leading protection plan which should contribute to margin in the long term.

### Selling, General & Administrative Expenses ("SG&A")
(see table 3)

Total Group administrative expenses increased over the year by £26.7m (29.8%) to £116.5m (2015: £89.8m). Of this increase, £9.2m was attributable to administrative expenses incurred in connection with our European expansion. UK administrative expenses for the year to 31 March 2016 increased by 21.7% to £98.4m (2015: £80.9m). The UK cost includes £1.1m which was incurred in connection with the set-up of new European territories.

The increase in UK advertising and marketing expenditure as a percentage of sales from 4.1% to 4.3% year-on-year reflects the increased investment in the marketing of the AO brand, particularly via an increased television advertising campaign throughout the year. Going forward we intend to continue to grow and develop the brand which in time should reduce our direct marketing costs (particularly traffic acquisition) as a percentage of sales.

UK "Other" administrative expenses increased by £11.7m to £52.4m (2015: £40.7m) and as a percentage of sales they increased to 9.4% (2015: 8.6%). We have invested in strengthening our UK category teams, both for short-term margin, and longer-term category planning. We have also increased our software development team to serve both the UK and Europe. As previously explained, the greater than usual variance in volumes recorded in the first two quarters of the year caused some cost inefficiencies.

In our Europe segment our SG&A costs, as a percentage of sales, reflect the start-up nature of the operation. For the year the costs represented 44.4% of sales (2015: 151.8%) and as volumes have increased across the year these have fallen as a percentage of monthly sales. We would expect these costs to be leveraged by growth as the business increases in scale.

### Adjusted EBITDA (see table 4)

When reviewing profitability, the Directors use an adjusted measure of EBITDA in order to give a meaningful year-on-year comparison.

Group Adjusted EBITDA losses were £3.9m (2015: £8.5m EBITDA) after allowing for £21.1m of Europe Adjusted EBITDA losses.

UK Adjusted EBITDA for the 12 months to 31 March 2016 was £17.2m (2015: £16.5m) representing an increase of 4.6% against the prior year period. This increase resulted from an improvement in sales and gross margin offset by an increase in administrative expenses. As explained at the time of our interims, growth during the first quarter of the year fell below our projections and caused some inefficiencies within our

Table 3:

| | 2016 | | | 2015 | | | % change | | |
|---|---|---|---|---|---|---|---|---|---|
| **Year ended 31 March (£m)** | **UK** | **Europe** | **Total** | **UK** | **Europe** | **Total** | **UK** | **Europe** | **Total** |
| Advertising and marketing | 24.2 | 6.2 | 30.4 | 19.5 | 1.9 | 21.4 | 24.2% | 226.8% | 42.2% |
| *% of revenue* | *4.3%* | *15.3%* | *5.1%* | *4.1%* | *32.5%* | *4.5%* | | | |
| Warehousing | 21.1 | 2.2 | 23.3 | 16.8 | 1.2 | 18.0 | 25.3% | 90.4% | 29.5% |
| *% of revenue* | *3.8%* | *5.5%* | *3.9%* | *3.6%* | *20.1%* | *3.8%* | | | |
| Other administration | 52.4 | 8.5 | 60.9 | 40.7 | 3.0 | 43.7 | 29.0% | 182.9% | 39.5% |
| *% of revenue* | *9.4%* | *20.8%* | *10.2%* | *8.6%* | *51.1%* | *9.2%* | | | |
| Adjustments[1] | 0.7 | 1.2 | 1.9 | 3.9 | 2.8 | 6.8 | -81.6% | -58.8% | -72.1% |
| *% of revenue* | *0.1%* | *2.8%* | *0.3%* | *0.8%* | *48.0%* | *1.4%* | | | |
| **Administrative expenses** | **98.4** | **18.1** | **116.5** | **80.9** | **8.9** | **89.8** | 21.7% | 103.6% | 29.8% |
| *% of revenue* | *17.6%* | *44.4%* | *19.4%* | *17.2%* | *151.8%* | *18.8%* | | | |

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 set-up costs relating to overseas expansion and share-based payment charges attributable to exceptional LTIP awards which the Board considers one-off in nature.

Table 4:

| | 2016 | | | 2015 | | | % change | | |
|---|---|---|---|---|---|---|---|---|---|
| **Year ended 31 March (£m)** | **UK** | **Europe** | **Total** | **UK** | **Europe** | **Total** | **UK** | **Europe** | **Total** |
| **Operating profit/(loss)** | 12.4 | (23.0) | (10.6) | 8.8 | (11.0) | (2.2) | 40.5% | 109.5% | 381.6% |
| Add adjustments:<br>*Europe set-up costs* | 1.1 | 1.2 | 2.3 | 1.5 | 2.8 | 4.3 | -22.9% | -58.8% | -46.6% |
| *Non-cash share-based payments charge/(credit) for exceptional LTIP awards* | (0.4) | – | (0.4) | 2.5 | – | 2.5 | -115.3% | N/A | -115.3% |
| **Adjusted operating profit** | **13.1** | **(21.8)** | **(8.7)** | **12.8** | **(8.2)** | **4.6** | 2.6% | -167.3% | N/A |
| Add: Depreciation and amortisation | 4.1 | 0.7 | 4.8 | 3.7 | 0.2 | 3.9 | 12.0% | 273.2% | 22.7% |
| **Adjusted EBITDA** | **17.2** | **(21.1)** | **(3.9)** | **16.5** | **(8.0)** | **8.5** | 4.6% | 165.2% | N/A |
| Adjusted EBITDA as % of revenue | 3.1% | -51.9% | -0.7% | 3.5% | -137.1% | 1.8% | -0.4ppts | -84.9ppts | -2.4ppts |

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.

Table 5:

| Year ended 31 March (£m) | 2016 UK | 2016 Europe | 2016 Total | 2015 UK | 2015 Europe | 2015 Total |
|---|---|---|---|---|---|---|
| Inventories | 30.9 | 3.1 | 34.0 | 28.9 | 2.6 | 31.5 |
| *As % of COGS* | *6.9%* | *6.8%* | *6.9%* | *7.6%* | *32.1%* | *8.1%* |
| Trade and other receivables | 59.3 | 4.6 | 63.9 | 44.9 | 2.5 | 47.4 |
| *As a % of revenue* | *10.6%* | *11.2%* | *10.7%* | *9.5%* | *42.3%* | *9.9%* |
| Trade and other payables | (102.8) | (6.3) | (109.0) | (82.2) | (4.4) | (86.6) |
| *As a % of COGS* | *23.0%* | *13.7%* | *22.1%* | *21.6%* | *55.3%* | *22.3%* |
| **Net working capital** | **(12.6)** | **1.4** | **(11.2)** | **(8.4)** | **0.6** | **(7.8)** |
| Change in net working capital | 4.2 | (0.8) | 3.4 | 5.5 | 0.6 | 6.2 |

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.

logistics and call centre operations which had been planned for higher levels of revenue. During the second half of the year growth returned to the rates we had expected which corresponded to the cost base of the business.

### 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)

At the time of the IPO, LTIP awards were made to a number of senior staff. 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 reduction in the add-back in the year to 31 March 2016 reflects the cumulative adjustment to the LTIP charge based on the assessment of certain performance criteria.

### Taxation

The tax credit for the year was £0.6m (2015: £0.4m ). The effective rate of tax for the year was 9.2% (2015: 12.6%).

The Group is subject to taxes in the UK, Germany and the Netherlands. Through its registered branch structure in Germany, it is able to fully offset its German losses against profits in the UK. Due to the start-up nature and the losses in Germany and the Netherlands, no overseas taxes were attributable to the period.

### Retained loss for the year and loss per share

Retained loss for the year was £6.1m (2015: £2.5m) after taking into account the impact of the adjustments noted above, in table 4. Loss per share was 1.44p (2015: 0.60p). This reflects the investment and losses incurred in the European segment of the business.

### Cash resources and cash flow

Year-end net funds position was £25.4m (2015: £37.9m), as cash decreased to £33.4m (2015: £44.9m) principally reflecting the loss for the year and capital expenditure in the UK and investment in overseas territories, while total borrowings (comprising asset finance and equivalent) increased to £8.0m from £7.0m in 2015. Surplus cash balances are held with UK-based banks, in line with the Group Treasury Policy.

The Group has recently 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 in future.

The Group's cash outflow from operating activities was £3.5m (2015: £1.3m inflow).

### Working capital (see table 5)

At 31 March 2016, the Group had net current liabilities of £9.5m (31 March 2015: net current assets of £17.8m) principally as a result of (i) working capital management with the Group's suppliers and (ii) a reduction in cash which was used to fund losses in the Europe segment.

As at 31 March 2016 UK inventories were £30.9m (2015: £28.9m) 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. As a result UK average stock days increased to 29 days (2015: 27 days).

UK trade and other receivables (both non-current and current) were £59.3m as at 31 March 2016 (2015: £44.9m) 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 £102.8m (2015: £82.2m) reflecting increased trade and manufacturers continuing to extend credit on the higher volume of sales.

### Capital expenditure

Total capital expenditure for the year was £8.7m (2015: £7.6m), of which the main components were additional out-bases in the UK and Germany, vehicle and trailer replacements and initial costs for our new NDC in Germany.

### Acquisition

In November 2015, the Group invested in its existing product recycling partner, The Recycling Group Ltd ("TRG"), taking a majority equity stake for nominal consideration with options to purchase the remaining 40% based on the performance of the business in the coming five years. This investment secures a WEEE (waste electrical and electronic equipment) processing facility for the Group. In the long term this will allow us to benefit from efficiencies in product recycling costs.

**Mark Higgins**
Chief Financial Officer
8 June 2016

The Company's Strategic Report is set out on pages 4 to 39.
Approved by the Board on 8 June 2016 and signed on its behalf by:

**Julie Finnemore**
Company Secretary
AO World Plc
8 June 2016

January 2016

All. I would like to congratulate and commend you and your organisation on your totally unbeatable service.

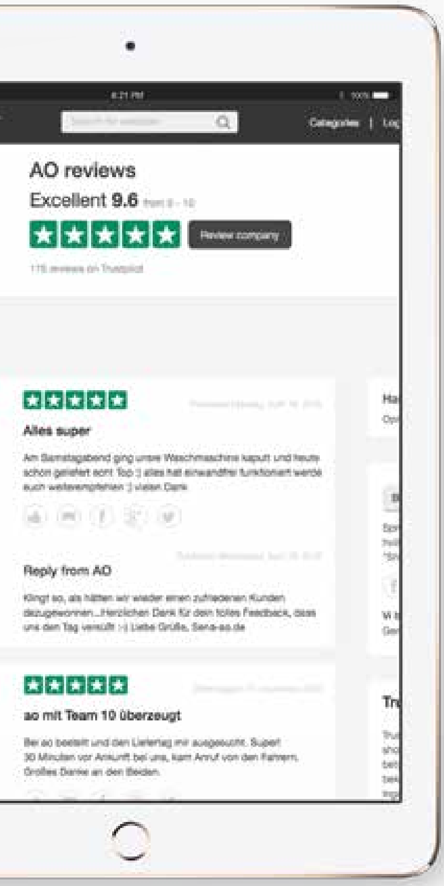
The delivery system provided me with regular updates; the driver gave me 15 minutes' notice. Thank you for this service. Your competition offer to match your price; but they cannot get near your service. Please ensure that the agents to whom I have spoken are made aware of my gratitude.

Regards, David

August 2015

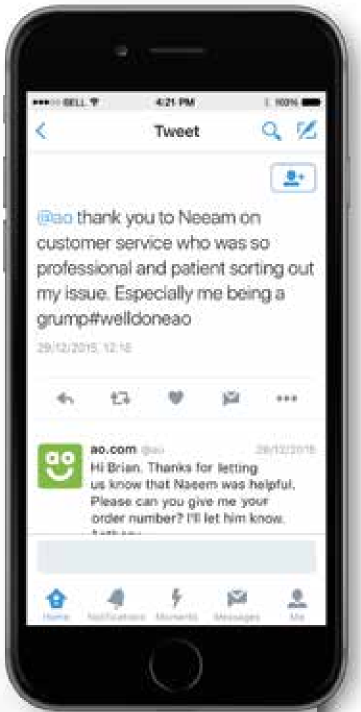
I just wanted to thank Ollie from your head office at Parklands. This morning I was struggling with a heavy suitcase from the railway station at Horwich Parkway. He very kindly offered to carry the case up the flight of stairs. At least ten other people passed me and did not offer but your employee did. He is a credit to you.

Thanks
Marie




# c.2,000

**The number of compliments we receive from happy customers each week!**




April 2016

That's amazing! Thanks AO.

I've been regaling people at work with the tale of how you can order at 9pm and have it plumbed in before you go to work the next day. Needless to say they're half impressed, half thinking I'm sad for getting excited about a washing machine...

Rob

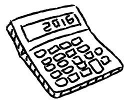
November 2015

Thank you for the most wonderful service. I ordered the cooker yesterday afternoon and it was all fitted by 11:30am today. The delivery men were great and very careful and caring. I spoke to a lovely young lady last night and she was just lovely and so helpful. The tracking system is great. You saved the day and were wonderful.

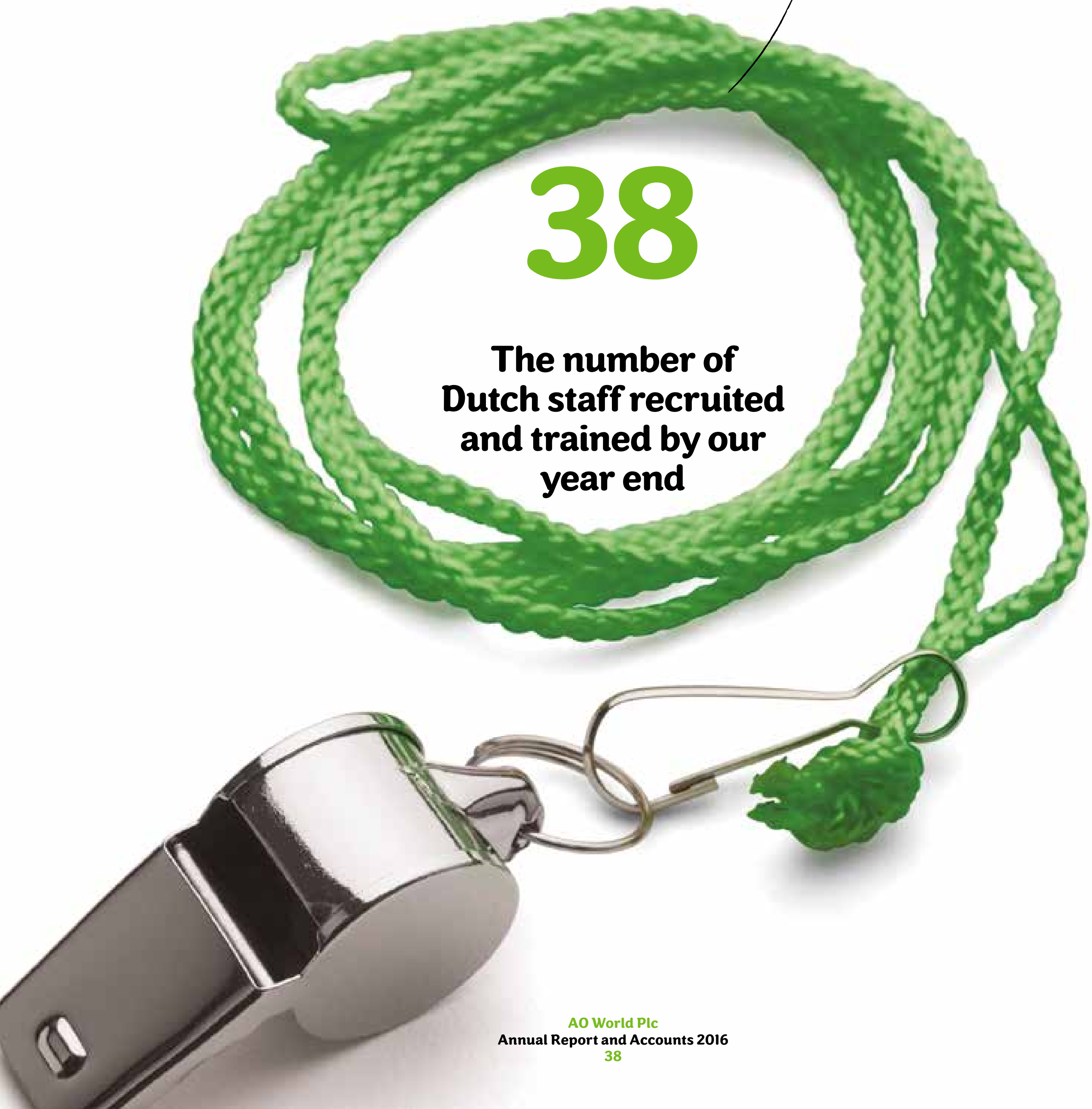
Kindest regards
Malcolm.

# 5,000+

**The number of stock keeping units we offer**



This number may seem low, but it goes to show that we don't need a massive new team to open in a new country; instead we can leverage the investments already made and teams already built.



# 38

**The number of Dutch staff recruited and trained by our year end**

# 12,000

**The number of miles cycled by AO'ers for Derian House**

# Ensuring everything is in good order

## Chairman's introduction

**Richard Rose**
Chairman

I am pleased to report to you on the Board's activities and development in my last year as Chairman of AO.

As Chairman one of my key responsibilities is to promote good corporate governance; it is fundamental to the way we do business and is therefore fundamental to our long-term success. In the following pages we explain in greater detail our approach to governance – how the Board and its Committees have fulfilled their governance responsibilities during the year to ensure that robust processes, practices and controls are embedded across the Group.

During the year we continued to advance our governance structure as we progress towards full compliance with The UK Corporate Governance Code 2014 ("the Code") and further strengthen the composition of our Board and its Committees. In August 2015 Mark Higgins was appointed to the role of Chief Financial Officer having held the position of Group Director of Finance for the previous four years. Mark's appointment strengthens the executive element of our Board at an exciting time in the expansion of AO. His thorough knowledge of the business and existing relationships with key stakeholders will enhance the Board's effectiveness.

In March 2016 I announced my intention to step down from the Board at the Company's AGM in July, after almost eight years as Chairman. A sub-committee of the Nomination Committee was formed under the leadership of Brian McBride to conduct an open and transparent search for my successor. On 8 June 2016 we announced that Geoff Cooper will be appointed to the Board as a Non-Executive Director with effect from 1 July 2016 and I am delighted that he is to succeed me as Chairman of both the Company and the Nomination Committee following the conclusion of our AGM on 21 July 2016. Geoff has over 20 years of public company experience, and a strong track record of steering Boards through high growth strategies and overseas expansion. He will be a great asset to the Board.

Following Bill Holroyd's retirement from the Board at the Company's AGM in July 2015, Rudi Lamprecht replaced him as a member of the Remuneration Committee and this Committee now meets the independence requirements set out in the Code. It is intended that Geoff Cooper will be appointed as Chairman of the Nomination Committee following my retirement at the AGM. Whilst technically the Nomination Committee and Audit Committee do not meet the Code's independence requirements, the Board are confident that both committees are well constituted and working effectively.

As was the case last year, all Directors wishing to remain in office will seek election and re-election at the AGM.

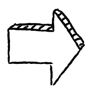
Following the significant development and growth of the business, this year the Board has given particular attention to the Group's risk framework. We have assessed and defined our risk appetite having regard to our strategic aims. We have continued to refine our risk management process with clearly defined roles and responsibilities and have gathered momentum in embedding our risk culture across all areas of our Group across all our territories. Enhancements in our reporting processes help to support our assessment of the Group's longer-term viability as required by the Code.

Following the recommendation of our Audit Committee, during the year we initiated a formal competitive tender process for our external auditor. At our AGM in July 2016, the Board will propose that KPMG LLP will replace Deloitte LLP as the Group's statutory auditor. Full details of this process can be found on page 55.

During the year we have continued to build our UK business and to grow into new territories where we can leverage our existing knowledge and skills. Our success will depend on our ability to deliver our four supporting strategic elements: customers, categories, countries and culture. This in turn will be underpinned by our corporate governance framework, its systems and processes that are strongly aligned with our values.

It has been a privilege to lead the Board through a period of strong growth and I feel that I am leaving the Group in capable hands. I would like to thank my fellow Board members and the executive team for their support. We have in place an outstanding team of people and I am confident that through them, the Company and its culture will continue to flourish. I wish AO all the best for the future.

**Richard Rose**
Chairman
AO World Plc
8 June 2016



**The following page set out how AO has applied the main principles of the Code and its compliance with the various provisions.**

## Introduction

This Corporate Governance Statement explains key features of the Company's governance structure and how it complies with The UK Corporate Governance Code ("the Code") published in 2014 by the Financial Reporting Council. This Statement also includes items required by the Listing Rules and the Disclosure Rules and Transparency Rules (DTRs). The Code is available on the Financial Reporting Council website at www.frc.org.uk.

## Compliance with the Code

The Directors consider that the Company has, throughout the reporting period, complied with the provisions of the Code save as noted below:

| Code provision | Detail | Explanation of non-compliance |
|---|---|---|
| B.1.2 | Less than half of the Board, excluding the Chairman, are independent Non-Executive Directors. | As the Board has three experienced independent Non-Executive Directors the Board is satisfied that no individual has dominated its decision making, no undue reliance has been placed on particular individuals, there has been sufficient challenge of executive management in meetings of the Board and the Board has operated effectively. The composition of the Board will be continually reviewed to ensure it remains effective. |
| B.2.1 | The Nomination Committee does not comprise a majority of independent Non-Executive Directors. | Only Brian McBride is considered independent and while the Chairman of the Company was considered to be independent on appointment, the Code provides that thereafter the test of independence is not appropriate in relation to the Chairman. However, the Board considers that it has a strong independent non-executive component and that the continuity, experience and knowledge of Chris Hopkinson ensures that he made a significant contribution to the work of the Committee over the period under review. Going forward the membership of this Committee will be amended following the resignation of Richard Rose and Geoff Cooper will take the Chair. The composition of the Committee will be continually reviewed to ensure it remains effective. |
| C.3.1 | The Audit Committee does not comprise three independent Non-Executive Directors. | Chris Hopkinson is not considered to be independent for the purposes of the Code. The Board considers that the composition of the Audit Committee has a strong independent non-executive component and that the continuity, experience and knowledge of Chris Hopkinson ensured that he made a significant contribution to the work of the Committee and that it ran effectively over the period under review. The composition of this Committee will be continually reviewed to ensure it remains effective. |

As noted in his introduction, in March 2016 Richard Rose confirmed his intention to step down from his position as Chairman and as a Director of the Company following the appointment of a new Chairman.

The Listing Rules require that we state how we have applied the Main Principles set out in the Code. This information is set out on our website at www.ao.com/corporate and the required detail on specific Code provisions is set out in this Corporate Governance Statement.

# Corporate Governance Statement
## Board of Directors

This year our Brand team have been focusing on the moments of happiness created by appliances and electricals, so we asked our Board members to do the same.

### 1. Richard Rose
**Non-Executive Chairman**

**Appointment to the Board**
1 August 2008

**Relevant skills & experience**
- Significant Board experience, including Chair, Chief Executive Officer and Non-executive roles
- Extensive retail experience across the UK
- Strong customer focus and flair for driving growth
- Currently Non-Executive Chairman of Crawshaw Plc, former Non-Executive Chairman of Booker and former Chief Executive Officer and Executive Chairman of Whittard of Chelsea Plc

**Significant current external appointments**
Non-Executive Chairman of Anpario Plc, Crawshaw Group Plc and Watchstone Group Plc

**Committee membership**
Richard chairs the Nomination Committee.

**Independent**
On appointment.

**Electrical appliance moment of happiness**
A good diet is really important for me, a homemade smoothie gets my day off to the best possible start.

### 2. John Roberts
**Founder and Chief Executive Officer**

**Appointment to the Board**
2 August 2005 (AO Retail Limited 19 April 2000)

**Relevant skills & experience**
- Co-founded the business over 15 years ago giving him thorough knowledge and understanding of the Group's business
- Extensive CEO experience; led the management team to successfully develop and expand the business during periods of challenging market conditions
- Significant industry experience having previously worked in the kitchen appliance industry

**Committee membership**
John attends the Remuneration, Audit and Nomination Committees by invitation.

**Electrical appliance moment of happiness**
You can't beat an ice cold beer in the evening; the perfect way to unwind, process the day and think about what's next.

### 3. Steve Caunce
**Chief Operating Officer**

**Appointment to the Board**
13 October 2005

**Relevant skills & experience**
- Thorough knowledge and understanding of the Group's business having been Chief Operating and Chief Financial Officer from 2005 until 2015
- Substantial experience in businesses with a strong consumer focus
- Significant Board and management experience: previously Finance Director at Phones 4U Limited and senior positions held at MyTravel Plc and Preston North End Plc
- Associate of the Institute of Chartered Accountants in England and Wales

**Committee membership**
Steve attends the Remuneration, Audit and Nomination Committees by invitation.

**Electrical appliance moment of happiness**
Putting on a clean, fresh AO cycling jersey gives me a real sense of pride and a massive boost before a big ride.

### 4. Mark Higgins
**Chief Financial Officer**

**Appointment to the Board**
1 August 2015

**Relevant skills & experience**
- Group Finance Director for four years prior to appointment as AO's Chief Financial Officer
- Senior finance roles held at Enterprise Managed Services Ltd and the Caudwell Group
- Member of the Chartered Institute of Management Accountants

**Committee membership**
Mark attends the Remuneration, Audit and Nomination Committees by invitation.

**Electrical appliance moment of happiness**
Taking some time out with a freshly brewed coffee and my to do list sets the day off to a good start.

## 5. Brian McBride
**Senior Independent Director**

**Appointment to the Board**
6 February 2014

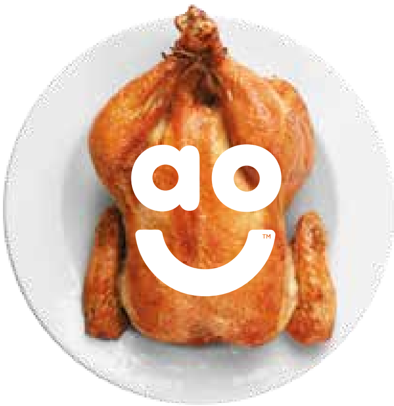
**Relevant skills & experience**
- Extensive online retail experience – former Managing Director of Amazon.co.uk and Chair of ASOS Plc and Wiggle Ltd
- Significant non-executive and governance experience
- Masters degree in Economics, History and Politics

**Significant external appointments**
Chairman of ASOS Plc and Wiggle Ltd.

**Independent**
Yes.

**Committee membership**
Brian is Chair of the Remuneration Committee and a member of the Nomination Committee.

**Electrical appliance moment of happiness**
I love surfing the web and discovering new gadgets. I find new technology really exciting, especially stuff around music and leisure.



## 6. Chris Hopkinson
**Non-Executive Director**

**Appointment to the Board**
12 December 2005

**Relevant skills & experience**
- Former City Financial Analyst
- Significant industry experience
- Holds a Masters degree in Logistics

**Significant external appointments**
Executive Director of Better Business Support Ltd and Clifton Trade Bathrooms Ltd

**Independent**
No.

**Committee membership**
Chris is a member of the Audit and Nomination Committees.

**Electrical appliance moment of happiness**
I love cooking, so a delicious Sunday roast and seeing everyone round the dinner table enjoying it.

## 7. Marisa Cassoni
**Non-Executive Director**

**Appointment to the Board**
5 February 2014

**Relevant skills & experience**
- ICAEW chartered accountant with extensive financial and governance experience in both private and public companies
- Previously finance director of John Lewis Partnership Ltd, Royal Mail Group and the UK division of Prudential Group
- Panel member of the Competition and Markets Authority
- Wealth of Board experience

**Significant external appointments**
Non-Executive Director of Skipton Group Holdings Ltd, Enterprise Inns Plc and The People's Operator Plc

**Independent**
Yes.

**Committee membership**
Marisa is the Chair of the Audit Committee and is a member of the Remuneration Committee.

**Electrical appliance moment of happiness**
I love the opera, and the only thing better than being there is really turning up the volume at home.

## 8. Rudi Lamprecht
**Non-Executive Director**

**Appointment to the Board**
17 January 2014

**Relevant skills & experience**
- Wealth of Executive and Non-Executive Director experience
- Significant industry knowledge – previous Non-Executive Director of BSH Bosch und Siemens Hausgeräte GmbH & Co. KG

**Significant external appointments**
Founder, President and Chief Executive Officer of EWC East-West-Connect GmbH & Co. KG and Non-Executive Director of Duagon AG and Fujitsu Technology Solutions (Holding) B.V.

**Independent**
Yes.

**Committee membership**
Rudi is a member of the Audit Committee and the Remuneration Committee.

**Electrical appliance moment of happiness**
As a big football and golf fan, I like to stay up to date. A good TV means I can really get in on the action.

# Leadership

## Overview of Governance structure

### AO World Plc Board

The Company is led and controlled by the Board. The structure and business of the Board is designed to ensure that the Directors focus on strategy, monitoring, governance and the performance of the Group. The Board is collectively responsible to shareholders for the long-term success of the Company. The Board has delegated certain responsibilities to Board Committees to assist it with discharging its duties, and delegates the detailed implementation of matters approved by the Board and the day-to-day operational aspects of the business to the Executive Directors who cascade this responsibility to the Group Executive Team ("GET") and throughout the Group. The Reports of each Committee can be found on pages 50 to 69.

### Group Executive Team

Senior Management Team

### Committees

Audit

see page 53

Risk

see page 22

Remuneration

see page 57

Nomination

see page 50

## The Board

### Role of the Board

Our Board is collectively responsible for the Group's performance and meets as often as necessary to effectively conduct its business. The Board is responsible for supervising the management of the business and approving the strategic direction of the Company with three committees to which it delegates key governance and compliance procedures.

The Board has an annual rolling plan of items for discussion which is reviewed and adapted regularly to ensure all matters reserved to the Board, with other items as appropriate, are discussed. At each meeting, the Chief Executive Officer and Chief Operating Officer update the Board on key operational developments, provide an overview of the market, report on health and safety and other key operational risks and highlight the important milestones reached in the delivery of the Group's strategic objectives. The Chief Financial Officer provides an update on the Group's financial performance, banking arrangements and, together with the CEO and COO provides an update on AO's relationships with investors and potential investors and shareholder analysis. Meeting proceedings and any unresolved concerns expressed by any Director are minuted by the Company Secretary who, as Head of Group Legal provides the Board with an update on any legal issues. Members of the Group Executive Team and the Senior Management Team, where appropriate, are also invited to attend Board meetings to present on specific business issues and proposals. This way the Board is given the opportunity to meet with the next layers of management and gain a more in-depth understanding of key areas of the business. All of these topics lead to discussion, debate and challenge amongst the Directors.

The formal schedule of matters reserved to our Board for decision making includes:

- Setting and reviewing the Group's long-term objectives, commercial strategy, business plan and annual budget.
- Overseeing the Group's operations and management.
- Governance and risk control issues.
- Major capital projects.

A full list of those matters reserved for the Board is available on the Company's website at www.ao.com/corporate and from the Company Secretary upon request.

### Current composition of our Board

As at the date of this Annual Report the Board comprises eight members: the Chairman, three Executive Directors and four Non-Executive Directors, which includes the Senior Independent Director. All our Directors served throughout the year, with the exception of Mark Higgins as detailed below. Further details of the relevant skills and experience of the Board are set out in their biographical details set out on pages 44 and 45. The Board regularly reviews its composition, experience and skills to ensure that the Board and its Committees continue to work effectively and that the Directors are demonstrating a commitment to their roles.

To further strengthen the Group's corporate governance and as result of the increasing scale and complexity of AO's operations, during the year the Board determined that it was appropriate to separate the role of Chief Operating & Financial Officer and accordingly Mark Higgins was appointed to the Board as Chief Financial Officer with effect from 1 August 2015. On 3 March 2016 the Company announced that Richard Rose, Non-Executive Chairman, intended to step down from the Board at the AGM once a successor had been identified and would therefore not seek re-election at the Company's AGM on 21 July 2016. We were pleased to announce that Geoff Cooper will be appointed to the Board with effect from 1 July 2016. Geoff will become Chairman of the Company following the conclusion of the AGM, subject to shareholder approval of his re-election. Further details about these changes and the work of the Nomination Committee report is disclosed on pages 50 and 51.

For information on our procedures concerning the appointment and replacement of Directors, please see the Directors' Report on page 70.

## Board meetings and attendance

Nine Board meetings were held during the year ended 31 March 2016 and there are currently nine meetings scheduled for the year ending 31 March 2017. Unscheduled supplementary meetings take place as and when necessary. The table below summarises the attendance of the Directors during the reporting period.

| Director | Meetings eligible to attend | Meetings attended |
|---|---|---|
| Richard Rose | 9 | 9 |
| John Roberts | 9 | 9 |
| Steve Caunce | 9 | 9 |
| Mark Higgins* | 6 | 6 |
| Brian McBride | 9 | 8 |
| Chris Hopkinson | 9 | 9 |
| Marisa Cassoni | 9 | 9 |
| Rudi Lamprecht | 9 | 7 |
| Bill Holroyd** | 3 | 2 |

* Mark Higgins was appointed to the Board on 1 August 2015.
** Bill Holroyd retired from the Board following the AGM on 21 July 2015.

Where Directors are unable to attend meetings, they receive the papers scheduled for discussion at the relevant meetings, giving them the opportunity to raise any issues and give any comments to the Chairman in advance of the meeting.

## Division of responsibilities

The positions of our Chairman and Chief Executive Officer are not exercised by the same person, ensuring a clear division of responsibility at the head of the Company. The division of roles and responsibilities between Richard Rose and John Roberts is clearly established.

As Chairman of the Board, Richard Rose is responsible for its leadership, setting its agenda, monitoring its effectiveness and ensuring good governance. He facilitates both the contribution of the Non-Executive Directors and constructive relations between the Executive and Non-Executive Directors. Following his appointment as Chairman, Geoff Cooper will assume all such responsibilities.

John Roberts, Steve Caunce and Mark Higgins are together responsible for the day-to-day running of the Group, carrying out our agreed strategy and implementing specific Board decisions.

The Senior Independent Director ("SID") is Brian McBride, who is available to shareholders if they have concerns that the normal channels of Chairman or Chief Executive Officer have failed to resolve, or for which such channels of communication are inappropriate. The SID also acts as an internal sounding board for the Chairman and serves as intermediary for the other Directors, with the Chairman, when necessary. The role of the SID is considered to be an important check and balance in the Group's governance structure. In accordance with the Code, neither the Chairman nor the SID are employed as executives of the Group.

## Diversity

We fully support the aims, objectives and recommendations outlined in Lord Davies' Report "Women on Boards" and are aware of the need to increase the number of women on our Board and in senior positions throughout the Group. However, we do not consider that it is in the best interests of the Company and its shareholders to set prescriptive targets for gender on the Board and we will continue to make appointments based on merit, against objective criteria to ensure we appoint the best individual for each role. As at 31 March 2016 across our business there were 603 female employees out of a total of 2,294 employees. There is one female on the Board and although there are no females on the Group Executive Team, 13 of our 40 senior managers were women as at this date.

## Directors' conflicts of interest

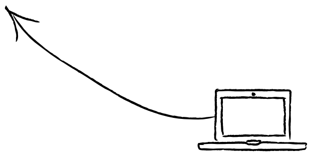
Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company, unless that conflict is first authorised by the Board. This includes potential conflicts that may arise when a Director takes up a position with another company. The Company's Articles of Association, which are in line with the Companies Act 2006, allow the Board to authorise potential conflicts of interest that may arise and to impose limits or conditions, as appropriate, when giving any authorisation. Any decision of the Board to authorise a conflict of interest is only effective if it is agreed without the conflicted Directors voting or without their votes being counted. In making such a decision, the Directors must act in a way they consider in good faith will be most likely to promote the success of the Company.

The Company has established a procedure for the appropriate authorisation to be sought prior to the appointment of any new Director, or prior to a new conflict arising and for the regular review of actual or potential conflicts of interest. An Interests Register records any authorised potential conflicts and will be reviewed by the Board on a regular basis to ensure that the procedure is working effectively.

## Committees of the Board

The Board has delegated authority to its Committees to carry out certain tasks on its behalf and to ensure compliance with regulatory requirements including the Companies Act 2006, the Listing Rules, the DTRs and the Code. This also allows the Board to operate efficiently and to give the right level of attention and consideration to relevant matters. A summary of the terms of reference of each Committee is set out below.

| Committee | Role and terms of reference | Membership required under terms of reference | Minimum number of meetings per year | Committee report on pages |
|---|---|---|---|---|
| Audit | Reviews and reports to the Board on the Group's financial reporting, internal control and risk management systems, whistleblowing, internal audit and the independence and effectiveness of the external auditors. | At least three members<br><br>At least two should be independent Non-Executive Directors | Three | 53 to 55 |
| Remuneration | Responsible for all elements of the remuneration of the Executive Directors and the Chairman, the Company Secretary and the Group Executive Team. | At least three members<br><br>At least two should be independent Non-Executive Directors | Three | 57 to 69 |
| Nomination | Reviews the structure, size and composition of the Board and its Committees and makes appropriate recommendations to the Board. | At least three members<br><br>At least one should be an independent Non-Executive Director | Two | 50 and 51 |



**The full terms of reference for each Committee are available on the Company's website at www.ao.com/corporate and from the Company Secretary upon request.**

# Effectiveness

## Board evaluation and effectiveness
The effectiveness and performance of the Board is vital to our success. An internal evaluation of the performance of the Board, its Committees and the Chairman was again carried out during the second half of the year. The process of evaluating the performance was undertaken by the Company Secretary under the direction of the Chairman. A tailored, high-level questionnaire was distributed for the Directors to complete. This was structured to provide the Directors with an opportunity to express their views about:
- The performance of the Board and its Committees, including how the Directors work together as a whole.
- The balance of skills, experience, independence and knowledge of the Directors.
- Individual performance and whether each Director continues to make an effective contribution.

The responses to the evaluation of the Board and its Committees were reviewed with the Chairman and then considered by the Board. The results of the evaluation indicated that the Board is working well and that there are no significant concerns among the Directors about its effectiveness. Some actions were agreed as a result of the exercise and these will be progressed over the coming year. Further details can be found in the Report of the Nomination Committee on pages 50 and 51.

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

Following evaluation, it was agreed that all Directors contribute effectively, demonstrate a high level of commitment to their role and together provide the skills and experience that are relevant and necessary for the leadership and direction of the Company.

## Independence
For the purposes of assessing compliance with the Code, the Board considers that Marisa Cassoni, Rudi Lamprecht and Brian McBride are Non-Executive Directors who are independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Board also considers that Richard Rose, Chairman of the Company, was independent at the time of his appointment in August 2008. As previously stated Richard Rose has stated his intention to resign from the Board once a successor Chairman has been identified. The newly appointed Chairman will also be deemed to be independent on appointment.

Having regard to the character, judgement, commitment and performance of the Board and Committees to date, and following the Board evaluation conducted during the year, the Board is satisfied that no one individual will dominate the Board's decision taking and considers that all of the Non-Executive Directors are able to provide objective challenges to management. A key objective of the Board is to ensure that its composition is sufficiently diverse and reflects a broad range of skills, knowledge and experience to enable it to meet its responsibilities. As can been seen from the biographies on pages 44 and 45, the Chairman and the Non-Executive Directors collectively have significant industry, public company and international experience which will support the Company in executing its strategy. Additionally, our new Chairman, Geoff Cooper, has significant relevant experience which will help to strengthen the collective skills and knowledge of the Board.

## Director election
Following the Board evaluation process and the subsequent recommendations from the Nomination Committee the Board considers that all Directors continue to be effective, committed to their roles and are able to devote sufficient time to their duties. Accordingly, all Directors will seek election and re-election at the Company's AGM with the exception of Richard Rose who will not seek re-election and will resign from the Board at the conclusion of that meeting. Geoff Cooper, who will be appointed to the Board on 1 July 2016, will also seek election at the AGM and will assume the role of Chairman from the conclusion of that meeting subject to shareholder approval.

## Annual General Meeting
The AGM of the Company will take place at 11.00 am on Thursday 21 July 2016 at the Company's registered office at AO Park, 5A The Parklands, Lostock, Bolton BL6 4SD. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The notice of the AGM can be found in a booklet which is being mailed out at the same time as this Report and can also be found on our website www.ao.com/corporate. The notice of the AGM sets out the business of the meeting and an explanatory note on all resolutions. Separate resolutions are proposed in respect of each substantive issue.

Richard Rose, the Chair of each of the Committees and the Executive Directors will be present at the AGM and will be available to answer shareholders' questions.

## Information, support and development opportunities available to Directors
All Board Directors have access to the Company Secretary, who advises them on governance matters. The Chairman and the Company Secretary work together to ensure that Board papers are clear, accurate, delivered in a timely manner to Directors and of sufficient quality to enable the Board to discharge its duties. Specific business-related presentations are given by members of the Group Executive Team and Senior Management Team when appropriate. As well as the support of the Company Secretary, there is a procedure in place for any Director to take independent professional advice at the Company's expense in the furtherance of their duties, where considered necessary, for example New Bridge Street consultants advise on remuneration matters and Audit Committee members have received guidance from the external auditors on their duties as members of this Committee and new developments in reporting standards. As part of the Board Evaluation process, training and development needs are considered and training courses are arranged, where appropriate.

In line with the Code, we will ensure that any new Directors joining the Board will receive appropriate support and are given a comprehensive, formal and tailored induction programme organised through the Company Secretary, including the provision of background material on the Company and briefings with the Group Executive Team and Senior Management Team, where appropriate. Each Director's individual experience and background will be taken into account in developing a programme tailored to his or her own requirements. Any new Director will also be expected to meet with major shareholders if required.

## External directorships
Any external appointments or other significant commitments of the Directors require the prior approval of the Board. Details of the Directors' significant external directorships can be found on pages 44 and 45. No new appointments were made during the year.

While all Non-Executive Directors have external directorships, the Board is comfortable that these do not impact on the time that any Director devotes to the Company and we believe that this experience only enhances the capability of the Board. Save for Crystalcraft Limited, a dormant company, and the charities Onside Youth Zones and AO Smile Charitable Foundation, for which he receives no fees, John Roberts does not hold any external directorships. Save for Crystalcraft Limited and Aghoco 1283 Limited, dormant companies, and the AO Smile Charitable Foundation, for which he receives no fees, Steve Caunce does not hold any external directorships. Mark Higgins holds no external directorships.

## Report of the Nomination Committee

**Richard Rose**
Chairman, Nomination Committee

*Delivering a balanced Board with the right skills mix.*

I am pleased to introduce the report of the Nomination Committee for the year. Full details of the Committee and its activities during the year are given below. I have every confidence in the continued progress of its work and wish it every success for the future.

### Composition and attendance of the Committee

The members of the Nomination Committee who served during the year end 31 March 2016 and their attendance at Committee meetings is as follows:

| | | Meetings eligible to attend | Meetings attended |
|---|---|---|---|
| Richard Rose | Chairman and Chairman of the Board | 2 | 2 |
| Brian McBride | Senior Independent Non-Executive Director | 2 | 2 |
| Chris Hopkinson | Non-Executive Director | 2 | 2 |

The Code recommends that the Nomination Committee is comprised of a majority of independent Non-Executive Directors. Only Brian McBride is deemed as independent as whilst I was considered to be independent on appointment, the Code provides that thereafter the test of independence is not appropriate in relation to the Chairman. Chris Hopkinson is not deemed as independent for the purposes of the Code due to his historic involvement with the Company. However, during the year the Board considered that it has a strong independent non-executive component and that the continuity, experience and knowledge of myself and Chris enabled us to make a significant contribution to the work of the Committee, ensuring the Committee is run effectively.

Following my retirement at the AGM, Geoff Cooper will become Chairman of the Nomination Committee, subject to shareholder approval of his election.

Julie Finnemore (Head of Group Legal and Company Secretary) serves as Secretary to the Committee. By invitation, the meetings of the Nomination Committee may be attended by the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer and Marisa Cassoni.

### Role of the Nomination Committee

The Committee is responsible for regularly reviewing the structure, size and composition of the Board and has responsibility for nominating candidates for appointment as Directors to the Board, having regard to its composition in terms of diversity (including gender) and ensuring it reflects a broad range of skills, knowledge and experience to enable it to meet its responsibilities.

The Nomination Committee also makes recommendations to the Board concerning the reappointment of any Non-Executive Director as he or she reaches the end of the period of their initial appointment (three years) and at appropriate intervals during their tenure. The Committee also considers and makes recommendations to the Board on the annual election and re-election of any Director by shareholders including Executive Directors (and changes to the Group Executive Team), after evaluating the balance of skills, knowledge and experience of each Director. Such appointments are made on merit, against objective criteria and with due regard to the benefits of diversity on the Board. The Company uses a combination of external recruitment consultants and personal referrals in making any required appointments to the Board.

The Nomination Committee takes into account the provisions of the Code and any regulatory requirements that are applicable to the Company. As the Company has only completed two full financial years as a main market listed company, no external evaluation has yet been undertaken, but we expect to do this in this new financial year. The Nomination Committee will be responsible for ensuring that future external evaluations of the Board are carried out according to applicable regulations.

The Chairman does not Chair the Nomination Committee when it is dealing with the appointment of a successor. In these circumstances the Committee is chaired by an independent member of the Nomination Committee elected by the remaining members.

## Main activities of the Committee during the year

Since the Company's IPO in March 2014 the roles of Chief Financial Officer and Chief Operating Officer were combined and held by Steve Caunce. As part of its regular review of the composition of the effectiveness of the Board, during the first half of the financial year the Nomination Committee made a recommendation to the Board that given the increasing scale and complexity of AO's operations, in particular with the launch in overseas territories, and the financial reporting and corporate governance requirements of a public company, it was an appropriate time for these two roles to be separated. This would allow the Chief Operating Officer to focus mainly on the Group's operations and enhance the structure and effectiveness of the Board by having a full time dedicated Chief Financial Officer.

Led by myself as Chairman, and in consultation with an external independent executive search consultant (Director Bank), a process was undertaken to assess the suitability of Mark Higgins, the then Director of Group Finance, to assume the role of Chief Financial Officer. Director Bank is independent, with no other connections to the Company. The appointment process included an interview, benchmarking against other available candidates with similar backgrounds and experiences to Mark, collating the views of Board members and soliciting feedback from the Company's external audit partner who had worked with Mark during the external audit process for a number of years. Following this process it was determined that Mark possessed the relevant skills and experience for the role and that his existing relationships with stakeholders and knowledge of the business would help strengthen the effectiveness of the Board. Following the recommendation of the Nomination Committee the Board approved the appointment of Mark Higgins as Chief Financial Officer with effect from 1 August 2015.

In March 2016 I announced my intention step down from the Board following the appointment of a successor. Brian McBride, Senior Independent Director led the Nomination Committee process to appoint a successor and enlisted the help of Odgers Berndtson, an executive search firm. A number of potential candidates were identified who had relevant experience of online retailing, high growth and main market listed companies The Executives, Brian McBride and Marisa Cassoni were invited to interview short-listed candidates and we were pleased to report that Geoff Cooper will join the Board as a Non-Executive Director with effect from 1 July 2016. Subject to his reappointment by shareholders at the 2016 AGM, he will succeed me as Chairman at the conclusion of that meeting. Geoff has a broad knowledge of the retail industry and extensive executive and non-executive Board experience.

During the year the Nomination Committee assessed the composition and effectiveness of the Board and its Committees, having regard to the internal Board evaluation carried out in the second half of the year, and considered the proposal for election and re-election of all the Directors at the forthcoming AGM. Feedback from our recent Board evaluation, which includes the views of Executive and Non-Executive Board members, did not expose major issues although highlighted a number of areas to be strengthened such as Board member communication between formal meetings and exposure to the Group Executive Team and Senior Management Team, where appropriate. These areas have been addressed and will continue to be improved over the coming year. The Committee also reviewed succession planning of senior management; it recognises that effective succession planning is fundamental to the success of the Company and that ensuring the continued development of talented employees and appropriately rewarding them helps to mitigate the risks associated with unforeseen events, such as key individuals leaving the business. This will be a key area of consideration in the year ahead.

On the recommendation of the Nomination Committee and in line with the Code, all currently appointed Directors will retire at the 2016 AGM and offer themselves for reappointment, with the exception of myself who, as previously announced, will not seek re-election and will retire from the Board at the conclusion of that meeting. The biographical details of the current Directors can be found on pages 44 and 45. The Committee considers that the performance of the Directors standing for election and re-election continues to be effective and that they each demonstrate commitment to their role and devote sufficient time to attend Board and Committee meetings and any other duties.

The terms and conditions of appointment of Non-Executive Directors, including the expected time commitment, are available for inspection at the Company's registered office.

## Diversity

The Committee takes into account a variety of factors before recommending any new appointments to the Board, including relevant skills to perform the role, experience, knowledge, ethnicity and gender. The Company currently has one female Board member out of eight and AO endeavours to achieve appropriate diversity, including gender diversity, throughout the Company and concurs with the recommendations of Lord Davies' review. However, the most important priority of the Committee has been and will continue to be ensuring that members of the Board should collectively possess the broad range of skills, expertise and industry knowledge, and business and other experience necessary for the effective oversight of the Group.

Our policy is, therefore, to ensure that the best candidate is selected to join the Board and this approach will remain in place going forward, without prescriptive or quantitative targets.

I will be available at the AGM to answer any questions on the work of the Nomination Committee.

**Richard Rose**
Chairman, Nomination Committee
AO World Plc
8 June 2016

# Accountability

## Internal controls

The Board acknowledges its responsibility for establishing and maintaining the Group's system of internal controls and it receives regular reports from management identifying, evaluating and managing the risks within the business. The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. This system of internal controls complies with the Financial Reporting Council's Internal Control: Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Audit Committee reviews the system of internal controls through reports received from management, along with those from both internal and external auditors. Management continues to focus on how internal control and risk management can be further embedded into the operations of the business and to deal with areas of improvement which come to the attention of management and the Board.

The Board and the Audit Committee review on an ongoing basis the effectiveness of the system of internal controls and did so during the year ended 31 March 2016 and for the period up to the date of approval of the consolidated financial statements contained in the Annual Report. The review covered all material controls, including financial, operational and compliance controls and risk management systems and whether any changes were necessary in light of changes to the UK Corporate Governance Code in 2014. The Board confirms that the actions it considers necessary have been, or are being taken to remedy any significant failings or weaknesses identified from its review of the system of internal control. This has involved considering the matters reported to it and developing plans and programmes that it considers are reasonable in the circumstances. The Board also confirms that it has not been advised of material weaknesses in the part of the internal control system that relates to financial reporting.

The key elements of the Group's system of internal controls, which have been in place throughout the year under review and up to the date of this report, include:

- **Risk management:** Our Risk Management Committee has a clear framework for identifying, evaluating and managing risk faced by the Group on an ongoing basis, both at an operational and strategic level. This internal control process starts with the identification of risks through regular routine reviews with our AO team representatives facilitated by our internal audit team with appropriate action taken to manage and mitigate the risks identified. These risks are recorded in the Group's Corporate Risk Register and the implications and consequences for the Group together with the likelihood of occurrence are assessed. This register is reviewed and discussed every other month by the Risk Management Committee and follow-up actions are assigned as appropriate. The Risk Management Committee issues a report to the Audit Committee and the key risks are included within the Group's Principal Risk Register which is then reviewed and scrutinised by the Board. For further details of our risk management and risk appetite please see pages 22 to 25.

- **Management structure:** There is a clearly defined organisational structure throughout the Group with established lines of reporting and delegation of authority based on job responsibilities and experience. Within the businesses, Group Executive Team and Senior Management Team meetings occur regularly to allow prompt discussion of relevant business issues and to ensure alignment on strategy. Please see page 46 for further details on our management structure.

- **Financial reporting:** Monthly management accounts provide relevant, reliable and up-to-date financial and non-financial information to management and the Board. Analysis is undertaken of the differences between actual results and budgeted results on a monthly basis. Annual plans, forecasts, performance targets and long-range financial plans allow management to monitor the key business and financial activities, and the progress towards achieving the financial objectives. The annual budget is approved by the Board. The Group reports half-yearly based on a standardised reporting process.

- **Information systems:** Information systems are developed to support the Group's long-term objectives and are managed by professionally staffed teams. During the reporting period work continued with the implementation of the Microsoft Dynamics, a new financial reporting system, to improve internal controls and the efficiency of our processes, assist with the segregation of duties and standardise procedures across the Group. This is now running across the Group. Appropriate policies and procedures are in place covering all significant areas of the business.

- **Contractual commitments:** There are clearly defined policies and procedures for entering into contractual commitments. These include detailed requirements that must be completed prior to submitting proposals and/or tenders for work, both in respect of the commercial, control and risk management aspects of the obligations being entered into. Significant contractual commitments, capital projects and acquisitions and disposals require Board approval.

- **Monitoring of controls:** The Audit Committee receives regular reports from the internal and external auditors and assures itself that the internal control environment of the Group is operating effectively. There are formal policies and procedures in place to ensure the integrity and accuracy of the accounting records and to safeguard the Group's assets. There are formal procedures by which staff can, in confidence, raise concerns about possible improprieties in financial and pensions administration and other matters – often referred to as "whistleblowing" procedures.

## Report of the Audit Committee

**Marisa Cassoni**
Chair, Audit Committee

*Ensuring effective internal control and risk management together with fair, balanced and understandable reporting.*

I am pleased to report on the role and activities of the Audit Committee for the year.

### Composition and attendance of the Committee

The members of the Audit Committee who served during the year ended 31 March 2016 and their attendance at Committee meetings is as follows:

| | | Meetings eligible to attend | Meetings attended |
|---|---|---|---|
| Marisa Cassoni | Chair | 6 | 6 |
| Rudi Lamprecht | Independent Non-Executive Director | 6 | 5 |
| Chris Hopkinson* | Non-Executive Director | 4 | 4 |
| Bill Holroyd** | Non-Executive Director | 2 | 2 |

* From his appointment to the Committee with effect from 21 July 2015.
** Until his retirement from the Board at the Company's AGM in July 2015.

Two meetings are scheduled per year to review each of the Annual Report and Accounts and the half-yearly report. Other meetings are scheduled as required.

The Code recommends that the Audit Committee should comprise at least three members, all of whom should be independent Non-Executive Directors with at least one member having recent and relevant financial experience. I am the independent Non-Executive Director considered to have recent and relevant financial experience and am pleased to confirm that all members have had extensive and relevant experience (Directors' biographies appear on pages 44 and 45).

Following the retirement of Bill Holroyd from the Board at the Company's AGM on 21 July 2015, Chris Hopkinson replaced him as a member of the Audit Committee. Chris is not regarded as an independent Non-Executive Director for the purposes of the Code and therefore during the year the Committee was not fully compliant in this respect. However, Chris' financial experience and knowledge is valuable to the Committee and will help to ensure that the Committee is run effectively.

Julie Finnemore (Head of Group Legal and Company Secretary) serves as Secretary to the Committee. By invitation, the meetings of the Audit Committee may be attended by the Chairman, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Director of Financial Control and the Head of Internal Audit. The external audit engagement partner and team are also invited to attend Audit Committee meetings to ensure full communication of matters relating to the audit. As Chair of the Audit Committee, I met regularly with both the internal and external auditors during the year.

### Role of Audit Committee

The Audit Committee has particular responsibility for monitoring the Group's financial reporting process, the adequacy and effectiveness of the operation of internal controls and the integrity of the financial statements. This includes a review of significant issues and judgements, policies and disclosures. The Committee reviews the Company's risk management and viability disclosure for recommendation to the Board for approval. Our duties also include keeping under review the scope and results of the audit and its cost effectiveness, consideration of management's response to any major external or internal audit recommendations and the independence and objectivity of the internal and external auditors.

Additionally, the Board requests that the Audit Committee advises whether we believe the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

A forward agenda will be used for the coming year's activities focused around the review of the annual financial statements, the results of the external annual audit and interim reviews and internal quarterly updates, relevant interim financial reporting and the external audit plan; review of risk management reports; review of internal audit plans and findings and recommendations.

A key responsibility of the Audit Committee is to ensure that the external audit process and audit quality are effective. We do this by relying on:

(i) the engagement with the Audit Committee Chair and the lead audit engagement partner which will generally be through face-to-face meetings;
(ii) the reports which are brought to the Committee by the lead audit engagement partner and other senior members of the audit team;
(iii) the quality of the management responses to audit queries; meetings held by the Chief Financial Officer, Director of Financial Control and the Chairman with the lead audit engagement partner which are reported to myself as Audit Chair and the Committee; and
(iv) a review of the independence and objectivity of the audit firm and also the quality of the formal audit report given by the Auditor to shareholders. Feedback is also sought from members of the finance team, the Company Secretary and the Group Internal Audit Manager.

Audit Committee meetings are generally scheduled to take place in advance of a Company Board meeting. As the Committee's Chair, I report to the Board as part of a separate agenda item on the activity of the Committee and matters of particular relevance to the Board in the conduct of their work. All members of the Board have access to Audit Committee papers and minutes of meetings, and may, on request to the Chair, attend the meetings.

## Significant work undertaken by the Committee during the year

### Review of the 2016 Financial Statements

During the year to 31 March 2016 the Audit Committee reviewed and endorsed, prior to submission to the Board, full-year financial statements and the preliminary, interim results and trading update announcements. We considered internal audit reports and risk management updates, agreed external and internal audit plans, approved the review of accounting policies and ensured appropriate whistleblowing arrangements and anti-bribery policies were in place.

The internal audit annual plan was reviewed and approved by the Committee and all reports arising therefrom were reviewed and assessed, along with management's actions to findings and recommendations.

In reviewing the financial statements with management and the Auditors, the Committee has discussed and debated the critical accounting judgements and key sources of estimation uncertainty set out in note 4 to the financial statements. As a result of our review, the Committee has identified the following issues that require a high level of judgement or have significant impact on interpretation of this Annual Report.

| Significant financial accounting matters | |
|---|---|
| **Revenue recognition, debtor recoverability and legal risk in respect of product protection plans** | The Company sells product protection plans to customers purchasing electrical appliances, as agent for Domestic and General, who administer the plans, collect money from the customers and pay a commission to the Company for each plan sold. The revenue recognition policy is set out in note 3 to the financial statements (page 86). Revenue recognised for the plans sold is based on a fair value calculation of commissions due over the life of the plan at each period end. There is a risk therefore that the revenues are being recognised in the incorrect period based on the weighted average calculation performed by management. There is also an associated risk around the recoverability of the receivable balance attributable to the product protection plans. Additionally, the basis upon which the Company offers and sells product protection plans could change due to a change in law or regulation or the interpretation of existing law or regulation, or the Company could be subject to claims or proceedings in relation to such product protection plans.<br><br>The management team has prepared detailed policies setting out the key assumptions and judgements in this area. The Committee has reviewed the judgements made in this area by management and following appropriate challenge, we consider the policy and practice appropriate. |

| Significant financial accounting matters | |
|---|---|
| **Inventory valuation and provisioning** | The Company has a considerable inventory balance incorporating white goods and AV goods, which is valued on a FIFO basis at the lower of cost and net realisable value in line with recognised accounting principles. At each period end, inventory is adjusted to purchase cost on a FIFO basis. This adjustment takes into account the absorption of rebates into the inventory valuation, which incorporates a number of variables depending on the nature of the agreement with the supplier, such as stock repositioning credits for AV goods.<br><br>Provisions are also held against all inventory lines with provisions for slow moving and damaged inventory being calculated based on the most recent sales information.<br><br>There is a risk therefore that the valuation of the inventory may be misstated due to the incorporation of these various elements and the complexities of the rebate agreements in place with a number of suppliers.<br><br>The management team has prepared detailed policies setting out the key assumptions and judgements in this area. The Committee has reviewed the judgements made in this area by management and, after due challenge and debate, was content with the assumptions made and the judgements applied. |
| **Commercial income arrangements** | The Group has a number of contracts with its suppliers where additional discounts can be applied based on purchase levels. The Group accrues the additional discounts by reference to the expected level of purchases. The percentage discount accrued may differ to the current run rate of purchases as the calculation takes seasonality into account. There is a risk therefore that the level of rebates provided for at the year-end could materially differ from the actual number of purchases when compared to assumptions made by management.<br><br>The management team has prepared detailed policies setting out the key assumptions and judgements in this area. The Committee has reviewed the judgements made in this area by management and, after due challenge and debate, was content with the assumptions made and the judgements applied. |

### Training

During the year the Committee was briefed by the Company Secretary on the revised UK Corporate Governance Code, in particular the new requirements to review and monitor risk management and internal control procedures and to provide a statement on the longer-term viability of the Company. In addition, the Audit Committee members have received guidance from the external auditors on their duties as members of this Committee together with advice on new developments in reporting standards.

### Going Concern Assumption and Viability Statement
The Committee reviewed the Going Concern Assumption and Viability Statement reported by the Group, as required by the revised UK Corporate Governance Code. Further information on the Going Concern Assumption can be found on page 25. The Committee was satisfied that the Viability Statement, noted on page 25 of the Strategic Report, presented a reasonable outlook for the Group to March 2019.

### Fair, Balanced and Understandable Assessment
The Committee has reviewed the financial statements together with the narrative contained within the Strategic Report set out on pages 4 to 39 and believes that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable. In arriving at this conclusion the Committee undertook the following:
- review of early drafts of the Annual Report and Accounts, providing relevant feedback;
- regular review and discussion of the financial results during the year;
- receipt and review of reports from the external and internal auditors.

The Committee advised the Board of its conclusion that the 2016 Annual Report and Accounts, taken as a whole, were fair, balanced and understandable at a meeting of the Directors on 8 June 2016.

### Internal Audit
The Committee receives reports from the Internal Audit department and reviews the internal audit process and effectiveness as part of the Group's risk assessment programme and as part of its sign off on internal controls. An annual programme of internal audit assignments is reviewed by the Committee. The Committee met with the Head of Internal Audit without the presence of the Executive Directors on one occasion during the year.

### External Auditor
The Audit Committee has primary responsibility for leading the process for selecting the external auditor. It is required to make appropriate recommendations on the external auditor through the Board to the shareholders to consider at the Company's AGM. Deloitte was appointed as AO's external auditor in 2010, prior to our listing in March 2014, and has been reappointed each year since then. There were no contractual obligations which restricted the Committee's choice of external auditor or which put in place a minimum period for Deloitte's tenure. The Committee has been satisfied with the quality of the audit provided, as well as with the independence of Deloitte as auditor. During the year, Deloitte charged the Group £0.243m (2015: £0.2m) for audit and audit-related services.

Last year we explained that Damian Sanders would serve his last year as Senior Statutory Auditor for the year to 31 March 2016 pursuant to the audit partner rotation requirements under the Financial Reporting Council's APB Ethical Standards. In light of increasing focus on auditor rotation and having regard to the requirement to conduct a competitive tender by March 2020 under the provisions of the Code, in early 2016 the Audit Committee recommended to the Board that it was an appropriate time to initiate a formal tender process.

This process commenced in February 2016 and an audit tender panel (the "Panel") was established comprising all members of the Audit Committee, the Chief Financial Officer, the Chief Operational Officer, the Director of Financial Control and the Group Financial Controller, with the support of the Company Secretary. The Panel prepared the scope of the tender process which included an initial desktop exercise to identify a shortlist of firms who would be invited to take part in the process based on criteria including knowledge and understanding of AO's business, its growth profile and its sector, understanding of the quoted sector, experience and overseas knowledge. These firms were then invited to join the tender process which involved meeting with management and Panel members, submission of a full proposal and formal presentations to the Panel. Attendees at the presentations reported back to the Audit Committee with their thoughts on each firm against the initial desktop criteria and other factors such as cultural fit, technical expertise, local presence, audit approach and planning, regulator experience and enthusiasm. Following consideration of the presentation by each firm the Audit Committee agreed that KPMG was the best candidate and recommended their appointment as auditors to the Board. The Board accepted the recommendation and a resolution to appoint KPMG LLP as the Group's new statutory auditor will be put to shareholders. Work is already underway to ensure a seamless transition with the team already identified and preparatory work completed.

We can confirm we have complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

### Internal Controls
During the year the Committee continued to oversee and review AO's internal financial controls and risk management processes, risk appetite statement and principal risks, details of which are set out in the Risk section of the Strategic Report on pages 22 to 25. During the year enhancements were made to the Group's Risk Management Framework and other internal control processes, in line with the new corporate governance requirements.

### Non-audit services
The Company's external Auditor may also be used to provide specialist advice where, as a result of their position as Auditor, they either must, or are best placed to, perform the work in question. A formal policy is in place in relation to the provision of non-audit services by the external Auditor to ensure that there is adequate protection of their independence and objectivity.

Fees charged by Deloitte in respect of non-audit services generally require the prior approval of the Audit Committee. A breakdown of the fees paid to Deloitte during the year is set out in note 9 to the consolidated financial statements.

During the year, Deloitte charged the Group £0.017m (2015: £0.019m) for non-audit related services. These fees related to an annual review of the potential impact of certain changes in employment legislation. Deloitte were best placed to perform their work given their knowledge of the business.

It is the Company's practice that it will seek quotes from several firms, which may include the incumbent auditor, before work on non-audit projects is awarded. Contracts are awarded to our suppliers based on individual merits.

We receive advice from other firms for specific projects. In particular, the Company will regularly seek advice from an independent third party on tax matters.

I will be available at the Company's forthcoming AGM to answer any questions on the work of the Audit Committee.

**Marisa Cassoni**
Chair, Audit Committee
AO World Plc
8 June 2016

## Shareholder relations

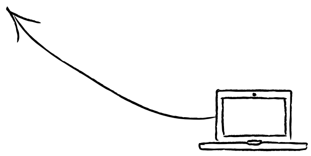
The Company recognises the importance of communicating with its shareholders to ensure that its strategy and performance are understood and that it remains accountable to shareholders. The Company has established an Investor Relations function, headed by the Chief Financial Officer.

The Investor Relations function deals with queries from individual shareholders with support as appropriate from the Executive Directors. The Investor Relations team ensures that there is effective communications with shareholders on matters such as strategy and, together with the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, is responsible for ensuring that the Board understands the views of major shareholders on such matters.

There is an ongoing programme of dialogue and meetings between the Executive Directors and institutional investors, fund managers and analysts. This includes formal meetings with investors to discuss interim and final results and maintaining an ongoing dialogue with the investment community through regular contact with existing and potential shareholders, attendance at investment conferences and holding investor roadshows as required. At these meetings, a wide range of relevant issues including strategy, performance, management and governance are discussed within the constraints of information which has already been made public. The Board is aware that institutional shareholders may be in more regular contact with the Company than other shareholders, but care is exercised to ensure that any price-sensitive information is released to all shareholders, institutional and private, at the same time in accordance with legal and regulatory requirements.

The Senior Independent Director, Brian McBride, is available to shareholders if they have concerns which cannot be raised through the normal channels or if such concerns have not been resolved. Arrangements can be made to meet with him through the Company Secretary.

The Board obtains feedback from its joint corporate brokers, J.P. Morgan Cazenove, Jefferies Hoare Govett and Numis Securities, on the views of institutional investors on a non-attributed and attributed basis. Any concerns of major shareholders would be communicated to the Board by the Executive Directors. As a matter of routine, the Board receives regular reports on issues relating to share price and trading activity, and details of movements in institutional investor shareholdings. The Board is also provided with current analyst opinions and forecasts.



**All shareholders can access announcements, investor presentations and the Annual Report on the Company's corporate website (www.ao.com/corporate).**

# Directors' Remuneration Report



## Report of the Remuneration Committee

**Brian McBride**
Chairman, Remuneration Committee

Our Directors' Remuneration Report sets out details of the remuneration policy for Executive and Non-Executive Directors, describes how the remuneration policy is being implemented for the financial year ending 31 March 2017 and discloses the amounts paid to them in the financial year ended 31 March 2016.

The Remuneration Policy was approved by shareholders at our AGM on 17 July 2014. There are no changes to the policy previously approved but, for ease of reference, this is set out in full for shareholders' information on pages 59 to 64. The Annual Report on Remuneration (set out on pages 65 to 69) describes how the policy has been implemented in the year under review and how it will be implemented for the year ahead. The Annual Report on Remuneration along with the Remuneration Committee Chairman's Annual Statement will be the subject of an advisory vote at the forthcoming AGM.

## Annual Statement by the Chairman of the Remuneration Committee

Dear Shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for our financial year ended 31 March 2016.

### Remuneration Policy

Prior to our IPO, we undertook a full review of our remuneration structure to ensure that, as a public company, we would be operating within a framework consistent with best practice, while being mindful of the need to pay no more than is necessary to retain and attract high-quality talent.

The resulting remuneration policy ("the Policy") is straightforward, transparent and in keeping with the strategic and financial objectives of the business; it delivers market competitive packages to the senior executives at base level and rewards the achievement of stretching targets at the other end. The aim is simple – to align executive pay with the interests of shareholders and to promote the long-term success of the AO Group for all stakeholders. Put simply, we pay for performance and we will not reward failure.

### Performance and reward for 2015/16

The Annual Report on Remuneration (set out on pages 65 to 69), describes how the policy has been implemented in the year under review. It will be the subject of an advisory vote at the forthcoming AGM.

During the course of the year, the combined role of Chief Operating Officer and Chief Financial Officer, held by Steve Caunce, was split and Mark Higgins was appointed as CFO, with Steve continuing as COO. One of the main activities of the Committee this year was therefore setting the remuneration package for Mark, ensuring it was in line with Policy and appropriately competitive. Further details on his package and in particular, the elements of his variable pay, are disclosed on pages 66 and 67.

In accordance with Policy, this year's annual bonus scheme consisted mainly of financial targets relating to both the UK business and the Europe segment, addressing both top line growth and profit. The Company's financial performance missed the thresholds set and therefore no bonus was payable for financial performance. However, 10% of the maximum bonus was payable for meeting a key strategic objective, which was the successful launch of the AO business in a further country, and I'm pleased to report that this was achieved with the launch of AO.nl, as described elsewhere in this report. Details of bonuses paid are disclosed on page 65 and 66.

As a recently floated company there were no LTIP awards which had performance periods ending during the financial year.

## Approach to Remuneration for 2016/17

### Executives

For the year ahead base salaries have been reviewed and neither John Roberts, nor Steve Caunce will receive a salary increase. The Committee has set the base salary level for Mark Higgins at £300,000. We anticipate that there will be increases to the level of basic salary for the next two to three years as Mark continues to grow into the role and to ensure his salary level (and package overall) are positioned at the appropriate level relative to executive colleagues. Other elements of fixed pay remain unchanged.

In terms of variable pay, the Executives will be entitled to participate in the annual bonus scheme where, again, performance conditions have been set in line with the Company's strategic and financial goals. Financial metrics – including revenue, Adjusted EBITDA and cash flow – represent the majority of targets.

Previously, the CEO and the COO have requested to waive their entitlement to participate in the Company's Executive PSP, due to the size of their existing shareholdings. However, we now think the time is right for them both to be aligned in the same long-term incentive arrangement alongside their executive colleagues. It is intended that they will be granted awards of shares with a value equivalent to 150% of salary at the grant date, in line with normal policy.

For Mark Higgins, the Committee intends to make a PSP award of 300% of salary following Mark's promotion to the Board. The Committee is presently minded to approve a similar level of awards in the next two years, depending on Company and his own performance. This enhanced award, in line with the Policy, reflects the initial below-median salary positioning, and so ensures that in achieving a market competitive overall package, a higher proportion of his overall remuneration is share based and subject to long term performance. It will ensure that Mark has strong alignment of interest with shareholders from the onset of his Board-level career and has the opportunity of building a significant shareholding subject to achieving stretching performance targets. His current shareholding level is relatively *de minimis*.

The performance conditions for this year's PSP grant comprise a relative TSR metric and Revenue and Adjusted EBITDA growth targets. The Committee believes these metrics provide the appropriate balance *vis-à-vis* the long-term growth of the Company and shareholder return. The targets themselves are suitably stretching and are in line with Company's three-year plan.

Further details of the variable elements of remuneration for the Executive Directors are set out on pages 62 and 63, and 66 and 67.

### Non-Executives

The base fee for the Non-Executive Directors (excluding the Chairman) has been reviewed during the year and has been increased to £50,000, to recognise the increasing time and commitment given to the business and the added complexity of the roles given the international dimension of the business. Fees for additional responsibilities (such as chairing committees and for holding the role of Senior Independent Director) remain unchanged.

As is disclosed elsewhere in the Annual Report, Richard Rose will step down as Chairman at the AGM and Geoff Cooper will be appointed to the Board on 1 July 2016 to replace him, subject to re-election at that meeting. Geoff's proposed fee level has been set at £165,000 per annum. This is a consolidated all-inclusive fee for all Board responsibilities, including chairing the Nomination Committee.

## Remuneration Committee constitution

During the year under review, Bill Holroyd retired from the Board and also from the Committee. He was replaced with Rudi Lamprecht and we continue to be supported by Marisa Cassoni, our Audit Committee Chair. The Remuneration Committee now meets the independence criteria set out in the UK Corporate Governance Code following these changes. As with previous years, together we will continue to ensure that the remuneration of our key Executives is appropriate, transparent and aligns long-term strategic objectives with the corporate culture throughout the organisation and with the interests of shareholders.

During the year to 31 March 2016 there were three formal meetings of the Remuneration Committee, one of which Rudi Lamprecht was unable to attend but otherwise full attendance was achieved.

## Shareholder feedback

The Remuneration Committee recognises that the fostering of a close relationship with shareholders can complement the work of the Committee in developing the remuneration policy and welcomes any feedback that shareholders may have. I will be available at the AGM on 21 July 2016 to answer any questions shareholders may have regarding the work of the Remuneration Committee.

**Brian McBride**
Chairman, Remuneration Committee
AO World Plc
8 June 2016

# Policy Report

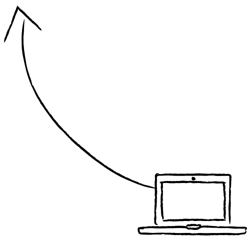
This part of the Directors' Remuneration Report sets out the remuneration policy for the Company ("the Policy") and has been prepared in accordance with the Companies Act 2006, Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the UKLA's Listing Rules. The Policy has been developed taking into account the principles of the UK Corporate Governance Code ("the Code").

The Policy was put to a binding shareholder vote at the 2014 AGM and received approval from the vast majority of shareholders. It is intended that the policy will apply for three years from the date of approval. For the purpose of clarity and transparency the Policy is being restated in full here. Slight amendments have been made to the report such that it can be read in the context of the 2016/17 financial year (e.g. the reward scenarios charts have been updated).

## Role of the Remuneration Committee in setting policy

The Committee is responsible for determining, on behalf of the Board, the Company's policy on the remuneration of the Executive Directors, the Chairman and other senior executives of the Group.

The Committee's overarching aims in setting the remuneration policy are to attract, retain and motivate high-calibre senior management and to focus them on the delivery of the Group's strategic and business objectives, to promote a strong and sustainable performance culture, to incentivise growth and to align the interests of Executive Directors and senior managers with those of shareholders. In promoting these objectives the Committee aims to ensure that no more than is necessary is paid and has set a policy framework that is structured so as to adhere to the principles of good corporate governance and appropriate risk management. The Committee also recognises the importance of promoting a strong "collegiate culture" and this is reflected in the approach to consistency in the application of the policy across the whole senior management population.



**The Committee's terms of reference are available on the Company's website at www.ao.com/corporate.**

## How the views of shareholders are taken into account

The Committee understands that constructive dialogue with shareholders plays a key role in informing the development of a successful remuneration policy and will seek to actively engage with shareholders in these matters. The Committee will consider shareholder feedback received in relation to the AGM each year. Any such feedback, plus any additional feedback received from time to time, will be considered as part of the Company's annual review of the policy.

In addition, when it is proposed that any material changes are to be made to the remuneration policy, the Remuneration Committee Chairman will inform major shareholders of these in advance and will ensure that there is opportunity for discussion, in order that any views can be properly reflected in the policy formulation process.

## Consideration of employment conditions elsewhere in the Group

The Company does not formally consult with employees on executive remuneration. However, when setting the remuneration policy for Executive Directors, the Committee takes into account the overall approach to reward for, and the pay and employment conditions of, other employees in the Group. This process ensures that any increase to the pay of Executive Directors is set in an appropriate context and is appropriate relative to increases proposed for other employees. The Committee is also provided with periodic updates on employee remuneration practices and trends across the Group.

## Consideration of the impact of remuneration on risk

The Committee is committed to keeping the balance between reward and risk under review to ensure the remuneration policy is aligned appropriately with the risk appetite of the Company. The Committee remains satisfied that the current Policy is appropriately aligned with the risk profile of the Company and that the remuneration arrangements do not encourage excessive risk taking.

## Summary of our remuneration policy

The table below provides a summary of the key aspects of the Company's remuneration policy for Executive Directors.

| Element | Base salary | Annual bonus |
|---|---|---|
| **Purpose and link to strategy** | – To aid the recruitment and retention of high-calibre Executives<br>– To reflect experience and expertise<br>– To provide an appropriate level of fixed basic income | – To reward the delivery of annual objectives relating to the business strategy |
| **Operation** | – Reviewed annually, effective 1 April<br>– Set initially at a level required to recruit suitable executives reflecting their experience and expertise<br>– Any subsequent increase influenced by (a) scope of the role; (b) experience and personal performance in the role; (c) average change in total workforce salary; (d) performance of the Company; and (e) external economic conditions, such as inflation<br>– Periodic account of practice in comparable companies (e.g. those of a similar size and complexity) taken<br>– No clawback or recovery provisions apply | – All bonus payments are at the discretion of the Committee<br>– Not pensionable<br>– Payable in cash following the end of the year based on targets set at the start of the year<br>– Targets are set and reviewed annually<br>– Clawback provisions apply in certain circumstances (including where there has been a misstatement of accounts, an error in assessing any applicable performance condition, or in the event of misconduct on the part of the participant) |
| **Maximum opportunity** | – Annual increases will generally be linked to those of the average of the wider workforce<br>– Increases beyond those awarded to the wider workforce (in percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group | – Up to 150% of salary for all Executive Directors, dependent on performance, but a lower maximum may be operated |
| **Framework used to assess performance** | – The Committee reviews the salaries of Executive Directors each year taking due account of all the factors described in how the salary policy operates | – Bonuses are based on performance measures with stretching targets as set and assessed by the Committee in its discretion<br>– Financial measures (e.g. EBITDA) will represent the majority of bonus, with any other measures representing the balance<br>– Up to 25% of bonus will be payable for achievement of a threshold level of performance<br>– Measures and weightings may change each year to reflect any year-on-year changes to business priorities |

**Bonuses are based on performance measures with stretching targets.**

**Performance metrics and targets are carefully selected and aligned to the Company's strategic plan.**

| Performance Share Plan ("PSP") | Pension | Other benefits |
|---|---|---|
| – Intended to align the long-term interests of Executives with those of shareholders<br>– To incentivise the delivery of key strategic objectives over the longer term | – To aid recruitment and retention<br>– To provide an appropriate level of fixed income | – To provide a competitive benefits package to aid recruitment and retention |
| – The PSP was introduced on Admission in 2014. Awards of free performance shares may be granted annually in the form of conditional awards or nil cost options<br>– Vesting is dependent on performance targets being met during the performance period and continued service of the Directors<br>– A dividend equivalent provision exists which allows the Committee to pay dividends on vested shares at the time of vesting<br>– Clawback provisions apply in certain circumstances (including where there has been a misstatement of accounts, an error in assessing any applicable performance condition, or in the event of misconduct on the part of the participant) | – Executive Directors may receive an employer's pension contribution | – Directors are entitled to benefits including a car allowance or company car, private family medical cover, death in service life assurance and other Group-wide benefits offered by the Company. Executive Directors are also eligible to participate in any all-employee share plans operated by the Company, in line with HMRC guidelines currently prevailing (where relevant), on the same basis as for other eligible employees |
| – Maximum limit contained within the plan rules is 200% of salary although up to 300% of salary may be made in exceptional circumstances<br>– Normal policy awards may be made at lower levels than this | – Employer's defined contribution up to 12.75% of salary | – The value of benefits may vary from year to year depending on the cost to the Company |
| – Awards vest based on challenging targets measured over a three-year period, the majority of which will normally be based on financial performance metrics<br>– Prior to each award the Committee will set threshold and stretch targets along with an intermediate vesting range. Details of this will be disclosed in advance in the Annual Report on Remuneration unless the targets are commercially sensitive, in which case they will be disclosed retrospectively<br>– No more than 25% vests at threshold | – N/A | – N/A |

### Awards granted prior to the effective date
For the avoidance of doubt, authority is given to the Company to honour any commitments entered into with Directors prior to adoption of the Policy.

### Annual bonus plan and PSP policy
The Committee will operate the annual bonus plan and PSP according to the rules of each respective plan and taking into account normal market practice and the Listing Rules, including flexibility in a number of regards. While it does not intend to alter the operation of these plans frequently, the Committee retains discretion over the following areas (working within the Policy):

- Who participates in the plans.
- When to make awards and payments.
- How to determine the size of an award, a payment, or when and how much of an award should vest.
- How to deal with a change of control or restructuring of the Group.
- Whether a Director is a good/bad leaver for incentive plan purposes and whether and what proportion of awards vest at the time of leaving or at the original vesting date(s).
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends).
- What the weighting, measures and targets should be for the annual bonus plan and PSP from year to year.

The Committee also retains the discretion within the policy to adjust targets and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the PSP if events happen that cause it to determine that the conditions are unable to fulfil their original intended purpose.

### Choice of performance measures and approach to target setting
The performance metrics and targets that are set for the Executive Directors via the annual bonus plan and PSP are carefully selected to align closely with the Company's strategic plan.

In terms of annual performance targets the bonus is determined on the basis of performance against specific performance indicators and strategic objectives set annually. The precise metrics chosen, along with the weightings of each, may vary in line with the Company's evolving strategy from year to year. The Committee will review the performance measures and targets each year and vary them as appropriate to reflect the priorities for the business in the year ahead.

In terms of the long-term performance targets, PSP awards will be set at the time of each grant but will normally include a majority based on financial performance in line with our key objectives of delivering profitable growth and delivering superior returns to our shareholders. Where possible, the Committee will disclose the targets for each of the Executive Directors' awards in advance in the Annual Report on Remuneration, but targets will generally be disclosed retrospectively where they are considered to be commercially sensitive. The Committee will review the choice of performance measures and the appropriateness of the performance targets prior to each PSP grant and will consult with major shareholders in the event of any significant proposed change.

Challenging targets are set whereby modest rewards are payable for the delivery of threshold levels of performance, rising to maximum rewards for the delivery of substantial out-performance of our financial and operating plans.

### Share ownership guidelines
The Committee's policy is to have formal shareholding guidelines for the Executive Directors which create alignment between their interests and those of shareholders.

The required level is set at at least 100% of salary. Where the holding is not already attained it is required to be achieved through retention of shares or the vesting of awards (on a net of tax basis) from share plans.

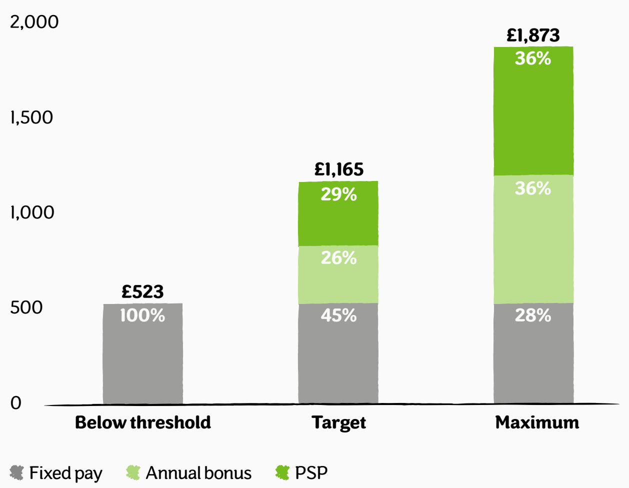
### Differences in remuneration policy for Executive Directors compared to other employees
The Committee has regard to pay structures across the wider Group when setting the remuneration policy for Executive Directors. The Committee considers the general basic salary increase for the broader workforce when determining the annual salary review for the Executive Directors.

Overall, the remuneration policy for the Executive Directors is more heavily weighted towards performance-related pay than for other employees. In particular, performance-related long-term incentives are not provided outside of senior management as they are reserved for those considered to have the greatest potential to influence overall levels of performance. That said, whilst the use of the PSP is confined to the senior managers in the Group, the Company is committed to widespread equity ownership, it has historically rolled out, and intends in the future to roll-out, an all-employee SAYE scheme on an annual basis, in which Executive Directors are eligible to participate on a consistent basis to all other employees.

The level of performance-related pay varies within the Group by grade of employee, but the Policy is applied consistently across each grade of the senior management population.

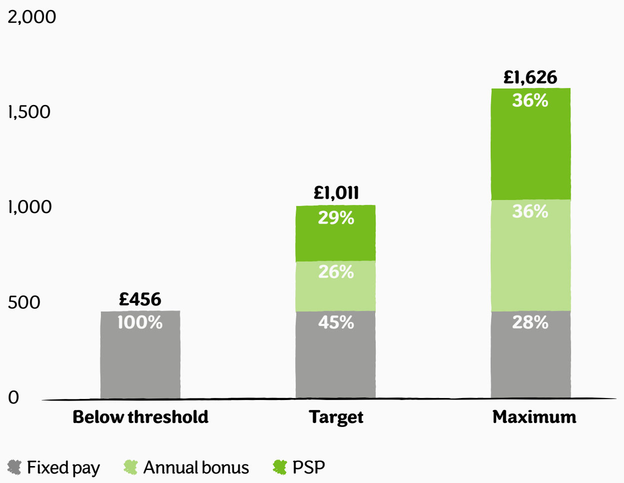
### Reward scenarios
Under the Policy, a significant proportion of remuneration received by Executive Directors is variable and dependent on the performance of the Company. The charts below illustrate how the total pay opportunities for the Executive Directors vary under three different performance scenarios: below target, on-target and maximum, based on implementation of the bonus and PSP for the year ahead.

**CEO total remuneration opportunity at different levels of performance**
**(£000)**



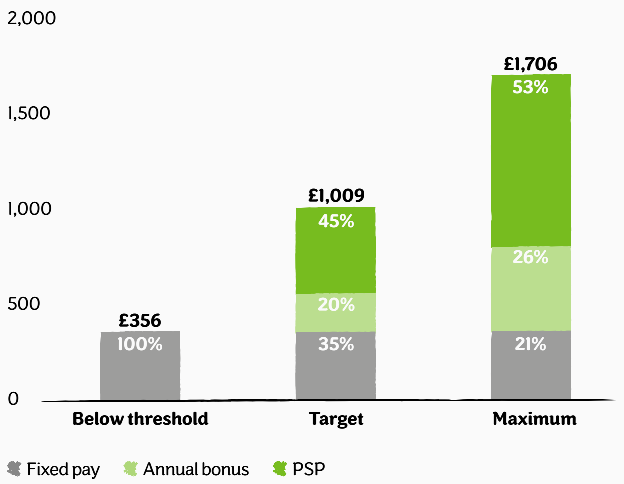
## COO total remuneration opportunity at different levels of performance

**(£000)**




## CFO total remuneration opportunity at different levels of performance

**(£000)**




**The charts are indicative as share price movement and dividend accrual have been excluded.**

Assumptions:
- Below threshold = fixed pay only (i.e. basic salary, benefits and pension).
- Target = fixed pay plus 45% of maximum bonus payout and 50% vesting under the PSP.
- Maximum = fixed pay plus 100% of bonus payout and 100% PSP vesting.
- Fixed pay includes the base salaries for each Executive Director applying on 1 April 2016 together with pension (at 12.75% of base salary), a car allowance of £12,000 for each Executive Director and the value of other taxable benefits (such as gym membership and medical cover) based on the cost of supplying those benefits.
- Maximum bonus is equivalent to 150% of salary and PSP awards equivalent to 150% of base salary, save for Mark Higgins where the PSP award in respect of the current financial year is 300% of salary.

### Service contracts and loss of office payments

Service contracts normally continue until the Executive Director's agreed retirement date or such other date as the parties agree. The Company's policy is that Executive Directors will be employed on a contract that can be terminated by the Company on giving no less than one year's notice, with the Executive Director required to give no less than one year's notice of termination also.

A Director's service contract may be terminated without notice and without any further payment or compensation, except for sums earned up to the date of termination, on the occurrence of certain events such as gross misconduct. The circumstances of the termination (taking into account the individual's performance) and an individual's duty and opportunity to mitigate losses are taken into account by the Committee when determining amounts payable on/following termination. Our Policy is to reduce compensatory payments to former Executive Directors where they receive remuneration from other employment during the notice period. The Committee will consider the particular circumstances of each leaver on a case-by-case basis and retains flexibility as to at what point, and the extent to which, payments would be reduced. Details will be provided in the relevant Annual Report on Remuneration should such circumstances arise.

In summary, the contractual provisions are as follows:

| Provision | Detailed terms |
|---|---|
| Notice period | 12 months from both the Company and the Executive Directors |
| Termination payment | Payment in lieu of notice of 115% of base salary, which is calculated so as to cover the value of contractual benefits and pension, normally subject to mitigation and paid monthly*<br><br>In addition, any statutory entitlements would be paid as necessary |
| Change of control | There will be no enhanced provisions on a change of control |

* The Committee may elect to make a lump sum termination payment (up to a maximum of 12 months' base salary and contractual benefits) as part of an Executive Director's termination arrangements where it considers it appropriate to do so.

### Annual bonus on termination

There is no contractual entitlement to any part of the annual bonus on termination. At the discretion of the Committee, in certain circumstances a pro-rata bonus may become payable at the normal payment date for the period of active service only. In all cases performance targets would apply, normally measured over the whole financial year.

### PSP on termination

Any share-based entitlements granted under the Company's share plans will be determined on the basis of the relevant plan rules. In determining whether an Executive Director should be treated as a good leaver under the plan rules the Committee will take into account the performance of the individual and the reasons for their departure. In the event the Committee does class an Executive as a good leaver, the Committee will set out its rationale in the Annual Report on Remuneration following departure. Awards ordinarily vest on a time pro-rata basis subject to the satisfaction of the relevant performance criteria with the balance of the awards lapsing. The Committee retains discretion to alter the basis of time pro-rating if it deems this appropriate. However, if the time pro-rating is varied from the default position, an explanation will be set out in the Annual Report on Remuneration following departure. For the avoidance of doubt, performance conditions will always apply to awards for good leavers, although the Committee may determine that it is appropriate to assess performance over a different period than the default three-year period.

### Approach to recruitment and promotions

The remuneration package for any new Executive Director would be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. In addition, with specific regard to the recruitment of new Executive Directors (whether by external recruitment or internal promotion), the remuneration policy will allow for the following:

- Where new joiners or recent promotions have been given a starting salary at a discount to the mid-market level, a series of increases above those granted to the wider workforce (in percentage of salary terms) may be awarded over the proceeding few years, subject to satisfactory individual performance and development in the role.
- The Policy permits PSP awards of up to 300% of salary in exceptional circumstances such as recruitment. The Committee may also offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company and shareholders. Any such additional payments would be based solely on remuneration relinquished when leaving the former employer and would reflect (as far as possible) the nature and time horizons attaching to that remuneration and the impact of any performance conditions. Replacement share awards, if used, will be granted using the Company's PSP (up to the plan limit of 300% of salary) to the extent possible. Awards may also be granted outside of the Company's existing PSP if necessary and as permitted under the Listing Rules. Shareholders will be informed of any such payments at the time of appointment.
- The maximum variable pay that could be awarded (excluding buy-out awards) is 450% of salary (bonus of 150% of salary and PSP of 300% of salary).
- The annual bonus would operate in accordance with the terms of the approved policy then in force, albeit with the opportunity pro-rated for the period of employment. Depending on the timing and responsibilities of the appointment it may be necessary to set different performance measures and targets in the first year.
- For an internal executive appointment, any variable pay element awarded in respect of the former role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment would continue.
- For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as appropriate.

For the appointment of a new Chairman or Non-Executive Director, the fee arrangement would be set in accordance with the approved fee structure policy in force at that time.

### Chairman and Non-Executive Directors' letters of appointment

The Chairman and Non-Executive Directors do not have service contracts with the Company, but instead have letters of appointment. The letters of appointment are usually renewed every three years. Termination of the appointment may be earlier at the discretion of either party on three months' written notice. None of the Non-Executive Directors is entitled to any compensation if their appointment is terminated. Appointments will be subject to re-election at the AGM.

### Non-Executive Directors' fees

The Non-Executive Directors' fees policy is described below:

| Element | Purpose and link to strategy | Operation | Maximum opportunity |
|---|---|---|---|
| Fees | To recruit and retain high calibre non-executives | – Fees are determined by the Board, with Non-Executive Directors abstaining from any discussion or decision in relation to their fees.<br>– Non-Executive Directors are paid an annual fee and do not participate in any of the Company's incentive arrangements or receive any pension provision.<br>– The Chairman is paid a consolidated all-inclusive fee for all Board responsibilities.<br>– The Non-Executive Directors receive a basic Board fee, with additional fees payable for chairing the Audit, Nomination and Remuneration Committees and for performing the Senior Independent Director role.<br>– The fee levels are reviewed on a periodic basis, with reference to the time commitment of the role and market levels in companies of comparable size and complexity.<br>– Non-Executive Directors shall be entitled to have reimbursed all fees that they reasonably incur in the performance of their duties. | There is no cap on fees. Non-Executive Directors are eligible for fee increases during the three-year period that the remuneration policy operates to ensure they continue to appropriately recognise the time commitment of the role, increases to fee levels for Non-Executive Directors in general and fee levels in companies of a similar size and complexity. |

# Annual Report on Remuneration

As set out in our last Annual Report, the Annual Remuneration for the year ended 31 March 2016 was structured within the framework of the Policy and has been implemented accordingly. This will be put to an advisory vote at the Company's AGM on 21 July 2016.

## Single figure of total remuneration for 2015/2016

The audited table below shows the aggregate emoluments earned by the Directors of the Company during the period 1 April 2015 to 31 March 2016 and those earned during the period 1 April 2014 to 31 March 2015.

| | | Salaries and fees £ | Benefits[1] £ | Pension[2] £ | Bonus £ | Value of SAYE[3] £ | Value of PSP[4] £ | Total £ |
|---|---|---|---|---|---|---|---|---|
| **Chairman** | | | | | | | | |
| Richard Rose | 2015/16 | 135,000 | 2,264 | – | – | – | – | **137,264** |
| | 2014/15 | 135,000 | – | – | – | – | – | **135,000** |
| **Executive Directors** | | | | | | | | |
| John Roberts | 2015/16 | 450,000 | 13,289 | 57,375 | 67,500 | – | – | **588,164** |
| | 2014/15 | 450,000 | 16,091 | 57,375 | – | 4,497 | – | **527,963** |
| Steve Caunce | 2015/16 | 390,000 | 14,686 | 49,725 | 58,500 | 4,484 | – | **517,395** |
| | 2014/15 | 390,000 | 15,804 | 49,725 | – | 4,488 | – | **460,017** |
| Mark Higgins[5] | 2015/16 | 173,333 | 11,791 | 22,100 | 39,000 | – | – | **246,224** |
| **Non-Executive Directors** | | | | | | | | |
| Christopher Hopkinson | 2015/16 | 45,000 | – | – | – | – | – | **45,000** |
| | 2014/15 | 45,000 | – | – | – | – | – | **45,000** |
| Brian McBride | 2015/16 | 60,000 | 891 | – | – | – | – | **60,891** |
| | 2014/15 | 50,000 | – | – | – | – | – | **50,000** |
| Marisa Cassoni | 2015/16 | 55,000 | 793 | – | – | – | – | **55,793** |
| | 2014/15 | 55,000 | – | – | – | – | – | **55,000** |
| Rudi Lamprecht | 2015/16 | 45,000 | 3,224 | – | – | – | – | **48,224** |
| | 2014/15 | 45,000 | – | – | – | – | – | **45,000** |
| Charles (Bill) Holroyd[6] | 2015/16 | 15,000 | – | – | – | – | – | **15,000** |
| | 2014/15 | 50,000 | – | – | – | – | – | **50,000** |
| **Total 2015/16** | | | | | | | | **1,713,687** |

1 For John Roberts and Steve Caunce benefits include gym membership, medical and life assurance and a car allowance of £12,000 paid in cash, for both years reported. For Mark Higgins, benefits include gym membership, medical and life assurance, car allowance and private fuel since his appointment on 1 August 2015. Benefits for the Non-Executive Directors are the values of expenses incurred in connection with attending Board meetings and Company events which the Company has paid for and, in the case of Richard Rose, the value of private use of certain assets.

2 Executive Directors are entitled to company pension contributions of 12.75% of basic salary.

3 For the year 2014/15 we have included a value attributable to SAYE options granted. John Roberts participated in full in the 2014 AO Sharesave Scheme (launched in May 2014) on the same basis as other employees and was granted 7,093 SAYE options. Steve Caunce participated in full in the 2015 AO Sharesave Scheme (launched in January 2015) on the same basis as other employees and was granted 7,929 SAYE options. However, during the 2015/16 financial year Steve withdrew from the 2015 AO Sharesave Scheme and entered into the 2016 AO Sharesave Scheme and thus we have included a value in this year's numbers (but have left the numbers for 2014/15 as previously reported). Mark Higgins has not participated in any SAYE Schemes. In all cases the SAYE value is calculated by multiplying the number of shares under option by the value of discount (in pounds) at the time the scheme was launched. The exercise price for each award was set at 80% of the market value of the share price prior to the scheme launch.

4 No awards were eligible to vest based on performance periods ending in the year 2015/16.

5 Mark Higgins was appointed to the Board of Directors of the Company on 1 August 2015. Reported remuneration is that earned in the year under review since the date of his appointment.

6 Charles Holroyd resigned as Director of the Company on 21 July 2015.

## Details of variable pay earned in 2015/16

### Annual bonus payments

The annual bonus scheme for the year ended 31 March 2016 consisted mainly of financial targets relating to the UK business, addressing both top line growth and profit growth and for the Europe segment stretching targets for the exit run rates of revenue and profit. The Company's financial performance missed the thresholds set. These comprised stretching targets for UK revenue and UK Adjusted EBITDA which were missed by 2.5% and 18% respectively together with challenging revenue and profitability targets for the Europe segment which were also missed. However, 10% of the maximum bonus was payable for meeting a strategic objective, namely the launch of the AO business in a further country, which was achieved during the year with the launch of AO.nl.

### Long-term incentive payments

No long-term incentive plans were in place prior to IPO and therefore no awards were eligible to vest based on performance ending in the year under review.

## Implementation of remuneration policy for 2016/17

### Salary

The Executive Directors' salaries were reviewed shortly prior to the end of financial year under review and no increase was awarded to John Roberts or Steve Caunce. The Committee has approved a salary for Mark Higgins for the current financial year, based on his broad duties as CFO. The Committee expects that there will be material increases for the next two to three years based on both Company and his individual performance and as his experience grows.

The Executive Directors will next be eligible for a salary review in early 2017, with any changes to be effective from 1 April 2017. For comparison, the average salary increase provided to UK employees in April 2016 was 3%.

The current salaries as at 1 April 2016 (and those as at 1 April 2015) are as follows:

| | Base salary at 1 April 2016 | Base salary at 1 April 2015 | % increase |
|---|---|---|---|
| John Roberts | £450,000 | £450,000 | 0% |
| Steve Caunce | £390,000 | £390,000 | 0% |
| Mark Higgins | £300,000 | N/A | N/A |

### Pension and other benefits

Executive Directors will continue to receive an employer's pension contribution (or a cash allowance in lieu of pension) at the rate of 12.75% of base salary.

Executives will also receive benefits comprising a car allowance of £12,000 each, private family medical cover, gym membership and death in service life assurance and the Company will continue to pay for Mark Higgins' private fuel.

### Annual bonus

The operation of the bonus plan for 2016/17 will be consistent with the framework detailed in the Policy. For Executive Directors, the maximum bonus opportunity for 2016/17 will be capped at 150% of basic salary.

The performance measures have been selected to support the key strategic objectives and goals of the Company. For 2016/17 three financial metrics will be used to determine the bonus payments of the Executive Directors, split as follows:

(1) Group Revenue;
(2) Group Adjusted EBITDA (excluding non-recurring costs relating to major strategic projects and share-based payment charges attributable to exceptional LTIP Awards which the Board consider one-off in nature); and
(3) Cash flow.

35% of the maximum bonus will relate to Group Revenue achievements, 35% to Group Adjusted EBITDA and a further 10% to the cash-flow performance target. In addition, 20% of the notional bonus pool will be subject to an assessment of performance against key strategic milestones. The performance metrics are stand-alone and will be assessed independently.

In accordance with Policy, no more than 25% of the maximum bonus entitlement will be payable at threshold level; for "on target" performance across the Group 45% will be payable, rising to 100% of maximum for significantly outperforming the Group's plans and consensus forecasts, based on the Committee's assessment of achievement against the targets set.

The Committee considers that the targets themselves, in relation to the 2016/17 financial year, are commercially sensitive and therefore plans to disclose them only on a retrospective basis. Details of the targets, performance against those targets, and any payments resulting, will be disclosed, as far as possible, in next year's Annual Report on Remuneration, save where they remain commercially sensitive.

### Long-term incentives

With Mark Higgins now on the Executive Board, the Committee feels it is now an appropriate time for all Executives to participate in the PSP so that all Executive Directors are on the incentive plan and are "pulling together".

It is intended that John Roberts and Steve Caunce will be granted awards with a value equivalent to 150% of salary at the award date, in line with the normal application of the Policy. However, for Mark Higgins, the Committee intends to make an enhanced award of 300% of salary as part of his remuneration package, for the reasons set out in the Chairman's statement at the start of this report.

The performance conditions comprise a relative TSR metric together with Revenue and Group Adjusted EBITDA Targets. Performance will be assessed in relation to the final year of the performance period i.e. for FY19. The Committee believes these metrics provide the appropriate balance vis a vis long-term growth of the Company and shareholder return and that the targets themselves are suitably stretching and in line with Company's three-year plan. The relative TSR measure is calculated against the general retailer constituents of the FTSE 250, with vesting commencing at median (25% of this part of the award) and with full vesting at upper quartile levels. The Group Adjusted EBITDA ("GAE") measure will require GAE of above £23m (25% vesting of this part of the award) and with full vesting at GAE above £35m for the year ending 31 March 2019, whilst the Revenue Growth measure will require Revenue growth of over 50% (25% vesting of this part of the award) with full vesting at above 120% growth over the three-year performance period.

### All-employee share plans

The Company proposes to roll-out a new SAYE Scheme each year and the Executive Directors will be entitled to participate on the same basis as other employees.

### Share ownership requirements

The required share ownership level for the Executive Directors for 2016/17 will be 200% of salary. There are no share ownership requirements for the Non-Executive Directors.

### Non-Executive Director fees

The fee structure and fee levels of the Non-Executive Directors were reviewed at the end of the financial year and due to increases in the market in general, together with increased time commitment, the basic fee for the Non-Executive Directors has been increased by £5,000 per annum.

As is disclosed elsewhere in the Annual Report, Richard Rose will step down as Chairman at the AGM and Geoff Cooper will be appointed to the Board on 1 July 2016 to replace him, subject to re-election at that meeting. Geoff's proposed remuneration has been benchmarked and agreed at a level of £165,000 per annum. This will be a consolidated all-inclusive fee for all Board responsibilities, including chairing the Nomination Committee.

No other changes to Non-Executive Director fees have been made. Accordingly, the fees payable per annum for 2016/17 are shown in the table below.

| Non-Executive Director fees | |
|---|---|
| Chairman fee covering all Board duties | £135,000/£165,000 |
| Non-Executive Director basic fee | £50,000 |
| *Supplementary fees to Non-Executive Directors covering additional Board duties* | |
| Audit Committee Chairman fee | £10,000 |
| Remuneration Committee Chairman fee | £10,000 |
| Senior Independent Director fee | £5,000 |

### Payments to past Directors and loss of office payments

There were no payments to past Directors or loss of office payments made in the year ended 31 March 2016.

### Directors' shareholdings

| | Shares held beneficially[1] at 31 March 2016 | Target shareholding guidelines (% of salary) | Target shareholding achieved | Options[2] |
|---|---|---|---|---|
| Richard Rose | 723,443 | N/A | N/A | N/A |
| John Roberts | 109,393,583 | 100% | Yes | 7,093 |
| Steve Caunce | 52,122,730 | 100% | Yes | 14,400 |
| Mark Higgins | 23,928 | 100% | No | 637,272 |
| Christopher Hopkinson | 22,201,590 | N/A | N/A | N/A |
| Brian McBride | 52,628 | N/A | N/A | N/A |
| Marisa Cassoni | 52,628 | N/A | N/A | N/A |
| Rudolf Lamprecht | 52,628 | N/A | N/A | N/A |
| Charles (Bill) Holroyd[3] | 19,815,810 | N/A | N/A | N/A |

1 Includes shares held by connected persons.
2 Includes SAYE options and options granted under the PSP.
3 Bill Holroyd was a director during the year but retired at the AGM on 21 July 2015.

In the period from 1 April 2016 to the date of this report, John Roberts gifted 150,000 shares in the Company to charity and Steve Caunce and Linda Caunce (Steve's spouse) made gifts to charity of 320,000 and 120,000 shares in the Company, respectively .

### Percentage change in remuneration levels

The table below shows the movement in the salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared to that for the average employee. For the benefits and bonus per employee, this is based on those employees eligible to participate in such schemes.

| | Chief Executive | Average per employee |
|---|---|---|
| Salary | 0% | 3%[1] |
| Benefits | 0% | 0%[2] |
| Bonus | >100% | >100%[3] |

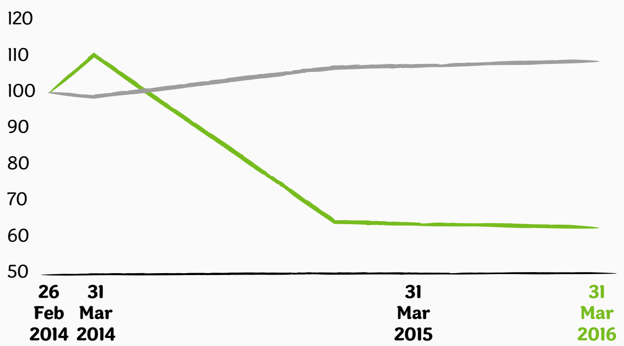
1 Reflects the average change in pay for employees, calculated by reference to the aggregate remuneration for all employees in each year divided by the average number of employees.
2 There are no changes to benefit entitlements.
3 Neither the Chief Executive nor employees eligible to participate in a bonus scheme received a bonus in the year ended 31 March 2015. John Roberts received 10% of his maximum bonus entitlement for the year ended 31 March 2016 as did the other Executive Directors. Other employees eligible to participate in the Group's bonus scheme received 20% of their maximum bonus entitlement.

## Performance graph and pay table

The chart below shows the Company's TSR performance against the performance of the FTSE 250 Index from 25 February 2014 (the date on which the Company's shares were first conditionally traded) to 31 March 2016. This index was chosen as it represents a broad equity market index which includes companies of a broadly comparable size and complexity.

### Total Shareholder Return

**(Rebased)**




This graph shows the value, by 31 March 2016, of £100 invested in AO World plc on 26 February 2014 (being the date that shares were first admitted to trading) compared with the value of £100 invested in the FTSE 250 Index.

AO World   FTSE 250

Source: Datastream (Thomson Reuters)

The table below shows the total remuneration figure for the Chief Executive during the financial years ending 31 March 2010 to 31 March 2016. The total remuneration figure includes the annual bonus payable for performance in each of those years. No long-term incentives were eligible for vesting based on performance ending in any of those years. The annual bonus percentage shows the payout for each year as a percentage of the maximum.

| | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|---|---|
| Total remuneration (£'000) | 680 | 292 | 243 | 227 | 537 | 537 | 588 |
| Annual bonus (%) | 59% | 18% | 0% | 0% | 0% | 0% | 10% |
| PSP vesting (%) | – | – | – | – | – | – | – |

## Relative importance of the spend on pay

The table below shows the movement in spend on staff costs versus that in distributions to shareholders.

| | 2014/15 | 2015/16 | % change |
|---|---|---|---|
| Staff costs (£'000)[1] | £46,480 | £59,901 | 28.9% |
| Distributions to shareholders[2] | No distributions were made to shareholders in the year | | |

[1] Includes base salaries, social security and pension.
[2] Distributions to shareholders prior to the date of listing have been excluded.

## Details of Directors' service contracts and letters of appointment

Details of the service contracts and letters of appointment in place as at 31 March 2016 for Directors are as follows:

| Director and date of service contract or letter of appointment | Unexpired term | Notice period by Company (months) | Notice period by Director (months) | Date joined Group |
|---|---|---|---|---|
| Marisa Cassoni 31/01/2014 | Initial term of three years from date of letter subject to notice | 3 | 3 | 05/02/2014 |
| Steve Caunce 14/02/2014 | Continuous employment until terminated by either party | 12 | 12 | 13/10/2005 |
| Mark Higgins 31/05/2014 | Continuous employment until terminated by either party | 12 | 12 | 10/07/2011 |
| Christopher Hopkinson 14/02/2014 | Initial term of three years from date of letter subject to notice | 3 | 3 | 12/12/2005 |
| Rudi Lamprecht 17/02/2014 | Initial term of three years from date of letter subject to notice | 3 | 3 | 17/01/2014 |
| Brian McBride 17/02/2014 | Initial term of three years from date of letter subject to notice | 3 | 3 | 06/02/2014 |
| John Roberts 14/02/2014 | Continuous employment until terminated by either party | 12 | 12 | 19/04/2000 |
| Richard Rose 14/02/2014 | Initial term of three years from date of letter subject to notice | 3 | 3 | 01/08/2008 |

### External appointments
No fees were received by Executive Directors for external appointments during the year ended 31 March 2016.

### Remuneration Committee membership
The members of the Committee were for the year in question Brian McBride (Chairman), Marisa Cassoni, Bill Holroyd (until his retirement in July 2015) and Rudi Lamprecht (since Bill's retirement in July 2015). All current members of the Committee are deemed to be independent and accordingly, the Committee now complies with the independence requirements set out in the Code.

The responsibilities of the Committee are set out in the Corporate Governance section of the Annual Report on page 59. The Executive Directors may be invited to attend meetings to assist the Committee in its deliberations as appropriate. The Committee may also invite other members of the management team to assist as appropriate. No person is present during any discussion relating to their own remuneration or is involved in deciding their own remuneration.

### Advisers to the Committee
New Bridge Street ("NBS") provides advice in relation to remuneration and share plans both for Executive Directors and the wider senior management population and was appointed by the Committee.

NBS are signatories to the Remuneration Consultants Group Code of Conduct and any advice provided by them is governed by that code. NBS's terms of engagement are available on request from the Company Secretary. NBS is a trading name of Aon Hewitt Limited (an Aon Plc company) which, other than acting as independent consultant to the Committee, provided no further services to the Company during the year. The Committee is committed to regularly reviewing the external advisor relationship and is comfortable that NBS's advice remains objective and independent. For the year under review NBS's total fees charged were £12,650 plus VAT.

### Shareholder feedback
During the IPO process, the views of potential shareholders were canvassed and taken into account when formulating the Directors' remuneration policy, which was, as noted below, approved by the majority of shareholders at the AGM in July 2014. As there are no proposed changes to the Policy, the Committee has not sought further shareholder feedback over the year. The Committee has, however, monitored developments in market trends and in the best practice expectations of investors as part of the ongoing review of how the Policy is implemented. As ever, the Committee welcomes any enquiries or feedback shareholders may have on the Policy or the work of the Committee.

At the 2015 AGM, the Annual Remuneration Report for the year ended 31 March 2015 was put to shareholders by way of an advisory vote and received approval from shareholders holding in aggregate 348,021,488 shares (over 99.77% of votes cast with only 0.23% of votes cast against; total votes withheld 165,788). The Policy was put to a binding shareholder vote at the Company's AGM in 2014 and received approval from the vast majority of shareholders holding in aggregate 305,302,957 shares (over 99.6% of votes cast with only 0.38% of votes cast against; total votes withheld 2,667,260).

### Audited information
The Group's Auditor, Deloitte, has audited the single figure total remuneration table in the Annual Report on Remuneration.

This report has been approved on behalf of the Board by:

**Brian McBride**
Chairman, Remuneration Committee
AO World Plc
8 June 2016

# Directors' Report

**The Directors have pleasure in submitting their report and the audited financial statements of AO World Plc (the "Company") and its subsidiaries (together the "Group") for the financial year to 31 March 2016.**

## Statutory Information

Information required to be part of the Directors' Report can be found elsewhere in this document, as indicated in the table below and is incorporated into this Report by reference:

| Statutory Information | Section | Page |
|---|---|---|
| Amendment of the Articles | Directors' Report | 71 |
| Appointment and replacement of Directors | Directors' Report | 70 |
| Board of Directors | Corporate Governance Statement | 44 and 45 |
| Change of control | Directors' Report | 71 |
| Community | Strategic Report; Corporate Social Responsibility | 26 to 31 |
| Directors' indemnities | Directors' Report | 72 |
| Directors' interests | Remuneration Report | 67 |
| Directors' responsibility statement | Directors' Report | 73 |
| Disclosure of information to Auditors | Directors' Report | 73 |
| Employee involvement | Strategic Report; Corporate Social Responsibility | 26 to 31 |
| Employees with disabilities | Strategic Report; Corporate Social Responsibility | 28 |
| Future developments of the business | Strategic Report | 4 to 36 |
| Going concern | Strategic Report | 25 |
| Greenhouse gas emissions | Corporate Social Responsibility | 31 |
| Independent Auditor | Directors' Report | 76 |
| Results and dividends | Directors' Report | 72 |
| Political donations | Directors' Report | 72 |
| Post-balance sheet events | Directors' Report | 72 |
| Powers for the Company to issue or buy back its shares | Directors' Report | 71 |
| Powers of the Directors | Directors' Report | 71 |
| Research and development activities | Directors' Report | 72 |
| Restrictions on transfer of securities | Directors' Report | 71 |
| Rights attaching to shares | Directors' Report | 71 |
| Risk management | Strategic Report; Note 35 to the consolidated financial statements | 22 to 25 |
| Share capital | Directors' Report | 71 |
| Significant related party agreements | Note 36 to the consolidated financial statements | 102 |
| Significant shareholders | Directors' Report | 72 |
| Statement of corporate governance | Corporate Governance Statement | 40 to 69 |
| Voting rights | Directors' Report | 71 |

## Management Report

This Directors' Report, on pages 70 to 73, together with the Strategic Report on pages 4 to 39, form the Management Report for the purposes of DTR 4.1.5R.

## The Strategic Report

The Strategic Report, which can be found on pages 4 to 39, sets out the development and performance of the Group's business during the financial year, the position of the Group at the end of the year and a description of the principal risks and uncertainties which is set out on pages 22 to 25.

## UK Corporate Governance Code

The Company's statement on corporate governance can be found in the Corporate Governance Statement, the Audit Committee Report, the Nomination Committee Report and the Directors' Remuneration Report on pages 40 to 69. The Corporate Governance Statement, the Audit Committee Report and the Nomination Committee Report form part of this Directors' Report and are incorporated into the Directors' Report by reference.

## Appointment and replacement of Directors

The appointment and replacement of Directors of the Company is governed by the Articles.

**Appointment of Directors:** A Director may be appointed by the Company by ordinary resolution of the shareholders or by the Board (having regard to the recommendation of the Nomination Committee). A Director appointed by the Board holds office only until the next Annual General Meeting of the Company and is then eligible for reappointment.

The Directors may appoint one or more of their number to the office of CEO or to any other executive office of the Company and any such appointment may be made for such term, at such remuneration and on such other conditions as the Directors think fit.

**Retirement of Directors:** At every Annual General Meeting of the Company, there shall, at least, retire from office all Directors who held office at the time of the two preceding AGMs and did not retire at either of them and if the number of retiring Directors is less than one-third of relevant Directors then additional Directors shall be required to retire. However, in accordance with the Code, all Directors will be subject to re-election at the forthcoming AGM.

**Removal of Directors by special resolution:** The Company may by special resolution remove any Director before the expiration of his period of office.

**Termination of a Director's appointment:** A person ceases to be a Director if:

(i) that person ceases to be a Director by virtue of any provision of the Companies Act 2006 or is prohibited from being a Director by law;
(ii) a bankruptcy order is made against that person;
(iii) a composition is made with that person's creditors generally in satisfaction of that person's debts;
(iv) that person resigns or retires from office;
(v) in the case of a Director who holds any executive office, his appointment as such is terminated or expires and the Directors resolve that he should cease to be a Director;
(vi) that person is absent without permission of the Board from Board meetings for more than six consecutive months and the Directors resolve that he should cease to be a Director; or
(vii) a notice in writing is served upon him personally, or at his residential address provided to the Company for the purposes of section 165 of the Companies Act 2006, signed by all the other Directors stating that he shall cease to be a Director with immediate effect.

For further details of our Directors please refer to pages 44 and 45.

### Amendment of the Articles

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. No amendments are proposed to be made to the existing Articles of Association at the forthcoming Annual General Meeting.

### Share capital and control

The Company's issued share capital comprises of ordinary shares of 0.25p each which are listed on the London Stock Exchange (LSE: AO.L). The ISIN of the shares is GB00BJTNFH41. As at 31 March 2016, the issued share capital of the Company was £1,052,632 comprising 421,052,631 ordinary shares of 0.25p each.

Details of the issued share capital of the Company, together with movements in the issued share capital during the year, can be found in note 29 to the financial statements on page 96. All the information detailed in note 29 on page 96 forms part of this Directors' Report and is incorporated into it by reference.

Details of employee share schemes are provided in note 32 to the financial statements on pages 96 to 98.

At the Annual General Meeting of the Company to be held on 21 July 2016 the Directors will seek authority from shareholders to allot shares in the capital of the Company up to a maximum nominal amount of £701,754.39 (280,701,756 shares (representing approximately 66.6% of the Company's issued ordinary share capital)) of which 140,350,878 shares (representing approximately 33% of the Company's issued ordinary share capital (excluding treasury shares)) can only be allotted pursuant to a rights issue.

### Authority to purchase own shares

The Directors will seek authority from shareholders at the forthcoming Annual General Meeting for the Company to purchase, in the market, up to a maximum of 42,105,263 of its own ordinary shares either to be cancelled or retained as treasury shares. The Directors will only use this power after careful consideration, taking into account the financial resources of the Company, the Company's share price and future funding opportunities. The Directors will also take into account the effects on earnings per share and the interests of shareholders generally.

### Rights attaching to shares

All shares have the same rights (including voting and dividend rights and rights on a return of capital) and restrictions as set out in the Articles, described below. Except in relation to dividends which have been declared and rights on a liquidation of the Company, the shareholders have no rights to share in the profits of the Company. The Company's shares are not redeemable. However, following any grant of authority from shareholders, the Company may purchase or contract to purchase any of the shares on or off-market, subject to the Companies Act 2006 and the requirements of the Listing Rules.

No shareholder holds shares in the Company which carry special rights with regard to control of the Company. There are no shares relating to an employee share scheme which have rights with regard to control of the Company that are not exercisable directly and solely by the employees, other than in the case of the AO Sharesave Scheme and PSP where share interests of a participant in such scheme can be exercised by the personal representatives of a deceased participant in accordance with the Scheme rules.

### Voting rights

Each ordinary share entitles the holder to vote at general meetings of the Company. A resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded. On a show of hands, every member who is present in person or by proxy at a general meeting of the Company shall have one vote. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are a holder. The Articles provide a deadline for submission of proxy forms of not than less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting. No member shall be entitled to vote at any general meeting either in person or by proxy, in respect of any share held by him unless all amounts presently payable by him in respect of that share have been paid. Save as noted, there are no restrictions on voting rights nor any agreement that may result in such restrictions.

### Restrictions on transfer of securities

There are no restrictions on the free transferability of the Company's shares save that the Directors may, in their absolute discretion, refuse to register the transfer of a share:

(1) in certificated form which is not fully paid provided that if the share is listed on the Official List of the UK Listing Authority such refusal does not prevent dealings in the shares from taking place on an open and proper basis; or
(2) in certificated form (whether fully paid or not) unless the instrument of transfer (a) is lodged, duly stamped, at the Office or at such other place as the Directors may appoint and (except in the case of a transfer by a financial institution where a certificate has not been issued in respect of the share) is accompanied by the certificate for the share to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; (b) is in respect of only one class of share and (c) is in favour of not more than four transferees; or
(3) in uncertificated form to a person who is to hold it thereafter in certificated form in any case where the Company is entitled to refuse (or is excepted from the requirement) under the Uncertificated Securities Regulations to register the transfer; or
(4) where restrictions are imposed by laws and regulations from time to time apply (for example insider trading laws).

In relation to awards/options under the PSP and the AO Sharesave Scheme, rights are not transferable (other than to a participant's personal representatives in the event of death).

The Directors are not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

### Change of control

Save in respect of a provision of the Company's share schemes which may cause options and awards granted to employees under such schemes to vest on takeover, there are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) because of a takeover bid.

Save in respect of the Company's share schemes and also the revolving credit facility agreement entered into with Lloyds Bank Plc and Barclays Bank Plc on 3 June 2016, there are no significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control.

## 2016 Annual General Meeting

The Annual General Meeting will be held on 11.00 am on 21 July 2016 at AO Park, 5A The Parklands, Lostock, Bolton BL6 4SD. The Notice of Meeting which sets out the resolutions to be proposed at the forthcoming AGM is enclosed with this Annual Report. The Notice specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes will be counted and the numbers for, against or withheld in relation to each resolution will be announced at the Annual General Meeting and published on the Company's website.

## Interests in voting rights

At the date of this report the Company had been notified, in accordance with chapter 5 of the Financial Services Authority's Disclosure and Transparency Rules, of the following significant interests:

| Shareholder | Number of ordinary shares/voting rights notified | Percentage of voting rights over ordinary shares of 0.25p each |
|---|---|---|
| John Roberts | 109,237,235 | 25.94% |
| Steve Caunce | 51,236,382 | 12.17% |
| Odey Asset Management LLP | 27,852,523 (plus contracts for difference 18,700,000) | 11.06% |
| Baron Capital Group, Inc, BAMCO, Baron Capital Management & Ronald Baron | 33,299,590/ 30,508,906 | 7.25% |
| Ruane, Cunniff & Goldfarb Inc. | 22,578,535 | 5.36% |
| The London & Amsterdam Trust Company Ltd | 22,320,000 | 5.30% |
| Chris Hopkinson | 21,850,713 | 5.19% |
| Julie Holroyd | 19,461,670 | 4.62% |
| N K Stoller | 17,629,098 | 4.20% |
| Generation Investment Management LLP | 16,713,547 | 3.97% |
| Aviva plc and its subsidiaries (including right to recall loaned shares) | 12,986,872 | 3.09% |

## Results and dividends

The Group's and Company's audited financial statements for the year are set out on pages 80 to 109.

No dividend was paid by the Company during the year to 31 March 2016.

## Post-balance sheet events

There have been no balance sheet events that either require adjustment to the financial statements or are important in the understanding of the Company's current position, save that on 3 June 2016 AO Limited, a wholly owned subsidiary of the Company entered into a five-year £30m revolving credit facility to be used for working capital purposes.

## Research and development

Innovation, specifically in IT, is a critical element of AO's strategy and therefore to the future success of the Group. Accordingly, the majority of the Group's research and development expenditure is predominantly related to the Group's IT systems.

## Indemnities and insurance

The Company maintains appropriate insurance to cover Directors' and Officers' liability for itself and its subsidiaries. The Company also indemnifies the Directors under an indemnity, in the case of the Non-Executive Directors in their respective letters of appointment and in the case of the Executive Directors in a separate deed of indemnity. Such indemnities contain provisions that are permitted by the director liability provisions of the Companies Act and the Company's Articles.

## Environmental

Information on the Group's greenhouse gas emissions is set out in the Corporate Social Responsibility section on page 31 and forms part of this report by reference.

## Political donations

During the year, no political donations were made.

## External branches

As part of its strategy on international expansion, the Group established a branch in Germany on 18 July 2014 via its subsidiary AO Deutschland Limited, registered in Elsdorf. Group companies have also been incorporated in the Netherlands and Belgium.

## Financial instruments

Details of the financial risk management objectives and policies of the Group, including hedging policies and exposure of the entity to price risk, credit risk, liquidity risk and cash flow risk, are given on pages 98 to 102 in note 35 to the consolidated financial statements.

## Independent Auditor

KPMG LLP has agreed to be appointed as the external auditor of the Company with effect from 21 July 2016 in place of Deloitte LLP, subject to shareholder approval. Resolutions to approve such appointment and to authorise the Audit Committee to determine their remuneration are to be proposed at the forthcoming AGM.

## Disclosure of information to Auditor

Each of the Directors has confirmed that:

(i) So far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and

(ii) The Director has taken all the steps that he/she ought to have taken as a Director to make him/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

## Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under Company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This statement has been given in accordance with IFRS accounting standards.

Approved by the Board and signed on its behalf

**Julie Finnemore**
Company Secretary
AO World Plc
8 June 2016

# Everyone has played their part

## Opinion on the financial statements of AO World Plc

In our opinion:

– the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2016 and of the Group's loss for the year then ended;
– the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
– the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statement of financial position, the Consolidated and Company statement of changes in equity, the Consolidated and Company statement of cash flows, and the related notes 1 to 37 and 1 to 16 for the Consolidated and Company financial statements respectively. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within the Strategic Report and note 3 to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the Strategic Report.

We have nothing material to add or draw attention to in relation to:

– the Directors' confirmation on page 25 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
– the disclosures on page 25 that describe those risks and explain how they are being managed or mitigated;
– the Directors' statement in note 3 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
– the Directors' explanation on page 25 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

## Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

## Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

The risks identified below are the same risks as identified in the prior year except for the change to the inventory risk discussed below.

| Risk | How the scope of our audit responded to the risk |
|---|---|
| **Revenue recognition – product protection plans** | |
| The Group sells product protection plans to customers purchasing electrical appliances, on behalf of a third party (Domestic & General Services Limited (D&G)), who, without recourse to the Group, administer the plans, collect money from the customers and pay a commission to the Group for each policy sold over the life of the plan.<br><br>Revenue recognised in the year for the plans sold in the year is based on a fair value calculation of commissions due over the expected life of the plan. The expected life of the plan is profiled based on historical cancellation data.<br><br>There is a risk therefore that the revenues are being recognised at the incorrect value and in the incorrect period. There is an associated risk around the recoverability of the receivable balance attributable to the product protection plans.<br><br>There is a risk that a change in the interpretation of the existing law or regulation could differ from the current management view of the nature of product protection plans. This could result in plans being considered as insurance contracts and accordingly the plans would be regulated under the Financial Services Markets Act ('FSMA').<br><br>See critical accounting judgements and key sources of estimation uncertainty on page 89. | We agreed the key inputs to the fair value calculation (which include new policies, plan cancellations and commission receipts) to third-party documentation received directly from D&G.<br><br>We compared the cancellation rates within the fair value calculation over the expected life of the plans to the historical cancellation data.<br><br>We tested the outputs of the model and agreed through to the balances recorded within the financial statements, including benchmarking the discount rate that the Group had used against an external market rate for a medium term monetary asset.<br><br>Our data specialists have performed a series of integrity tests on the fair value calculation, using specialist tools to examine the consistency of the formulae used. Further follow up testing was then performed by the audit team to assess whether the calculations were in line with business process procedures, allowing us to assess the overall integrity of the calculation of the fair value of the revenue recognised and year-end receivable balance.<br><br>We discussed with management and consulted with our financial services specialists in relation to management's assumption that the UK products do not constitute insurance products. |

| Risk | How the scope of our audit responded to the risk |
|---|---|
| **Inventory – valuation and provisioning** | |
| For the year ended 31 March 2015, the inventory risk was focused on the valuation and obsolescence risk specific to the Audio Visual ("AV") inventory on account of the lack of history in selling these items and increased inherent risk of obsolescence due to their shorter life span.<br><br>For the current year audit this risk was revised to focus on the valuation and provisioning risks for the Group inventory balance of £34.0m (2015: £31.5m) as per note 22.<br><br>At each period end, inventory is adjusted to purchase cost on a FIFO basis. This adjustment takes into account the absorption of rebates into the inventory valuation, which incorporates a number of variables depending on the nature of the agreement with the supplier.<br><br>Provisions are also held against all inventory lines with provisions for slow moving and damaged inventory being calculated based on the most recent sales information.<br><br>See critical accounting judgements and key sources of estimation uncertainty on page 89. | We tested a sample of inventory to confirm it is held at the lower of cost and net realisable value through comparison to supplier invoices and latest sales prices.<br><br>We assessed the amount of rebates that has been absorbed into the valuation of inventory, including a recalculation of the rebates figure, agreement to purchase invoice and agreement to supplier agreements.<br><br>We assessed the methodology behind the different inventory provisions to determine whether this is reasonable based on the nature of the business and have considered the risk regarding additional provision being required by reviewing any inventory losses made during the financial year and considering post year end sales to identify any further sales made at a loss. |
| **Supplier rebate agreements** | |
| The Group has a number of rebate agreements with its suppliers that are based on the volume of purchases during the calendar year multiplied by an agreed rebate percentage scale (which can vary based on purchase levels).<br><br>These agreements can be complex in nature and therefore there is a risk that amounts recorded within the Income Statement may not be in line with the agreed terms with the supplier.<br><br>At the end of the financial year, the Group accrues a rebate receivable, being £9.4m (2015: £8.0m) as disclosed in note 23, owed by reference to the percentage rebate at the expected level of purchases for the full calendar year.<br><br>The percentage accrued at the Group's financial year end may differ to the percentage achieved for the 2016 calendar year given the estimate of forecast purchases is made early in the calendar year.<br><br>See critical accounting judgements and key sources of estimation uncertainty on page 89. | We have inspected the key rebate agreements and assessed the criteria for recognition of the rebates on the balance sheet based on the contracted rebate percentage and the volumes of purchases forecast. We have also held discussions with the commercial team to gain a greater understanding of the terms and conditions underpinning the supplier agreements in place and to corroborate the data used by finance and the processes implemented by the finance team.<br><br>We have sent out confirmations to a sample of suppliers asking them to confirm the nature and specific terms of any rebate agreements for amounts recognised in the year and held at the balance sheet date.<br><br>Owing to the low response rate received, alternative procedures were performed, being that we have assessed the commercial income recognised in the Income Statement and have vouched a sample back to supporting documentation to confirm whether they have been recognised in the Consolidated Income Statement in line with the signed terms of the agreement.<br><br>In order to assess the recoverability of the rebate receivable balance, we selected a sample of balances held at the year-end and agreed these balances to credit notes received from suppliers post year-end. |

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 54.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £1.0m (2015: £0.6m), which is 7.5% (2015: 5%) of normalised pre-tax profit. The increase in materiality from 5% to 7.5% of normalised pre-tax profit was determined by the audit partner to be the appropriate level for the current year audit based on the underlying growth of the business and low margins achieved on the underlying trade of the business.

Pre-tax loss has been normalised by adjusting for the start-up investment and losses incurred in the European operations as described in note 6, European set up costs incurred within the UK, as described in note 6 and for the credit (2015: cost) incurred in relation to the 2014 IPO Performance Share Plan (PSP), as described in note 6.

The audit team have assessed the nature of losses incurred in the European operations and European set up costs incurred within the UK business and have determined that, on the basis these entities have only been trading for 18 months, these losses are still considered to be part of an investment and start-up phase therefore not representative of the underlying pre-tax profit forecast in future periods. The credit (2015: charge) in relation to the PSP relates specifically to an incentive plan to reward the management team for their successful IPO and accordingly reflects a much greater value compared to the other ongoing share-based payment schemes in the Group. For these reasons, both items are considered to be required to be adjusted to give a true reflection of materiality relevant to the underlying trade of the Group.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £51,000 (2015: £12,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. This increase is attributable to an increase in materiality as noted above, plus a reassessment of the appropriate threshold to report to the Audit Committee. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Given the nature of the Group's corporate structure, where all evidence relating to each component is compiled at the Group's head office, the Senior Statutory Auditor led an audit which covered approximately 99% (2015: 100%) of revenue, 95% (2015: 100%) of loss before tax and 96% (2015:100%) of net assets.

The Group's main trading subsidiaries which are included in the scope are AO Retail Limited, Expert Logistics Limited, AO Deutschland Limited and Elek Direct Limited.

Our audit work at each location was executed at levels of materiality applicable to each individual entity which was lower than Group materiality. Component materiality ranged from £0.5m to £0.8m (2015: £0.3m to £0.5m).

Remaining entities not included in our full scope procedures relate to the entities acquired in the year as part of The Recycling Group Limited, as described in note 16, and subsidiaries within Belgium and the Netherlands for which minimal transactions have been processed in the year.

We engaged a local component audit team to complete the inventory count procedures at AO Deutschland Limited and the location has been visited by the Group audit team to hold a planning meeting with local management prior to the commencement of our audit.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

### Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

### Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

### Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Damian Sanders BA ACA (Senior Statutory Auditor)**
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
8 June 2016

# Consolidated income statement
## For the year ended 31 March 2016

| | Note | **2016 £m** | 2015 £m |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue** | 5,6 | **599.2** | 476.7 |
| Cost of sales | 6 | **(493.3)** | (389.1) |
| **Gross profit** | | **105.9** | 87.6 |
| Administrative expenses | 6,7 | **(116.5)** | (89.8) |
| **Operating loss** | 6,8 | **(10.6)** | (2.2) |
| Finance income | 11 | **4.2** | 0.3 |
| Finance costs | 12 | **(0.3)** | (1.0) |
| **Loss before tax** | | **(6.7)** | (2.9) |
| Tax | 13 | **0.6** | 0.4 |
| **Loss for the year** | | **(6.1)** | (2.5) |
| **Loss for the year attributable to:** | | | |
| Owners of the parent company | | **(6.0)** | (2.5) |
| Non-controlling interest | 30 | **(0.1)** | – |
| | | **(6.1)** | (2.5) |
| **Loss per share (pence/share)** | | | |
| Basic and diluted loss per share (in pence per share) | 15 | **(1.44)** | (0.60) |

# Consolidated statement of comprehensive income
## For the year ended 31 March 2016



| | 2016 £m | 2015 £m |
|---|---|---|
| Loss for the year | **(6.1)** | (2.5) |
| **Items that may subsequently be recycled to income statement** | | |
| Exchange differences on translation of foreign operations | **(2.5)** | 0.4 |
| **Total comprehensive loss for the year** | **(8.6)** | (2.1) |
| **Total comprehensive loss for the year attributable to:** | | |
| Owners of the parent company | **(8.5)** | (2.1) |
| Non-controlling interest | **(0.1)** | – |
| | **(8.6)** | (2.1) |

# Consolidated statement of financial position

## As at 31 March 2016

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 17 | **13.5** | 12.2 |
| Other intangible assets | 18 | **2.1** | 2.1 |
| Property, plant and equipment | 19 | **18.0** | 13.5 |
| Trade and other receivables | 23 | **29.5** | 17.1 |
| Derivative financial asset | 16,35 | **0.8** | – |
| Deferred tax asset | 21 | **1.5** | 0.8 |
| | | **65.4** | 45.7 |
| **Current assets** | | | |
| Inventories | 22 | **34.0** | 31.5 |
| Trade and other receivables | 23 | **34.4** | 30.3 |
| Corporation tax receivable | | **0.7** | 0.7 |
| Cash and cash equivalents | 24 | **33.4** | 44.9 |
| | | **102.5** | 107.4 |
| **Total assets** | | **167.9** | 153.1 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | **(109.0)** | (86.7) |
| Borrowings | 26 | **(2.2)** | (2.1) |
| Provisions | 28 | **(0.8)** | (0.8) |
| | | **(112.0)** | (89.6) |
| **Net current (liabilities)/assets** | | **(9.5)** | 17.8 |
| **Non-current liabilities** | | | |
| Borrowings | 26 | **(5.8)** | (4.9) |
| Derivative financial liability | 35 | **(2.7)** | – |
| **Total liabilities** | | **(120.5)** | (94.5) |
| **Net assets** | | **47.4** | 58.6 |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 29 | **1.1** | 1.1 |
| Share premium account | | **55.7** | 55.7 |
| Other reserves | | **3.8** | 6.5 |
| Retained losses | | **(12.3)** | (4.7) |
| **Total** | | **48.3** | 58.6 |
| **Non-controlling interest** | 30 | **(0.9)** | – |
| **Total equity** | | **47.4** | 58.6 |

The financial statements of AO World Plc, registered number 05525751 on pages 80 to 109 were approved by the Board of Directors and authorised for issue on 8 June 2016. They were signed on its behalf by:

**John Roberts**
CEO
AO World Plc

**Steve Caunce**
COO
AO World Plc

**Mark Higgins**
CFO
AO World Plc

# Consolidated statement of changes in equity
## As at 31 March 2016

| | Share capital £m | Share premium account £m | Other reserves | | | | | Retained losses £m | Total £m | Non-controlling interest £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Merger reserve £m | Capital redemption reserve £m | Share-based payments reserve £m | Translation reserve £m | Other reserve £m | | | | |
| **Balance at 1 April 2014** | 1.1 | 55.7 | 4.4 | (1.1) | 0.2 | – | – | (2.2) | 58.1 | – | 58.1 |
| Loss for the year | – | – | – | – | – | – | – | (2.5) | (2.5) | – | (2.5) |
| Foreign currency losses arising on consolidation | – | – | – | – | – | 0.4 | – | – | 0.4 | – | 0.4 |
| Share-based payment charge | – | – | – | – | 2.6 | – | – | – | 2.6 | – | 2.6 |
| **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 (see note 16) | – | – | – | – | – | – | (2.1) | – | (2.1) | – | (2.1) |
| Transfer between reserves (see note 31) | – | – | – | 1.6 | – | – | – | (1.6) | – | – | – |
| Acquisition of subsidiary (see note 16) | – | – | – | – | – | – | – | – | – | (0.8) | (0.8) |
| **Balance at 31 March 2016** | **1.1** | **55.7** | **4.4** | **0.5** | **3.1** | **(2.1)** | **(2.1)** | **(12.3)** | **48.3** | **(0.9)** | **47.4** |

# Consolidated statement of cash flows
## For the year ended 31 March 2016

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss for the year | | **(6.1)** | (2.5) |
| Adjustments for: | | | |
| Depreciation and amortisation | | **4.8** | 3.9 |
| Finance income | 11 | **(4.2)** | (0.3) |
| Finance costs | 12 | **0.3** | 1.0 |
| Taxation credit | | **(0.6)** | (0.4) |
| Share-based payment charge | 32 | **0.2** | 2.6 |
| **Operating cash flows before movement in working capital** | | **(5.6)** | 4.3 |
| Increase in inventories | | **(2.4)** | (15.7) |
| Increase in trade and other receivables | | **(15.8)** | (12.4) |
| Increase in trade and other payables | | **20.3** | 25.9 |
| Increase in provisions | | **–** | 0.8 |
| | | **2.1** | (1.4) |
| Taxation paid | | **–** | (1.6) |
| **Cash (used)/generated in operating activities** | | **(3.5)** | 1.3 |
| **Cash flows from investing activities** | | | |
| Interest received | 11 | **0.2** | 0.3 |
| Proceeds from sale of property, plant and equipment | | **–** | 0.1 |
| Acquisition of property, plant and equipment | | **(6.1)** | (4.4) |
| Acquisition of intangible assets | | **(0.5)** | (1.7) |
| Costs settled from issue of new shares | 3 | **–** | (4.4) |
| **Cash used in investing activities** | | **(6.4)** | (10.1) |
| **Cash flows from financing activities** | | | |
| Proceeds from new borrowings | | **0.9** | 1.2 |
| Interest paid | 12 | **(0.3)** | (0.4) |
| Payment of finance lease liabilities | | **(2.4)** | (2.0) |
| **Net cash used in from financing activities** | | **(1.8)** | (1.2) |
| **Net decrease in cash** | | **(11.7)** | (10.0) |
| **Cash and cash equivalents at beginning of year** | | **44.9** | 55.1 |
| **Exchange gains/(losses) on cash and cash equivalents** | | **0.2** | (0.2) |
| **Cash and cash equivalents at end of year** | | **33.4** | 44.9 |

# Notes to the consolidated financial statements
## For the year ended 31 March 2016

### 1. Authorisation of financial statements and statement of compliance with IFRSs
AO World Plc is a public limited company and is incorporated in the United Kingdom under the Companies Act. The Company's ordinary shares are traded on the London Stock Exchange. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 March 2016, and as such comply with Article 4 of the EU IAS regulation.

The address of the registered office is given on page 112. The nature of the Group's operations and its principal activities are set out in note 20 and in the Strategic Report on pages 4 to 39.

These financial statements are presented in pounds sterling (£m) because that is the currency of the primary economic environment in which the Group operates.

### 2. Adoption of new and revised standards
The accounting policies set out in note 3 have been applied in preparing these financial statements.

There are no new endorsed standards, amendments to standards and interpretations which are effective for the year ended 31 March 2016.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

| | |
|---|---|
| IFRS 9 | *Financial Instruments* |
| IFRS 14 | *Regulatory Deferral Accounts* |
| IFRS 15 | *Revenue From Customers With Contracts* |
| IFRS 16 | *Leases* |
| Amendments to IAS 1 | *Disclosure initiative* |
| Amendments to IFRS 10, IFRS 12, and IAS 28 | *The application of the investment entities exemptions* |
| Amendments to IFRS 10 and IAS 28 | *Sale or contribution of assets between an investor and its associate or joint venture* |
| Amendments to IFRS 11 | *Accounting for acquisitions of interest in joint operations* |
| Amendments to IAS 16 and IAS 38 | *Clarification of acceptable methods of depreciation and amortisation* |
| Amendments to IAS 27 | *Equity method in separate financial statements* |
| Amendments to IAS 19 | *Defined Benefit Plans: Employee Contributions* |
| Annual improvements to IFRSs | *2012-2014 cycle (September 2014)* |

Management are reviewing the impact of the above on the Group's financial statements. The main changes which may have an impact are;
- IFRS 15, "Revenue From Customers With Contracts" is effective for periods commencing 1 January 2018 subject to endorsement by the EU. IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts.
- IFRS 16 "Leases" provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. The main aim of this standard is to ensure, material leases will be reflected on the balance sheet irrespective of substance over form. The new standard will replace IAS 17 "Leases" and is effective for annual periods beginning on or after 1 January 2019 unless adopted early.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

### 3. Significant accounting policies
#### Basis of consolidation
The Group's financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group").

All intercompany balances and transactions, including recognised gains arising from inter-Group transactions, have been eliminated in full. Unrealised losses are eliminated in the same manner as recognised gains except to the extent that they provide evidence of impairment.

Subsidiary undertakings are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases. Subsidiary undertakings acquired during the period are recorded under the acquisition method of accounting. The cost of the acquisition is measured at the aggregate fair value of the consideration given. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair value at the date the Group assumes control of the acquiree. Acquisition related costs are recognised in the consolidated income statement as incurred. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement measured at fair value at the date control is achieved. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS's.

Any non-controlling interest acquired on acquisition of a subsidiary is recognised at the proportionate share of the acquired net assets. Subsequent to acquisition, the carrying amount of non-controlling interest equals the amount of those interests at initial recognition plus the non-controlling share of changes in equity since acquisition. Total comprehensive income is attributed to a non-controlling interest even if this results in the non-controlling interest having a deficit balance.

A list of all the subsidiaries of the Group is included in note 20 of the Group financial statements. All apply accounting policies which are consistent with those of the rest of the Group.

## 3. Significant accounting policies (continued)

### 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 fact that the Group still has available proceeds from the Group's IPO in March 2014 and, in addition, the availability of a £30m revolving credit facility (see note 37). Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail on this and the viability statement is contained in the Strategic Report on page 25.

### Revenue recognition
Revenue represents the value of goods and services delivered to the customers during the year, net of value added tax. Revenue is recognised on orders received when the goods have been delivered to customers.

### Commission receivable
Commission receivable for sales of product protection plans for which the Group acts as an agent (on the basis that the plan is a contract between the customer and Domestic and General and the Group has no ongoing obligations following the sale of such plans) are included within revenue based on the estimated fair value of future commissions receivable over the life of the product protection plan. Revenue is recognised on the basis that the Group has fulfilled its obligations to the customer. The fair value calculation takes into consideration the length of the plan and the historical rate of customer attrition and is discounted (see note 23).

### Commercial income
At the year-end the Group is required to estimate supplier income due from annual agreements for volume rebates, which span across the year-end date. Estimates are required where firm confirmation of some amounts due are received after the year-end. Where estimates are required these are calculated based on historical data, adjusted for expected changes in future purchases from suppliers, and reviewed in line with current supplier contracts.

Commercial income can be recognised as volume rebates or as strategic marketing investment funding. Volume rebates are recognised in the income statement as a reduction in cost of sales in line with the recognition of the sale of a product. Strategic marketing investment funding is recognised in one of two ways:
- in cost of sales to offset directly attributable marketing costs incurred by the Group on behalf of the suppliers; and
- the remainder of funding is recognised in revenue.

### Finance income and costs
Finance income and costs comprise:
- interest payable or receivable on funds invested;
- foreign exchange gains and losses arising on financing (principally intra-Group loans);
- movement in the valuation of the put and call options;
- income arising from the unwinding of the accrued income in relation to product protection plans in excess of their previously recognised fair value; and
- finance costs incurred on finance leases are recognised in profit or loss using the effective interest method.

### Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at the consideration less attributable transaction costs.

### Impairment of tangible and intangible assets
At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

Goodwill is not amortised but is reviewed for impairment annually, or more frequently where there is an indication that the goodwill may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group's CGUs expected to benefit from synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### Intangible assets
Goodwill represents the excess of the total consideration transferred for an acquired entity, over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. Goodwill is stated at cost. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Other intangible assets are stated at cost less accumulated amortisation. Amortisation is charged to the statement of comprehensive income in administrative expenses on the basis stated below over the estimated useful lives of each asset. The estimated useful lives are as follows:

| Asset Class | Amortisation method and rate |
|---|---|
| Domain names | 5 years straight-line |
| Computer software | 3 to 5 years straight-line |

Amortisation methods, useful lives and residual values are reviewed at each statement of financial position date.

## Property, plant and equipment

All fixed assets are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives on the following bases:

| Asset class | Depreciation method and rate |
|---|---|
| Property alterations | 10 years straight-line or over the life of the lease to which the assets relate |
| Fixtures, fittings and plant and machinery | 15% reducing balance or 3 to 10 years straight-line |
| Motor vehicles | 2 to 10 years straight-line |
| Computer equipment | 3 to 5 years straight-line |
| Office equipment | 15% reducing balance or 3 to 5 years straight-line |
| Leasehold property | Depreciated on a straight-line basis over the life of the lease |
| Freehold property | 25 years straight-line |

Freehold land is not depreciated.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting year, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

## Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct purchase cost net of rebates. Net realisable value represents the estimated selling price less all estimated and directly attributable costs of selling and distribution. Net realisable value includes, where necessary, provisions for slow-moving and damaged inventory.

## Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

### Financial assets and liabilities

Financial assets and liabilities comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables, and call and put options.

### Trade and other receivables

Trade and other receivables are recorded at fair value which is estimated to be equivalent to book value, less any impairment. Further information is included within the revenue recognition policy and note 4, critical accounting judgements and key sources of estimation uncertainty. A provision for bad and doubtful debt is made when there is objective evidence that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Bad debts are written off when identified.

For other receivables arising from commission for sales of product protection plans, measurement is at fair value. This is based on the Group having a contractual right to receive cash (in the form of commission following the sale of a plan) and a financial asset is recognised in accordance with IAS 32 Financial Instruments Presentation. Any gain or loss on re-measurement of fair value is recognised immediately in the consolidated income statement within revenue.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and are not subject to significant risk of change in value.

### Trade and other payables

Trade and other payables are recorded at fair value which is estimated to be equivalent to book value.

### Financial liabilities and equity components

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and in conjunction with the application of IFRS's. Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called-up share capital and share premium account exclude amounts in relation to those shares.

## Call and put option

The fair value of the call and put options (arising on the acquisition of TRG Limited see note 16) are based upon an independent valuation at the year-end using the Monte Carlo model.

The carrying value of the put option is based on an estimate of the maximum amount payable over the life of the option based on discounted future cash flows.

## Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. The estimated cash outflow is discounted to net present value at 5%.

## 3. Significant accounting policies (continued)

### Leases

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, each determined at the inception of the lease and depreciated over their estimated useful lives or the lease term if shorter. Finance charges are charged to income over the year of the lease in proportion to the capital element outstanding.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the fixed term of the lease. Benefits received or receivable as an incentive to enter into an operating lease are also spread straight-line over the lease term.

### Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment for items of income or expense that are taxable or deductible in other years or that are never taxable or deductible.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (other than in a business combination) to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Employee benefits

The Group contributes to a defined contribution pension scheme, for employees who have enrolled in the scheme. A defined contribution scheme is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the years during which services are rendered by employees.

### Share-based payments

The cost of share-based payment transactions with employees is measured by reference to the fair value of the equity instruments at the date on which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

Fair value is determined by an external valuer using an appropriate pricing model (see note 32). In valuing equity-settled transactions, no account is taken of any service and performance (vesting) conditions, other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

No expense is recognised for awards that do not ultimately vest, except for awards under the AO Sharesave scheme which are cancelled. These awards are treated as if they had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value of the settled award being treated as an expense in the income statement.

At each statement of financial position date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of service and non-market vesting conditions and of the number of equity instruments that will ultimately vest or, in the case of cancelled options in the AO Sharesave scheme, be treated as vesting as described above. The movement in cumulative expense since the previous statement of financial position date is recognised in the statement of comprehensive income, with a corresponding entry in equity. Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the terms of the original award continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

### Foreign currency translation

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pound sterling, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

The trading results and cash flows of overseas subsidiaries are translated at the average monthly exchange rates during the period. The statement of financial position of each overseas subsidiary is translated at year-end exchange rates with the exception of equity balances which are translated at historic rates. The resulting exchange differences are recognised in a separate translation reserve within equity and are reported in other comprehensive income.

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at the rates of exchange at the reporting date. Exchange differences on monetary items are recognised in the income statement.

### 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:

– Share-based payment charges attributable to the IPO LTIP award which the Board considers one-off in nature (all other share-based payment charges as part of the normal course of the business are not adjusted);

- Set up costs of expanding into overseas territories; and
- Early stage strategy costs relating to the overseas territories incurred in the UK when overseas businesses are in the start-up phase. The start-up phase is defined by a suite of KPIs determined by management which are used in the day to day running of the business.

### Cash flow statement

The prior year comparative (£4.4m) for the cash flow statement has been restated to move "costs settled from the issue of shares" from financing activities to investing activities. There is no overall impact on the cash flow statement as a result of the change.

## 4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant and are reviewed on an ongoing basis. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information becomes available.

The most critical accounting policies in determining the financial condition and results of the Group are those requiring the greatest degree of subjective or complex judgements. These relate to the revenue recognition of product protection plans, inventory valuation, the valuation of goodwill and commercial income, and are set out below.

### Revenue recognition of product protection plans

Revenue recognised in respect of commissions receivable over the lifetime of the plan for the sale of product protection plans is recognised at fair value, when the Group obtains the right to consideration as a result of performance of its contractual obligations (acting as an agent for a third party). Revenue in any one year therefore represents the fair value of the commission due on the plans sold, which management can estimate reliably based upon the length of the policies and the historical rate of customer attrition. Reliance on historical data assumes that current and future experience will follow past trends. The Directors consider that the quantity and quality of data available provides an appropriate proxy for current trends.

Commission receivable depends for certain transactions on customer behaviour after the point of sale. Assumptions are therefore required, particularly in relation to levels of customer default within the contract period, expected levels of customer spend, and customer behaviour beyond the initial contract period. Such assumptions are based on extensive historical evidence, and provision is made for the risk of potential changes in customer behaviour, but they are nonetheless inherently uncertain. Changes in estimates recognised as an increase or decrease to revenue may be made, where for example more reliable information is available, and any such changes are required to be recognised in the income statement. The commission receivable balance as at 31 March 2016 was £39.0m (2015: £26.1m). The discount rate used to unwind the commission receivable is 4.9% (2015: 5%).

### Commercial income

Commercial income comes from two major sources; volume rebates and strategic marketing investment funding.

Volume rebates are deducted from cost of sales in line with the sale of the product to which the rebate is attributable. Calculation of the volume rebate for the final month of the financial year includes judgements for expected rebate values. Volume rebates receivable at 31 March 2016 are £8.5m (2015: £7.3m). At 31 May 2016 the balance outstanding was £nil.

Strategic marketing investment funding is recognised in revenue and cost of sales. Where incremental third-party costs are incurred as a result of marketing support, revenue is offset against these costs. The remainder of the strategic marketing fund is recognised in income.

Calculation of the revenue recognised requires judgements to be made which include forecasting expected total marketing funding and third-party expected marketing spend. At 31 March 2016 £0.9m remains as an outstanding receivable (2015: £0.7m). At 31 March 2016 the Directors do not believe that there is a material risk regarding the judgements made for the purposes of calculating both volume rebates and the strategic marketing fund. At the 31 May 2016 the outstanding balance was £0.4m.

### Goodwill impairment review

Goodwill is required to be tested for impairment annually. Impairment testing on goodwill is carried out in accordance with the methodology described in note 17. Such calculations require judgement relating to the appropriate discount factors and long-term growth prevalent in a particular market as well as short and medium-term business plans. The Directors draw upon experience as well as external resources in making these judgements.

### Inventory valuation

Inventories are valued at the lower of cost and net realisable value. Cost comprises direct purchase cost net of rebates. Net realisable value represents the estimated selling price less all estimated and directly attributable costs of selling and distribution. Net realisable value includes, where necessary, provisions for slow-moving and damaged inventory. Provisions have been made for MDA and SDA products based on last purchase and sold date. Due to the relative infancy of the AV range a provision has been made based upon a percentage of stock, where stock days are greater than 90 days and suppliers do not provide a stock reposition. As this category matures the business will continue to monitor and evolve the AV provision policy. Both provisions represent the difference between the cost of inventory and its estimated net realisable value compared to stock holding at the year end. Calculation of these provisions requires judgements to be made which include forecast consumer demand, the promotional, competitive and economic environment and inventory loss trends. Provisions at 31 March 2016 are £0.8m (2015: £0.8m).

## 5. Revenue

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

| | **2016 £m** | 2015 £m |
|---|---|---|
| Own website sales | **527.8** | 387.4 |
| Third-party website sales and trade sales | **53.6** | 70.3 |
| Third-party logistics services | **17.8** | 19.0 |
| | **599.2** | 476.7 |

Revenue split between sale of goods and services:

| **Year ended (£m)** | **31 March 2016** | | | 31 March 2015 | | |
|---|---|---|---|---|---|---|
| | **UK** | **Europe** | **Total** | UK | Europe | Total |
| Product sales | **497.6** | **37.9** | **535.5** | 422.5 | 5.4 | 427.9 |
| Service sales | **60.9** | **2.8** | **63.7** | 48.3 | 0.5 | 48.8 |
| | **558.5** | **40.7** | **599.2** | 470.8 | 5.9 | 476.7 |

Product sales relate to the sale of electrical products through our own website and for third parties. Service sales relate to ancillary services including delivery, connection and disconnections, product protection plan commission, strategic marketing and third-party logistics.

## 6. 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 (£m) | 31 March 2016 | | | 31 March 2015 | | |
|---|---|---|---|---|---|---|
| | UK | Europe | Total | UK | Europe | Total |
| AO website sales | 487.1 | 40.7 | 527.8 | 381.5 | 5.9 | 387.4 |
| Third-party website sales | 53.6 | – | 53.6 | 70.3 | – | 70.3 |
| Third-party logistics services | 17.8 | – | 17.8 | 19.0 | – | 19.0 |
| **Total revenue** | **558.5** | **40.7** | **599.2** | 470.8 | 5.9 | 476.7 |
| Cost of sales | (447.7) | (45.6) | (493.3) | (381.1) | (8.0) | (389.1) |
| **Gross profit/(loss)** | 110.8 | (4.9) | 105.9 | 89.7 | (2.1) | 87.6 |
| Administrative expenses | (98.4) | (18.1) | (116.5) | (80.9) | (8.9) | (89.8) |
| **Operating profit/(loss)** | 12.4 | (23.0) | (10.6) | 8.8 | (11.0) | (2.2) |
| Net finance income/(cost) | 1.2 | 2.7 | 3.9 | (0.1) | (0.6) | (0.7) |
| **Profit/(loss) before tax** | **13.6** | **(20.3)** | **(6.7)** | 8.7 | (11.6) | (2.9) |
| **Adjusted EBITDA** | | | | | | |
| **Operating profit/(loss)** | **12.4** | **(23.0)** | **(10.6)** | 8.8 | (11.0) | (2.2) |
| Depreciation | 3.8 | 0.5 | 4.3 | 3.5 | 0.2 | 3.7 |
| Amortisation | 0.3 | 0.2 | 0.5 | 0.2 | – | 0.2 |
| **EBITDA** | **16.5** | **(22.3)** | **(5.8)** | 12.5 | (10.8) | 1.7 |
| Share-based payments (credit)/charge attributable to IPO LTIP | (0.4) | – | (0.4) | 2.5 | – | 2.5 |
| Europe set-up costs | 1.1 | 1.2 | 2.3 | 1.5 | 2.8 | 4.3 |
| **Adjusted EBITDA** | **17.2** | **(21.1)** | **(3.9)** | 16.5 | (8.0) | 8.5 |

The Group has calculated adjusted EBITDA 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 year.

#### Adjustments

*European 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.nl, along with strategic post "go-live" costs.

During the reporting period AO.nl was launched. The majority of these costs relate to staffing and services provided by the Group.

*Share-based payment charges*

At the time of the IPO share options were awarded to a number of senior staff. The Board considers that the magnitude and timing of this award is one-off in nature and so add back any credit or charge to Adjusted EBITDA. The AO Sharesave schemes and 2015 LTIP charges are not added back as they are considered to be normal recurring charges.

### b. Geographical analysis

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

### c. Other information

| 2016 (£m) | Additions: Intangible assets | Additions: 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** |

| 2015 (£m) | Additions: Intangible assets | Additions: PP&E | Depreciation | Amortisation |
|---|---|---|---|---|
| UK | 1.4 | 2.7 | 3.5 | 0.2 |
| Europe | 0.3 | 3.1 | 0.2 | – |
| | 1.7 | 5.8 | 3.7 | 0.2 |

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

## 7. Administrative expenses

| | 2016 £m | 2015 £m |
|---|---|---|
| Marketing and advertising expenses | **30.4** | 21.4 |
| Warehousing expenses | **23.3** | 18.2 |
| Other administrative expenses | **62.8** | 50.2 |
| | **116.5** | 89.8 |

## 8. Operating loss for the year

Operating loss for the year has been arrived at after charging:

| | 2016 £m | 2015 £m |
|---|---|---|
| Depreciation of: | | |
| Owned assets | **2.3** | 1.8 |
| Assets held under finance leases | **2.0** | 1.9 |
| Amortisation | **0.5** | 0.2 |
| Operating lease expenses of: | | |
| Motor vehicles | **5.1** | 4.3 |
| Other assets | **3.5** | 3.5 |
| Cost of inventories | **445.1** | 353.7 |
| Staff costs (see note 10) | **61.1** | 49.1 |

## 9. Auditor's remuneration

The analysis of the Auditor's remuneration is as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| Fees payable to the Company's Auditor and their associates for the audit of the Company's annual accounts | **0.1** | – |
| Fees payable to the Company's Auditor and their associates for other services to the Group | | |
| – the audit of the Company's subsidiaries | **0.2** | 0.2 |
| Total audit fees | **0.3** | 0.2 |
| **Non-audit fees** | | |
| – other services relating to taxation | **–** | – |
| Non-audit fee | **–** | – |
| **Total Auditor's remuneration** | **0.3** | 0.2 |

Details of the Company's policy on the use of auditors for non-audit services, the reasons why the Auditor was used rather than another supplier and how the Auditor's independence and objectivity was safeguarded are set out in the Audit Committee Report on page 55. No services were provided on a contingent fee basis.

## 10. Staff costs

The average monthly number of employees (including Directors) was:

| | 2016 Number | 2015 Number |
|---|---|---|
| Sales, marketing and distribution | **2,093** | 1,509 |
| Directors (Executive and Non-executive) | **8** | 8 |
| | **2,101** | 1,517 |

Their aggregate remuneration comprised:

| | 2016 £m | 2015 £m |
|---|---|---|
| Wages and salaries | **53.7** | 41.2 |
| Social security costs | **5.1** | 3.9 |
| Contributions to defined contribution plans (see note 34) | **2.1** | 1.4 |
| Share-based payment charge (see note 32) | **0.2** | 2.6 |
| | **61.1** | 49.1 |

## 11. Finance income

| | 2016 £m | 2015 £m |
|---|---|---|
| Bank interest | **0.2** | 0.3 |
| Foreign exchange gains on intra-Group loans | **2.7** | – |
| Movement in valuation of put and call option (see note 35) | **0.2** | – |
| Unwind of discounting on long-term receivables (see note below) | **1.1** | – |
| | **4.2** | 0.3 |

During the year ended 31 March 2015 the comparative figure for the unwinding of the long-term receivable was £0.6m. The Directors do not consider the need for comparative columns to be restated given this is a non-material reclassification between revenue and finance income and therefore has no impact on the Group's result for the comparative periods.

## 12. Finance costs

| | 2016 £m | 2015 £m |
|---|---|---|
| Interest on borrowings | – | 0.2 |
| Interest on obligations under finance leases | 0.3 | 0.2 |
| Foreign exchange losses on intra-Group loans | – | 0.6 |
| | 0.3 | 1.0 |

## 13. Tax

| | 2016 £m | 2015 £m |
|---|---|---|
| Corporation tax: | | |
| Current year | – | – |
| Adjustments in respect of prior years | – | (0.2) |
| | – | (0.2) |
| Deferred tax (see note 21) | (0.6) | (0.2) |
| Total tax credit | (0.6) | (0.4) |

Corporation tax is calculated at 20% (2015: 21%) of the taxable loss for the year.

The Finance Bill 2015 contains provisions to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017 and 18% from 1 April 2020. The Finance Bill 2015 became substantively enacted on 26 October 2015 and received Royal Assent on 18 November 2015. On 16th March 2016, the Chancellor announced plans in the Summer Budget to further reduce the main rate of corporation tax to 17% from 1 April 2020. This provision is contained within the Finance (No.2) Bill 2015 – 16 which is expected to be substantively enacted by July 2016. Under IFRS, companies are required to measure deferred tax at the rate at which it is most likely to reverse based upon tax rates substantively enacted at the balance sheet date. As the Finance Bill 2015 was substantively enacted prior to the end of the year, deferred tax has been measured at either 20%, 19% or 18%, depending on the period in which the deferred tax asset or liability is expected to be reversed.

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 statement of comprehensive income as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| Loss before tax on continuing operations | (6.7) | (2.9) |
| Tax at the UK corporation tax rate of 20% (2015: 21%) | (1.3) | (0.6) |
| Ineligible expenses | 0.2 | 0.4 |
| Adjustments in respect of prior periods | – | (0.2) |
| Movement in unrecognised deferred tax | 0.5 | – |
| Impact of difference in current and deferred tax rates | 0.1 | – |
| Difference in overseas and UK tax rates | (0.1) | – |
| **Tax credit for the year** | (0.6) | (0.4) |

## 14. Dividends

The Directors do not propose a dividend for the year ended 31 March 2016 (2015: £nil).

## 15. Loss per share

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

| | 2016 £m | 2015 £m |
|---|---|---|
| Loss for the purposes of basic and diluted earnings per share being loss attributable to owners of the parent company | (6.0) | (2.5) |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | 421,052,631 | 421,052,631 |
| **Loss per share (pence per share)** | | |
| Basic and diluted loss per share (in pence per share) | (1.44) | (0.60) |

## 16. Acquisition of subsidiary

On 6 November 2015, the Group acquired 60% of the issued share capital of The Recycling Group Ltd ("TRG"). AO World Plc subscribed for 300 shares at nominal value paying £3 in aggregate at the date of acquisition with the remaining 200 shares being retained by the founders.

AO World Plc also entered into a put and call option agreement in relation to the remaining shares held by the founders, which provides for their shares to be bought/sold in five separate tranches under five put and call options to be exercised following the approval of accounts for the financial years ending 31 March 2017 to 31 March 2021 inclusive. This is subject to certain performance conditions.

TRG specialises in the collection and recycling of Waste Electrical and Electronic Equipment (WEEE) and other recycling initiatives. It holds fully licensed waste permits which allow transportation and processing of non-hazardous and hazardous WEEE. This includes waste commercial refrigeration equipment and household fridges.

Prior to the acquisition, AO held a commercial relationship with TRG whereby TRG collected and treated all AO's UK WEEE with AO being TRG's single largest supplier of WEEE. This relationship had been in place since 2009.

Management have considered whether any previously unrecognised intangible fixed assets should be recognised on acquisition but, following review, have concluded that none arise.

The table below details the amounts recognised in respect of the identifiable assets acquired and the liabilities assumed on acquisition. Other than property, plant and equipment which includes an adjustment to reflect the alignment of depreciation to the AO Group accounting policies (£0.1m), book value equates to fair value.

| | £m |
|---|---|
| **Net liabilities acquired** | |
| Trade and other receivables | 0.2 |
| Property, plant and equipment | 0.6 |
| Cash and cash equivalents | – |
| Inventory | 0.1 |
| Trade and other payables | (2.6) |
| Borrowings | (0.4) |
| Total identifiable net liabilities | (2.1) |
| Amounts attributable to non-controlling interest | 0.8 |
| Goodwill (see note 17) | 1.3 |
| Total consideration | – |
| **Satisfied by:** | |
| Cash | – |
| **Net cash inflow arising on acquisition** | |
| Cash consideration | – |
| Cash and cash equivalent balances acquired | – |
| Cash and cash equivalent balances acquired | – |

The goodwill recognised as a result of the business combination represents the anticipated synergies which AO will gain from the combination.

A non-controlling interest in the net liabilities was recognised at the acquisition date, based on the proportionate share of the net liabilities acquired (being 40%). Acquisition related costs of £0.02m have been recognised in administrative expenses in the income statement.

At the acquisition date, the Group recognised a financial asset of £0.8m in relation to the fair value of the call option and a gross liability of £2.8m in relation to the put option in place to acquire the remaining 40% of TRG issued share capital. In accordance with IAS 32, the fair value of the put option is also recognised within the parent company balance sheet as described in note 35. An external independent valuation was used to determine the fair value of the put and the call option. The difference between the gross and fair valuation of the put option, is recognised in other reserves on acquisition. Subsequent changes to the carrying value of this asset and liability are recognised within the income statement.

TRG contributed revenue of £2.4m and a loss of £0.1m to the Group, for the period between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first day of the financial year, Group revenues for the year would have been £601.6m and Group losses would have been £7.6m.

## 17. Goodwill

| | **2016 £m** | 2015 £m |
|---|---|---|
| Carrying value at 1 April 2015 | **12.2** | 12.2 |
| Additions | **1.3** | – |
| **Carrying value at 31 March 2016** | **13.5** | 12.2 |

Historic goodwill relates to purchase of Expert Logistics Limited, setting up DRL Holdings Limited (now AO World Plc), and the purchase by DRL Holdings of DRL Limited (now AO Retail Limited). Additions during the year relate to the acquisition of TRG, see further detail in note 16.

### Impairment of goodwill

At 31 March 2016, goodwill acquired through UK business combinations was allocated to the UK cash-generating unit "CGU" which is also the UK operating segment.

This represents the lowest level within the Group at which goodwill is monitored for internal management purposes.

The Group performed its annual impairment test as at 31 March 2016. The recoverable amount of the CGU has been determined based on the value in use calculations using cash flow projections based on financial budgets and projections approved by the Board covering a three-year period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to this CGU. The discount rate applied is the pre-tax WACC of 11.1% (2015: 12.5%).

The key assumptions upon which management have based their cash flow projections are sales growth rates, selling prices, product margin and discount rates.

The Group prepares cash flow forecasts derived from the most recent approved financial budget and financial plan, for three years and extrapolates cash flows for the following years, up until year 10, based on an estimated growth rate of 1%. This rate does not exceed the average long-term growth rate for the market.

### Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

## 18. Other intangible assets

| | Domain names £m | Software £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2014 | 0.6 | 0.3 | 0.9 |
| Additions | 0.7 | 1.0 | 1.7 |
| At 31 March 2015 | 1.3 | 1.3 | 2.6 |
| Additions | 0.1 | 0.4 | 0.5 |
| At 31 March 2016 | 1.4 | 1.7 | 3.1 |
| **Amortisation** | | | |
| At 1 April 2014 | 0.1 | 0.2 | 0.3 |
| Charge for the year | 0.1 | 0.1 | 0.2 |
| At 31 March 2015 | 0.2 | 0.3 | 0.5 |
| Charge for the year | 0.1 | 0.4 | 0.5 |
| At 31 March 2016 | 0.3 | 0.7 | 1.0 |
| **Carrying amount** | | | |
| **At 31 March 2016** | **1.1** | **1.0** | **2.1** |
| At 31 March 2015 | 1.1 | 1.0 | 2.1 |
| At 1 April 2014 | 0.5 | 0.1 | 0.6 |

## 19. Property, plant and equipment

| | Land and buildings £m | Property alterations £m | Fixtures, fittings, plant and machinery £m | Motor vehicles £m | Computer and office equipment £m | Total £m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 April 2014 | – | 2.1 | 1.0 | 4.8 | 8.9 | 16.8 |
| Additions | 0.5 | 2.1 | 0.5 | 0.7 | 2.0 | 5.8 |
| Disposals | – | – | – | (0.1) | (2.2) | (2.3) |
| Transfer between asset categories | – | 2.3 | 0.5 | – | (2.8) | – |
| At 31 March 2015 | 0.5 | 6.5 | 2.0 | 5.4 | 5.9 | 20.3 |
| Additions from acquisition of subsidiary | – | – | 0.2 | 0.4 | – | 0.6 |
| Additions | 1.9 | 2.6 | 0.9 | 1.7 | 1.1 | 8.2 |
| Disposals | – | – | (0.1) | – | (0.1) | (0.2) |
| At 31 March 2016 | 2.4 | 9.1 | 3.0 | 7.5 | 6.9 | 28.9 |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 April 2014 | – | 0.2 | 0.1 | 1.1 | 4.0 | 5.4 |
| Charge for the year | – | 0.8 | 0.4 | 1.1 | 1.4 | 3.7 |
| Disposals | – | – | – | (0.1) | (2.2) | (2.3) |
| Transfer between asset categories | – | 0.6 | 0.2 | – | (0.8) | – |
| At 31 March 2015 | – | 1.6 | 0.7 | 2.1 | 2.4 | 6.8 |
| Charge for the year | – | 0.4 | 1.1 | 1.3 | 1.5 | 4.3 |
| Disposals | – | – | – | – | (0.1) | (0.1) |
| Exchange differences | – | (0.1) | – | – | – | (0.1) |
| At 31 March 2016 | – | 1.9 | 1.8 | 3.4 | 3.8 | 10.9 |
| **Carrying amount** | | | | | | |
| **At 31 March 2016** | **2.4** | **7.2** | **1.2** | **4.1** | **3.1** | **18.0** |
| At 31 March 2015 | 0.5 | 4.9 | 1.3 | 3.3 | 3.5 | 13.5 |
| At 1 April 2014 | – | 1.9 | 0.9 | 3.7 | 4.9 | 11.4 |

At 31 March 2016 the net carrying amount of finance leased plant and machinery was £6.2m (2015: £6.8m). The leased equipment secures lease obligations (see note 27).

## 20. Subsidiaries

The Group consists of the parent company, AO World Plc, incorporated in the UK and a number of subsidiaries held directly by AO World Plc.

The table below shows details of all subsidiaries of the Group as at 31 March 2016.

| Name of subsidiary | Place of incorporation | Principal place of business | Proportion of ownership interests and voting rights held by AO World Plc | Principal activity |
|---|---|---|---|---|
| AO Retail Limited | United Kingdom | United Kingdom | 100% | Retail |
| Expert Logistics Limited | United Kingdom | United Kingdom | 100% | Logistics and transport |
| Worry Free Limited | United Kingdom | United Kingdom | 100% | Dormant |
| Elekdirect Limited | United Kingdom | United Kingdom | 100% | Retail |
| Appliances Online Limited | United Kingdom | United Kingdom | 100% | Dormant |
| AO Deutschland Limited | United Kingdom | Germany | 100% | Retail |
| AO Limited | United Kingdom | United Kingdom | 100% | Dormant |
| AO.BE SA | Belgium | Belgium | 99.99%* | Dormant |
| AO.NL BV | Netherlands | Netherlands | 100% | Retail |
| AO Logistics (Netherlands) BV | Netherlands | Netherlands | 100% | Logistics and transport |
| The Recycling Group Limited | United Kingdom | United Kingdom | 60% | WEEE recycling |
| WEEE Collect It Limited | United Kingdom | United Kingdom | 60% | Dormant |
| WEEE Re-use It Limited | United Kingdom | United Kingdom | 60% | WEEE recycling |

* At 31 March 2016 a proportion (0.01%) of the investment held in AO.BE SA was indirectly held by AO World Plc through AO Limited, with the remainder (99.99%) being held directly.

## 21. Deferred tax

The following is the asset recognised by the Group and movements thereon during the current and prior reporting year.

| | Share options £m | Accelerated depreciation £m | Short-term timing difference £m | Total £m |
|---|---|---|---|---|
| At 1 April 2014 | – | – | 0.6 | 0.6 |
| Credit to income statement | 0.4 | 0.2 | (0.4) | 0.2 |
| At 31 March 2015 | 0.4 | 0.2 | 0.2 | 0.8 |
| Credit to income statement | – | 0.6 | – | 0.6 |
| Credit to reserves | 0.1 | – | – | 0.1 |
| **At 31 March 2016** | **0.5** | **0.8** | **0.2** | **1.5** |

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The Group has an unrecognised non-current deferred tax asset of £1.3m (2015: £nil).

## 22. Inventories

| | **2016 £m** | 2015 £m |
|---|---|---|
| Finished goods | **34.0** | 31.5 |

## 23. Trade and other receivables

| | **2016 £m** | 2015 £m |
|---|---|---|
| Trade receivables | **9.7** | 8.0 |
| **Other receivables:** | | |
| – Accrued income | **39.4** | 26.1 |
| – Prepayments | **14.5** | 12.1 |
| – Other | **0.3** | 1.2 |
| | **63.9** | 47.4 |

The trade and other receivables are classified as:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Non-current assets – Accrued income | **29.5** | 17.1 |
| Current assets | **34.4** | 30.3 |
| | **63.9** | 47.4 |

### Accrued income

Reconciliation of opening and closing balances for accrued income can be found in the table below:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Balance brought forward | **26.1** | 18.5 |
| Purchase, issuances and settlements | **11.3** | 5.8 |
| Realised gains | **1.6** | 1.8 |
| Other accrued income (see note below) | **0.4** | – |
| Balance carried forward | **39.4** | 26.1 |

Accrued income represents the expected future commission payments in respect of product protection plans. The fair value calculation takes into consideration the following unobservable data:

- length of individual plans;
- historical rate of customer attrition; and
- contractually agreed margins.

Expected future commission payments in respect of product protection plans are discounted at 4.9% (2015: 5%). See note 4.

Other accrued income relates to Expert Logistics revenue from third parties not invoiced at the 31 March 2016 (2015: £nil).

There has been no change to the fair valuation methodology adopted in the year ended 31 March 2016.

Sensitivity analysis has been conducted to assess the effect on the accrued income balance:

| Sensitivity | Impact on Accrued Income £m |
|---|---|
| Cancellation rate increases by 5% | 1.0 |
| Cancellation rate decreases by 5% | (1.0) |
| Margin decreases by 5% | 3.7 |
| Margin increases by 5% | (3.7) |

### Prepayments

At 31 March 2016 there is £9.4m (2015: £8.0m) included in prepayments in relation to commercial income.

At 31 May 2016 the balance outstanding was £0.4m.

## 24. Net funds

| | **2016 £m** | 2015 £m |
|---|---|---|
| Cash and cash equivalents at year end | **33.4** | 44.9 |
| Borrowings – Repayable within one year | **(2.2)** | (2.1) |
| Borrowings – Repayable after one year | **(5.8)** | (4.9) |
| **Net funds** | **25.4** | 37.9 |

Reconciliation of net cash flow to movement in net funds:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Net decrease in cash and equivalents | **(11.6)** | (10.1) |
| Net increase debt and lease financing | **2.4** | 1.5 |
| New loans in the year | **(0.9)** | – |
| Acquired debt on acquisition | **(0.4)** | – |
| Non cash movements | | |
| – Asset acquired under finance leases | **(1.9)** | 1.6 |
| – Foreign exchange on cash and cash equivalents | **(0.1)** | – |
| **Movement in net funds** | **(12.5)** | (7.0) |
| Opening net funds | **37.9** | 44.9 |
| **Net funds at the year end** | **25.4** | 37.9 |

## 25. Trade and other payables

| | **2016 £m** | 2015 £m |
|---|---|---|
| Trade payables | **79.3** | 66.5 |
| **Other payables:** | | |
| – Accruals | **12.9** | 9.1 |
| – Deferred income | **8.6** | 5.6 |
| – Other | **8.2** | 5.5 |
| | **109.0** | 86.7 |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 49 days (2015: 59 days).

All values are payable within 12 months.

## 26. Borrowings

| | 2016 £m | 2015 £m |
|---|---|---|
| **Secured borrowing at amortised cost** | | |
| Bank loans | **2.5** | 1.5 |
| Finance lease liabilities (see note 27) | **5.5** | 5.5 |
| **Total borrowings** | **8.0** | 7.0 |
| Amount due for settlement within 12 months | **2.2** | 2.1 |
| Amount due for settlement after 12 months | **5.8** | 4.9 |
| **Total borrowings** | **8.0** | 7.0 |

Finance leases relate primarily to certain fixtures and fittings and motor vehicles where lease terms are five years. The effective borrowing rate on individual leases ranges between 0.00% and 32.02%. The weighted average interest rate is 5.9%. Interest rates are fixed at the contract date and all leases are on a fixed repayment basis with no contingent rental payment arrangements.

## 27. Obligations under finance leases

| | Minimum lease payments | |
|---|---|---|
| | 2016 £m | 2015 £m |
| **Amounts payable under finance leases:** | | |
| Within one year | **2.4** | 2.3 |
| In the second to fifth years inclusive | **3.6** | 3.7 |
| | **6.0** | 6.0 |

| | Present value of minimum lease payments | |
|---|---|---|
| | 2016 £m | 2015 £m |
| **Amounts payable under finance leases:** | | |
| Within one year | **2.4** | 2.1 |
| In the second to fifth years inclusive | **3.1** | 3.4 |
| | **5.5** | 5.5 |

## 28. Provisions

| | 2016 £m | 2015 £m |
|---|---|---|
| Dilapidations provision | **0.8** | 0.8 |

| | Dilapidations provision £m |
|---|---|
| **At 1 April 2015** | 0.8 |
| Utilised | (0.6) |
| Provisions created in the year | 0.6 |
| **At 31 March 2016** | **0.8** |

The dilapidations provision is accrued for operating leases where the Group is liable to return the assets to their original state at the end of the lease. The provision will be utilised as leased assets expire. The provision is discounted to net present value at a rate of 5%.

## 29. Share capital

| | 2016 £m | 2015 £m |
|---|---|---|
| Issued and fully paid: | | |
| 421,052,631 ordinary shares of £0.0025 each | **1.1** | 1.1 |

## 30. Non-controlling interest

| | 2016 £m | 2015 £m |
|---|---|---|
| **Balance at 31 March 2015** | **–** | – |
| Acquisition of subsidiary | **0.8** | – |
| Share of loss for the period | **0.1** | – |
| **Balance at 31 March 2016** | **0.9** | – |

For details on the acquisition of subsidiary see note 16.

## 31. Reserves

The analysis of movements in reserves is shown in the statement of changes in equity.

The transfer of £1.6m from the capital redemption reserve to retained earnings represents the reclassification following the repurchase of shares in prior years. As the transfer has no overall impact on net assets, comparatives have not been restated.

## 32. Share-based payments

### Performance Share Plan

The table below summarises the amounts recognised in the income statement during the year.

| | 2016 £m | 2015 £m |
|---|---|---|
| IPO LTIP | **(0.4)** | 2.5 |
| 2015 LTIP | **0.2** | – |
| Sharesave scheme | **0.4** | 0.1 |
| | **0.2** | 2.6 |

### IPO LTIP Award

The awards under the IPO LTIP have been made to senior employees. The vesting of awards under the IPO LTIP is subject to the attainment of performance conditions.

The credit in the current year includes the cumulative adjustment to the LTIP charge based on the assessment of certain performance criteria.

Two thirds of the IPO LTIP Award is based on Total Shareholder Return (TSR) performance measured against the price per share offered to investors under the terms of the flotation.

| | Absolute TSR performance against the comparator Group over the three-year performance period |
|---|---|
| Threshold (25% vesting) | 33% |
| Threshold (50% vesting) | 66% |
| Maximum (100% vesting) | 100% |

The remaining third of the awards granted under this plan vest depending on EPS. As per IFRS 2, these grants have been valued using a Black-Scholes model.

| | EPS growth required over the three-year performance period |
|---|---|
| Threshold (33% vesting) | 66% |
| Threshold (75% vesting) | 150% |
| Maximum (100% vesting) | 200% |

The awards vest on a straight-line basis between each threshold in all cases.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options granted under the IPO LTIP scheme:

| | **2016 No. of options** | **2016 WAEP(£)** | 2015 No. of options | 2015 WAEP(£) |
|---|---|---|---|---|
| Outstanding at the beginning of the year | **3,526,296** | **–** | 4,210,504 | – |
| Granted during the year | **–** | **–** | – | – |
| Forfeited during the year | **(45,320)** | **–** | (684,208) | – |
| Outstanding at the end of the year | **3,480,976** | **–** | 3,526,296 | – |

The fair value of the share options granted under the IPO LTIP scheme which are dependent on TSR performance is estimated as at the date of grant using the Monte Carlo model. The following table gives the assumptions for the years ended 31 March 2016 and 31 March 2015:

| | |
|---|---|
| Risk-free rate | 0.76% |
| Expected volatility | 28.17% |
| Expected dividend yield | 0.00% |
| Option life | 3 years |

The fair value of the share options granted under the IPO LTIP scheme which are dependent on EPS performance was estimated as at the date of grant using the Black-Scholes model. The following table gives the assumptions for the years ended 31 March 2016 and 31 March 2015:

| | |
|---|---|
| Risk-free rate | 0.00% |
| Expected volatility | N/A |
| Expected dividend yield | 0.00% |
| Option life | 3 years |

For the shares outstanding at 31 March 2016, the remaining average contractual life is 0.92 years (2015: 1.92 years).

There were no awards exercisable as at 31 March 2016.

## 2015 LTIP Awards

During the year the Group made further conditional awards of nil-cost options to select members of senior management and Directors.

One third of the 2015 LTIP Award is based on a TSR performance condition based on the growth in the Company's net return index over the performance period.

| | Absolute TSR performance against the comparator Group over the three-year performance period |
|---|---|
| Threshold (25% vesting) | 33% |
| Threshold (50% vesting) | 66% |
| Maximum (100% vesting) | 100% |

One third of the awards are subject to an EPS performance condition over the performance period. As per IFRS 2, these grants have been valued using a Black-Scholes model.

| | EPS growth required over the three-year performance period |
|---|---|
| Threshold (25% vesting) | 50% |
| Threshold (62.5% vesting) | 100% |
| Maximum (100% vesting) | 120% |

The final third of the awards are subject to a sales performance condition which is linked to the growth in sales of the Group over the performance period.

| | Sales growth over the three-year performance period |
|---|---|
| Threshold (25% vesting) | 100% |
| Threshold (62.5% vesting) | 120% |
| Maximum (100% vesting) | 140% |

The awards vest on a straight-line basis between each threshold in all cases.

The following table illustrates the number and WAEP of, and movements in, share options granted under the 2015 LTIP Awards.

| | **2016 No. of options** | **2016 WAEP(£)** | 2015 No. of options | 2015 WAEP(£) |
|---|---|---|---|---|
| Outstanding at the beginning of the year | **–** | **–** | – | – |
| Granted during the year | **1,249,517** | **–** | – | – |
| Forfeited during the year | **(25,287)** | **–** | – | – |
| Outstanding at the end of the year | **1,224,230** | **–** | – | – |

The fair value of the share options granted under the 2015 LTIP Award which are dependent on TSR performance is estimated as at the date of grant using the Monte Carlo model. The following table gives the assumptions for the year ended 31 March 2016.

| | |
|---|---|
| Risk-free rate | 0.80% |
| Expected volatility | 50.00% |
| Expected dividend yield | N/A |
| Option life | 3 years |

The fair value of the share options granted under the 2015 LTIP Award which are dependent on EPS/Sales performance was estimated as at the date of grant using the Black-Scholes model. The following table gives the assumptions for the year ended 31 March 2016.

| | |
|---|---|
| Risk-free rate | 0.00% |
| Expected volatility | N/A |
| Expected dividend yield | 0.00% |
| Option life | 3 years |

## 32. Share-based payments (continued)

The weighted average fair value of options granted during the year was £1.13. For the shares outstanding at 31 March 2016, the remaining average contractual life is 2.25 years.

There were no awards exercisable as at 31 March 2016.

### AO Sharesave scheme (referred to as SAYE scheme)

The Group has a savings-related share option plan under which employees save on a monthly basis, over a three-year period, towards the purchase of shares at a fixed price determined when the option is granted. The price is set at a discount being 20% of the average share price during a specified averaging period prior to the grant date. The option must be exercised within six months of maturity of the SAYE contract, otherwise it lapses.

The following table illustrates the number and WAEP of, and movements in, share options granted under the Sharesave scheme:

| | 2016 No. of options | 2016 WAEP(£) | 2015 No. of options | 2015 WAEP(£) |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 867,366 | 2.42 | – | – |
| Granted during the year | 1,047,533 | 1.25 | 1,082,918 | 2.44 |
| Forfeited during the year | (526,282) | (2.35) | (215,552) | (2.52) |
| Outstanding at the end of the year | 1,388,617 | 1.56 | 867,366 | 2.42 |

During the year ended 31 March 2016, options were granted on 29 January 2016. For the shares outstanding at 31 March 2016, the remaining weighted average contractual life is 2.45 years (2015: 2.42 years). The weighted average fair value of options granted during the year was £0.47 per share (2015: £0.65).

The fair value of options granted under the AO Sharesave scheme is estimated at the date of grant using the binomial model. The following table gives the assumptions made during the year ended 31 March 2016:

| For options granted on | 28 April 2014 | 30 January 2015 | 29 January 2016 |
|---|---|---|---|
| Risk-free rate | 1.41% | 0.64% | 0.54% |
| Expected volatility | 27.99% | 24.74% | 43.53% |
| Expected dividend yield | 0.00% | 0.00% | 0.00% |
| Option life | 3 years | 3 years | 3 years |

Expected volatility under both the LTIP and the SAYE schemes was calculated by using the historical daily share price data of the constituent companies of the FTSE 250 index over the previous three years.

## 33. Operating lease arrangements

Non-cancellable operating lease rentals are payable as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| Within one year | 7.8 | 8.4 |
| In the second to fifth years inclusive | 24.6 | 18.9 |
| After five years | 30.2 | 18.8 |
| | 62.6 | 46.1 |

During the year to 31 March 2016 £8.6m (2015: £7.8m) was recognised as an expense in the income statement in respect of operating leases.

Principally operating leases payments represent rentals in respect of motor vehicles, office buildings and warehouses properties.

## 34. Retirement benefit schemes

### Defined contribution schemes

The pension cost charge for the year represents contributions payable by the Group and amounted to £2.1m (2015: £1.4m).

Contributions totalling £0.2m (2015: £0.1m) were payable at the end of the year and are included in accruals.

## 35. Financial instruments

### a) Fair values of financial instruments

#### Receivables and payables

For receivables and payables classified as financial assets and liabilities in accordance with IAS 32, fair value is estimated to be equivalent to book value. These values are shown in notes 23 and 25, respectively. The categories of financial assets and liabilities and their related accounting policy are set out in note 3.

#### Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount.

#### Call and put option

The fair value of the call and put options (arising on the acquisition of TRG see note 16) are based upon an independent valuation at the year-end using the Monte Carlo model.

The carrying value of the put option is based on an estimate of the maximum amount payable over the life of the option based on discounted future cash flows.

#### Borrowings

The fair value of interest-bearing borrowings is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the date of the statement of financial position.

#### Fair values

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the statement of financial position are as follows:

| | **2016 Carrying amount £m** | **2016 Fair value £m** | 2015 Carrying amount £m | 2015 Fair value £m |
|---|---|---|---|---|
| **Financial assets designated as fair value through profit or loss** | | | | |
| Accrued income (see note 23) | **39.4** | **39.4** | 26.1 | 26.1 |
| Call option (see note 16) | **0.8** | **0.8** | – | – |
| **Loans and receivables** | | | | |
| Cash and cash equivalents | **33.4** | **33.4** | 44.9 | 44.9 |
| Trade receivables (see note 23) | **9.7** | **9.7** | 8.0 | 8.0 |
| Prepayments and other receivables (see note 23) | **14.8** | **14.8** | 13.3 | 13.3 |
| **Total financial assets** | **98.1** | **98.1** | 92.3 | 92.3 |
| **Financial liabilities measured at amortised cost** | | | | |
| Trade payables (see note 25) | **(79.3)** | **(79.3)** | (66.5) | (66.5) |
| Other payables (see note 25) | **(29.7)** | **(29.7)** | (20.2) | (20.2) |
| Borrowings (see note 26) | **(8.0)** | **(8.0)** | (7.0) | (6.5) |
| **Financial liabilities at fair value through profit and loss** | | | | |
| Put option to acquire non-controlling interest (see note 16) | **(2.7)** | **(0.7)** | – | – |
| **Total financial liabilities** | **(119.7)** | **(117.7)** | (93.7) | (93.2) |
| **Total financial instruments** | **(21.6)** | **(19.6)** | (1.4) | (0.9) |

## Fair value hierarchy

Financial instruments are measured at fair value and are split into a fair value hierarchy based on the valuation technique used to determine fair value. The hierarchies are;

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **At 31 March 2016** | | | | |
| Accrued income (see note 23) | – | – | 39.4 | 39.4 |
| Call option (see note 16) | – | – | 0.8 | 0.8 |
| **At 31 March 2016** | **–** | **–** | **40.2** | **40.2** |
| At 31 March 2015 | | | | |
| Accrued income (see note 23) | – | – | 26.1 | 26.1 |
| At 31 March 2015 | – | – | 26.1 | 26.1 |

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| **At 31 March 2016** | | | | |
| Put option to acquire non-controlling interest | – | – | 2.7 | 2.7 |
| **At 31 March 2016** | **–** | **–** | **2.7** | **2.7** |
| At 31 March 2015 | – | – | – | – |

Tables below show the movement in valuation for both the call and put option during the year.

| **Call option** | **2016 £m** | 2015 £m |
|---|---|---|
| At 1 April 2015 | **–** | – |
| On acquisition of subsidiary | **0.7** | – |
| Valuation at 31 March 2016 | **0.1** | – |
| **At 31 March 2016** | **0.8** | – |

| **Put option** | **2016 £m** | 2015 £m |
|---|---|---|
| At 1 April 2015 | **–** | – |
| On acquisition of subsidiary | **2.8** | – |
| Valuation at 31 March 2016 | **(0.1)** | – |
| **At 31 March 2016** | **2.7** | – |

## 35. Financial instruments (continued)

### b) Credit risk

#### Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, with a maximum exposure equal to the book value of these assets.

The Group's receivable balance primarily comprises accrued income representing the expected future commission payments in relation to the product protection plans sold by the Group on behalf of one customer. The Directors have assessed and considered the credit risk in respect of this amount and do not consider it to be of significance. The Group's trade receivable balances comprise a number of individually small amounts from unrelated customers, operating within the same industry but over a number of geographical areas. Concentration of risk is therefore limited. Sales to retail customers are made predominantly in cash or via major credit cards. It is Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. New credit customers are assessed using an external rating report which is used to establish a credit limit. Such limits are reviewed periodically on both a proactive and reactive basis, for example, when a customer wishes to place an order in excess of their existing credit limit. Receivable balances are monitored regularly with the result that the Group's exposure to bad debts is not significant. Management therefore believe that there is no further credit risk provision required in excess of the normal provision for doubtful receivables.

#### Exposure to credit risk

The maximum exposure to credit risk at the statement of financial position date by class of financial instrument was:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Accrued income | **39.4** | 26.1 |
| Trade receivables | **9.7** | 8.0 |
| | **49.1** | 34.1 |

#### Credit quality of financial assets and impairment losses

The ageing of trade receivables at the statement of financial position date was:

| | Gross £m | Net £m |
|---|---|---|
| Not past due | 9.0 | 9.0 |
| Past due 0-30 days | 0.6 | 0.6 |
| Past due 31-120 days | – | – |
| More than 120 days | 0.1 | 0.1 |
| **At 31 March 2016** | **9.7** | **9.7** |
| Not past due | 5.7 | 5.7 |
| Past due 0-30 days | 1.8 | 1.8 |
| Past due 31-120 days | 0.3 | 0.3 |
| More than 120 days | 0.2 | 0.2 |
| **At 31 March 2015** | 8.0 | 8.0 |

There has been no impairment charged to trade receivables in the current year.

### c) Liquidity risk

#### Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

It is Group policy to maintain a balance of funds, borrowings, committed bank and other facilities sufficient to meet anticipated short-term and long-term financial requirements. In applying this policy the Group continuously monitors forecast and actual cash flows against the maturity profiles of financial assets and liabilities. Uncommitted facilities are used if available on advantageous terms. It is Group treasury policy to ensure that a specific level of committed facilities is always available based on forecast working capital requirements. Cash forecasts identifying the Group's liquidity requirements are produced and are stress tested for different scenarios including, but not limited to, reasonably possible decreases in profit margins and increases in interest rates on the Group's borrowing facilities and the weakening of sterling against other functional currencies within the Group.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

| | Carrying amount £m | Contractual cash flows £m | Within 1 year £m | Between 1 and 5 years £m | In more than 5 years £m |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Finance lease liabilities | 5.5 | 6.0 | 2.7 | 3.3 | – |
| Trade and other payables | 100.4 | 100.4 | 100.4 | – | – |
| Bank loans | 2.5 | 2.8 | 0.1 | 2.7 | – |
| **At 31 March 2016** | **108.4** | **109.2** | **103.2** | **6.0** | **–** |

| | Carrying amount £m | Contractual cash flows £m | Within 1 year £m | Between 1 and 5 years £m | In more than 5 years £m |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Finance lease liabilities | 5.5 | 6.0 | 2.3 | 3.7 | – |
| Trade and other payables | 81.1 | 81.1 | 81.1 | – | – |
| Bank loans | 1.5 | 1.6 | – | 1.6 | – |
| **At 31 March 2015** | 88.1 | 88.7 | 83.4 | 5.3 | – |

## d) Market risk

### Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments (and hence no sensitivity analysis is performed).

### Foreign currency risk

Refer to note 35f.

### Interest rate risk

The principal interest rate risks of the Group arise in respect of borrowings. As the interest expense on variable rate financial instruments is immaterial, the Group does not actively manage the exposure to this risk.

At the statement of financial position date the interest rate profile of the Group's interest-bearing financial instruments was:

| | **2016 £m** | 2015 £m |
|---|---|---|
| **Fixed and variable rate instruments** | | |
| Finance lease liabilities | **5.5** | 5.5 |
| Bank loans | **2.5** | 1.5 |
| | **8.0** | 7.0 |

## e) Capital management

It is the Group's policy to maintain an appropriate equity capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The capital structure of the Group consists of the net cash (borrowings disclosed in note 26) and equity of the Group. The Group is not subject to any externally imposed capital requirements.

The Board has delegated responsibility for routine capital expenditure to the management of the business. All significant expenditure is approved by the Board.

## f) Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies, consequently exposure to exchange rate fluctuations arise.

The Group's presentational currency is sterling; as a result the Group is exposed to foreign currency translation risk due to movements in foreign exchange rates on the translation of non-sterling assets and liabilities.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | **Liabilities** | | **Assets** | |
|---|---|---|---|---|
| | **2016 £m** | 2015 £m | **2016 £m** | 2015 £m |
| Euros | **29.0** | 5.1 | **10.2** | 8.6 |

The balances shown above include intercompany loan balances held between Group companies which create a foreign currency exposure to the income statement. These differences are recognised in finance income or costs.

## 35. Financial instruments (continued)

The following table details the Group's sensitivity to a 10% increase and decrease in sterling against the relevant foreign currencies. The sensitivity rate of 10% represents the Directors' assessment of a reasonably possible change. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below represents an increase in profit before tax.

| | Euro Currency impact | |
|---|---|---|
| | **2016 £m** | 2015 £m |
| Sterling strengthens by 10% | **(1.7)** | (1.3) |
| Sterling weakens by 10% | **2.1** | 1.5 |

The Group's sensitivity to foreign currency has increased during the current year due to increasing trade in Europe. The impact above is mainly as a result of intercompany loans held in a foreign currency.

In management opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year-end exposure does not reflect the exposure during the year.

## 36. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its related parties are disclosed below.

### Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

| | Sale of goods and services | | Purchase of goods and services | |
|---|---|---|---|---|
| | **2016 £m** | 2015 £m | **2016 £m** | 2015 £m |
| Re-Gen (Logistics) Limited | **0.2** | 0.2 | **–** | – |
| Booker Limited | **–** | – | **0.2** | 0.1 |
| The Recycling Group Ltd | **0.7** | – | **0.9** | – |
| WEEE Re-use It Limited | **0.2** | – | **–** | – |

There were no outstanding amounts at the statement of financial position date (2015: £nil).

Re-Gen (Logistics) Limited is a Company which J Roberts' (a Director) close family has an interest in.

Booker Limited is a Company which R Rose (a Director) has an interest in.

The Recycling Group Ltd and WEEE Re-use It Limited are related party's due to common ownership.

### Transactions with Directors and key management personnel

The compensation of key management personnel (including the Directors) is as follows:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Key management emoluments including social security costs | **3.1** | 2.6 |
| Awards granted under a long-term incentive plan | **(0.2)** | 1.9 |
| Company contributions to money purchase plans | **0.3** | 0.3 |
| | **3.2** | 4.8 |

During the prior year there were transactions totalling £2,247 with B Holroyd a Director of the Company. As at the 31 March 2016 the amount due to B Holroyd was £nil (2015: £nil).

Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on page 65.

## 37. Post balance sheet event

On 3 June 2016, AO Limited ("AOL"), a wholly owned subsidiary of AO World Plc, entered into an agreement with Barclays Bank Plc and Lloyds Bank Plc (the "Banks") whereby the Banks have provided a five-year £30m Revolving Credit Facility ("RCF") to AOL and it's direct subsidiaries AO Retail Limited and Expert Logistics Limited. The RCF is for working capital purposes.

# Company statement of financial position
## As at 31 March 2016

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 8 | **1.5** | 1.6 |
| Property, plant and equipment | 9 | **0.6** | 0.7 |
| Investment in subsidiaries | 10 | **11.5** | 11.0 |
| Deferred tax asset | 11 | **0.7** | 0.5 |
| Derivative financial asset | 15 | **0.8** | – |
| | | **15.1** | 13.8 |
| **Current assets** | | | |
| Trade and other receivables | 12 | **31.5** | 33.6 |
| Cash and cash equivalents | | **–** | – |
| | | **31.5** | 33.6 |
| **Total assets** | | **46.6** | 47.4 |
| **Current liabilities** | | | |
| Trade and other payables | 13 | **(1.7)** | (0.9) |
| **Net current assets** | | **29.8** | 46.5 |
| **Non-current liabilities** | | | |
| Derivative financial liability | 15 | **(0.7)** | – |
| **Total liabilities** | | **(2.4)** | (0.9) |
| **Net assets** | | **44.2** | 46.5 |
| **Equity** | | | |
| Share capital | | **1.1** | 1.1 |
| Share premium | | **55.7** | 55.7 |
| Merger reserve | | **4.4** | 4.4 |
| Capital redemption reserve | | **0.5** | (1.1) |
| Share-based payments reserve | | **3.1** | 2.8 |
| Retained losses | | **(20.6)** | (16.4) |
| **Total equity** | | **44.2** | 46.5 |

The financial statements of AO World Plc, registered number 05525751 were approved by the Board of Directors and authorised for issue on 8 June 2016. They were signed on its behalf by:

**John Roberts**
CEO
AO World Plc

**Steve Caunce**
COO
AO World Plc

**Mark Higgins**
CFO
AO World Plc

# Company statement of changes in equity
## As at 31 March 2016

| | Share capital £m | Share premium account £m | Merger reserve £m | Capital redemption reserve £m | Retained losses £m | Share-based payments reserve £m | Total £m |
|---|---|---|---|---|---|---|---|
| **At 1 April 2014** | 1.1 | 55.7 | 4.4 | (1.1) | (10.6) | – | 49.5 |
| Transfer between reserves | – | – | – | – | (0.2) | 0.2 | – |
| Loss for the year | – | – | – | – | (5.6) | – | (5.6) |
| Share-based payments charge | – | – | – | – | – | 2.6 | 2.6 |
| **Balance at 31 March 2015** | 1.1 | 55.7 | 4.4 | (1.1) | (16.4) | 2.8 | 46.5 |
| Loss for the year | – | – | – | – | (2.6) | – | (2.6) |
| Share-based payments charge net of tax | – | – | – | – | – | 0.3 | 0.3 |
| Transfer between reserves | – | – | – | 1.6 | (1.6) | – | – |
| **Balance at 31 March 2016** | **1.1** | **55.7** | **4.4** | **0.5** | **(20.6)** | **3.1** | **44.2** |

# Company statement of cash flows
## For the year ended 31 March 2016

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss for the year | | **(2.6)** | (5.6) |
| Adjustments for: | | | |
| Depreciation and amortisation | 8,9 | **0.4** | – |
| Finance income | 6 | **(0.1)** | – |
| Taxation charge | 7 | **(0.1)** | (0.4) |
| Share-based payment charge | | **(0.3)** | 2.6 |
| **Operating cash flows before movement in working capital** | | **(2.7)** | (3.4) |
| Increase in trade and other receivables | 12 | **(0.5)** | (0.5) |
| Increase/(decrease) in trade and other payables | 13 | **1.5** | (0.6) |
| Decrease in intercompany receivable | 12 | **1.9** | 11.6 |
| | | **2.9** | 10.5 |
| **Cash generated in operating activities** | | **0.2** | 7.1 |
| **Cash flows from investing activities** | | | |
| Increase in investments | | **–** | (0.6) |
| Acquisition of property, plant and equipment | 9 | **(0.1)** | (0.7) |
| Acquisition of intangible assets | 8 | **(0.1)** | (1.6) |
| Costs settled from issue of new shares | 2 | **–** | (4.3) |
| **Cash used in investing activities** | | **(0.2)** | (7.2) |
| **Net decrease in cash** | | **–** | (0.1) |
| **Cash and cash equivalents at beginning of year** | | **–** | 0.1 |
| **Cash and cash equivalents at end of year** | | **–** | – |

## 1. Adoption of new and revised Standards

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), and as such comply with Article 4 of the EU IAS regulation. The accounting policies set out in note 2 have been applied in preparing these financial statements.

No new accounting standards or amendments issued during the year have had or are expected to have any significant impact on the Company.

## 2. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union.

The financial statements have been prepared on the historical cost basis except for the remeasurement of certain financial instruments to fair value. The principal accounting policies adopted are the same as those set out in note 3 to the consolidated financial statements except as noted below.

### Investments

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

### Cash flow statement

The prior year comparative (£4.3m) for the cash flow statement has been restated to move "costs settled from the issue of shares" from financing activities to investing activities. There is no overall impact on the cash flow statement as a result of the change.

## 3. Operating loss

The Auditor's remuneration for audit and other services is disclosed in note 9 to the consolidated financial statements.

## 4. Loss for the year

The Company has not presented its own Statement of Comprehensive Income as permitted by section 408 of the Companies Act 2006.

The loss for the year and total comprehensive loss attributable for shareholders was £2.6m (2015: £5.6m).

## 5. Staff costs

The average monthly number of employees (including Directors) was:

| | **2016 Number** | 2015 Number |
|---|---|---|
| Sales, marketing and distribution | **173** | 122 |
| Directors (Executive and Non-Executive) | **8** | 8 |
| | **181** | 130 |

Their aggregate remuneration comprised:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Wages and salaries | **10.6** | 7.3 |
| Social security costs | **1.1** | 0.8 |
| Contributions to defined contribution plans | **0.5** | 0.4 |
| Share-based payment charge | **0.2** | 2.6 |
| | **12.4** | 11.1 |

## 6. Finance income

| | **2016 £m** | 2015 £m |
|---|---|---|
| Movement in valuation of put and call option | **0.1** | – |
| | **0.1** | – |

## 7. Tax

| | **2016 £m** | 2015 £m |
|---|---|---|
| Corporation tax: | | |
| Current year | **–** | – |
| Adjustments in respect of prior years | **–** | – |
| | **–** | – |
| Deferred tax (see note 11) | **(0.1)** | (0.4) |
| Total tax credit | **(0.1)** | (0.4) |

Corporation tax is calculated at 20% (2015: 21%) of the estimated taxable loss for the year.

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

| | **2016 £m** | 2015 £m |
|---|---|---|
| Loss before tax on continuing operations | **(2.6)** | (6.1) |
| Tax at the UK corporation tax rate of 20% (2015: 21%) | **(0.5)** | (1.3) |
| Ineligible expenses | **(0.2)** | 0.1 |
| Group relief surrendered for nil payment | **0.6** | 0.8 |
| **Tax credit for the year** | **(0.1)** | (0.4) |

## 8. Intangible assets

| | Domain names £m | Software £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2014 | – | – | – |
| Additions | 0.7 | 0.3 | 1.0 |
| Group transfer | 0.4 | 0.2 | 0.6 |
| At 31 March 2015 | 1.1 | 0.5 | 1.6 |
| Additions | – | 0.1 | 0.1 |
| At 31 March 2016 | 1.1 | 0.6 | 1.7 |
| **Amortisation** | | | |
| At 1 April 2014 | – | – | – |
| At 31 March 2015 | – | – | – |
| Charge for the year | 0.1 | 0.1 | 0.2 |
| At 31 March 2016 | 1.0 | 0.5 | 1.5 |
| **Carrying amount** | | | |
| **At 31 March 2016** | **1.0** | **0.5** | **1.5** |
| At 31 March 2015 | 1.1 | 0.5 | 1.6 |
| At 31 April 2014 | – | – | – |

## 9. Property, plant and equipment

| | Computer and office equipment £m |
|---|---|
| **Cost** | |
| At 1 April 2014 | – |
| Group transfer | 0.7 |
| At 31 March 2015 | 0.7 |
| Additions | 0.1 |
| At 31 March 2016 | 0.8 |
| **Accumulated depreciation and impairment** | |
| At 1 April 2015 | – |
| At 31 March 2015 | – |
| Charge for the year | 0.2 |
| At 31 March 2016 | 0.2 |
| **Carrying amount** | |
| **At 31 March 2016** | **0.6** |
| At 31 March 2015 | 0.7 |
| At 1 April 2014 | – |

## 10. Subsidiaries

Details of the Company's subsidiaries at 31 March 2016 are as follows:

| Name of subsidiary | Place of incorporation | Principal place of business | Proportion of ownership interests and voting rights held by AO World Plc | Principal activity |
|---|---|---|---|---|
| AO Retail Limited | United Kingdom | United Kingdom | 100% | Retail |
| Expert Logistics Limited | United Kingdom | United Kingdom | 100% | Logistics and transport |
| Worry Free Limited | United Kingdom | United Kingdom | 100% | Dormant |
| Elekdirect Limited | United Kingdom | United Kingdom | 100% | Retail |
| Appliances Online Limited | United Kingdom | United Kingdom | 100% | Dormant |
| AO Deutschland Limited | United Kingdom | Germany | 100% | Retail |
| AO Limited | United Kingdom | United Kingdom | 100% | Dormant |
| AO.BE SA | Belgium | Belgium | 99.99%* | Dormant |
| AO.NL BV | Netherlands | Netherlands | 100% | Retail |
| AO Logistics (Netherlands) BV | Netherlands | Netherlands | 100% | Logistics and transport |
| The Recycling Group Ltd | United Kingdom | United Kingdom | 60% | WEEE recycling |
| WEEE Collect It Limited | United Kingdom | United Kingdom | 60% | Dormant |
| WEEE Re-use It Limited | United Kingdom | United Kingdom | 60% | WEEE recycling |

* At 31 March 2016 a proportion (0.01%) of the investment held in AO.BE SA was indirectly held by AO World Plc through AO Limited, with the remainder (99.99%) being held directly.

During the year the Company acquired 60% of the share capital of The Recycling Group Ltd for a cost of £3.

In addition, the company has made capital contributions to its subsidiaries of £0.5m in relation to the allocation of share-based payment charges as required by IFRS2.

## 11. Deferred tax

The following is the asset recognised by the Company and movements thereon during the current and prior reporting year.

| | Share options £m | Total £m |
|---|---|---|
| Deferred tax asset at 1 April 2014 | 0.1 | 0.1 |
| Credit to income statement | 0.4 | 0.4 |
| Deferred tax asset at 31 March 2015 | 0.5 | 0.5 |
| Credit to income statement | 0.1 | 0.1 |
| Credit to reserves | 0.1 | 0.1 |
| Deferred tax asset at 31 March 2016 | 0.7 | 0.7 |

A deferred income tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The Company has an unrecognised deferred tax asset of £0.3m (2015: £nil).

## 12. Trade and other receivables

| | **2016 £m** | 2015 £m |
|---|---|---|
| Prepayments | **0.2** | 0.4 |
| Other receivables | **0.1** | 0.1 |
| Amounts owed by Group undertakings | **31.2** | 33.1 |
| | **31.5** | 33.6 |

Amounts owed by Group undertakings are short term and carry no interest.

## 13. Trade and other payables

| | **2016 £m** | 2015 £m |
|---|---|---|
| Trade payables | **0.3** | 0.5 |
| Accruals | **1.1** | 0.2 |
| Other payables | **0.3** | 0.2 |
| | **1.7** | 0.9 |

The carrying amount of trade payables approximates to their fair value.

## 14. Share-based payments

The Company recognised total expenses of £0.2m (2015: £2.6m) in the year in relation to both the Performance Share Plan (referred to as LTIP) and the AO Sharesave scheme (referred to as SAYE). Details of both schemes are described in note 32 to the consolidated financial statements.

## 15. Financial instruments

### a) Fair values of financial instruments

#### Receivables and payables

For receivables and payables classified as financial assets and liabilities in accordance with IAS 32, fair value is estimated to be equivalent to book value. These values are shown in notes 12 and 13, respectively. The categories of financial assets and liabilities and their related accounting policy are set out in note 3 to the consolidated financial statements.

#### Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount.

#### Call and put option

The fair value of the call and put options (arising on the acquisition of TRG, see note 16 to the consolidated financial statements) are based upon an independent valuation at the year-end using the Monte Carlo model.

#### Fair values

The fair values of all financial assets and financial liabilities, by class are shown in the table below. The fair value and carrying amounts are equal.

| | **2016 £m** | 2015 £m |
|---|---|---|
| **Financial assets designated as fair value through profit or loss** | | |
| Call option | **0.8** | – |
| **Loans and receivables** | | |
| Cash and cash equivalents | **–** | – |
| Amounts owed by Group undertakings (see note 12) | **31.2** | 33.1 |
| Prepayments (see note 12) | **0.2** | 0.4 |
| Other receivables (see note 12) | **0.1** | 0.1 |
| **Total financial assets** | **32.3** | 33.6 |
| **Financial liabilities measured at amortised cost** | | |
| Trade and other payables (see note 13) | **(1.7)** | (0.9) |
| **Financial liabilities at fair value through profit and loss** | | |
| Put option to acquire non-controlling interest | **(0.7)** | – |
| **Total financial liabilities** | **(2.4)** | (0.9) |
| **Total financial instruments** | **29.9** | 32.7 |

#### Fair value hierarchy

Financial instruments are measured at fair value and are split into a fair value hierarchy based on the valuation technique used to determine fair value. The hierarchies are;

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **At 31 March 2016** | | | | |
| Call option | – | – | 0.8 | 0.8 |
| **At 31 March 2016** | **–** | **–** | **0.8** | **0.8** |

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| **At 31 March 2016** | | | | |
| Put option to acquire non-controlling interest | – | – | 0.7 | 0.7 |
| **At 31 March 2016** | **–** | **–** | **0.7** | **0.7** |

Tables below show the movement in valuation for both the call and put option during the year.

| Call option | 2016 £m | 2015 £m |
|---|---|---|
| At 1 April 2015 | – | – |
| On acquisition of subsidiary | 0.7 | – |
| Valuation at 31 March 2016 | 0.1 | – |
| **At 31 March 2016** | **0.8** | – |

| Put option | 2016 £m | 2015 £m |
|---|---|---|
| At 1 April 2015 | – | – |
| On acquisition of subsidiary | 0.7 | – |
| Valuation at 31 March 2016 | – | – |
| **At 31 March 2016** | **0.7** | – |

## b) Credit risk

### Financial risk management

The Company's credit risk is considered to be the same as the Group, the Group's approach to financial risk management is discussed in note 35 to the consolidated financial statements.

### Exposure to credit risk

The maximum exposure to credit risk at the statement of financial position date by class of financial instrument was:

| | 2016 £m | 2015 £m |
|---|---|---|
| Amounts owed by Group undertakings | **31.2** | 33.1 |

There has been no impairment charged to amounts owed by Group undertakings in the current year.

## c) Liquidity risk

### Financial risk management

The Company's liquidity risk is considered to be the same as the Group, the Group's approach to financial risk management is discussed in note 35 to the consolidated financial statements.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

| | Carrying amount £m | Contractual cash flows £m | Within 1 year £m | Between 1 and 5 years £m | In more than 5 years £m |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables | 1.7 | 1.7 | 1.7 | – | – |
| **At 31 March 2016** | **1.7** | **1.7** | **1.7** | **–** | **–** |

| | Carrying amount £m | Contractual cash flows £m | Within 1 year £m | Between 1 and 5 years £m | In more than 5 years £m |
|---|---|---|---|---|---|
| Trade and other payables | 0.9 | 0.9 | 0.9 | – | – |
| **At 31 March 2015** | 0.9 | 0.9 | 0.9 | – | – |

## d) Capital management

The Company's capital management is considered to be the same as the Group, the Group's approach to capital management is discussed in note 35 to the consolidated financial statements.

## 16. Related parties

During the year the Company entered in to transactions with Group entities as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| Cost recharged to subsidiary undertakings | **14.3** | 6.3 |

Transactions with subsidiaries relate to management charges.

## Trading transactions

During the prior year there were transactions with Bill Holroyd (a Director) of £2,247. At 31 March 2016 the amount outstanding was £nil (2015: £nil).

# Shareholders' Information



# Important information

## Registered office and headquarters
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Registered number: 5525751
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## Company Secretary
Julie Finnemore
Email: cosec@ao.com

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Manchester M3 3HF

## Bankers
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## Registrar
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The Registry
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lines are open 8.30 am to 5.30 pm Monday to Friday)

Tel INTL: +44 (0) 20 8639 3399
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Web: www.capitaassetservices.com
Email: shareholder.services@capita.co.uk

## Enquiring about your shareholding
If you want to ask, or need any information, about your shareholding, please contact our registrar (see contact details in the opposite column). Alternatively, if you have internet access, you can access the Group's shareholder portal via www.aoshareportal.com where you can view and manage all aspects of your shareholding securely.

## Investor relations website
The investor relations section of our website, www.ao.com/corporate, provides further information for anyone interested in AO. In addition to the Annual Report and share price, Company announcements including the full year results announcements and associated presentations are also published there.

## Share dealing service
You can buy or sell the Company's shares in a simple and convenient way via the Capita share dealing service either online (www.capitadeal.com) or by telephone (0871 664 0364). Calls cost 10p per minute plus network extras. Lines are open 8.00 am to 4.30 pm Monday to Friday.

Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or sell shares in the Company. Shareholders in any doubt about what action to take are recommended to seek financial advice from an independent financial advisor authorised by the Financial Services and Markets Act 2000.

## Cautionary note regarding forward-looking statements
Certain statements made in this report are forward-looking statements. Such statements are based on current expectations and assumptions and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results expressed or implied in these forward-looking statements. They appear in a number of places throughout this Report and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, amongst other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the business. Persons receiving this Report should not place undue reliance on forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, AO does not undertake to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

# Awards and recognition

We must make all our stakeholders feel good about their experience with us. Judging by the awards below we're doing a pretty good job so far...

**Verdict Retail 2016**
Best UK Retailer of the Year
(awarded April 2016)

**Which?**
Joint Electrical Online Retailer of the Year
(awarded October 2015)

**Retail Week Awards 2016**
Customer Experience Initiative of the Year
(awarded March 2016)

**Nunwood**
Top 10 for Customer Experience Excellence, 2015
(awarded August 2015)

**UK Employee Experience Awards 2016**
Delivering Customer Experience – Loving the Customer
(awarded May 2016)

**National Apprenticeships**
Top 100 Apprenticeship Employers
(awarded January 2016)

**Retail Week/Glassdoor**
Ranked #1 in Top 15 Retailers to work for in 2016
(awarded May 2016)

**2015 UK IT Industry Awards**
IT Team of the Year
(awarded November 2015)

**National Apprenticeships**
Regional Finalist Newcomer Large Employer of the Year – Apprentice
(awarded October 2015)

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