# Building for growth

**AO World Plc**
**Annual Report and Accounts 2017**

## Contents



## How we performed in 2016/17

### Financial Highlights

**£701.2m**
Group revenue up 17.0%

**£24.4m**
UK Adjusted EBITDA up 41.7%

**-£2.1m**
Group Adjusted EBITDA losses reduced by 46.2%

**-£12m**
Operating Loss increased by 13.4%

### Operational Highlights

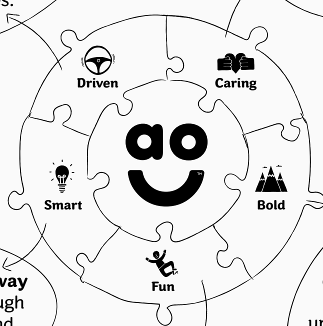
- Continued to grow market share across countries and categories
- Launched computing in UK and AV in Germany
- Opened Bergheim
- Built recycling facility

# Our mission is to be the Best* Electrical Retailer in Europe.

# We will do this by caring more from the first click to the recycling of old products (and everything in between).

**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.

**To see what "everything in-between" means go to pages 4 to 15.**

*** See what we mean by "best" in our glossary on page 120.**

# AO at a glance

## Who we are and what we do

We sell major and small domestic appliances and consumer electronics in the UK, Germany and the Netherlands and deliver them via our in-house logistics business and carefully selected third parties.

We also provide ancillary services such as the installation of new and collection of old products and offer product protection plans and customer finance. Via our state-of-the-art facility we are also able to carry out the recycling of waste appliances.

We have a unique and vibrant culture and a team of people who genuinely care more about our business and its customers.

## Where we operate

We operate across three countries: UK, Germany and the Netherlands offering a broad range of electricals.

**UK**

**Germany**

**The Netherlands**

**UK product mix**

- AV
- MDA
- SDA
- Computing
- Floorcare

**Germany product mix**

- AV
- MDA
- Floorcare

**The Netherlands product mix**

- MDA

See page 46 for further information on the trends, insights and opportunities in our markets

## Our scalable business model

We create value by providing electrical products and related services to our customers; we aim to make shopping easy and our customers happy!

We do this 'The AO Way' – uniquely combining our customer proposition with our culture, systems and processes whilst maintaining end-to-end control.

See pages 36 and 37 for further information on how we create and capture value

## Our investment case

- A leading position in the growing online electricals market
- Compelling customer proposition, delivered The AO Way
- Control of the end-to-end customer experience
- Strong culture
- Multiple growth opportunities
- Track record of growth/ability to replicate model

## Our 4Cs strategy

- Develop new countries
- Roll-out new categories
- Deliver a market-leading proposition to our customers
- Develop and protect our unique culture and brand


See page 22 for further information on progress against our strategic objectives

# Large available range

We offer an extensive range of MDA items and we are growing our range of SDAs, TVs and computing. Most of our SKUs are available for next-day delivery – not many of our competitors can offer that.

**What customers love about our range**

**Good service...**
Good service. Plenty of fridge freezers to choose from in stock.

Would recommend to others to use AO.

Maggie


ao.com
4 slot toaster
Filter by Top Rated
Russell Hobbs Legacy
4 Slice Toaster
Russell Hobbs
Breville Strata
4 Slice Toaster
Breville
Russell Hobbs Legacy
4 Slice Toaster
Russell Hobbs
Dualit Lite
4 Slice Toaster
Dualit
Sage By Heston
Blumenthal
Sage by heston blumenthal

# First class delivery model

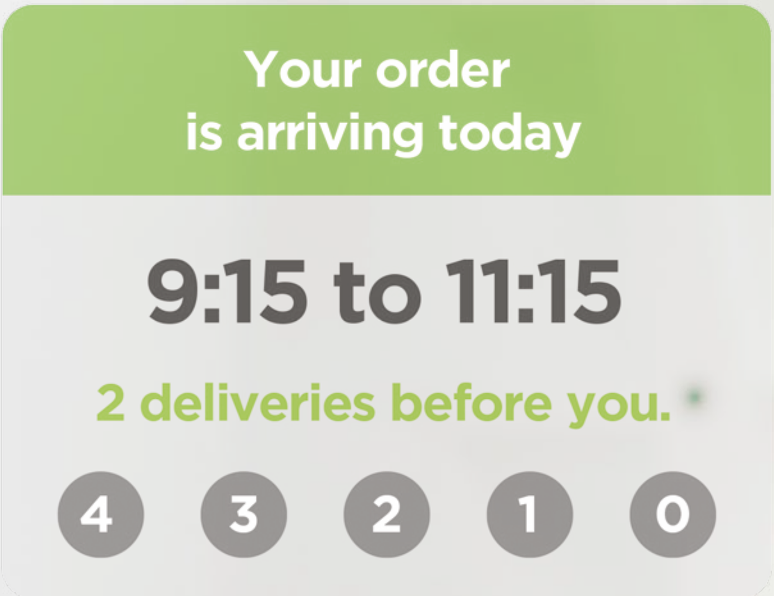
Our in-sourced seven-day delivery (six in Germany and the Netherlands) is first class. We offer our customers a wide range of delivery options including next-day and designated time slots so that they can pick the delivery that suits them. We can also install new appliances and remove and recycle the old ones too.

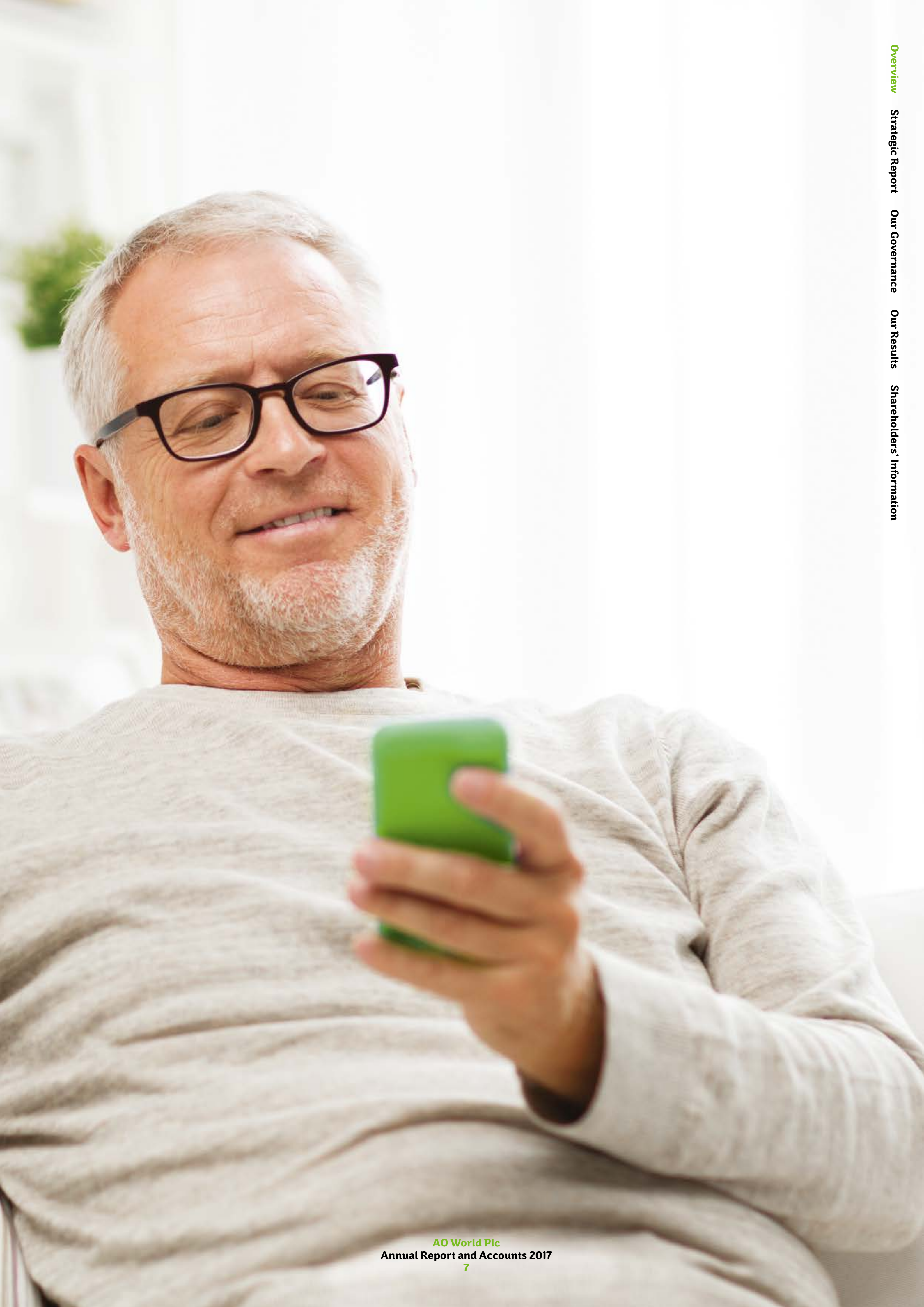
Having our own national delivery fleet operating out of a central distribution centre with a network of outbases, gives us control over our distribution chain. From the online purchase of a product through to its delivery to the customer and recycling of old products, we control all of the customer touch points

**What customers love about our delivery service**

**“I cannot believe the great service that...**
I cannot believe the great service that I received from ao.com. I ordered my new washing machine at 1pm on Saturday and it arrived at 1pm the next day. We were kept informed of delivery slots and the driver phoned half an hour before he was due to deliver so we could plan our Sunday. The delivery drivers were also really helpful. I would definitely use ao.com again.”

Graham





# Amazing customer service

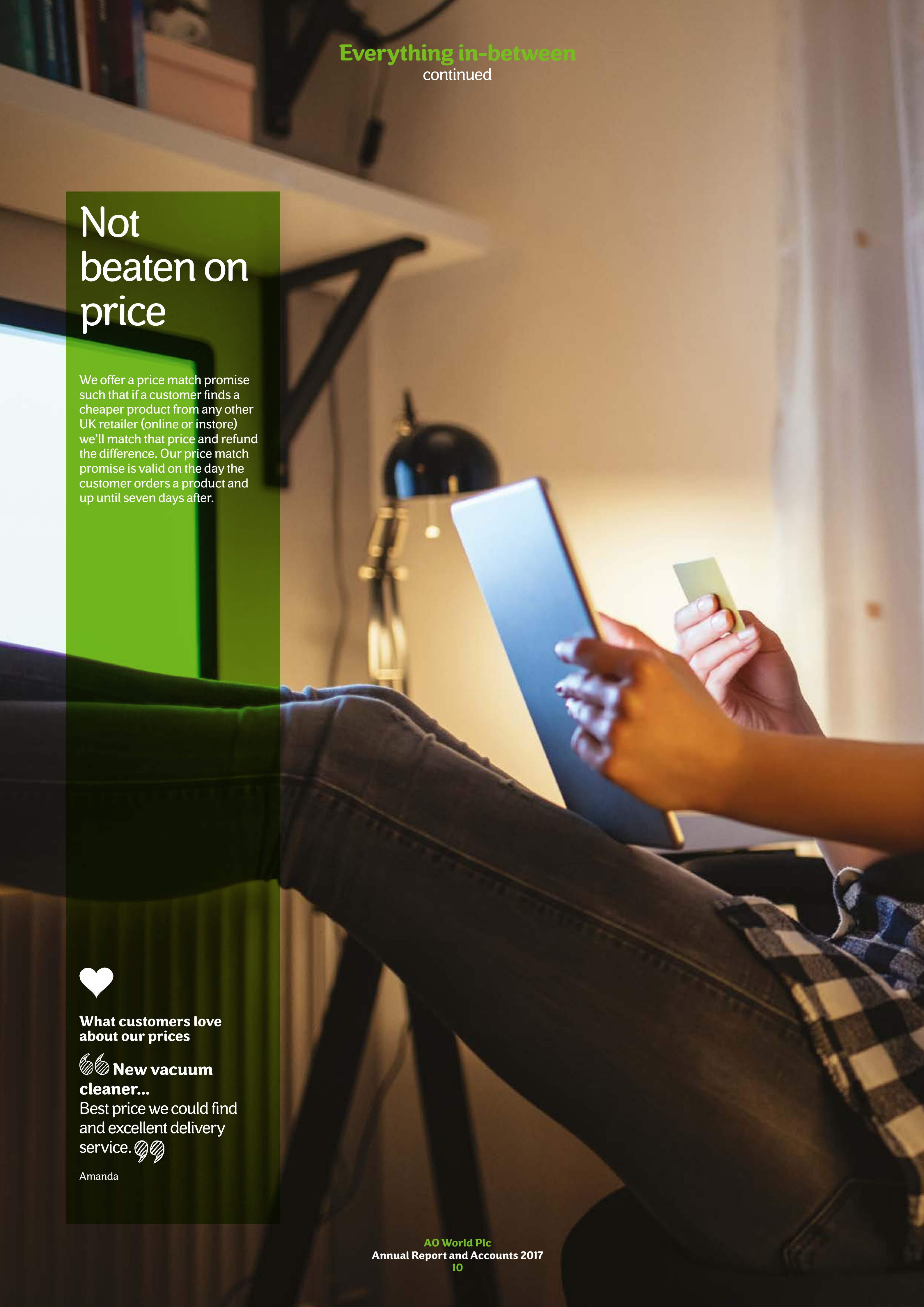
Of course we can claim that our service is wonderful but our independent customer feedback scores are exceptionally high. We give customers a flexible and personal approach and make clear commitments to them which we then deliver on.

**What customers love about our service**

“**Amazing service...** I've purchased a washing machine and a fridge freezer over the last few months. Absolutely brilliant service from ordering the items online... the communication re: delivery and to the guys that deliver. Perfect Perfect Perfect...”

David


BOSCH
TITAN
EDITION
Look, so quiet.



# Not beaten on price

We offer a price match promise such that if a customer finds a cheaper product from any other UK retailer (online or instore) we'll match that price and refund the difference. Our price match promise is valid on the day the customer orders a product and up until seven days after.

**What customers love about our prices**

**"New vacuum cleaner...**
Best price we could find and excellent delivery service."

Amanda


ao.com
Smart TVs
Filter by Top Rated
Samsung 55" Smart
4K Ultra HD
SAMSUNG
LG OLED 65" Smart
4K ULtra HD
LG
Sony 49" Smart
4K Ultra HD
SONY

# Innovative online content

We ensure our on-site 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. Offering this innovative content means that customers can make an informed decision on their purchase and are able to choose the right appliance for them.

**What customers love about our content**

**"I've bought from AO.com several times...**
I've bought from AO.com several times now, over a period of a couple of years, and each time has been a delight. Their website is easy to navigate and has all the specifications and photos I need to make a decision on an appliance. I'm a customer for life!"

Jo


ao.com
Quiet
Efficient
Long-lasting
MAGNETS


ao

# The AO Way

The AO Way is not any of these individual elements. It's the way we stitch them all together through our bespoke infrastructure and our culture of simply caring more.

Underpinning our business proposition is something that cannot be replicated: AO's unique culture. As a business, we all live by our five values; bold, smart, driven, caring and fun. It's important that people love what they do and strive to be the best they can be, whether that be our employees, the drivers or the manufacturers' designers.

**What customers love about The AO Way**

**"New washing machine**

From placing the order, to tracking delivery online and installation, AO.com are the best company I have ever dealt with. I now don't consider anyone else. This is the third white goods item I have bought from AO. Delivery guys were efficient and courteous in removing my old washing machine and installing my new one. Well done!!!"

Paddy

# Chairman's statement

**Geoff Cooper**
Chairman

It has been a year of further progress for AO, with strategic developments on many fronts.

AO has continued on its mission to become the best electrical retailer in Europe delivering on all aspects of its four pillar strategy, the 4Cs:
- Developing new countries;
- Rolling out new categories in existing and new countries;
- Delivering a market-leading proposition to customers; and
- Developing and protecting our unique culture that underpins our brand.

Over the period, AO has established a new fully operational 35,000 sq. metre Regional Distribution Centre in Bergheim, serving Germany and the Netherlands (which has now been trading for a full year); successfully launched new categories – audio-visual ("AV") in Germany and computing in the UK; maintained consistently high customer metrics and furthered our brand awareness.

In the last quarter of the financial year the Board reviewed the capital structure of the Group and raised, shortly after year end, c.£50m via a placing of new shares. This capital injection strengthens the balance sheet, provides flexibility to react to market opportunities and changes and, importantly, suitably capitalises the business to support our continued growth and increasing scale.

We have delivered another good year of top-line growth albeit with a challenging second half of the year which meant we missed our internal expectations. Group revenue increased by 17% to £701.2m. Year-on-year UK revenue was up 12.7% to £629.7m (with AO branded sales accounting for £557.9m, up 14.5% year on year). Revenue for our European segment was £71.5m/€84.7m; up 52.3% year on year on a constant currency basis.

Group Adjusted EBITDA losses for the period were £2.1m marking an improvement against prior year losses of £3.9m, with strong performance from the UK business more than offset by the trading losses incurred in our Europe business as we continue to build scale and achieve critical mass. UK Adjusted EBITDA was £24.4m, up 41.7% from the prior year and Europe Adjusted EBITDA losses were £26.5m, an increase of 25.5% against the prior year. On a statutory basis, our operating losses were £12m (such losses increasing 13.4% year on year due mainly to the share-based payment charge this year (with a credit in 2016)). Cash at year end was c.£29.4m, before taking account of net placing proceeds, which were received just a few days after the year end.

In February we announced a transition in our Executive Director roles, with Steve Caunce taking over as CEO and John Roberts assuming the role of Founder. This was a natural evolution and the Board is confident that Steve is the right person to take on the role from John to deliver the significant growth potential of the Group. John's new role will enable him to continue to play to his strengths as an innovator and a visionary leader, helping develop and test high level strategy. Steve and John remain very much a partnership and together they will ensure that AO continues to deliver for customers, colleagues, suppliers and our investors.

There have also been some changes to the Board's Non-Executive composition, following the retirement of Rudi Lamprecht as a Non-Executive Director and we are looking to appoint two further Non-Executives to the Board over the next few months. Further details are set out in the governance section on page 52.

In summary, the Group has continued to make good progress against its strategy. Whilst the Board continues to be cautious given the uncertain UK economic outlook and broadly expects the patterns of trading seen in the second half of FY2017 to continue into the year ahead (with UK business profits being reinvested in our European operations) the Board is confident of achieving its stated goals over the years ahead.

Since taking the role of Chairman in July 2016 I have been impressed by the quality and enthusiasm of the Executive Directors and of the teams of people that support them and I look forward to working with them on their way to become the Best Electrical Retailer in Europe.

**Geoff Cooper**
Chairman
5 June 2017

**Over the past few months John (left) and Steve (right) have transitioned seamlessly into their new roles, each playing to their key strengths. Both remain as committed as ever to AO and to driving our unique culture.**

# A letter from our Founder


Dear Stakeholders,

Last month, I received a letter from a customer, Moira, with the subject title: "Love your company!" It's quite long, but I've copied it opposite in full because it really gets to the heart of what I want to say in this letter.

At AO, we care more. It's at the core of our business, it's the reason we've succeeded, and it's the reason we'll continue to grow. It's the thing that differentiates us.

We have an amazing team of over 2,500 people in the business who live AO every day in a way that defines that difference; who understand our business from the customer's point of view. But we're not magicians; we don't know what customers think through some special mind-reading method. Instead, we ask them, we listen to them, and then we innovate for them.

You have to stay in touch with customers because they're the ones who've got all the answers. I write a personal letter to every single customer who has written to me at AO with either a positive or a negative comment. I get amazing responses back because the customer feels a part of the movement we are creating.

But the biggest impact isn't on them. It's on us. We have to make sure that whatever we got wrong, we put right. We need to make sure they're happy. We learn the lesson, and see it from their point of view. Like Peter, understanding and responding not only to Moira's concerns, but applying it to the business as a whole to make things better for every one of our customers.

It's not one silver bullet, but a hundred different things we just care more about. Being an AO'er is a lot more than a job – The AO Way is a way of life. It's the backbone to our culture and, as we've grown and expanded into new territories, maintaining, cultivating and obsessing about this culture is critical.

Earlier in the year, Steve succeeded me as Chief Executive Officer. This transition was the natural evolution of our succession planning work since IPO and reflects AO's rapid growth and success. It ensures that we can capitalise on all the team's strengths as we continue to grow – enabling me to focus on delivering for our customers and for AO'ers by playing to my strengths as an innovator, and enabling Steve to concentrate on strategy and performance delivery. He's already making a big difference to how we operate as a business, and I'm immensely proud of our partnership.

In my first letter to shareholders three years ago, I told you that we genuinely wanted to change the world of retail – to get customers to become intolerant of poor service and realise that they don't have to accept it. That ambition hasn't changed, and we've become relentless in our search for new markets, new ideas and new and better ways to serve our customers. Change is the only constant and we're always thinking: "What's next?"

So, what IS next? As I transition into the role of Founder, I want to look at how the next generation will shop and understand better what they'll want and need from their experience. I want to examine how our brand partners are developing their technologies to stay relevant in a connected world and how we, as a business, can use innovative techniques to stay ahead of the competition whilst remaining true to our core values; harnessing technology, AI and digital channels to enhance the customer experience.

And I want to explore how we can better empower and motivate our employees to innovate; encouraging our people to try new things and take new risks.

Steve and I also want to concentrate on our brand. A brand is what you are, who you are, why you are. The AO smiley face isn't a bit of decoration; it says we want to make our customers smile and we want the people who sell to our customers to be smiling. We work very hard on making sure that our staff appreciate what we are trying to do. We are spread across many locations so only if everyone absorbs our brand values will we remain consistent. We're making great strides across all our territories in brand awareness, but we're not yet the household name we aspire to be. Honing in on our brand message, and getting it out there to people who haven't used AO before, is one of our key challenges in the coming months.

The sponsorship of this year's Britain's Got Talent has kick-started that challenge. It's been an exciting project and has given us all something to smile about, especially those who've been lucky enough to star in some of the accompanying adverts. 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. Peter's small gesture to Moira was unprompted, but it made a big difference to her overall customer experience.

It is a story we need to tell better and to more people because AO.com really is a much easier way to shop for electricals and once people experience The AO Way they really get it. We have learned a lot of lessons on how to best tell that story over the last four years and we are getting better at it. It is by far our biggest single opportunity.

At AO, we want this ethos to go beyond the business, into the local communities in which we work. I've always believed that retailers have a responsibility to give back to their communities; that's why we set up the AO Smile Foundation, providing support to disadvantaged young people across the UK. We actively encourage all our staff to get involved with the charity, and to make a positive impact within their local communities; each AO'er is able to take two "make a difference" days each year to work with a charity and last year they made over 376 days of difference. I'm incredibly proud of that work. But I also believe that what you put in, you get back. In truth, we all get as much from our involvement with the AO Smile Foundation, as it gets from us. It's another part of what makes AO such a great place to work.

As Moira says, AO'ers are not people simply "going through the motions", they are people who are inspired, empowered and happy in what they do. So a big thank you from Steve and me to the whole AO family, and a promise to keep on caring more as we continue on the next stage of the AO journey.

**John Roberts**
Founder

Dear Mr. Roberts

**Love your company!**

I recently purchased a fridge freezer from AO, primarily on the recommendation of a friend, and I wanted you to know it was the most positive customer experience I have had in a very, very long time.

Your website is good and easy to navigate, the choice of product is great, your prices are very competitive, your communications appropriate but most of all your people are fantastic. I had reason to "chat" on your website a couple of times and to call and speak to a customer service representative on two (or maybe three) occasions – not problems, just questions. Your staff could not have been more helpful, knowledgeable or "human" for want of a better word!

Of particular note was my conversation with your customer services representative Peter. For a start – all my phone calls were answered very promptly – quite a novelty in this day and age. I had a small concern re some of the wording in a confirmation email I received that seemed contradictory to your website information and I just wanted to clarify the actual installation service I was going to receive.

Peter could not have been more helpful in investigating the concern and, upon agreeing the email wording was not right, advised me that "AO will probably have this template email corrected in a couple of hours so no further customers are confused." Again, impressive. Peter went on to proactively give me a small refund as a "thank you" for bringing the matter to AO's attention – a gesture that was unexpected but very much appreciated. If only all companies demonstrated their respect and appreciation for their customers so readily, unprompted and with good grace.

Towards the end of the conversation with Peter I told him how impressed I had been with all my contacts with AO and he told me how very much he enjoyed working for AO, that it is a great company and how he and his colleagues are treated as "human beings", I think was the expression.

These are not people "going through the motions", they are clearly inspired, empowered and happy in their work. I thought that warranted comment. These days it is not often there is an opportunity to praise good customer service – I hope you enjoy reading this as much as I enjoyed being able to write it.

Needless to say, I am telling all my friends to order from AO!

Kind regards

Moira

It's great to get this type of customer feedback as it shows our customers recognise everything we have worked hard on over the years.

# Chief Executive Officer's Strategic Review


I'm pleased to report on the significant strategic and operational progress made during the financial year as we continue on our mission to be the best electrical retailer in Europe. This is the first time I'm reporting as CEO but, fundamentally, our approach has not changed and nor do I expect it or want it to: we remain relentless in pursuing our goal to be the best electrical retailer in Europe and, through focusing on our 4Cs strategy, we are confident we can deliver against that objective.

We have a business model that differentiates us from our competitors, "The AO Way", as set out on pages 36 and 37. While we obsess about each element, it isn't the individual components of this model which give us our competitive advantage; it's the way that we stitch them all together through our culture of caring more, making things easier for the customer and being exceptional in the moments that matter. That's what makes us different. Our culture is absolutely crucial to us so, together with John, I'm looking to protect it, nurture it, and further embed it across the Group, particularly in our newer territories.

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

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

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

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

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

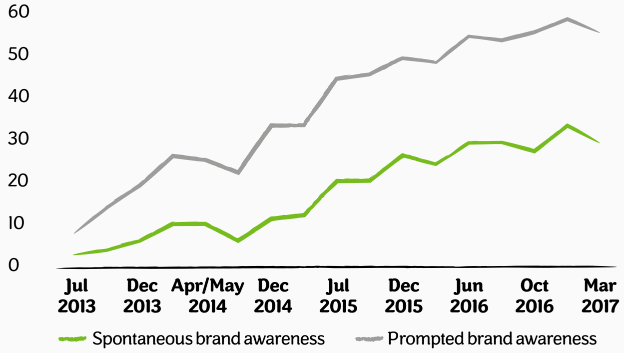
Further details on our performance in the year under review are set out in the next few pages. Put simply, I am proud to say that it has been another great year for AO thanks to our outstanding team of people. We will continue to execute our strategy in the year ahead and focus on demonstrating to more customers that The AO Way is the best way. It is easy, it can be trusted and we simply care more. This is our differentiator.

**Steve Caunce**
Chief Executive Officer

# Strategic KPIs

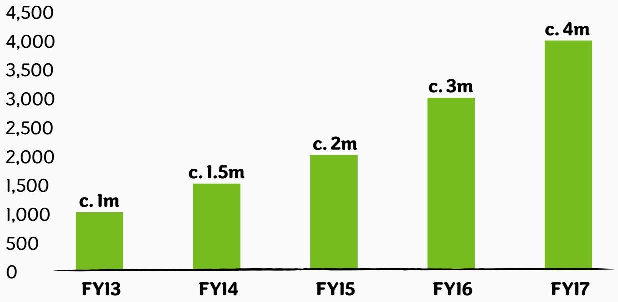
## Culture and brand

### Brand awareness




## Customers

### UK customer base*




Excellent 9.5 out of 10 – Our UK trustpilot score

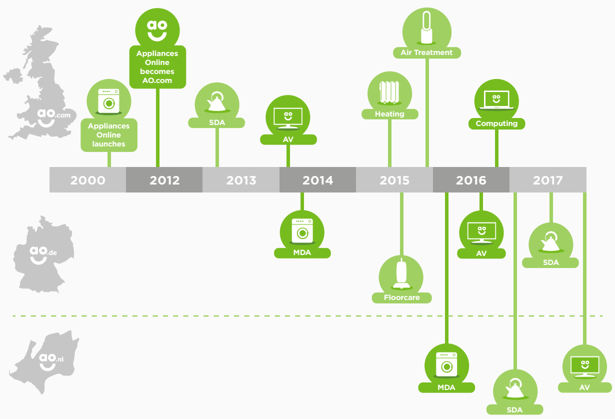
Excellent 9.6 out of 10 – Our Netherlands trustpilot score

Sehr gut 4.83 out of 5 – Our DE Trusted shops score

* A customer is defined as an individual customer who has purchased from us.

## Categories

Continuing our category roll-out strategy




| | SDAs | AV | MDA | Heating | Air treatment | Floorcare | Computing |
|---|---|---|---|---|---|---|---|
| UK | ● | ● | ● | ● | ● | ● | ● |
| Germany | | ● | ● | | | ● | |
| The Netherlands | | ● | ● | | | | |

## Countries

Our strategy: the 4Cs

## Culture & Brand

Our culture is our brand, our brand is our culture. Together, they are our greatest asset and provide us with a structural advantage over our competitors. Through nurturing and growing our 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 pages 42 to 44.

### Performance this year

UK

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

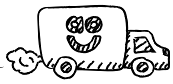
AO has historically been known for selling white goods and so, during the year, we have focused on educating our customers that AO is a multi-category electrical retailer, building momentum as we add more categories and products to our range. We sought to increase the effectiveness of our brand investment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

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

See how many you can now spot as you journey on our roads and motorways!

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

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

**Following my appointment as CEO we implemented some changes to the structure of our GET and senior management teams to ensure that we remain robust and scalable as our business continues to grow.**

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

### Europe

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

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

## 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 do more to ensure that AO becomes a household name and the obvious place to shop for our products both in the UK and Europe.

We are investing in new creative for our TV advertising, and this together with further branding of the AO fleet in the UK should help continue to drive awareness.

In Europe, we will look to continue to drive our digital performance channels, increase our SEO rankings, build our social media audience and utilise local marketing channels, for example direct mail and CRM. We will also seek to increase local and national media through PR and will continue to use TV advertising tactically.

With the support of our senior management over the next financial year we will continue to safeguard our culture, define its essence and embed it across the Group. As more and more people join the AO family it is critical that we do not lose sight of our values.

## Customers

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

The risks affecting our customers are highlighted on pages 42 to 44.

## Performance this year

### UK

We made good progress with our customer metrics over the reporting period. AO's customer base is now a huge asset to the business as we approach four million UK customers (defined as an individual customer who has purchased from us) giving us a fantastic foundation from which to leverage our growth. Our repeat business remains very healthy and we continue to attract new customers. Notwithstanding progress this year whilst customers continue to repeat the time taken to repeat has fallen slightly which we think, in part, is driven by market dynamics. Growth in traffic remained encouraging during the 12 months to 31 March 2017 and we experienced particularly strong growth in visits to our mobile site, although we have some work to do to increase our conversion rates to levels similar with those on Desktop and Tablet devices.

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

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

See one of our in-house created 3D videos here.

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

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

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

**See the ins and outs of the recycling process on pages 34 and 45.**

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

## Europe

We are enjoying good customer feedback in both territories with NPS scores remaining outstanding at over 85. AO.de had a Trusted Shops score of 4.8 out of 5 and AO.nl had a Trustpilot score of 9.6 out of 10 at our year end and repeat business is already building momentum.

Our brand new regional distribution centre (RDC) in Bergheim, serving Germany and the Netherlands, became fully operational in September 2016. With 35,000m$^2$ of warehouse space, the RDC allows us to improve product availability for our customers and promote brand awareness. The RDC comprises a head office allowing the retail and logistics divisions to become more cohesive, drive efficiencies and embed a consistent AO culture. With a capacity of five times our previous facility we are well resourced to fulfil our future growth.

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

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

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

## Priorities next year

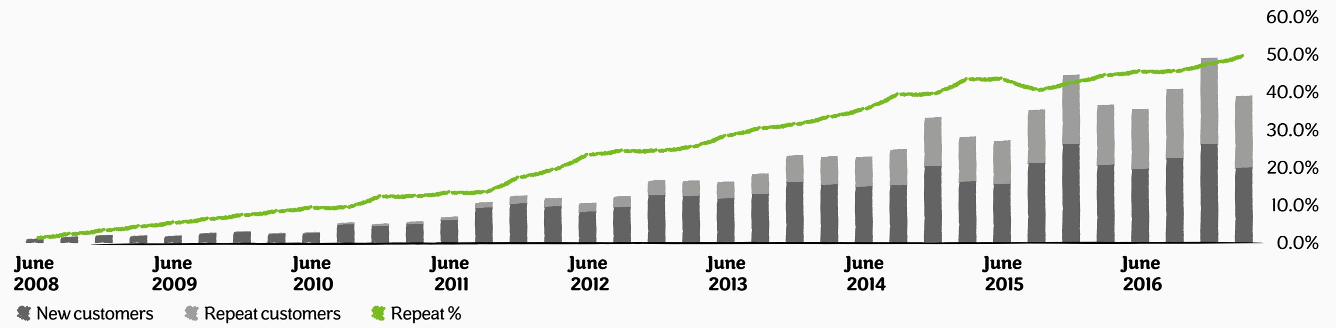
We will do more of the same. As we grow across categories and countries we need to ensure we do not lose our focus on delighting our customers. We are looking to build on the results of the Customer Lab and tailor the web journey to meet different customers' needs; to build on the self-service strategy but to retain our personal touch.

Development of the My AO app, to become fully transactional, is now in progress and we expect this to be launched in the coming months.

In conjunction with D&G, we will look to develop a better warranty product for our customers, with better benefits and a more digital offering. We will also seek to expand on the customer finance offering to provide customers with alternative ways to purchase our products.

We will strive to maintain our excellent NPS scores and market-leading Trustpilot scores. As we enter new categories we need to ensure that we continue to deliver a great proposition and the same level of exceptional customer service we offer in existing categories so that our reputation and industry-wide acknowledgements will be maintained and our brand never compromised and customers continue to make repeat purchase.

**UK customers vs repeat customers**



See how we launched the category 'The AO Way' on page 28.

## Categories

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

Risks affecting our category roll-out are discussed in the Risk Review on pages 42 to 44.

### Performance this year

UK

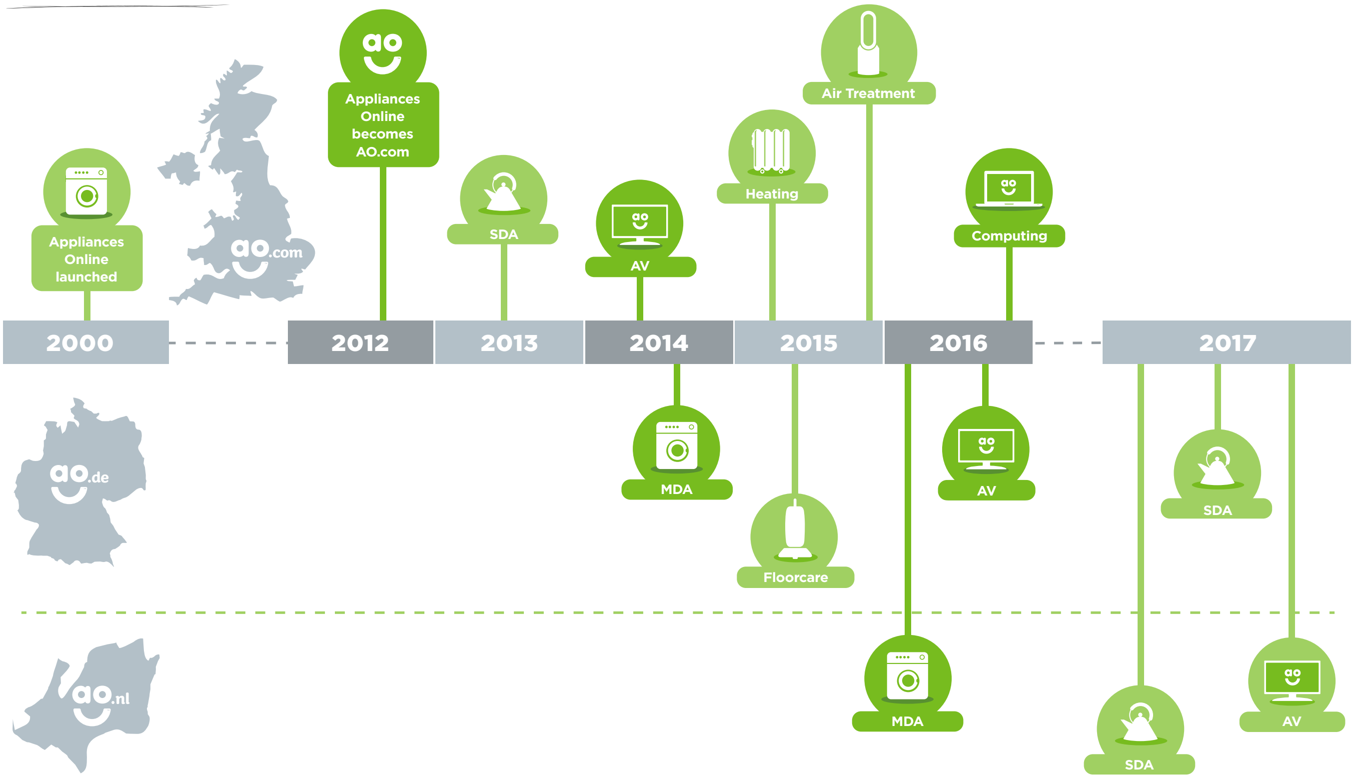
One of our greatest achievements during the reporting period was the successful launch of our computing category. We are delighted by our progress so far, leveraging the investments we have previously made in our web content, IT and product teams to add the category seamlessly to ao.com.

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

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

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

### Where it all started



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

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

### Europe

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

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

### Priorities next year

In the year ahead we will continue to broaden ranges as far as possible within existing categories.

In our computing category in the UK, at the time of writing, we have added a second drop ship vendor into our operation which will enable us to offer a wider range of computing products and will look to strengthen the relationships we have with the brands themselves, now we have demonstrated our retailing strengths. We will also continue to focus on expansion of our AV range – particularly in audio, looking to add additional premium brands to the mix. In MDA, we plan to focus on the built-in subset of MDA (which is a growing market opportunity), drive our installation capabilities and look to develop trade relationships.

In Europe we will be exploring opportunities in the AV category and building on our SDA range, adding small kitchen appliances to the floor-care range already available on ao.de. In the Netherlands we will look to roll out AV and SDA.

We will continue to work in partnership with our manufacturers, sharing insight and knowledge, innovating categories and changing the normal course of retailing.

Our research of further complementary categories is continuing with the focus on mobile and gaming, portable tech and other smart/connected products, as we look to broaden our offering to give our customers more reasons to return to AO.

## Countries

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

The risks affecting our expansion are highlighted on pages 42 to 44.

### Performance this year

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

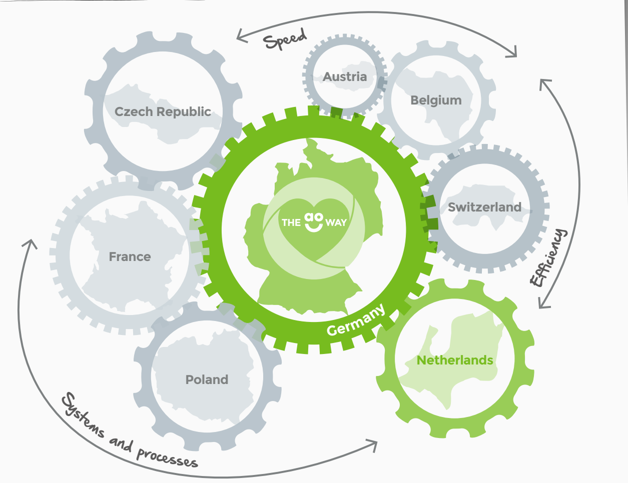
Our new territories are taking the same journey that our UK operation experienced in its infancy, which we communicated to analysts and investors at our Capital Markets Day in February. The strategy across Europe is identical to the focus we have in the UK; to develop the customer proposition, categories,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

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

### Priorities next year

Our research into further countries continues and 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.

### The opportunity!



## Introducing Computing
(The AO Way)

In early 2016, we began our journey to launch a brand new category in the UK, Computing. Our mission; to transform the way this category was retailed by approaching it in The AO Way. Our aim; to create a new way of shopping that results in happy customers and manufacturers.

We extensively researched and created a better customer purchase journey. We made it informative and innovative, by using content that cuts through the jargon, helping customers choose the right product for them.

**Lots to do – but a strong belief AO can once again change how people buy a product.**

**January 2016**

### Research
We ran customer labs to understand how the customer shops this specific category.

We held an extensive number of customer labs to help us to really understand customers' pain points when shopping this category online.

### Learnings
We showed customers how we can help and demonstrated our understanding.

The outcome of these labs was that customers had problems understanding the wording around products and what that meant for them, meaning they weren't always buying the right product.

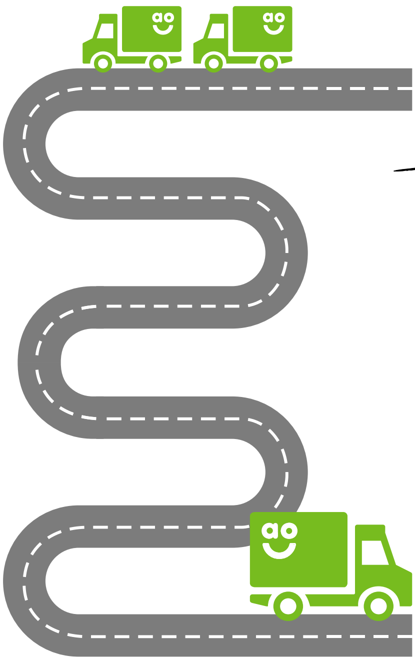
Solution:
We decided to make the whole process EASIER by introducing a "help me choose" function which asks customers simple questions to ascertain what they really want and need.


### Support
We got manufacturer backing once we explained our unique way.

Manufacturers were hugely supportive of the new way of thinking as they could see how AO's new proposition cut through the jargon and helped to explain the benefits and features of their products.

**Smart working**
We streamlined our distribution processes to make our service as efficient as possible.

To ensure that we could deliver this category in an efficient way but still with the high standards that we live by, we linked this insight into the distributor to make sure they delivered in The AO Way.

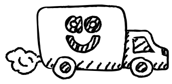


See our computing launch video here.

**Ready for take-off.**

**Training**
We trained all our staff to be experts in the new category, helping customers make decisions.

Launching a new category means that there are new learnings and new customer emotions to understand, so we held training workshops for all our customer service teams to make sure they could help a customer at any point of their computing purchase journey.



We are delighted by our progress so far, leveraging the investments we have previously made in our web content, IT and product teams to add the category seamlessly to ao.com.

**October 2016**


**New category launched**
**(using our learnings and the systems we've developed, there are so many categories we can extend into).**

## A modern company with old fashioned values


**There's lots here about "grass roots" and "pipelines". In short, we select who we think are AO people, train, encourage and give them the chance they need.**

## Responsible retailing

The Board considers that the development, well-being and safe-keeping of people is central to supporting its strategy and this, coupled with our social and environmental credentials, is fundamental in creating a sustainable business.

## People are our business

### Creating the right environment for our employees

We continue to do what we believe is best for our employees, providing an environment in which they can really flourish and the ability to develop their skills. We want to encourage people as much as possible to collaborate and have open spaces for employees to share and create ideas and the new facility at Bergheim has been built to mirror the style of our facilities at Parklands and Crewe. We believe this type of environment really fosters the entrepreneurial spirit, creating a can-do attitude for all our people. And we empower them to do what they think is right, based on our values, rather than apply rigid rules that they must adhere to, giving them autonomy and ownership.

This year we've updated our employee benefits (AO Perks), enhancing our parental leave policies, helping with eye-care funding and placing a real emphasis on employee wellbeing, giving employees the opportunity to purchase medical cover and gym membership at reduced rates and supporting employees through difficult times through our employee welfare programme. We've also arranged for a number of corporate discounts to be available to our employees, ranging from car-lease/hire, cinema tickets, air travel, hotels, cruises, electronics and event tickets.

We're also enhancing our learning and development function to be able to deliver online training modules and skills workshops.

Recently we supported National Learning at Work Week putting the spotlight on the importance and benefits of learning and development at work. We held sessions where, for example, employees shared some of their technical expertise – in areas such as Excel, social media, analysis and computer programming – and also delivered mindfulness workshops.

### Employee engagement/nurturing our AO Culture

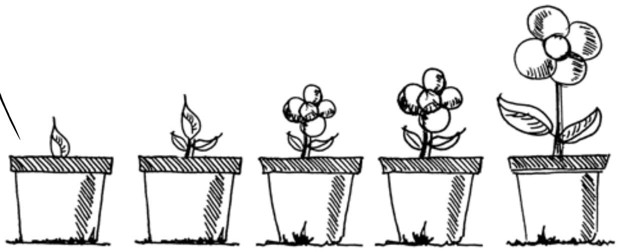
Last year saw a huge focus on how we ensure our employees are inspired by the vision of our business and feel a part of what we are trying to achieve. We focused our attention on how we communicate these key messages to our employees and increased our efforts through a number of communication channels, including a reformed business-wide "state of the nation" delivered in territory by both our CEO and Founder, management briefing sessions to our senior management team and a revamped intranet for all employees to keep up to date with business updates. This includes a regular blog by Founder, John Roberts.

We also revived our "what we are doing workshops" this year, led by heads of departments giving real insight to specific areas of the business and bringing our teams closer together.

Once again, we have carried out a robust employee survey to ensure employees are given a voice and to enable us to understand areas where we can improve as an employer. Our scores continue to grow year on year with our employees NPS question "would you recommend us as a place to work" increasing from 61 to 68. Specific actions resulting from this survey have seen us place more emphasis on development programmes for all our employees.

In January this year we launched our fourth save-as-you-earn scheme which was open to all employees who had passed their probationary period, building on the previous schemes in place, giving an opportunity to all our employees to share in the success of the Group as we grow.

As we continue to grow as a business we have repositioned our engagement activities and worked towards the objective of building relationships and driving collaboration across the business. All our development programmes now have an element of this placed in them and we encourage this through activities such as team building away days and incentives within the office.



### Investing for the future

Our recruitment model at AO is simple – we always strive to recruit at a grass roots level and nurture talent through our leadership pipeline. We continue to initiate programmes specifically designed to build and nurture a future AO talent pool, strengthen our culture from within and to aid our succession planning to meet our needs as the business grows. These programmes are aimed at enabling technical capability and behavioural development aligned to the business' goals.

Our investment in emerging talent has seen an increased focus on apprenticeships across the business. We now run apprenticeship programmes across all core areas of our business including digital, marketing and finance and have c.40 apprentices in junior roles. As part of this programme to develop the next generation of leaders, we enrol our apprentices on the Duke of Edinburgh ("DofE") scheme. This focuses 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. Following the success of the DofE scheme during the year we rolled it out to our full business with an additional 60 employees taking part in our DofE Diamond Challenge.

Once again, our Star Programme has been rolled out across the business during the year, aimed at front-line (non-manager) employees who have been identified as "talent" and have the potential to be future managers at AO. The programme included Team Building, Business and Charity Projects, Business Updates and Self-Development with Skills Workshops designed to create lasting habits and behaviours that will ensure that our people perform at their best whilst consistently demonstrating our values. The programme proved a huge success in the business with 70% of our employees progressing in their careers following the programme. On top of this, we have invested further in our Future Programme, designed at helping our managers become the next leaders, centred around personal development, team development and inspiration and are looking to launch our very own AO Let's Grow programme shortly.

### Equal opportunities

AO is 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 57 and 61 "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.

## 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, our Health and Safety risks increased with the commencement of operations at our recycling plant in Telford. Accordingly, over the year we further invested in various forms of recognised external training and education to ensure even more improvement in our Health and Safety culture. This enables us to have a workplace where employees take individual responsibility for reducing the risk to both them and their colleagues through: improved reporting of incidents and near-misses, regularly reviewing risk assessments, updating training and regular inspections of all sites and departments. We have redesigned the format of our Health and Safety inspections over the last year to ensure that all areas of the business are providing the best level of Health and Safety.

We have continued to expand our Health and Safety team in line with the growth in our business. Our established safety practices and ways of working have continued to be replicated across our new territories and our quarterly inspection procedures have been carried through to these new locations, across all of 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.

## Supporting our communities

AO actively encourages all employees to support and give back to their local community and the AO Smile Foundation continues to facilitate this. 65% of our UK employees make a regular monthly gift to the charity, and during the year over £60,000 was raised through payroll giving, which makes the process of giving as easy, flexible and tax efficient as possible.

In recognition of AO's commitment in fostering a culture of philanthropy and committed giving in the workplace we were delighted to once again received a Platinum Payroll Giving Award from HM Government and Institute of Fundraising.

Over the year we have continued to encourage colleagues to have a positive impact within their local communities with our focus this year driven by the "Gift of Time" and specifically our "make a difference" days and volunteering. Over the course of the year we have supported a number of charities and community projects, including:

- Barnabus Homeless Shelter in Manchester
- Rays of sunshine
- Claire House Children's Hospice
- Wigan Youth
- West Houghton Youth Project Landscaping Day

Further, our call centre was chosen to be an official call centre for Red Nose Day 2017. 110 of our people gave up their Friday night to man the phones and we helped collect a whopping £45,000 for the charity.


## Business ethics

Our Modern Slavery statement for the year ended 31 March 2016 was published during the year and we have continued to look at our due diligence processes in this area to ensure we are complying with the law but above all doing the right thing in accordance with our values. Our modern slavery statement can be found at http://ao.com/corporate/responsibility/modern-slavery-statement/

## Building on our environmental credentials

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 around 2% additional packaging added from receipt into our warehouses to delivery to our consumers. We offer customers an unpack and recycle service and are pleased with the level of take up. The majority of packaging collected during delivery to the consumer is recycled with more than 400 tonnes of card and plastic (including Expanded Polystyrene) recycled in the year to 31 March 2017 across all our operations.

We offer a collection and recycling service to our customers for their old appliances (for a small transportation charge) or, alternatively, we accept any WEEE 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 37,000 tonnes of WEEE was processed.

During the year we completed the build of our recycling facility at Telford giving us a state-of-the-art recycling plant which ensures WEEE is safely and properly disposed and that re-use is optimised giving rise to a number of environmental benefits. There is clearly an appetite from customers to recycle and re-use even if they don't always put it into action – and don't know how to. In the years ahead we will be focusing on this and will look to create a platform that would support a Group-wide sustainability drive (using the recycling business as a springboard and foundation for sustainability). Further details of our recycling facility are set out on pages 34 and 35.

## 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:
- Our home delivery fleet comprises 3.5 tonne "Hi-Cube" trucks– these trucks are lighter and have a greater space and weight capacity;
- We have opened two new outbases in the UK 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 (the prior year period included less than one month of trading from the Netherlands). Emission factors used are from UK Government (Defra) conversion factor guidance current for the year reported with the exception of Germany and the Netherlands for which current conversion factors were unavailable and therefore the prior year's factors have been used. Any changes in factors between the current and prior year reporting periods are considered minimal.

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** | **2017** | **2016** |
| Emissions from operations and combustion of fuel (Scope 1) | 25,600 | 24,408 |
| Emissions from energy usage (Scope 2) | 3,865 | 2,735 |
| **Total** | **29,465** | **27,143** |
| Intensity ratio: tonnes of $CO_2e$ per £m of revenue | 42.01 | 45.25 |

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 factors in respect of gas and electricity for the Group's German and Netherlands operations for the current year were unavailable therefore $CO_2$ factors for the prior year have been used.

**Steve Caunce**
Chief Executive Officer

# Responsible recycling

## AO Recycling launches

(The AO Way)

AO Recycling carries out the large scale recycling of fridges and domestic appliances such as washing machines, tumble driers and dishwashers, sometimes known as WEEE (Waste Electrical and Electronic Equipment).

From its state-of-the-art facility in Telford in Shropshire, which opened in spring 2017, AO Recycling is transforming the way this difficult waste stream is dealt with.

Since 2014, all newer fridges in the UK which contain pentane gases have been classed as hazardous waste. This means they cannot be recycled until the potentially flammable gases have been safely removed, along with refrigerant and oil contained in the fridge motor.


### The issue

Over the last few years the UK has suffered from serious capacity issues in the fridge recycling sector. Put simply, far more fridges were entering the waste stream every year than the industry had the ability to process correctly and responsibly.

The risk is that the UK could see another repeat of the "fridge mountain" crisis of the early 2000s. Then, there was not enough capacity to safely process older CFC fridges – leading to mountains of fridges piling up at waste sites across the country.

### The solution

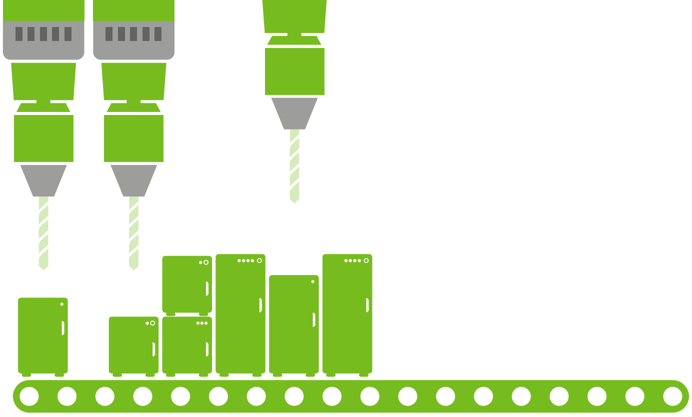
AO wanted to recycle customers' old products in the most efficient and environmentally friendly way as part of its aim to being a more sustainable business. AO plans to deliver a "step change" in the way fridges are recycled at end of life.

The new recycling facility in Telford was built and will be able to recycle more than 700,000 fridges a year. To put this in context, about 3.5 million fridges are thrown away every year – so AO Recycling could be processing nearly one fifth of these.


### The machine

The plant could process up to 100 fridges an hour inside an enclosed metal chamber. The machine weighs more than 80 tonnes and works by smashing appliances into their constituent metals, plastics, and foam insulation using heavy duty rotating chains – a bit like a kitchen blender. The raw materials are then sorted into different metals, plastics and foam powder for reuse in new products – everything from kerb stones and garden furniture to new fridges.

**Breaking up is tough. Sometimes, it's a sad day at AO as we love the products we sell (we really do). But, the environment comes first!**



### How does it work?

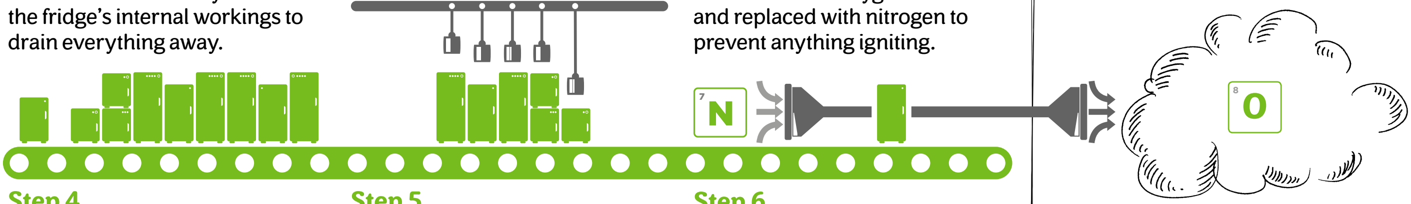
Old fridges and large domestic appliances will arrive at the site for recycling having been collected from AO customers when they purchase a new machine. Items which are still in working order will be checked and, where appropriate, refurbished and sold. Packaging from AO customers' new appliances will also be brought to the Telford facility for recycling.

It will be as "closed loop" a system as possible – meaning nothing is wasted and every part of the old fridge is given a new lease of life. It's safe, clean, efficient and more environmentally friendly than any other facility in the UK.

**Step 1**
Firstly we strip down the fridge and dispose of the refrigerant and oil that fridge motors are full of. To do this we manually drill into the fridge's internal workings to drain everything away.

**Step 2**
The motor is then removed with some giant, heavy duty cutters and sent away for recycling.

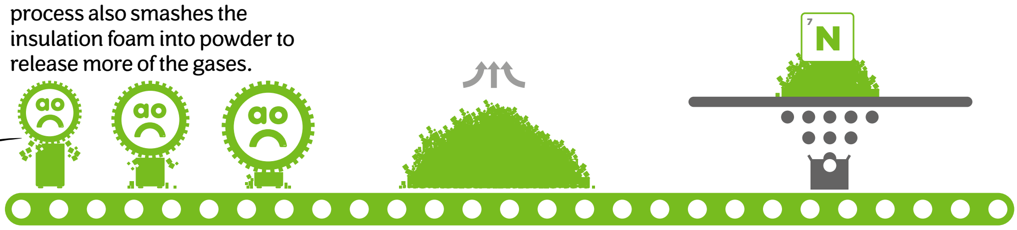
**Step 3**
The rest of the fridge is then sent into a sealed chamber to extract the gases in the fridge's insulation foam. To do this oxygen is removed and replaced with nitrogen to prevent anything igniting.




**Step 4**
The fridge is then dropped into a big shredder, where heavy duty chains spin around at 500 rpm. This motion forms a vortex that breaks the outer shell of the fridge apart, into smaller pieces. This process also smashes the insulation foam into powder to release more of the gases.

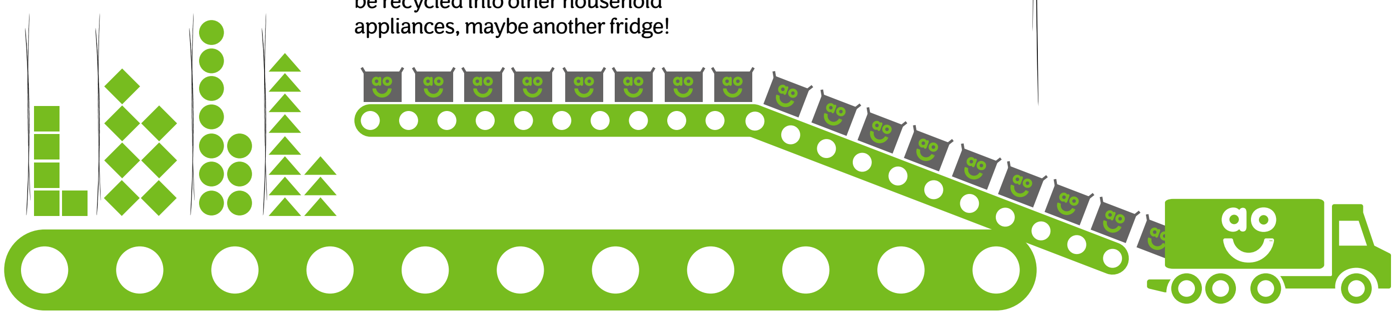
**Step 5**
The rest of the fridge's remains are dropped onto a heated conveyor belt below. Heat helps to release and neutralise any leftover gases.

**Step 6**
At this point nitrogen is used to condense the gases into liquid so they can be safely sent away for disposal elsewhere.



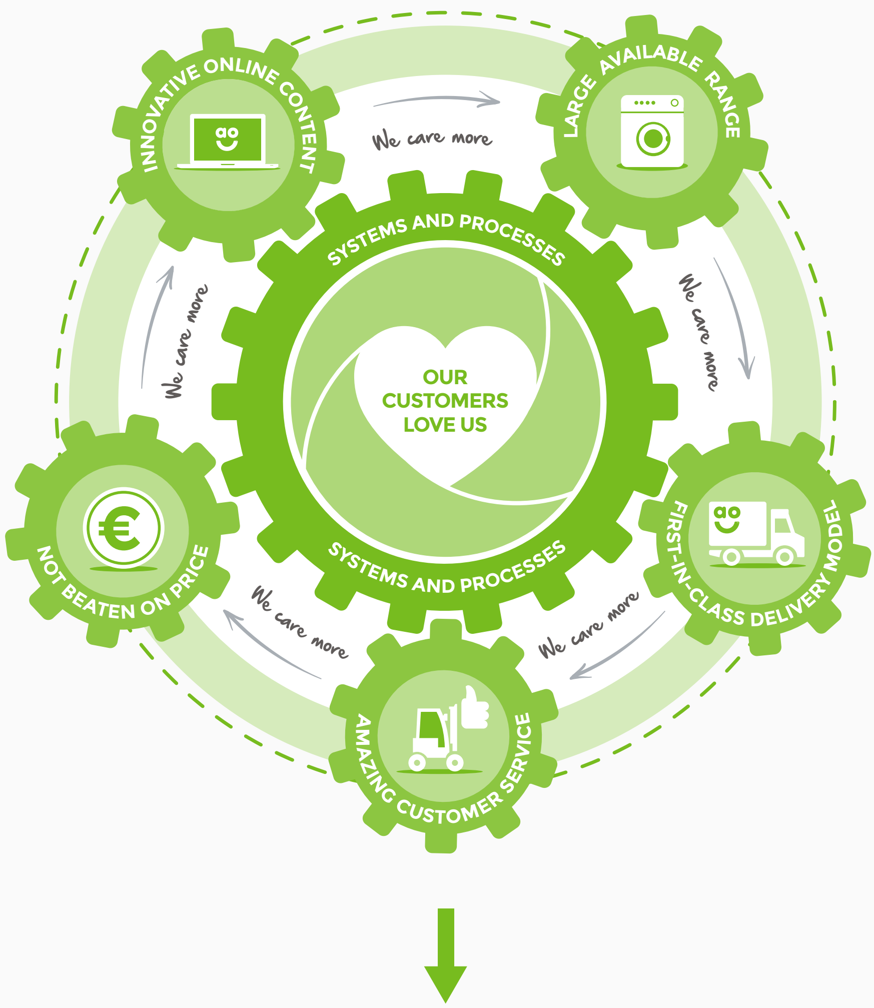

**Step 7**
What's left of the fridge's remains are sent through four different filtration systems, to separate the different materials from each other.

**Step 8**
This makes it really easy to collect up the plastics and metals into individual storage containers that are now ready to be shipped on to be recycled into other household appliances, maybe another fridge!



# The AO Way business model

We create sustainable value by providing electrical products and related services to our customers. We do this "The AO Way" – uniquely combining our customer proposition with our culture, systems and processes whilst maintaining end-to-end control throughout our supply chain, all underpinned by our core values.





**People and Culture**
We have a unique and vibrant culture which embodies the Company's entrepreneurial spirit. We have a team of people who genuinely care more about our business and its customers, and who live our five values.

**The AO Way consists of the following elements:**

### Largest available range
We offer an extensive range of MDA items – over 4,000 SKUs in the UK and we are growing our range of SDAs, TVs and computing. 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.

### First-in-class delivery model
Our in-sourced seven-day delivery (six in Germany and the Netherlands) is first class. We offer our customers a wide range of delivery options including next-day and designated time-slots, so that they can pick the delivery that suits them. We can also install new appliances and remove and recycle the old ones too.

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

### Not beaten on price
We aim to offer the best price and will match any price in the market but we are not a price leader.

### Innovative online content
We ensure our on-site 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. Offering this innovative content means that customers can make an informed decision on their purchase and are able to choose the right appliance for them.

## How we will create value
Our AO Way business model is scalable. Building customer, employee and supplier advocacy and replicating our proposition into other categories and territories will create long-term value as we seek to become the Best Electrical Retailer in Europe. Our brand and reputation will be our greatest asset as we become retailer of choice for customers in our chosen categories, attracting new and repeat custom, thereby growing market share, revenue and profits, in a responsible manner for the benefit of all our stakeholders.

## "Our Competitive Advantage" or "What sets us apart"
How we deliver The AO Way differentiates us from our peers. It isn't the individual elements of our model that are unique. It's how we stitch them together, coupled with the fact that we CARE more.

All elements of our operations that have direct contact with the customer are either owned by AO or controlled (via SLAs) by us via a third party so we can ensure that the same high levels of service are given to all customers at each stage of their journey. Our fully in-sourced online proposition provides structural advantages over our competitors as it allows us to:

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

Our model is based on a wealth of knowledge and proprietary systems built and a culture embedded over many years. This creates a significant barrier to entry and makes it difficult for competitors to copy but easy for us to replicate in new categories and territories.

We believe that by delivering a better service, caring more and creating the easiest shopping experience we will become the Best Electrical Retailer in Europe with a financial output to match.

## Who we benefit
### Our customers
The customer is at the heart of everything we do. We provide them with a product and service both how and when they want it.

### Our employees
Through creating an environment to allow them to flourish and be the best that they can be. We provide a sharesave scheme to allow employees to share in the Group's success and offer a wide range of programmes and courses to allow them to develop.

### Our suppliers
We work with our suppliers to communicate the benefits of their products to our customers, and build long and lasting relationships.

### Our communities
We are an employer of 2,500+ employees and contract with a large number of third parties. We invest time and money in local communities through employees volunteering and via the AO Smile Foundation.

We pay our taxes and aim to retail responsibly, minimising our impact on the environment.

### Our shareholders
The benefits we provide to other stakeholders drive the benefits to shareholders. We are a high growth company. Our profits generated from our UK operations are invested into building our European business, which we expect to achieve a profitable run rate during the financial year ending 31 March 2021. This should then lead to capital appreciation and future dividends for our shareholders.

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.

## Customer relationships

Our online platform includes detailed technical information, customer reviews, product and price comparison tools and an enhanced retail experience, 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 standards. Our best service goal means that we aim to develop a retail experience which is as easy and effortless as possible, always maintaining a personal touch. We have the "MyAO" app which has track your order functionality and customers are now able to shop on their Desktop, Tablet or Mobile device and speak to an adviser on the telephone or via our Live chat function. We believe we care more about the customer than most of our competition.

We offer over 6,400 SKUs in the UK, nearly 2,700 in Germany and nearly 1,300 in the Netherlands, a price match promise and deliver seven days a week (six in Germany and the Netherlands) at no extra charge. We offer a broad range of MDA, SDA and AV products and our Computing range is growing along with the range of ancillary services we offer such as customer finance options, product protection plans, an unpack and recycle service, product care packs and disposal and connection services.

### What do customers want?

Best products, Best service, Best price and the Easiest shopping experience!

So that's what we offer...

...as a result customer satisfaction levels are high and our customers love us. As at 31 March 2017 we ranked an "excellent" 9.5 and 9.6 on Trustpilot for AO.com and AO.nl respectively and 4.8 out of 5 stars on Trusted Shops for AO.de. Our NPS scores remain consistently high too.


## Manufacturer 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 the manufacturers and most of the relationships have been in place for many years in the UK. 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. We aim to work in partnership with them, sharing insight and knowledge, innovating categories and changing the normal course of retailing.

### 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 joint advertising campaigns really highlight the benefits and key product features whilst driving brand awareness.

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

**We believe that the standard of the delivery service we provide is crucial given that the delivery teams are typically the only face-to-face interaction that customers have with the Group.**

**Watch Siemens' European MD talk about AO.**

## 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 nine years. Our recent GET and senior management team restructure has given greater responsibility to key members of our team and further opportunities for career progression throughout the business.

## Processes and systems

### Distribution

Our UK in-house delivery network runs from Crewe and 12 stockless outbases around the UK. We operate a similar model in Europe and currently have a European Regional Distribution Centre in Bergheim and a number of outbases and customer service centres across Germany and the Netherlands.

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

### IT

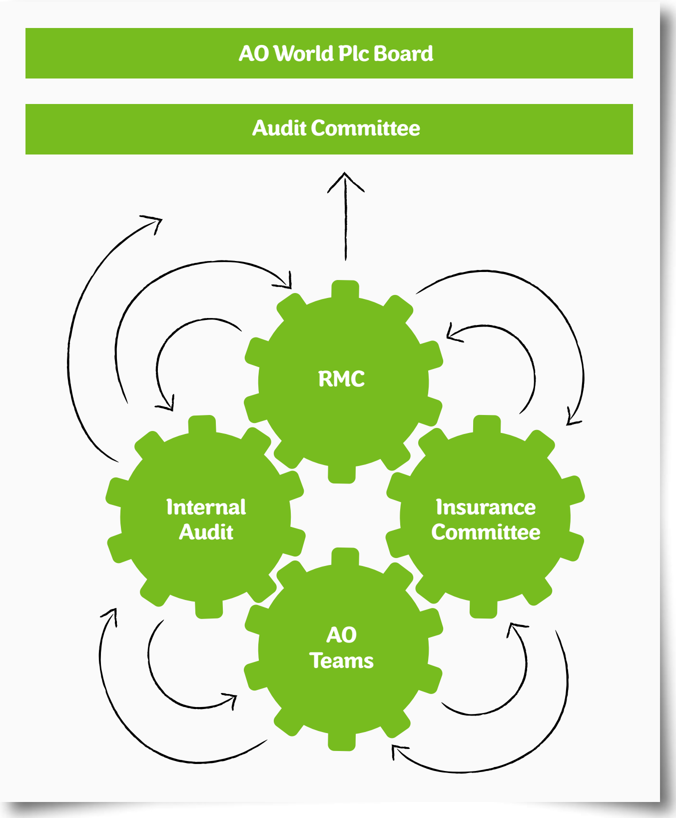
Our core IT systems have all been developed in-house. The systems are bespoke; built for and continuously adapted to fit the needs of the business. They are therefore not easily replicable by any competitor and they are scalable and resilient.

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 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 monitor and mitigate, to the extent possible, these risks in line with our risk appetite so that we can deliver our strategic objectives and protect value for our key stakeholders.

## How we manage risks

We have developed a risk management framework with policies in place for identifying and addressing risks and with clearly defined lines of responsibility, accountability and delegation of authority. During the year under review, we have focused on enhancing our risk governance processes and ensuring it is truly embedded throughout the business, ensuring a more holistic approach to risk management.




**Board**

- Overall responsibility for effectiveness of AO's internal control and risk management process
- Approves risk appetite and risk capacity
- Agrees principal risks and mitigation strategy

**Audit Committee**

- Delegated responsibility from the Board to oversee risk management and internal controls
- Reviews internal financial controls and risk management systems and assesses their effectiveness by having regard to the risks elevated to the corporate risk register
- 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 Group
- Compliance checking; identifies gaps and improvements; recommends corrective action

**Risk Management Committee ("RMC")**

- Ensures robust risk management procedures are implemented and complied with
- Develops strategies and programmes to embed risk management as a core management skill
- Promotes a culture to encourage risk awareness and integrity
- Attended by each Group Executive Team member plus relevant members from their teams to ensure engagement in risk management practice
- Critically reviews risk register; assesses materiality/ measurement of risk and monitors mitigation and controls
- Supports AO teams in assessing risk

**Insurance Committee**

- Ensures that appropriate insurance is in place over property and other assets, to help mitigate risks (in addition to meeting legal and contractual obligations)

**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 register covers many 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, in which our Executives participate, meets regularly 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 perceived 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.


Whilst our risk management processes work well, the programme can only provide reasonable, not absolute assurance that key risks are managed at an acceptable level.

## 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.

## This year's achievement and future actions

This year we have continued to embed our Risk Management Framework across the Group, ensuring that all areas of the business understand our risk appetite and risk management processes and that there is a consistent approach to risk.

Risks on our risk register (and new risks identified through our processes) have been reviewed together with the controls we have in place to mitigate the impact should these risks develop.

We have seen a number of risk factors decrease over the year – for example, the opening of the second distribution centre in Crewe, reduced our reliance on the main (and previously sole) distribution centre and provided us with extra capacity for peak trade and the migration of our IT systems to a virtual platform has helped our systems become more agile whilst at the same time helping them to be robust against failure or attack. Conversely, we have seen some risks on our register increase: the gross risk to the Group of Health and Safety failures has increased now that the recycling facility in Telford is operational; we recognise that the employment status of our drivers is subject to increasing political pressure and media scrutiny and the risks of a data breach are considered to be increasing as hackers continually develop new ways to commit cybercrime. We have also spent some time considering the risks that have arisen and may arise following the UK's decision to leave the EU.

Overall our scoring methodology has yielded a slightly lower overall risk factor score this year compared to last. For movements in our individual principal risk scores, please see the following pages.

In addition to our risk analysis work, a number of specific projects have stemmed from the work of the RMC, either to address new risks or improve our ability to mitigate risks. These include:

- The establishment of an Insurance committee to ensure appropriate insurance is in place and to help address additional requirement on the Group arising from the Insurance Act 2015.
- Enhanced business continuity planning to also include an assessment of the BCP procedures of some of our key suppliers.
- Modern slavery due diligence improvements.
- GPDR planning.

These projects will continue in the year ahead and we 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, Business Interruption and the UK Economy.

The table overleaf 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>– Categories<br>– Countries<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. | – AO culture is supported by a wide range of tools, workshops and events with a dedicated employee events team<br>– Group Executive Team and senior management have a shared responsibility to drive culture throughout the business on the basis of AO's values<br>– Senior employees continue to receive attractive remuneration packages including long-term share options to encourage retention<br>– Strengthened operational management teams in each territory give the benefit of localised decision making and reduce reliance on individuals<br>– Succession planning is in place | **Risk decrease**<br><br>Our European businesses are now more established and have well developed teams who understand the culture and values and are able to nurture the culture amongst new recruits.<br><br>A restructure below Board into defined business units is allowing for greater room for career progression and also improvements in succession planning, although this still remains a significant risk. |
| **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 decrease**<br><br>Our German business is now approaching three years old and our business in the Netherlands is just over year old. Whilst there is still much to do, the building blocks are in place; our teams are now well established, the infrastructure to sustain growth is now built, the trajectory of progress with manufacturers is good and we have more confidence that the model can be replicated. |
| **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 | **No change**<br><br>Brand awareness in the UK has increased slightly over the reporting period and customer NPS and trustpilot/trusted-shop scores show that our proposition resonates and customers continue to love our brand.<br><br>We still need to be vigilant and protect the brand at all times and increase our efforts to drive brand awareness and instil trust and confidence. |

**Further risks in relation to significant financial accounting matters are discussed in the Corporate Governance section on page 64.**

| Key risk | Nature of the risk | Mitigating activities | Overall change during the year |
|---|---|---|---|
| **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 and disaster recovery plans are in place to ensure business can recover from any interruptions with minimal impacts<br>– The AO website and internal network are 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>The risk of failure of IT systems was generally thought to have decreased with the migration to the virtual platform and new fail-over systems in place. However, the risk of cyber-crime is thought to have increased given recent attacks on other businesses over the year. |
| **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, in particular to the following areas:<br>– Health and Safety<br>– Driver employment status<br>– Data protection<br>– The basis upon which the Company offers and sells product protection plans or the basis upon which revenue from the sale of such plans is accounted for. | – 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 | **Risk increase**<br><br>Whilst Health and Safety is a key priority of the Board and robust processes and procedures are in place, the commencement of operations at the Group's new recycling facility in Telford has increased the overall Health and Safety risk to the Group.<br><br>Recent first tier tribunal decisions and increased scrutiny of the "gig economy" has increased the risk of legislation changing in this area.<br><br>The forthcoming GPDR poses potential challenges to working and marketing practices. |
| **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. | – Two NDCs in the UK reduce reliance on any one 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>– Enhanced business continuity planning continues<br>– Insurance policies are also in place to further mitigate this risk | **Risk decreased**<br><br>In the UK we have added a second NDC and increased the number of outbases. |

| Key risk | Nature of the risk | Mitigating activities | Overall change during the year |
|---|---|---|---|
| **UK Economy/Brexit**<br><br>**Impact on strategic objectives:**<br>– Customers<br>– Culture<br><br>**Impact on business model:**<br>– Proposition<br>– People | Uncertainty in the UK economy following the outcome of the EU Referendum (Brexit), the risk of inflation and the dampening of consumer confidence may affect the ability of the Group to maintain sales growth.<br><br>Controls on the freedom of movement of people could add friction in to the supply chain.<br><br>Controls on the freedom of movement of people may impact the availability of workers in the UK or the ability of our people to move freely between our UK business and our mainland Europe operations.<br><br>Potential for an online sales tax once no longer a member of the EU.<br><br>Currency risk from profit and loss translation from Europe to the UK adds uncertainty. | – Customer proposition remains strong and continued migration to online shopping should soften macro-economic impacts<br>– Robust relationships with suppliers and improved stock holding could mitigate impacts on lead times<br>– Long-term recruitment planning underway to reduce potential for gaps in worker availability | **New (stand-alone) risk** |

## Assessment of Group's prospects

### Viability assessment

In accordance with Code C.2.2 of the UK Corporate Governance Code 2014 ("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 2020. 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, solvency, or liquidity. These risks and how they are mitigated are set out above on pages 42 to 44 and in the Corporate Governance Statement on page 64. 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 40 to 41) and internal controls (see page 62), 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 16 to 51. The financial position of the Company and its cash flows are described in the Chief Financial Officer's Review on pages 45 to 51. 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, the proceeds raised from the placing of new shares in the Company completed in April 2017 and the Principal Risks set out on pages 42 to 44.

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 85 to 87).

# Chief Financial Officer's Report

**Mark Higgins**
Chief Financial Officer

I am pleased to present the financial review for the Group for the year to 31 March 2017. We maintained our focus on delivering value for all our stakeholders through our 4Cs strategy and have made good progress against all these objectives. Furthermore we have continued to grow Group revenue, increased profits across our core UK business and ensured we are suitably capitalised to continue to accelerate our growth across Europe. Going forward we will continue to increase sales and profits by leveraging the assets we have built, driving out further efficiencies and, in the short to medium term, reinvesting our free cash flow in the growth of our European operations.

We experienced a strong start to our financial year, driven in part by the stamp duty change in March 2016 which had a positive impact on the overall MDA market. During the second half we began to feel the impacts of dampening consumer confidence and a reduction in consumer spending power as a result of growing inflationary pressures. Sterling deflation in our market saw cost prices increase by 10-15% through 2016. Despite these factors and the impact of lower trading days against the prior year (due to 2016 being a leap year), we achieved a 17.0% increase in Group revenue to £701.2m. In the first half of the year the Group made a profit (on an Adjusted EBITDA basis) with UK profits exceeding Europe losses, however with margin pressures in the UK in the second half of the year our UK profitability growth reduced and Europe losses exceeded such profit giving an overall Group Adjusted EBITDA loss for the year. Nonetheless, we have grown market share across all countries and categories and have achieved a gross margin improvement of 0.7% across the Group due to product margin gains and increased efficiencies in our delivery network in Europe as our volumes build. We are confident that we will be able to drive further efficiencies and build margin by leveraging our increased scale, although in the UK product margins are under pressure as we enter the new financial year.

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

The financial year was a period of physical consolidation for our European operations as we commenced operations from our new regional distribution centre in Bergheim. This resulted in us investing more than we had anticipated in Europe with operating losses increasing to £27.6m (2016: £23.0m). The gross loss in Europe reduced from £4.9m in 2016 to £4.0m in 2017, reflecting the significant progress we have made with our supplier relationships and improvements in delivery costs. Our increasing scale has helped to leverage European SG&A Costs which have reduced to 33.2% of revenue (2016: 44.4%), and we expect to make further progress in the year ahead as volumes increase. Over the next few years we will continue to apply our UK learnings in Europe and undertake initiatives to continue to improve product margins to a mature state, make supply chain and cost-to-deliver efficiencies and utilise our UK assets where possible, leveraging our cost base through growth, as we set out at the Capital Markets Day in February 2017.

In March 2017 we announced that we had raised £50m of gross proceeds via a placing of new shares in the Company from both new and existing investors. The new shares were admitted to trading on 3 April 2017 which was outside our reporting period and therefore the proceeds are not included in the balance sheet as at 31 March 2017 but are detailed within the "Events after the reporting period" note on page 111. The placing was undertaken to suitably capitalise the business to support our continued growth and increasing scale, providing us with the flexibility to react to market opportunities and changes whilst we capitalise on our increased brand awareness.

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

## Performance at a glance

| Financial KPIs<br>Year ended 31 March | 2017 | 2016 | % change |
|---|---|---|---|
| Group revenue (£m) | 701.2 | 599.2 | 17.0% |
| UK revenue (£m) | 629.7 | 558.5 | 12.7% |
| Europe revenue (€m) | 84.7 | 55.6 | 52.3% |
| UK Adjusted EBITDA (£m) | 24.4 | 17.2 | 41.7% |
| Europe Adjusted EBITDA losses (€m) | (31.5) | (30.4) | 3.6% |
| Group Adjusted EBITDA (£m) | (2.1) | (3.9) | (46.2%) |
| Group Operating Loss (£m) | (12.0) | (10.6) | 13.2% |
| **Non-Financial KPIs** | | | |
| Non-Financial KPIs, such as Brand Awareness and Trustpilot scores are highlighted on page 21. | | | |

See our computing launch video here.

## Trends and insights in our markets

### UK trends

Online migration is continuing in the UK across Retail as a whole[1], with online penetration for electricals increasing further in the year from 33% to 36% for the categories in which AO operates[2]. This ongoing migration allows AO's addressable market size to continue to increase despite forecast decreases in the overall electricals market.

**Online retail sales value as % of total**


Source: ONS

The migration to mobile devices (smartphones and tablets) continues in the UK, with as much as half of online retail sales being made via a mobile device[3]. The trend for consumers purchasing via shopping apps is currently stronger in the UK than the rest of Western Europe[4].

Personalisation is becoming increasingly important to the consumer, 48% of which now believe it is important for retailers to offer personalised promotions online[5].

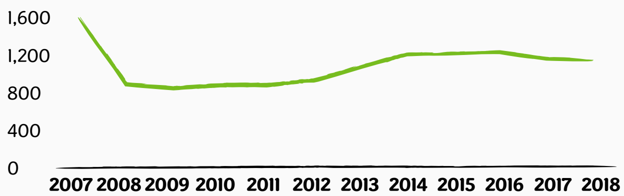
### UK overview

With the launch of Computing in October 2016, AO now operates in four categories in the UK (Major Domestic Appliances "MDA", Small Domestic Appliances "SDA", Audio Visual "AV", and Computing) with a combined market size estimated at £13.1bn[6].

There are mixed expectations for the electricals market in 2017 from market intelligence agencies with Mintel predicting 2.3% growth while Retail Economics predict a decline of 0.5%, and BDO a decline of 0.7%[7]. The overall expectation is that any increase will be driven by inflation, with potential declines in volume as the gap between wage growth and inflation is shrinking leaving consumers with reduced disposable income.

Conditions in the housing market are expected to be tough given the forecast reduction in transactions[8] by Royal Institute of Chartered Surveyors and Council of Mortgage Lenders. Whilst our MDA sales do correlate to the performance of the housing market, we are in part insulated from any downturn as we believe a substantial proportion of MDA sales are "distressed" purchases. Additionally, diversifying into further categories also allows us to lessen the impact of any one particular market declining, and as a result our sales mix of MDA products is reducing each year.

**Residential property transactions (000s)**




Source: Council of Mortgage Lenders

### MDA

Over the year to 31 March 2017 the total MDA market grew by 5%[2] to £3.7bn inc VAT[6]. Strong market growth throughout the first half of the year tailed off as a result of reduced consumer confidence coupled with price rises within the market. Average prices are rising both as a result of a shift towards more premium and smart products and the adverse impact of the euro exchange rate. Built-in appliances experienced high growth levels of 16% throughout the year[2].

AO continues to have access to almost all major branded MDA suppliers, making up 98% of the major brands[9] and we have further strengthened our relationships with the major MDA suppliers in the year. Notwithstanding the challenging economic conditions, AO's share of the overall UK MDA market share increased slightly year on year.

### SDA

The SDA market (comprising Small Appliances, Food Preparation and Floor Care) was worth £2.2bn inc VAT in the year to 31 March 2017[6], declining 3% as a result of reduced food preparation sales[2]. However, the category experienced a significant level of online migration in the year driven, we believe, by increased choice of fulfilment options.

Our range now covers 92% of the market of major brands[9], a marked improvement on this time last year. We continue to focus on the more premium end of the market, i.e. products over £30, which make up 89% of the online market[9] and as a result our average price is 152% above the market average. Our share of the overall SDA market has more than doubled, year on year.

### AV

The AV market was estimated to be worth £3.7bn inc VAT[6], increasing c.4% year on year[2]. It currently has the lowest online penetration of AO's four categories, but migration is significant with the online market having grown 17% over our reporting period[2].

There are two main trends being seen in the TV market currently, with products under 40" experiencing significant decline, while UHD/4K and screen sizes over 40" are seeing high growth levels. Within Audio, headphones with premium features such as noise cancellation & Bluetooth are growing strongly, as well as multiroom smart audio speakers.

Our brand coverage of the TV market is now 99% of major brands[9], and we are increasing our audio ranges. Overall our market share in AV has increased year on year.

### Computing

The Computing market is estimated to be worth £3.6bn inc VAT[6]. Although the market declined slightly over the reporting period, primarily due to a lack of product innovation, PC gaming is estimated to be growing at a rate of 53% year on year[2]. Computing has the highest online penetration of any category we are present in[9].

We now have access to the majority of brands across the core three product areas (laptops, desktops and tablets), ranging c.88% of major brands[9]. We expect to gain further market share in this category in the current financial year.

### Europe

The combined size of the MDA, SDA, AV and Computing markets in Germany is €25bn inc VAT, 62% larger than the UK, and the equivalent in the Netherlands is €4.8bn inc VAT[6].

We have completed a successful first full year of trading in the Netherlands, and expanded our category offering further in Germany, launching into AV in October 2016. Further categories will follow and AO's launch into Computing in the UK has provided us the learnings and systems infrastructure to launch this category in our European territories.

Online migration continues throughout Europe, as can be shown from the chart below presenting a significant opportunity for AO.

## Germany

With the launch of AV in October 2016, our addressable market in Germany now stands at €15.7bn inc VAT[6] (comprising MDA, Floorcare and AV), of which 21% is traded online[9].

As we have become more established in the German MDA market, we have broadened our brand offering and now range 86% of major brands[9].

The Floorcare market grew 13% in the year[2] to €0.8bn inc VAT[6], experiencing strong growth in new technologies such as rechargeable handhelds and Robotic Vacuum cleaners. The remainder of the SDA market in which we do not currently operate is worth €2.0bn inc VAT[6].

The AV market is worth €6.7bn[6] inc VAT of which 22% is traded online[9]. The DVB-T2 signal switch in March 17 has driven sales of TVs and Set Top Boxes and we have seen significant year-on-year increases in these categories. Our brand offering is increasing every month as we become more established in the market and gain share.

Online penetration rates are increasing in Germany, and there is still significant opportunity for growth, as rates generally remain behind the UK.

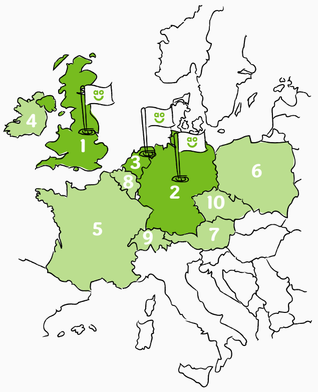
## The Netherlands

In February 2016 we launched MDA in the Netherlands entering a €1.7bn inc VAT[6] market of which 21% is traded online[9]. The market has grown by 10% in the year due to increased cooling sales[2].

Throughout the year our brand and proposition offering has improved significantly with the addition of major manufacturers, and the introduction of pull switch installations which are specific to the Netherlands and give us access to another segment of the market. We have access to brands representing 79% of the major brands[9].

**Please see "Market Overview; GfK definitions" on page 120 for details of what is comprised in each of the stated categories by territory.**

## Current and future potential markets (inc VAT)[10]




**1. UK**
MDA, SDA, AV,
Computing: **£13.1bn**
Broader electricals: **£7.7bn**

**2. Germany**
MDA, SDA, AV,
Computing: **£21.1bn**
Broader electricals: **£7.9bn**

**3. The Netherlands**
MDA, SDA, AV,
Computing: **£4.0bn**
Broader electricals: **£1.5bn**

**4. Ireland**
MDA, SDA, AV,
Computing: **£0.6bn**
Broader electricals: **£0.2bn**

**5. France**
MDA, SDA, AV,
Computing: **£13.0bn**
Broader electricals: **£5.7bn**

**6. Poland**
MDA, SDA, AV,
Computing: **£3.9bn**
Broader electricals: **£2.0bn**

**7. Austria**
MDA, SDA, AV,
Computing: **£2.1bn**
Broader electricals: **£0.8bn**

**8. Belgium**
MDA, SDA, AV,
Computing: **£2.5bn**
Broader electricals: **£0.7bn**

**9. Switzerland**
MDA, SDA, AV,
Computing: **£1.8bn**
Broader electricals: **£0.5bn**

**10. Czech Republic**
MDA, SDA, AV,
Computing: **£1.4bn**
Broader electricals: **£0.6bn**

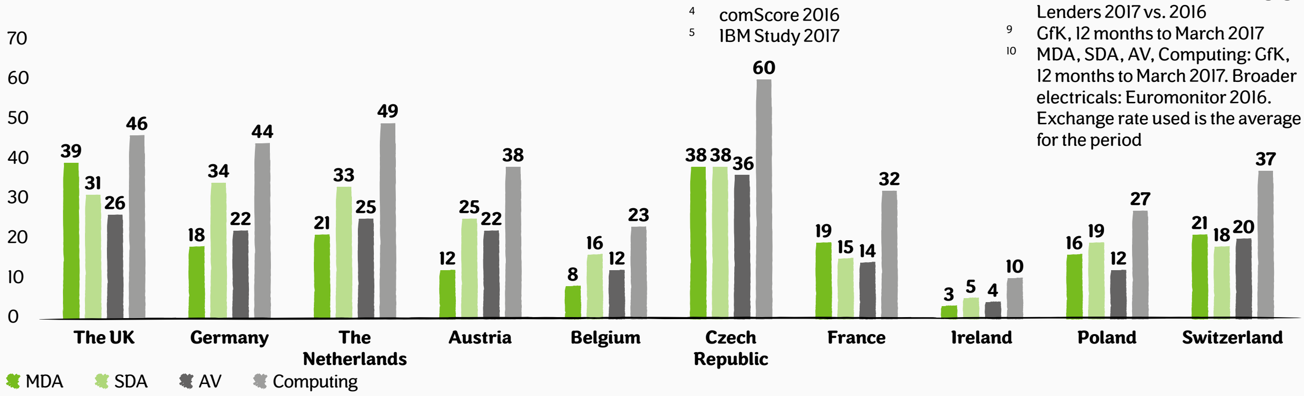
Current: **£63.5bn**
Broader: **£27.6bn**

Total: **£91.1bn**

Note: This order is illustrative and gives no indication of the order of planned category roll-out.

## Online penetration by category FY17[9]

**%**




Sources
1 ONS
2 GfK, 12 months to March 2017 vs. 12 months to March 2016. FY16 included an extra week in the GfK data and so we have adjusted for this.
3 IMRG 2016
4 comScore 2016
5 IBM Study 2017
6 GfK, inc VAT, 12 months to March 2017
7 Mintel "Electrical Goods Retailing UK, February 2017", Retail Economics "UK Electricals Forecasts and Market Intelligence Q1 2017", "BDO Retail Forecasts 2017"
8 Per RICS and Council of Mortgage Lenders 2017 vs. 2016
9 GfK, 12 months to March 2017
10 MDA, SDA, AV, Computing: GfK, 12 months to March 2017. Broader electricals: Euromonitor 2016. Exchange rate used is the average for the period

## Financial Review

**Revenue** (see table 1)
For the year ended 31 March 2017 total Group revenue increased by 17.0% to £701.2m (2016: £599.2m) missing our internal expectations.

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

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

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

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

See "UK customers vs. repeat customers" on page 25.

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

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

The first full year of trading from our Recycling business generated £5.2m of revenue, comprising £3.9m from recycling and £1.3m from the sale of used product to third parties. At the time of our pre-close statement on 30 March 2017, the Group planned to include these amounts within AO website sales however it has since been deemed more appropriate to include the £3.9m revenue generated from recycling services within "Other sales" and the £1.3m in Third party website sales. The reclassification, together with a level of sales slightly higher than anticipated over the last few days of the financial year, means that overall there has been a 14.5% increase in AO website sales over the reported period compared to the prior year, versus c.16% indicated in the pre-close statement on 30 March 2017.

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

Table 1:

| | 2017 | | | 2016 | | | % change | | |
|---|---|---|---|---|---|---|---|---|---|
| **Year ended 31 March (£m)** | **UK** | **Europe** | **Total** | **UK** | **Europe** | **Total** | **UK** | **Europe** | **Total** |
| AO website sales | 557.9 | 71.5 | 629.4 | 487.1 | 40.7 | 527.8 | 14.5% | 75.9% | 19.3% |
| Third-party website sales | 46.0 | – | 46.0 | 53.6 | – | 53.6 | -14.2% | N/A | -14.2% |
| Other sales | 25.8 | – | 25.8 | 17.8 | – | 17.8 | 44.9% | N/A | 44.9% |
| **Revenue** | **629.7** | **71.5** | **701.2** | **558.5** | **40.7** | **599.2** | **12.7%** | **75.9%** | **17.0%** |

Table 2:

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

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

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

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

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

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

(see table 3)
Total Group SG&A expenses increased by 22.2% over the year by £25.9m to £142.4m (2016: £116.5m).

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

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

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

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

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

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

Table 3:

| | 2017 | | | 2016 | | | % change | | |
|---|---|---|---|---|---|---|---|---|---|
| **Year ended 31 March (£m)** | **UK** | **Europe** | **Total** | **UK** | **Europe** | **Total** | **UK** | **Europe** | **Total** |
| Advertising and marketing | 25.7 | 6.2 | 31.9 | 24.2 | 6.2 | 30.4 | 6.2% | -0.7% | 4.8% |
| *% of revenue* | *4.1%* | *8.6%* | *4.5%* | *4.3%* | *15.3%* | *5.1%* | | | |
| Warehousing | 27.3 | 4.0 | 31.3 | 21.1 | 2.2 | 23.3 | 29.4% | 82.3% | 34.4% |
| *% of revenue* | *4.3%* | *5.6%* | *4.5%* | *3.8%* | *5.5%* | *3.9%* | | | |
| Other administration | 61.4 | 13.6 | 75.0 | 52.4 | 8.5 | 60.9 | 17.1% | 59.8% | 23.1% |
| *% of revenue* | *9.7%* | *19.0%* | *10.7%* | *9.4%* | *20.8%* | *10.2%* | | | |
| Adjustments[1] | 4.3 | – | 4.3 | 0.7 | 1.2 | 1.9 | 507.2% | -100% | 123.7% |
| *% of revenue* | *0.7%* | *N/A* | *0.6%* | *0.1%* | *2.8%* | *0.3%* | | | |
| **Administrative expenses** | **118.6** | **23.8** | **142.4** | **98.4** | **18.1** | **116.5** | 20.6% | 31.2% | 22.2% |
| *% of revenue* | *18.8%* | *33.2%* | *20.3%* | *17.6%* | *44.4%* | *19.4%* | | | |

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

[1] Adjustments is defined by the Group as set-up costs and strategic post go-live costs relating to overseas expansion and share-based payment charges attributable to exceptional LTIP awards which the Board considers one-off in nature.

### Operating loss and Adjusted EBITDA (see table 4)

Operating Loss was £12.0m for the period, with operating losses increasing by £1.4m against the prior period. However, when reviewing profitability, the Directors use an adjusted measure of EBITDA in order to give a meaningful year-on-year comparison and it is a performance criteria for the purposes of both the Executive management's annual bonus and recent LTIP awards. Whilst we recognise that the measure is an alternative (non-Generally Accepted Accounting Practice ("non-GAAP")) performance measure which is also not defined within IFRS, this measure is important and should be considered alongside the IFRS measures. The adjustments are separately disclosed below.

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

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

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

### Adjustments

#### Europe set-up costs

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

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

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

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

### Depreciation, amortisation and profit on disposal of fixed assets

These are non-cash costs in relation to the Group's tangible and intangible fixed assets which are added back to operating profit to arrive at EBITDA which is considered to be a relevant proxy for "cash operating profit".

Profit on disposal of £0.3m (2016: £nil) represents the gain on the disposal of the Group's existing trailers as part of our trailer replacement programme.

### Taxation

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

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

Table 4:

| | 2017 | | | 2016 | | | % change | | |
|---|---|---|---|---|---|---|---|---|---|
| Year ended 31 March (£m) | UK | Europe | Total | UK | Europe | Total | UK | Europe | Total |
| **Operating profit/(loss)** | 15.6 | (27.6) | (12.0) | 12.4 | (23.0) | (10.6) | 25.9% | 20.1% | 13.2% |
| Add adjustments:<br>*Europe set-up costs* | 0.7 | – | 0.7 | 1.1 | 1.2 | 2.3 | -43.9% | -100% | -73.2% |
| *Non-cash share-based payments charge/(credit) for exceptional LTIP awards* | 3.6 | – | 3.6 | (0.4) | – | (0.4) | -1,008.3% | N/A | -1,008.3% |
| **Adjusted operating profit** | **19.8** | **(27.6)** | **(7.8)** | **13.1** | **(21.8)** | **(8.7)** | 51.6% | 26.7% | -10.9% |
| Add: Depreciation and amortisation | 4.9 | 1.1 | 6.0 | 4.1 | 0.7 | 4.8 | 17.3% | 62.9% | 23.9% |
| Less: Profit on disposal | (0.3) | – | (0.3) | – | – | – | N/A | N/A | N/A |
| **Adjusted EBITDA** | **24.4** | **(26.5)** | **(2.1)** | **17.2** | **(21.1)** | **(3.9)** | 41.7% | 25.5% | -46.7% |
| Adjusted EBITDA as % of revenue | 3.9% | -37.0% | -0.3% | 3.1% | -51.9% | -0.7% | 0.8ppts | -14.9ppts | -0.4ppts |

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

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

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

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

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

| Year ended 31 March (£m) | 2017 | 2016 |
|---|---|---|
| **Loss** | | |
| Loss attributable to owners of the parent company | (6.6) | (6.0) |
| Foreign exchange gains on intra-Group loans | (4.4) | (2.7) |
| Adjusted loss attributable to owners of the parent company | **(11.0)** | **(8.7)** |
| **Number of shares** | | |
| Basic and adjusted weighted average number of ordinary shares | 421,052,631 | 421,052,631 |
| **Loss per share (in pence)** | | |
| Basic loss per share | (1.56) | (1.44) |
| Adjusted basic loss per share | (2.62) | (2.07) |

### Cash resources and cash flow

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

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

### Working capital (see table 5)

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

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

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

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

### Capital expenditure

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

### Events after the reporting period

On 3 April 2017 we completed a placing of 37,735,849 new ordinary shares in the Company to raise £50m gross proceeds to suitably capitalise the business to support our continued growth and increasing scale.

**Mark Higgins**
Chief Financial Officer
5 June 2017

The Company's Strategic Report is set out on pages 16 to 51.
Approved by the Board on 5 June 2017 and signed on its behalf by:

**Julie Finnemore**
Company Secretary
AO World Plc
5 June 2017

Table 5:

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

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


Dear shareholder

I am pleased to report to you on the Board's activities and development during my first year as Chairman.

Since IPO in March 2014 the Group has made great progress in developing its governance framework and, as your new Chairman, one of my key responsibilities will be to continue to build on this by supporting and promoting good practice and applying relevant requirements and guidelines in a pragmatic way to aid the long-term success of AO.

Following my appointment I conducted an in-depth review of the current workings of the Board, including its role in Group strategy, its composition and its strengths in debate and challenge. My findings were largely positive, and the Board as a whole believes that we have the right mix of skills to supervise our business and to meet our governance responsibilities. However, our business is developing and growing rapidly and whilst our key processes for audit, risk, remuneration and general Board governance are working well, the Board is aware that it does not currently meet The UK Corporate Governance Code 2014 ("the Code") independence requirements in respect of the composition of the Board and the Audit and Nomination Committees. Under the recommendation of the Nomination Committee the Board has instructed a specialist search consultancy to identify two individuals with the experience to broaden and strengthen the Board and to support the executive team in achieving the Group's strategic ambitions, whilst at the same time addressing our Code compliance issues. We expect the details of these appointments to be announced in the coming months.

My review also included an assessment of the Board's role in strategy. To increase the Board's focus on our future, Board strategy days have now been formally scheduled to allow focused time for enhanced debate, challenge and understanding of the opportunities ahead and how our strategy can be affected and complemented by the strategic aims of our chosen partners.

As outlined elsewhere in this report there have been some important changes to the structure of the Board during the year. In February 2017 we announced that Steve Caunce, previously Chief Operating Officer, would succeed John Roberts as Chief Executive Officer, and that John would adopt a new role on the Board as Founder, Executive Director. Steve will therefore be responsible for leading the Company, accountable for strategy and performance delivery. John will focus on innovation and inspiring AO's people. Both will be responsible for maintaining and developing our unique culture. Since this change was a natural evolution of our executive team, the transition has been seamless, as expected, with no disruption to the business and with both Steve and John now comfortably executing their roles.

My predecessor, Richard Rose, resigned from the Board as Chairman at the Company's AGM in July 2016 after eight years with the Company, leading the Board through the Company's rapid stages of growth and most significantly its IPO on the London Stock Exchange. In February 2017, having served on the Company since its IPO in March 2014, by agreement, Rudi Lamprecht retired. On behalf of the Board I would again like to thank Richard and Rudi for their significant contributions to the business.

Following Rudi's departure, Brian McBride replaced him as a member of the Audit Committee and I became a member of the Remuneration Committee. I also succeeded Richard Rose as Chair of the Nomination Committee and whilst we are confident that both of these Committees are well constituted and working effectively, having regard to the requirements of the Code, we will review the composition of each following the appointment of our new Non-Executive Directors outlined above.

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: culture & brand, customers, categories and countries. I believe that AO has strong governance foundations required for sustainable, long-term success and over the coming financial year we will continue to work towards implementing the appropriate requirements and policies for the Company.

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

Since my appointment in July last year, I have engaged with a number of AO's shareholders and I look forward to meeting many more at our forthcoming AGM.

**Geoff Cooper**
Chairman
AO World Plc
5 June 2017

**The following pages 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 September 2014 by the Financial Reporting Council. This Statement also includes items required by the Listing Rules and the Disclosure Guidance and Transparency Rules. 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 |
|---|---|---|
| A.4.2<br>B.6.3 | Led by the Senior Independent Director, the Non-Executive Directors did not meet without the Chairman present to appraise and evaluate his performance. | Geoff Cooper became Chairman at the conclusion of the Company's AGM in July 2016. It was therefore not appropriate to appraise his performance until he had been in the role for an appropriate length of time. However, an appraisal of his performance was conducted by the Non-Executive Directors shortly following the Company's reporting period in May 2017. |
| B.1.2 | Less than half of the Board, excluding the Chairman, are independent Non-Executive Directors. | Excluding the Chairman who was deemed independent on appointment, the Board currently has two experienced independent Non-Executive Directors. As discussed elsewhere in this report, the Board is currently seeking to add to its independent component through the appointment of two new Non-Executive Directors and therefore expects to comply with this Code provision in the near future. However, notwithstanding these appointments, 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. |
| B.2.1 | The Nomination Committee does not comprise a majority of independent Non-Executive Directors. | Only Brian McBride is considered independent and while Geoff Cooper, Chairman of the Company and the Committee, was considered to be independent on appointment, and remains so, the Code provides that thereafter the test of independence is not appropriate in relation to the Chairman. However, the Board considers that it has a strong independent non-executive component and that the continuity, experience and knowledge of Chris Hopkinson ensures that he made a significant contribution to the work of the Committee over the period under review. The composition of the Committee will be continually reviewed to ensure it remains effective. |
| B.6.2 | An externally facilitated evaluation of the Board has not taken place within the last three years. | The Company had intended to conduct an externally facilitated evaluation of the Board during the reporting period; however, given the appointment of the new Chairman, Geoff Cooper, in July 2016, who conducted his own evaluation, this review was not considered necessary. The Board intends to conduct an externally facilitated evaluation during the year ending 31 March 2018. |
| 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 given his long-term involvement with the business. 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. |

More information on our approach to governance is included in the introduction, the report on corporate governance and the reports of the Committees set out on page 53 to 79. These reports describe how we have applied the main principles of the Code. In addition this information is set out in detail on our website at www.ao.com/corporate.

This year we gave Board members a camera each and asked them to take a photograph on the Board tour in Bergheim.

We asked each of them to select an image that summed up their experience.

### 1. Geoff Cooper
**Non-Executive Chairman**

**Appointment to the Board**
1 July 2016

**Relevant skills & experience**
- Over 20 years UK public company Board experience including Chair and Chief Executive Officer roles
- Significant retail and customer facing industry experience across the UK
- Ability to steer Boards through high growth strategies and overseas expansion
- Currently Non-Executive Chairman of Card Factory plc and Bourne Leisure Holdings and adviser to Charterhouse Capital Partners LLP, former Non-Executive Chairman of Dunelm Group plc and former Chief Executive Officer of Travis Perkins Plc

**Significant current external appointments**
Non-Executive Chairman of Card Factory plc and Bourne Leisure Holdings Limited

**Committee membership**
Geoff chairs the Nomination Committee and is a member of the Remuneration Committee.

**Independent**
Yes

**What impressed me most**
The sheer scale of the operation.

### 2. John Roberts
**Founder, Executive Director**

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

**Relevant skills & experience**
- Co-founded the business over 16 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
- Innovator and visionary lead
- Significant market knowledge and understanding

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

**What impressed me most**
It just felt like AO.


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

**Appointment to the Board**
13 October 2005

**Relevant skills & experience**
- Thorough knowledge and understanding of the Group's business having held Chief Operating and Chief Financial Officer positions from 2005 until 2017
- Substantial experience in growth 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.

**What impressed me most**
The values are really shining through.

### 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.

**What impressed me most**
It's a fantastic operation which we can leverage for future growth.

To find out more about the changes in Board composition go to "Current composition of our Board" on pages 56-57.

## 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 Audit and Nomination Committees.

### What impressed me most
The investment in producing our own content.

## 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.

### What impressed me most
The streamlined processes in the warehouse.

## 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.

### What impressed me most
It felt like a business mature beyond its years.

# 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 60 to 79.

**Group Executive Team**

- Senior Management Team

**Committees**

- Audit
  see page 63
  - Insurance
    see page 40
- Remuneration
  see page 67
- Nomination
  see page 60

## 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 updates the Board on key operational developments, provides an overview of the market, reports on Health and Safety and other key operational risks and highlights the important milestones reached in the delivery of the Group's strategic objectives. The Founder provides an update and insight on market dynamics and the Chief Financial Officer provides an update on the Group's financial performance, banking arrangements and 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 Director of Group Legal, provides the Board with an update on any legal issues. Members of the Group Executive Team 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. Additionally, over the current financial year, external speakers will be invited to present to Board on topical industry issues. All of these topics lead to discussion, debate and challenge amongst the Directors.

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 seven members: the Chairman, three Executive Directors and three Non-Executive Directors, which includes the Senior Independent Director. All our Directors served throughout the year, with the exception of Geoff Cooper who was appointed to the Board on 1 July 2016 and became Chairman following the Company's AGM on 21 July 2016, succeeding Richard Rose. Further details of the relevant skills and experience of the Board are set out in their biographical details set out on pages 54 and 55. 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.

On 22 February 2017 the Company announced that as part of the natural evolution of the Board and executive management structure, Steve Caunce would succeed John Roberts as Chief Executive Officer and John would adopt the new role of Founder, Executive Director, providing focus on innovation and inspiring AO's people. On 26 January 2017, the Company announced that the initial three-year term of Rudi Lamprecht's appointment as a Non-Executive Director, by agreement, would not be renewed. On the recommendation of the Nomination Committee, the Board has instructed a specialist search consultancy to identify two individuals with the experience and knowledge to broaden and strengthen the Board's existing composition and to support the executive team in achieving the Group's strategic ambitions whilst at the same time addressing its Code compliance issues. We expect the details of these appointments to the Board to be announced in the coming months.

Further details about these changes and the work of the Nomination Committee is disclosed on pages 60 and 61.

For information on our procedures concerning the appointment and replacement of Directors, please see the Directors' Report on page 81.

## Board meetings and attendance

Nine Board meetings (scheduled in the ordinary course of business) were held during the year ended 31 March 2017 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 |
|---|---|---|
| Geoff Cooper* | 7 | 7 |
| John Roberts | 9 | 9 |
| Steve Caunce | 9 | 9 |
| Mark Higgins | 9 | 9 |
| Brian McBride | 9 | 9 |
| Chris Hopkinson | 9 | 9 |
| Marisa Cassoni | 9 | 9 |
| Richard Rose** | 3 | 3 |
| Rudi Lamprecht*** | 7 | 5 |

* Geoff Cooper was appointed to the Board on 1 July 2016.
** Richard Rose retired from the Board following the AGM on 21 July 2016.
*** Rudi Lamprecht's three-year term of appointment to the Board was not renewed with effect from 16 February 2017.

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 Geoff Cooper and Steve Caunce is clearly established.

As Chairman of the Board, Geoff Cooper 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.

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. John Roberts is responsible for innovation and inspiring AO's people.

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 whilst maintaining an overall objective to have a Board of mixed gender and background that has an instinctive feel for our customers and people. As at 31 March 2017 across our business there were 668 female employees out of a total of 2,490 employees and we have one female on the Board.

## 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 Disclosure Guidance and Transparency Rules 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 | 63 to 65 |
| 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 | 67 to 79 |
| 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 | 60 and 61 |

**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 in-depth internal evaluation of the performance of the Board and its Committees was carried out by the Company's new Chairman, Geoff Cooper during the year. As part of this process one-to-one meetings were conducted with all Directors who were given the 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 results of the evaluation were collated by the Chairman who made appropriate recommendations which were 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 and will be progressed over the coming year, for example strengthening the Non-Executive Director component of the Board to ensure the correct mix of skills and to provide appropriate support to the Executive Directors in pursuit of achieving the Group's strategic objectives and scheduling a number of Board strategy days to enhance debate, challenge and understanding of the opportunities ahead.

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. Geoff Cooper became Chairman in July 2016 and given the relatively short amount of time from his appointment to the end of the Group's reporting period, an appraisal of his performance by the Non-Executive Directors, led by the Senior Independent Director, did not occur until shortly after the end of the reporting period.

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 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 Geoff Cooper, Chairman of the Company, was independent at the time of his appointment in July 2016 and remains so. As previously stated the Board is currently conducting a search for the addition of two independent Non-Executive Directors to broaden the skills of the Board and strengthen its independent component.

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 54 and 55, 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.

## 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.

## Annual General Meeting
The AGM of the Company will take place at 11.00 am on Friday 21 July 2017 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.

Geoff Cooper, 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 when appropriate, and going forward it is also intended that external speakers will attend Board meetings to present on relevant topics. 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 ensure that any new Directors joining the Board receives 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 where appropriate. Each Director's individual experience and background are 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 54 and 55. 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


**Geoff Cooper**
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.

### Composition and attendance of the Committee

The members of the Nomination Committee who served during the year ended 31 March 2017 and their attendance at Committee meetings is as follows:

| | | Meetings eligible to attend | Meetings attended |
|---|---|---|---|
| Geoff Cooper* | Chairman and Chairman of the Board | 1 | 1 |
| Brian McBride | Senior Independent Non-Executive Director | 3 | 3 |
| Chris Hopkinson | Non-Executive Director | 3 | 3 |
| Richard Rose** | Previous Chairman and Chairman of the Board | 1 | 1 |

* Geoff joined the Board on 1 July 2016.
** Until his retirement from the Board at the Company's AGM in July 2016.

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, as was similarly the case with Richard Rose, my predecessor. 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 had a strong independent non-executive component and that the continuity, experience and knowledge of Chris made a significant contribution to the work of the Committee, ensuring the Committee is run effectively.

Julie Finnemore (Director 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 Financial Officer, Founder Executive Director 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. The Company had intended to conduct an externally facilitated evaluation of the Board during the reporting period in accordance with the provisions of the Code. However given that I conducted my own in-depth evaluation of the Board following my appointment, it was deemed appropriate to delay the externally facilitated review until the current 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 Chair. 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

A number of important changes have been made to the Board during the period under review. Having regard to the growth and development of the Company, it became apparent that some natural evolutionary changes to the roles of the Executive Directors were required and, following the recommendation of the Nomination Committee, in February 2017 we announced that Steve Caunce, previously Chief Operating Officer, would succeed John Roberts as Chief Executive Officer, and that John would adopt a new role on the Board as Founder, Executive Director. Steve will therefore be responsible for leading the Company, accountable for strategy and performance delivery. John will focus on innovation and inspiring AO's people. Both will be responsible for maintaining and developing our unique culture. As expected the transition has been seamless with no disruption to the business and with both Steve and John now comfortably executing their roles.

The three-year initial term of the appointments of our Non-Executive Directors expired on or around February 2017 (the Directors having been first appointed shortly before the Company's IPO). Marisa Cassoni and Brian McBride's appointments were extended but by agreement, the three-year term of appointment of Rudi Lamprecht to the Board was not renewed. Led by myself as Chairman and in consultation with an external independent non-executive search consultancy (The Zygos Partnership) we are currently seeking the appointment of two new independent Non-Executive Directors. These appointments will seek to help expand the Board's skill set in terms of internationalising the AO brand, providing a new avenue of thought to drive growth and increase Board diversity whilst also addressing our Code non-compliance issues with respect to independence criteria. We have been impressed by the calibre of candidates we have met with thus far, and hope to be able to announce these appointments over the coming months.

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 by myself, and considered renewal of appointments and the proposal for election and re-election of all the Directors at the forthcoming AGM. Feedback from my Board evaluation, which includes the views of Executive and Non-Executive Board members, was largely positive and did not expose major issues although highlighted a number of areas to be strengthened such as the Non-Executive component of the Board and more formalised Board strategy days. As outlined above these areas are being addressed and progress will be made 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. Accordingly, below the PLC Board, our business divisions have been restructured giving more responsibility and accountability to members of the Group Executive Team and their respective management teams. This has helped highlight areas in need of strengthening and gaps in our succession plans. Our people and culture (including succession planning) will continue to 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 2017 AGM and offer themselves for reappointment. The biographical details of the current Directors can be found on pages 54 and 55. 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 and concurs with the recommendations of Lord Davies' review. The Company currently has one female Board member out of seven and AO endeavours to achieve appropriate diversity, including gender diversity, and notably, The Zygos Partnership (who we are currently working with to help identify two new Non-Executive Directors) are well-known for their work in the appointment of women. 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.

**Geoff Cooper**
Chairman, Nomination Committee
AO World Plc
5 June 2017

# 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 2017 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. The Board confirms that no significant failings or weaknesses have been 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 at least quarterly 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 Corporate Risk Register which is then reviewed and scrutinised by the Board and from which the Group's principal risks are determined. For further details of our risk management and risk appetite please see pages 40 to 44.

- **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 meetings occur regularly to allow prompt discussion of relevant business issues and to ensure alignment on strategy. Please see page 56 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. The integration of Microsoft Dynamics, our new financial reporting system, is continuing and is working to improve internal controls and the efficiency of our processes, assist with the segregation of duties and standardise procedures 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 2017 and their attendance at Committee meetings is as follows:

| | | Meetings eligible to attend | Meetings attended |
|---|---|---|---|
| Marisa Cassoni | Chair | 5 | 5 |
| Chris Hopkinson | Non-Executive Director | 5 | 5 |
| Brian McBride* | Senior Independent Non-Executive Director | 1 | 1 |
| Rudi Lamprecht** | Independent | 4 | 3 |

* From his appointment to the Committee with effect from 16 February 2017.
** Until the expiration of his tenure on the Board with effect from 16 February 2017.

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 54 and 55).

Following Rudi Lamprecht leaving the Board on 16 February 2017, Brian McBride, Senior Independent Non-Executive Director replaced him as a member of the Audit Committee. Chris Hopkinson 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 (Director 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 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 position and 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 audit 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 with 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 2017 Financial Statements

During the year to 31 March 2017 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 associated 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. Commission receivable for sales of product protection plans for which the Group acts as an agent 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 up front on the basis that the Group has fulfilled its obligations to the customer in line with accounting standards relating to revenue recognition. The fair value calculation takes into consideration the anticipated length of the plan and the historical rate of customer attrition and is discounted to reflect the time value of money but also risks around the recoverability of the receivable balance attributable to the product protection plans.<br><br>The Company accounts for this income on the basis that it is agent. The basis upon which the Company offers and sells product protection plans could change due to (i) a change in law or regulation or the interpretation of existing law or regulation, or (ii) a change in how the plans are managed or controlled or the level of risk that the Company assumes in relation thereto. Any such change could affect the Company's accounting of such income and/or could subject the Company to claims or proceedings in relation to such product protection plans.<br><br>Whilst this is an area of estimate and judgement, the management team has prepared detailed policies setting out the key assumptions in the model. 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 | |
|---|---|
| **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 discounts 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 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 UK Corporate Governance Code 2014. Further information on the Going Concern Assumption can be found on pages 44 and 94. The Committee was satisfied that the Viability Statement, noted on page 44 of the Strategic Report, presented a reasonable outlook for the Group to March 2020.

### 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 16 to 51 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 that the Annual Report and Accounts, taken as a whole, were fair, balanced and understandable at a meeting of the Directors on 5 June 2017.

## 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 three occasions 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.

Following approval by shareholders at the AGM held on 21 July 2016, KPMG LLP was appointed as AO's external Auditor for the financial year ending 31 March 2017. The Committee has been satisfied with the quality of the audit provided, as well as with the independence of KPMG as Auditor. During the year, KPMG charged the Group £0.3m (2016: n/a) for audit-related services.

## 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 40 to 44.

## 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, subject always to EU audit rules surrounding prohibited non-audit services. The Company's general policy is not to use the appointed external Auditor for any non-audit services, however, a formal policy is in place in relation to ad-hoc occurrences to ensure that there is adequate protection of their independence and objectivity and any such use requires approval of the Audit Committee. Further, any fees for non-audit services must fall within the limits specified by EU legislation, and various services are wholly prohibited; including tax, legal, valuation and payroll services.

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

KPMG charged the Group £42,750 plus VAT for non-audit related services relating to the year under review. £12,750 of these fees related to some customer insight analysis performed by KPMG Nunwood, a customer experience consultancy and a member of the KPMG group, which is distinctively separate from KPMG's audit arm and £30,000 related to the half-year review.

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
5 June 2017

## 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 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.

Following his appointment as Chairman, Geoff Cooper met with a number of key shareholders to introduce himself and discuss governance and strategy and to feedback any key issues such shareholders raised to the Board. He also attended a number of roadshow meetings and intends to continue to attend investor meetings as appropriate, particularly where new major investors come on board.

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).**

## Report of the Remuneration Committee

**Brian McBride**
Chairman,
Remuneration Committee

Our Remuneration Policy was last approved by shareholders at the 2014 AGM when it received a positive vote in favour of 99.6%. This Directors' Remuneration Report sets out details of the proposed remuneration policy for Executive and Non-Executive Directors for the next three years, as set out in full on pages 69 to 74, that will be the subject of a binding vote at the Company's forthcoming AGM on 21 July 2017.

The Directors' Remuneration Report includes the Annual Report on Remuneration (on pages 75 to 79) which discloses the amounts paid to the Executive and Non-Executive Directors for the financial year ended 31 March 2017 under the current Remuneration Policy that was put in place at IPO and approved by shareholders at our AGM on 17 July 2014. It also describes how the proposed new policy will be implemented in the year ahead, and will be subject to an advisory vote at the forthcoming AGM along with the Remuneration Committee Chairman's Annual Statement.

## 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 2017.

### Proposed Remuneration Policy

At 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. It has been three years since the policy was approved and accordingly, during the year, we have assessed its effectiveness and the levels of remuneration paid thereunder, in particular to the Executive Directors, mindful of the changing landscape surrounding Executive Pay and increased shareholder and proxy body activism in this field. In particular, we have considered whether the policy truly supports the delivery of our strategy, sustainable growth and shareholder returns whilst properly rewarding and incentivising our executives, whether it has been optimally implemented and whether alternative pay models would be more suitable.

Following the review, we have concluded that, whilst we believe that there are benefits in using an alternative model for AO World in view of the difficulties in forecasting robust long-term targets, it is not the right time to introduce a markedly different policy this year, given volatile market sentiment. The Committee is therefore considering an alternative approach to setting three-year targets for financial measures based around cumulative annual measurement, or similar methodologies that help reduce the sensitivity of vesting to "forecasting error", but we are still forming our thinking on this and will consult with shareholders prior to any implementation. The Committee is aware that the executive remuneration landscape is changing, and will continue to monitor developments as they arise – the possibility of introducing an alternative pay model will be re-visited at a later date should it become appropriate.

Accordingly, it is proposed to continue with substantially the same policy for 2017 but with key proposed changes to introduce some of the latest developments in best practice, as follows:
- Increase to shareholding guidelines – the minimum level of shareholding which the Executive Directors will be expected to build up will be increased from 100% to 200% of base salary; and
- Requirement for any bonus earned above 100% of salary to be delivered in shares to be held for two years.

We believe that the above proposed changes strike an appropriate balance between properly incentivising our Executives and alignment with shareholders, however we are aware that the executive remuneration landscape is evolving and will continue to assess this over the years ahead, mindful of the desire to align Executive and shareholders as much as is reasonably practicable.

This proposed revised policy ("the Policy") continues to be straightforward, transparent and aligned 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 2016/17

The Annual Report on Remuneration (set out on pages 75 to 79), describes how the policy put in place at IPO has been implemented in the year under review. It will be the subject of an advisory vote at the forthcoming AGM.

Whilst the Group performed well over the financial year, with total Group revenue increasing by 17% to £701.2m and Group Adjusted EBITDA losses cut by over 40% to £2.1m, our overall expectations of financial performance were not met. However, good progress was made against the Company's strategic objectives, notably with the launch of additional categories in both the UK and Europe which is a fundamental part of our 4Cs strategy and should deliver both revenue and profit growth. The year's annual bonus scheme consisted mainly of financial targets, addressing both top-line growth and profit. For Group revenue, the threshold target (at which a quarter of the applicable bonus would be payable) was £705m, which was narrowly missed. Similarly for Group Adjusted EBITDA the threshold target (again at which a quarter of applicable bonus would be payable) was losses of £300,000, which was missed and the year-end cash balance of £29.4m did not meet the required target of £32m. Nonetheless, our Executive Team has continued to focus on the execution of our 4Cs strategy and solid performance has been achieved (see pages 23 to 27 and page 76). Accordingly, 10% of the maximum bonus was payable for launching our computing category, which was achieved in October 2016 and which is trading well. Details of bonuses paid are disclosed on page 75 and 76.

This is the first year we have had a completed PSP award cycle, with the performance period of our IPO LTIP Award spanning the three financial years ended 31 March 2017. Both Steve and John waived their entitlements to participate in this award back in 2014, given their gains from the IPO itself, however Mark Higgins, who was not a member of the PLC Board at the time, did participate. The stretching targets set at IPO, which encompassed an absolute TSR element (requiring the share price to increase from £2.85 by 33% for a quarter to vest and by 100% for full vesting) and an EPS growth element (requiring adjusted earnings per share to increase from £1.50 by 66% for a third to vest and by 200% for full vesting), were not met (with the share price currently tracking below £2 and the Company delivering adjusted loss per share) and therefore no awards have vested.

During the course of the year, there was a transition in the roles of our Executives with Steve Caunce taking over from John Roberts as CEO, and John moving to an Executive Director role, as Founder. Whilst the Committee reviewed the CEO package, it was felt there was no need to make any changes, it being already appropriately competitive. However, the Founder role needed greater consideration and the Committee spent time understanding what this new role would encompass and how remuneration would be best structured. The package agreed for John delivers (i) a reduction in basic pay and (ii) a significant reduction in total reward. The change to base salary is reflective of a reduction in formal responsibilities, whilst appropriately remunerating him for being a fundamental component of our Executive team. We also agreed that, going forward, John's remuneration should not contain any variable elements. Given his significant shareholding already aligns his interests with longer-term performance of the Company and shareholders, the Committee believes he is sufficiently incentivised. The overall effect of these changes will mean shareholders see an extremely dedicated and ambitious Executive Team, playing to their respective strengths, but with total on target remuneration costs of c.£427,000 less per annum (see charts on page 73 for the Executive remuneration opportunities at target which equate to £2.758m in aggregate compared to the prior year on target remuneration total of £3.185m).

## Approach to Remuneration for 2017/18

### Executives

As discussed above, for the year ahead base salaries have been reviewed and, following his promotion to CEO, Steve Caunce will receive a salary commensurate with that of the previous CEO, an increase of 15% on his previous salary as COO. This increase relates to the increased responsibility, scope and complexity of his role as a result of his promotion to CEO. John Roberts will receive a salary reduction of 13% to reflect his reduced responsibilities as his role transitions from CEO to Founder Executive Director. The Committee has reviewed the base salary level for Mark Higgins and increased it to £340,000 (from £300,000). On his promotion to CFO in July 2015, Mark's salary was set at below market-competitive levels for the role and, as I set out last year, we anticipated increases to the level of basic salary over the two to three years following his appointment as Mark continues to grow into the role and gains experience and to ensure his salary level (and package overall) are positioned at the appropriate level relative to executive colleagues. The further increase to Mark's pay this year stems from that and his individual performance demonstrated over the last year (notably the completion of the revolving credit facility, the recent equity placing and progress made within our investor relations function), and is supported by an external benchmarking exercise. In particular, the successful facilitation and implementation of the Revolving Credit Facility has enhanced the working capital available to the Group and this together with the strengthened balance sheet (following the equity-raising) have greatly improved the financial position of the Company and given the directors the ability to drive growth in the right way for shareholders. In addition, the successful facilitation and implementation of the Revolving Credit facility has enhanced the working capital available to the Group and this together with the strengthened balance sheet following the equity raising) have greatly improved the financial position of the company and given the directors the ability to drive growth in the right way for shareholders. We would not expect to make increases of this magnitude in the future, rather would expect increases in salary in line with the broader workforce. Other elements of fixed pay remain unchanged.

In terms of variable pay, the Executives (other than John Roberts) will be entitled to participate in the annual bonus scheme where, as last year, performance conditions have been set in line with the Company's strategic and financial goals. Financial metrics – including revenue, Group Adjusted EBITDA and cash flow – represent the majority of targets, with the remainder based on achievement of key strategic milestones (see page 77 for further details). The bonus opportunity will be unchanged from last year at 150% of salary, and any bonus earned above 100% of salary will be delivered in shares to be held for two years.

Steve, CEO, will be entitled to participate in our long-term incentive plan as last year with an award level unchanged at 150% of salary. For Mark, CFO, we believe it is appropriate to make one further award at the 300% level of salary. As I explained last year, following Mark's promotion to the Board, the Committee was minded to approve an enhanced level of awards for the first two years he was in the role (reflecting his initial below-median salary positioning and so ensuring that in achieving a market competitive overall package, a higher proportion of his overall remuneration is share-based and subject to long-term performance). We have reconsidered this intention in the light of the strategic progress made by the Company and individual performance, as noted above, over the last year, taking into account feedback from shareholders around our AGM last year. As noted above, Mark's promotion and his role on the Board have proven to have a significant impact on the business and the Committee believes he is critical to the successful execution of our strategy going forward. Accordingly, we believe a further award at the enhanced level is appropriate in the circumstances and will give an opportunity for Mark's interests and those of shareholders to be further aligned. This is the final year we are intending to make an award at this enhanced level, with his awards returning to normal levels in future years.

The PSP performance conditions will continue to comprise a relative TSR metric, Revenue and Adjusted EBITDA growth targets (see page 77 for further details). The Committee believes these metrics provide the appropriate balance vis-à-vis the long-term growth of the Company and shareholder return.

Further details of the variable elements of remuneration for the Executive Directors are set out on page 77.

### Non-Executives

The base fee for the Non-Executive Directors (excluding the Chairman) has been reviewed during the year and has been kept unchanged at £50,000. Fees for additional responsibilities (such as chairing committees and for holding the role of Senior Independent Director) remain unchanged. Geoff Cooper's fee, as Company Chairman, also remains unchanged at £165,000 per annum. This is a consolidated all-inclusive fee for all Board responsibilities, including chairing the Nomination Committee.

**Brian McBride**
Chairman, Remuneration Committee
AO World Plc
5 June 2017

# 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") as it currently applies.

This Policy will be put to a binding shareholder vote at the 2017 AGM and, subject to approval, will take formal effect from that date. Whilst it is currently intended that the policy will apply for three-years following approval, as noted in the Remuneration Committee Chairman's introduction, the Policy will be kept under review given the volatility and uncertainty in the executive remuneration landscape which may result in a new Policy being required before the end of the three-year period.

## 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.

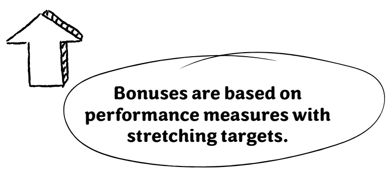
## Consideration of the impact of remuneration on risk

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 proposed 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** | – Normally reviewed annually, with any increase normally 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>– Determined by the Committee following the end of the year based on targets set at the start of the year<br>– Bonuses up to 100% of salary are paid in cash. Amounts in excess of 100% are delivered in shares to be then held for at least two years<br>– Targets are set and reviewed annually<br>– The cash and deferred elements of the bonus are subject to recovery provisions that enable the Committee to recover cash paid (clawback) or to lapse deferred shares (withhold payments) 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<br>– The Committee retains the flexibility to set the salary of a new hire at a discount to the market initially, and implement a series of planned increases over the subsequent few years, potentially higher than for the wider workforce, in order to bring the salary to the desired position, subject to Group and/or individual performance | – 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 (at least 70%) 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 against the financial measures, and up to 50% for on-target performance<br>– Measures and weightings may change each year to reflect any year-on-year changes to business priorities and ensure they continue to be aligned to the business strategy<br>– The Committee has discretion to adjust the outcome if it is not deemed to reflect appropriately the overall performance of the Company over the performance period. Any use of discretion will be detailed in the following year's annual report on remuneration |



**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 and withholding 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, and/or a cash payment in lieu of pension | – 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<br>– In certain circumstances the Committee may also approve additional allowances relating to relocation of an Executive Director or other expatriate benefits required to perform the role<br>– The Committee may provide other employee benefits to Executive Directors on broadly similar terms to the wider workforce.<br>– The Committee has the ability to reimburse reasonable business related expenses and any tax thereon |
| – 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 and/or cash supplement of up to 12.75% of salary | – The value of benefits may vary from year to year depending on the cost to the Company<br>– The Committee has discretion to approve a higher cost in exceptional circumstances (such as relocation), or where factors outside of the Committee's control have changed materially (such as increases in insurance premiums) |
| – Awards vest after three years, based on challenging targets measured over a three-year period, the majority of which (at least 70%) will normally be based on financial performance metrics<br>– Performance measures and weightings will be reviewed annually by the Committee prior to each grant and the Committee has discretion to vary measures and weightings as appropriate to ensure they continue to be aligned to the business strategy<br>– No more than 25% vests at threshold<br>– The Committee has discretion to adjust the vesting outcome in exceptional circumstances to ensure it is a true reflection of the overall performance of the Company over the performance period. Any use of discretion will be detailed in the following year's annual report on remuneration | – N/A | – N/A |

### Changes to the proposed Remuneration Policy from the current Policy
Following a comprehensive review of remuneration over the last year, supported by independent external advice, the Committee determined that there should be no significant changes to the Policy, including to variable pay opportunities. The changes in the proposed Policy are largely to incorporate the latest developments in best practice, including the following:
- Requirement for any bonus earned above 100% of salary to be delivered in shares to be held for two years; and
- Increased share ownership guidelines of 200% of salary for all Executive Directors.

### 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 200% of salary. Where the holding is not already attained it is required to be achieved through retention of at least 50% 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.

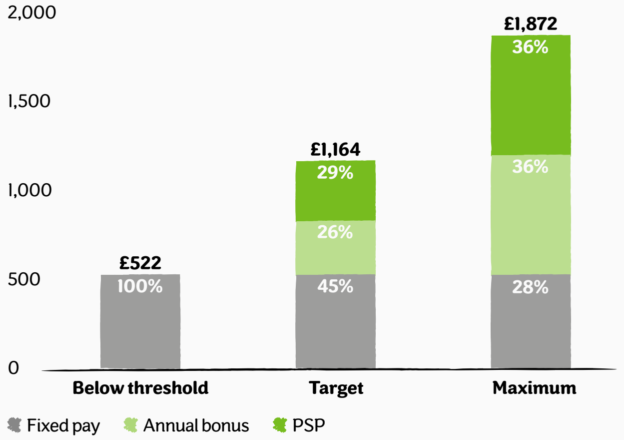
Overall, the remuneration policy for the Executive Directors is more heavily weighted towards performance-related pay than for other employees. In particular, performance-related long-term incentives are generally not provided outside of senior management as they are reserved for those considered to 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, and 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.

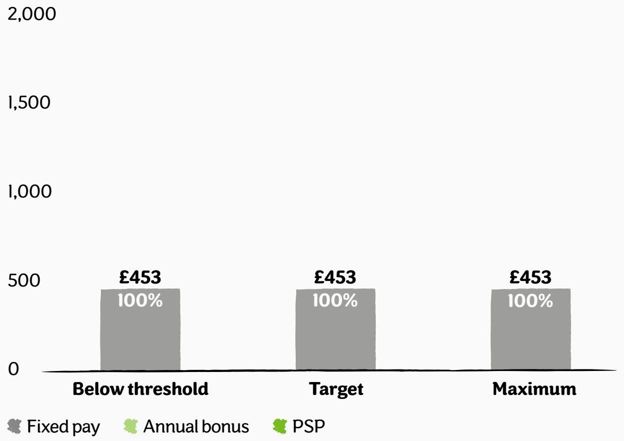
### Reward scenarios (Unaudited)
Under the Policy, a significant proportion of remuneration received by Executive Directors is variable and dependent on the performance of the Company. The charts opposite illustrate how the total pay opportunities for the Executive Directors vary under three different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

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

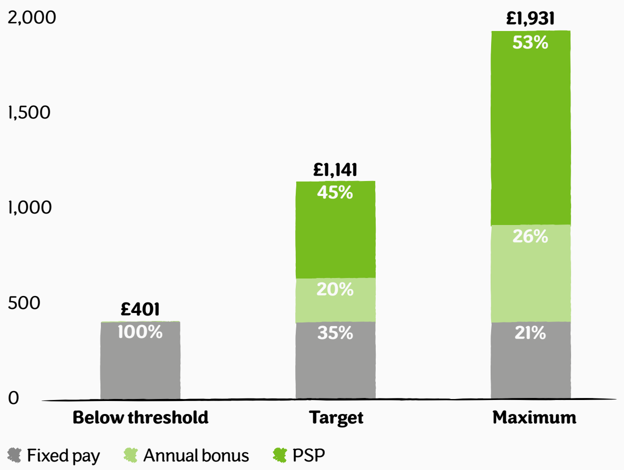
### CEO total remuneration opportunity at different levels of performance
**(£000)**




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




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




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 2017 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 in the 2017 financial year.
- Maximum bonus is equivalent to 150% of salary and PSP award level is 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' service contracts must provide that no more than 12 months' notice to terminate employment (by either party) must be given.

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 (where the leaver is considered by the Committee to be a "good leaver" (determined on the same basis as it is determined in connection with the PSP – see overleaf)) 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. The default position is that where employment ceases due to injury or disability, redundancy or retirement, the transfer of employment in connection with the disposal of the whole or part of a Group business division or otherwise where the employing company ceases to be a Group company, the "leaving" employee will be deemed to be a good leaver. In all other circumstances (unless the Committee has exercised its discretion to the contrary) the "leaving employee" will be classed as a bad leaver (in which case PSP awards lapse). In the event that 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. For good leavers, awards will continue to vest in accordance with the original vesting date unless the Committee determined that they should vest as soon as is reasonably practicable following the date of cessation. Further 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 (including travel expenses) that they reasonably incur in the performance of their duties, including tax. | 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 2017 was structured within the framework of the remuneration policy adopted by shareholders in 2014 and has been implemented accordingly. This will be put to an advisory vote at the Company's AGM on 21 July 2017.

## Single figure of total remuneration for 2016/2017 (Audited)

The audited table below shows the aggregate emoluments earned by the Directors of the Company during the period 1 April 2016 to 31 March 2017 and those earned during the period 1 April 2015 to 31 March 2016.

| | | Salaries and fees[1] £ | Benefits[2] £ | Pension[3] £ | Bonus[4] £ | Value of SAYE[5] £ | Value of PSP[6] £ | Total £ |
|---|---|---|---|---|---|---|---|---|
| **Chairman** | | | | | | | | |
| Geoff Cooper[7] | 2016/17 | 116,692 | 98 | – | – | – | – | **116,791** |
| | 2015/16 | – | – | – | – | – | – | **–** |
| **Executive Directors** | | | | | | | | |
| Steve Caunce | 2016/17 | 395,000 | 14,895 | 42,559 | 58,700 | – | – | **511,904** |
| | 2015/16 | 390,000 | 14,686 | 49,725 | 58,500 | 4,484 | – | **517,395** |
| John Roberts | 2016/17 | 445,000 | 13,253 | 47,601 | 67,700 | 4,487 | – | **572,804** |
| | 2015/16 | 450,000 | 13,289 | 57,375 | 67,500 | – | – | **588,164** |
| Mark Higgins[8] | 2016/17 | 300,000 | 17,807 | 32,756 | 45,200 | – | – | **395,762** |
| | 2015/16 | 173,333 | 11,791 | 22,100 | 39,000 | – | – | **246,224** |
| **Non-Executive Directors** | | | | | | | | |
| Christopher Hopkinson | 2016/17 | 50,000 | – | – | – | – | – | **50,000** |
| | 2015/16 | 45,000 | – | – | – | – | – | **45,000** |
| Brian McBride | 2016/17 | 65,000 | 1,494 | – | – | – | – | **66,494** |
| | 2015/16 | 60,000 | 891 | – | – | – | – | **60,891** |
| Marisa Cassoni | 2016/17 | 60,000 | 1,664 | – | – | – | – | **61,664** |
| | 2015/16 | 55,000 | 793 | – | – | – | – | **55,524** |
| Rudolf Lamprecht | 2016/17 | 50,000 | 5,940 | – | – | – | – | **55,940** |
| | 2015/16 | 45,000 | 3,224 | – | – | – | – | **48,224** |
| Richard Rose[9] | 2016/17 | 45,000 | 223 | – | – | – | – | **45,223** |
| | 2015/16 | 135,000 | 2,264 | – | – | – | – | **137,264** |

1 Steve Caunce became CEO of the Company in February 2017 and John Roberts transitioned to the role of Founder. Accordingly the basic salary reported for Steve Caunce is calculated at 11 months' pay at the COO/£390,000 rate of pay and one month pay at the CEO/£450,000 rate of pay. Similarly, the basic salary reported for John Roberts is based on 11 months' pay at the CEO/£450,000 rate and one month at the Founder/£390,000 rate.

2 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 assets given for private use.

3 Executive Directors are entitled to Company pension contributions of 12.75% of basic salary. However given the new pension rules only £10,000 is paid into a pension and the balance is paid in cash (after deducting employer National Insurance contributions at 12.8%).

4 Bonuses are paid post year end but relate to the year under review (and include an attendance bonus of £200 which is paid Group-wide to employees with the relevant attendance). Bonuses were calculated on salaries in force prior to the change in CEO (given this was when the bonus objective was achieved).

5 John Roberts participated in full in the 2017 AO Sharesave Scheme (launched in January 2017) on the same basis as other employees and was granted 12,080 SAYE options. Steve Caunce participated in full in the 2016 AO Sharesave Scheme (launched in January 2016) on the same basis as other employees and was granted 14,400 SAYE options. 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.

6 The performance conditions relating to the IPO LTIP were not met and accordingly no share options vested in year 2016/2017 (and in any event neither John Roberts nor Steve Caunce participated in the IPO LTIP). Mark Higgins participated in the PSP prior to his appointment to the Board.

7 Geoff Cooper was appointed as a Non-Executive Director on 1 July 2016 and took the role of Chairman following Richard Rose's retirement at the AGM, on 21 July 2016. His aggregate salary therefore reflects a period at the basic Non-Executive Director rate and the relevant period at the agreed Chairman fee of £165,000 per annum.

8 Mark Higgins was appointed to the Board of Directors of the Company on 1 August 2015. Reported remuneration for 2015/16 is that earned in that year since the date of his appointment. The figures for 2016/17 reflect a full year in the role.

9 Richard Rose stepped down as Chairman and Director of the Company on 21 July 2016.

## Details of variable pay earned in 2016/17

### Annual bonus payments

The targets for the annual bonus scheme for the year ended 31 March 2017 were weighted towards financial metrics, with 35% of maximum bonus subject to Group Revenue performance conditions, 35% of maximum bonus subject to Group Adjusted EBITDA performance conditions, 10% of maximum bonus subject to a cash flow target with the remaining 20% subject to the achievement of strategic objectives, split equally against the achievement of a successful launch of a new category and growing brand awareness to 35% or more. The strategic targets of growing, brand awareness and rolling out new categories are critical drivers of sustainable growth. Brand awareness is a lead indication to future sales and is a direct driver for long-term growth. We look to incentivise our Executives to drive this long-term metric (which does not necessarily increase short-term revenue or profits). Rolling out new categories should increase overall sales and gives us the ability to cross-sell to customers on our database whilst, from a customer point of view, gives a much broader offering.

For Group Revenue, the threshold target (at which a quarter of the applicable bonus would be payable) was £705m, which was narrowly missed. Similarly for Group Adjusted EBITDA the threshold target (again at which a quarter of applicable bonus would be payable) was losses of £300,000, which was missed and the year-end cash balance (£29.4m) did not meet the required target of £32m. (Targets above the threshold are still considered to be commercially sensitive and should be disclosed in next year's Annual Report.)

### Bonus Targets and Performance

| Measure (weighting) | Threshold target | % payout at threshold (for this element) | Performance achieved | Payout |
|---|---|---|---|---|
| Group Revenue (35%) | £705m | 25% | £701.2m | 0% |
| Group Adjusted EBITDA (35%) | Losses of £300,000 | 25% | Losses of £2.1m | 0% |
| Year-end cash balance (10%) | £32m | 100% | £29.4m | 0% |
| Strategic objectives (20%) | Successful launch of new category. | 100% | Met | 10% |
| | Growing brand awareness to 35% or more | 100% | Not met | |

However, the Company has seen great success with the launch of the computing category, which is critical to future success for the reasons given above. Therefore, the Committee has decided to award 10% of the maximum bonus available for this measure. Please refer to the table "Bonus Targets and Performance" for a summary of the performance conditions, performance achieved against them and accordingly bonus payments made.

### Long-term incentive payments

The IPO LTIP Award was subject to performance over the three-year period ended 31 March 2017. Both John and Steve waived their entitlement to participate at the time, but Mark Higgins was granted options over 526,315 shares whilst in his previous role before joining the Board. The stretching targets set at IPO were based two-thirds on absolute TSR (requiring the share price to increase from £2.85 by 33% for a quarter to vest and by 100% for full vesting) and one-third on EPS growth (requiring Adjusted EPS to increase from £1.50 by 66% for a third to vest and by 200% for full vesting). These targets were not met and therefore no awards have vested.

### Details of long-term incentive awards granted during 2016/17

In the year, the Committee made awards to Executive Directors under the PSP, see table 1 below.

The awards were granted on 21 July 2016 and will, subject to performance, vest three years after the grant date. Performance will be assessed over the three financial years starting on 1 April 2016 and ending on 31 March 2019, and the measures, weightings and targets are as set out in table 2, below.

## Implementation of remuneration policy for 2017/18

### Salary

Following the transition of the roles of John Roberts and Steve Caunce in February 2017, the Committee approved an increase to Steve's base salary to be commensurate with what John Roberts was paid as CEO, reflecting his promotion and the resulting increased responsibility, scope and complexity of his role, and a decrease in John's salary to £390,000 to reflect the reduction in responsibility but acknowledging that his Founder role is still an important component of our Executive team.

Table 1

| Executive Director | Type of award | Basis of award granted (% of salary) | Share price at date of grant (£) | Number of shares awarded | Face value of award (£)* | % of face value that vests at threshold |
|---|---|---|---|---|---|---|
| Steve Caunce | Nil-cost option | 150% | 1.344 | 502,232 | 675,000 | 25% |
| John Roberts | Nil-cost option | 150% | 1.344 | 435,268 | 585,000 | 25% |
| Mark Higgins | Nil-cost option | 300% | 1.344 | 669,643 | 900,000 | 25% |

* Based on share price at the date of grant of £1.344.

Table 2

| Metric | Weighting (% of award) | Threshold | | Target | | Stretch performance | |
|---|---|---|---|---|---|---|---|
| | | Target | % Vesting | Target | % Vesting | Target | % Vesting |
| Group Revenue growth | One-third | 50% | 25% | 85% | 62.5% | 120% | 100% |
| Group Adjusted EBITDA for FY19 | One-third | £23m | 25% | £29m | 62.5% | £35m | 100% |
| Relative TSR | One-third | Median | 25% | Not applicable | | Upper quartile | 100% |

During the annual salary review, these salaries were reviewed but no further increases were awarded, however, the Committee has approved a salary increase for Mark Higgins for the current financial year, based on his broadening duties as CFO and performance over the year (notably the completion of the revolving credit facility, the recent equity placing and progress made within our investor relations function), as further set out in the Chairman's letter, as further set out in the Chairman's Letter. The Board continues to see Mark as hugely important to the execution of our strategy moving forward. He has developed significantly over the last 12 months and fully stepped up to fulfil the role of CFO. Ongoing, we see him as an important partner to Steve (having recently stepped up to the CEO role) due to their collaborative working relationship, thorough understanding of each other's skill set and mutual respect. In combination the Committee believes Steve and Mark will drive the future success of the business creating sustainable value for shareholders.

The Executive Directors will next be eligible for a salary review in early 2018, with any changes effective from 1 April 2018. For comparison, the average salary increase provided to UK employees in the 2016 financial year was 3%.

The current salaries as at 1 April 2017 (and those as at 1 April 2016) are as follows:

| Individual | Role | Base salary at 1 April 2017 | Base salary at 1 April 2016 for equivalent position | % increase |
|---|---|---|---|---|
| Steve Caunce* | CEO | £450,000 | £390,000 | 15% |
| John Roberts** | Founder | £390,000 | £450,000 | -13% |
| Mark Higgins | CFO | £340,000 | £300,000 | 13% |

* Steve Caunce's salary as COO was £390,000 and this was increased on his promotion to CEO, to be commensurate with the salary of the previous CEO, from 1 March 2017

** John Roberts became Founder Executive Director on 22 February 2017 and his salary was reduced from £450,000 following the transition of his role from CEO, effective from 1 March 2017

## 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 continue to 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 2017/18 will be consistent with the framework detailed in the proposed Policy. For Executive Directors (excluding John Roberts), the maximum bonus opportunity for 2017/18 will be capped at 150% of basic salary. Any bonus earned above 100% of salary will delivered in shares to be held for two years.

Performance measures have been selected to support the key strategic objectives and goals of the Company.

For 2017/18, three financial metrics will be used to determine the bonus payments of the Executive Directors, split as follows:

35% of the maximum bonus will relate to Group Revenue achievements, 35% to Group Adjusted EBITDA and a further 10% to a cash-flow performance target. In addition, 20% of the notional bonus pool will be subject to an assessment of performance against key strategic milestones; being the delivery of an international transactional mobile application and brand awareness growth. As mentioned previously, growing brand awareness is critical to delivering sustainable growth and is one of our strategic pillars for growth. Improving the mobile journey for our customers across the Group is also key to development of our offering for customers which we see as a long-term driver of revenue. 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 on a straight-line basis 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 2017/18 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.

As part of the remuneration package agreed by the Committee following the transition in roles, John Roberts is not entitled to participate in the annual bonus scheme.

## Long-term incentives

It is intended Steve Caunce will be granted a PSP award 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, as discussed in last year's Annual Report, the Committee intends to make a further 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 proposed this year comprise a relative TSR metric together with Revenue and Group Adjusted EBITDA targets. 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 the Company's three-year plan.

The relative TSR measure is calculated based on three-year performance 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. For the Group Adjusted EBITDA ("GAE") and revenue growth measures, we have set targets having regard to the Company's three year plan. Details of these targets are set out below. Awards will vest on a straight-line basis between the different levels of performance, see table 3 below.

Table 3

| Metric | Weighting (% of award) | Threshold | | Target | | Stretch performance | |
|---|---|---|---|---|---|---|---|
| | | Target | % Vesting | Target | % Vesting | Target | % Vesting |
| Group Revenue for FY20 | One-third | £921m | 25% | £970m | 62.5% | £1,018m | 100% |
| Group Adjusted EBITDA for FY20 | One-third | £15.3m | 25% | £21.9m | 62.5% | £28.5m | 100% |
| Relative TSR | One-third | Median | 25% | Not applicable | | Upper quartile | 100% |

As part of the package agreed by the Committee following the transition in roles, John Roberts is not entitled to participate in the Performance Share Plan.

## All-employee share plans

The Company proposes to roll-out a new SAYE Scheme each year and all 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 2017/18 will be 200% of salary. There are no share ownership requirements for the Non-Executive Directors.

## Non-Executive Director fees

No changes to Non-Executive Director fees are proposed. Accordingly, the fees payable per annum for 2017/18 are shown in the table below.

| Non-Executive Director fees | |
|---|---|
| Chairman fee covering all Board duties | £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 2017.

## Directors' shareholdings (Audited)

Directors' shareholdings as at 31 March 2017 are set out below in table 4.

In the period from 1 April 2017 to the date of this report, John Roberts gifted 1,407,407 shares in the Company to charity and Steve Caunce and Linda Caunce (Steve's spouse) made gifts to charity of 600,000 and 220,000 shares in the Company, respectively. Geoff Cooper purchased 28,573 on 4 April 2017.

## Percentage change in remuneration levels (Unaudited)

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 | 0% | -41%[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 The Chief Executive Officer received a bonus of 15% of salary (10% of maximum entitlement) for the year ended 31 March 2016 as did the other Executive Directors. Members of the Group Executive Team received a 20% bonus and other employees eligible to participate in the Group's bonus scheme received a 6% bonus plus a flat £5,000 each. For the year ended 31 March 2017 the CEO received a bonus of 15% of salary. Members of the Group Executive Team and other employees eligible to participate in the Group's bonus scheme received 10% of their maximum bonus entitlement (10% and 3% of salary respectively).

Table 4

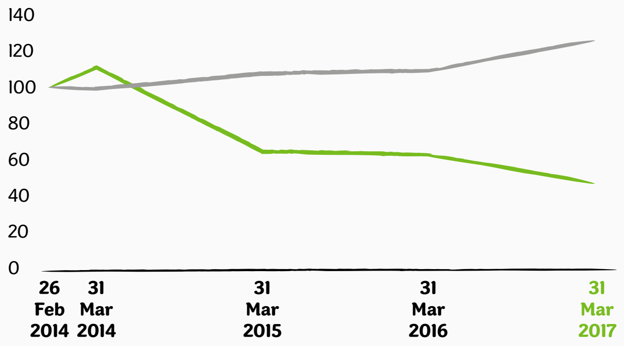
| | Shares held beneficially[1] at 31 March 2017 | Target shareholding guidelines (% of salary)[2] | Target shareholding achieved | PSP Options[3] | SAYE Options[4] |
|---|---|---|---|---|---|
| Geoff Cooper | 100,000 | N/A | N/A | N/A | N/A |
| John Roberts | 109,243,583 | 200% | Yes | 502,232 | 12,080 |
| Steve Caunce | 52,116,382 | 200% | Yes | 435,268 | 14,400 |
| Mark Higgins | 23,928 | 200% | No | 1,306,915 | N/A |
| Christopher Hopkinson | 22,201,590 | N/A | N/A | N/A | N/A |
| Brian McBride | 52,628 | N/A | N/A | N/A | N/A |
| Marisa Cassoni | 52,628 | N/A | N/A | N/A | N/A |
| Rudolf Lamprecht[5] | 52,628 | N/A | N/A | N/A | N/A |
| Richard Rose[5] | 723,443 | N/A | N/A | N/A | N/A |

1 Includes shares held by connected persons.
2 Comprises shares held beneficially only (and excludes options or deferred bonus shares).
3 None of these PSP options (which have performance conditions) have vested.
4 None of these SAYE options (which have no performance conditions) have vested.
5 Richard Rose and Rudi Lamprecht were Directors during the year but have since retired.

## Performance graph and pay table (Unaudited)

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 2017. 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 2017, 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.

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 2017. 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 (i.e. 150% of salary).

| | 2009/2010 | 2010/2011 | 2011/2012 | 2012/2013 | 2013/2014 | 2014/2015 | 2015/2016 | 2016/2017 |
|---|---|---|---|---|---|---|---|---|
| Total remuneration (£'000)[1] | 680 | 292 | 243 | 227 | 537 | 537 | 588 | 575 |
| Annual bonus (% of maximum) | 59% | 18% | 0% | 0% | 0% | 0% | 10% | 10% |
| PSP vesting (% of maximum) | – | – | – | – | – | – | – | – |

[1] The total remuneration each year is that of John Roberts, save for 2016/2017 where the total remuneration is that which Steve Caunce would have earned for 2016/2017 had he been CEO for the full year (at the basic salary of £450,000 per annum).

## Relative importance of the spend on pay (Unaudited)

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

| | 2015/16 | 2016/17 | % change |
|---|---|---|---|
| Staff costs (£m)[1] | £60.9 | £75.6 | 24.1% |
| Distributions to shareholders | No distributions were made to shareholders in the year | | |

[1] Includes base salaries, social security and pension, but excludes share-based payment charges.

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

Details of the service contracts and letters of appointment in place as at 31 March 2017 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 |
| Geoff Cooper 01/07/2016 | Initial term of three years from date of letter subject to notice | 3 | 3 | 01/07/2016 |
| 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 |
| 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 |

All Non-Executive Directors (with the exception of Rudolf Lamprecht who indicated his desire to step down) agreed to an extension of the term of their appointments for one further year in February 2017, following expiry of the initial three-year terms which commenced around IPO. The extension of such appointment is subject to the terms of the letters of appointment in force.

## External appointments

No fees were received by Executive Directors for external appointments during the year ended 31 March 2017.

## Remuneration Committee membership

The members of the Committee were for the year in question Brian McBride (Chairman), Marisa Cassoni, Rudi Lamprecht (until his retirement in February 2016) and Geoff Cooper (since Rudi's retirement) on an interim basis as we conduct a search for two new Non-Executive Directors. All current members of the Committee are deemed to be independent. Accordingly, the Committee continues to comply with the independence requirements set out in the Code.

During the year to 31 March 2017 there were four formal meetings of the Remuneration Committee, all of which achieved full attendance by the relevant committee members.

The responsibilities of the Committee are set out in the Corporate Governance section of the Annual Report on page 58. 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 £29,301 plus VAT.

## Shareholder feedback (Unaudited)

At the 2016 AGM, the Annual Remuneration Report for the year ended 31 March 2016 was put to shareholders by way of an advisory vote, with votes cast as follows:

| | Number of votes | % of votes cast |
|---|---|---|
| Votes cast in favour | 270,074,308 | 84.29 |
| Votes cast against | 50,341,028 | 15.71 |
| Total votes cast (excluding withheld votes) | 320,415,336 | 100 |
| Abstentions | 6,395,081 | – |

The Committee will continue to monitor developments in market trends and 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.

**Brian McBride**
Chairman, Remuneration Committee
AO World Plc
5 June 2017

# 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 2017.

## 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 | 82 |
| Appointment and replacement of Directors | Directors' Report | 81 |
| Board of Directors | Corporate Governance Statement | 54 and 55 |
| Change of control | Directors' Report | 82 |
| Community | Strategic Report; Corporate Social Responsibility | 30 to 33 |
| Directors' indemnities | Directors' Report | 83 |
| Directors' interests | Remuneration Report | 78 |
| Directors' responsibility statement | Directors' Report | 84 |
| Disclosure of information to Auditors | Directors' Report | 84 |
| Employee involvement | Strategic Report; Corporate Social Responsibility | 30 to 33 |
| Employees with disabilities | Strategic Report; Corporate Social Responsibility | 31 |
| Future developments of the business | Strategic Report | 16 to 51 |
| Going concern | Strategic Report | 44 |
| Greenhouse gas emissions | Corporate Social Responsibility | 33 |
| Independent Auditor | Directors' Report | 83 |
| Results and dividends | Directors' Report | 83 |
| Political donations | Directors' Report | 83 |
| Post-balance sheet events | Directors' Report | 83 |
| Powers for the Company to issue or buy back its shares | Directors' Report | 82 |
| Powers of the Directors | Directors' Report | 82 |
| Research and development activities | Directors' Report | 83 |
| Restrictions on transfer of securities | Directors' Report | 82 |
| Rights attaching to shares | Directors' Report | 82 |
| Risk management | Strategic Report; note 35 to the consolidated financial statements | 40 to 44, 64 and 107 to 111 |
| Share capital | Directors' Report | 82 |
| Significant related party agreements | Note 36 to the consolidated financial statements | 111 |
| Significant shareholders | Directors' Report | 83 |
| Statement of corporate governance | Corporate Governance Statement | 52 to 79 |
| Voting rights | Directors' Report | 82 |

## Management Report

This Directors' Report, on pages 81 to 84, together with the Strategic Report on pages 16 to 51, form the Management Report for the purposes of DTR 4.1.5R.

## The Strategic Report

The Strategic Report, which can be found on pages 16 to 51, 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, strategic KPIs and a description of the principal risks and uncertainties which is set out on pages 40 to 44.

## 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 52 to 79. 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, at least all Directors who held office at the time of the two preceding AGMs and did not retire at either of them shall retire from office but may offer themselves for re-election and if the number of retiring Directors is less than one-third of Directors then additional Directors shall be required to retire. However, in accordance with the Code, all Directors will retire and 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 54 and 55.

## 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 2017, the issued share capital of the Company was £1,052,632 comprising 421,052,631 ordinary shares of 0.25p each. As announced on 30 March 2017, following the allotment of 37,735,849 shares pursuant to a Placing of new shares in the Company, as at the date of publication of this report, the issued share capital of the Company was £1,146,971 comprising 458,788,480 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 104. All the information detailed in note 29 on page 104 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 105 to 107.

At the Annual General Meeting of the Company to be held on 21 July 2017 the Directors will seek authority from shareholders to allot shares in the capital of the Company up to a maximum nominal amount of £763,882.82 (305,553,127 shares (representing approximately 66.6% of the Company's issued ordinary share capital)) of which 152,776,563 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 45,878,848 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, the AO Performance Share Plan ("PSP") and the Employee Reward Plan ("ERP") 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, ERP 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.

## 2017 Annual General Meeting

The Annual General Meeting will be held at 11.00 am on 21 July 2017 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, or was aware of, in accordance with chapter 5 of the Financial Services Authority's Disclosure Guidance 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 | 109,339,261 | 23.83% |
| Steve Caunce (excluding Persons Closely Associated) | 52,145,815 | 11.37% |
| Odey Asset Management LLP | 40,099,295 | 8.74% |
| Baron Capital Group, Inc, BAMCO, Baron Capital Management & Ronald Baron | 39,473,998/ 36,694,698 | 8.00% |
| Ruane, Cunniff & Goldfarb Inc. | 32,674,857 | 7.12% |
| Chris Hopkinson | 22,605,429 | 4.93% |
| Rovida Holdings | 21,470,991 | 4.68% |
| Julie Holroyd | 19,461,670 | 4.24% |
| Camelot Capital Partners LLC | 18,729,276 | 4.08% |
| Baillie Gifford & Co Ltd | 18,173,720 | 3.96% |
| N K Stoller | 17,629,098 | 3.84% |

## Results and dividends

The Group's and Company's audited financial statements for the year are set out on pages 88 to 118.

No dividend was paid by the Company during the year to 31 March 2017.

## Post-balance sheet events

The Company completed a placing of shares on 3 April 2017, raising c.£50m before expenses by the issue of 37,735,849 ordinary shares.

There have been no other balance sheet events that either require adjustment to the financial statements or are important in the understanding of the Company's current position.

## 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 33 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 Bergheim. 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 108 to 111 in note 35 to the consolidated financial statements.

## Independent Auditor

KPMG LLP was appointed as the external auditor of the Company with effect from 21 July 2016 in place of Deloitte LLP, following shareholder approval. Resolutions 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.

## Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

## Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting 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; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

**Julie Finnemore**
Company Secretary
AO World Plc
5 June 2017

# Independent Auditors' Report
## to the members of AO World Plc only



## Opinions and conclusions arising from our audit

### 1. Our opinion on the financial statements is unmodified

We have audited the financial statements of AO World plc for the year ended 31 March 2017 set out on pages 88 to 119. 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 2017 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 as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

| Overview | |
|---|---|
| **Materiality:**<br>group financial statements as a whole | £2.0m<br>0.3% of total revenues |
| **Coverage** | 99% of group total revenues |
| **Risks of material misstatement** | |
| **Recurring risks** | Product protection plans accrued income |
| | Volume rebates receivable |

### 2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

| | The risk | Our response |
|---|---|---|
| **Product protection plans accrued income** (£50.9m accrued income; 2016: £39.0m accrued income)<br><br>*Refer to page 64 (Audit Committee Report), page 97 (accounting policy) and page 103 (financial disclosures).* | Accrued income is recognised based on the fair value of commissions due over the expected life of the plans.<br><br>**Data capture**<br>Completeness and accuracy of data used in the model used to calculate the fair value because of the complexities and manual nature involved in the data transfer into the model.<br><br>**Calculation error**<br>An arithmetic error in the model.<br><br>**Subjective estimate**<br>Subjective inputs into the product protection plan accrued income calculation, such as the life of the plans and cancellation rates require judgement. | Our procedures included:<br><br>**Data comparisons:** With the assistance of our own data modelling specialists we performed reconciliations between the third party data to the database system which stores this data and onwards into the model. We agreed a sample of new plans to both bank statements and the database system.<br><br>**Methodology implementation:** With the assistance of our own data modelling specialists we examined whether the model appropriately applies the relevant principles.<br><br>**Historical comparisons:** Evaluating the historical accuracy of the model with reference to past data e.g. cumulative cash received.<br><br>**Benchmarking assumptions:** Assessing the directors' assumptions behind the average life of the products against externally available market data.<br><br>**Sensitivity analysis:** Performing sensitivity analysis on judgemental assumptions.<br><br>**Assessing transparency:** Assessing the adequacy of the group's disclosures about of the subjectivity of the unobservable measures and the sensitivity of the outcome of the calculation to changes in key assumptions reflected the risks inherent in the valuation of accrued income. |

| | The risk | Our response |
|---|---|---|
| **Volume rebates receivable**<br>(£9.6m; 2016: £8.5m)<br><br>*Refer to page 64 (Audit Committee Report), page 97 (accounting policy) and page 103 (financial disclosures).* | **Data capture**<br>Completeness and accuracy of data used in the calculations including supplier turnover and agreed contractual percentages because of the complexities and manual nature of the data transfer.<br><br>**Subjective estimate**<br>Volume rebates recognised are significant and the receivable outstanding at the year end represents an estimate for amounts receivable based on forecasts in relation to factors such as future volumes. | Our procedures included:<br><br>**Control reperformance:** Testing the operating effectiveness of controls over supplier statements reconciliations to evidence that the costs and related rebates are being monitored and reconciled on a regular basis.<br><br>**Historical comparisons:** Evaluating the accuracy of the Group's product volume forecasting against actual out-turns.<br><br>**Tests of detail:** Recalculate a sample of rebates based on agreed supplier turnover and the contractual percentages. Agree a sample of the year end receivable back to post year end confirmatory evidence, including credit notes and supplier email confirmation to assess the accuracy of the estimate. |

### 3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £2.0 million, determined with reference to a benchmark of total revenues of £701.2 million, of which it represents 0.3%.

We consider total revenues to be the most appropriate benchmark as it provides a more stable measure year on year than group loss or profit before tax. This reflects the growth stage of the business and management's focus on growing the brand and expanding into Europe.

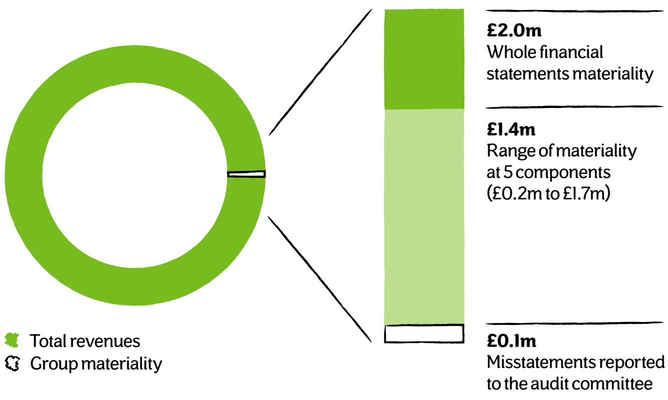
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.1 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 9 components, we subjected 5 to full scope audits for group reporting purposes, all of which were performed by the group audit team. We performed a review of financial information (including enquiry) on 1 component which was not individually significant enough to require an audit for group reporting purposes but a review was performed in order to provide further coverage over relevant account balances. For the 3 remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

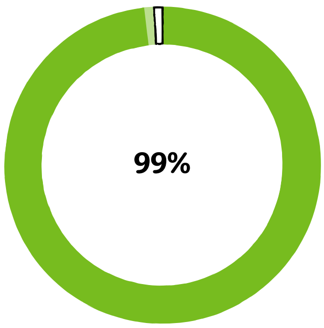
The components within the scope of our work accounted for the percentages illustrated on the right.

**Total revenues**
£701.2m

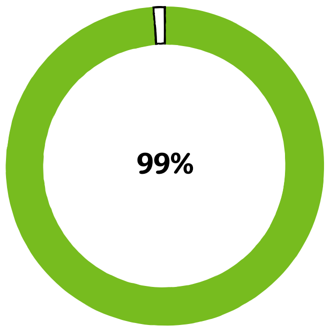
**Materiality**
£2.0m



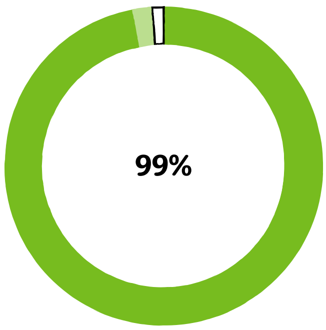

**Group revenue**




**Group total assets**




**Group loss before tax**




Full scope audit for group purposes
Review of financial information for group purposes
Residual components

### 4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified
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 is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:
- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

### 5. We have nothing to report on the disclosures of principal risks
Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:
- the directors' statement of Viability Assessment on pages 44, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the 3 years to 31 March 2020; or
- the disclosures in note 3of the financial statements concerning the use of the going concern basis of accounting.

### 6. We have nothing to report in respect of the matters on which we are required to report by exception
Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:
- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or
- the Report of the Audit Committee does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:
- the directors' statements, set out on pages 44, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 53 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

## Scope and responsibilities
As explained more fully in the Directors' Responsibilities Statement set out on page 84, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Mick Davies *(Senior Statutory Auditor)***

for and on behalf of KPMG LLP, Statutory Auditor
*Chartered Accountants*
1 St Peters Square
Manchester
M2 3AE

5 June 2017

# Consolidated income statement
## For the year ended 31 March 2017

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue** | 5,6 | **701.2** | 599.2 |
| Cost of sales | 6 | **(572.0)** | (493.3) |
| **Gross profit** | | **129.2** | 105.9 |
| Administrative expenses | 6,7 | **(142.4)** | (116.5) |
| Other operating income | 8 | **1.2** | – |
| **Operating loss** | 6,8 | **(12.0)** | (10.6) |
| Finance income | 11 | **6.8** | 4.2 |
| Finance costs | 12 | **(1.8)** | (0.3) |
| **Loss before tax** | | **(7.0)** | (6.7) |
| Tax (charge)/credit | 13 | **(0.4)** | 0.6 |
| **Loss for the year** | | **(7.4)** | (6.1) |
| | | | |
| **Loss for the year attributable to:** | | | |
| Owners of the parent company | | **(6.6)** | (6.0) |
| Non-controlling interest | 30 | **(0.8)** | (0.1) |
| | | **(7.4)** | (6.1) |
| | | | |
| **Loss per share (pence)** | | | |
| Basic loss per share | 15 | **(1.56)** | (1.44) |
| Diluted loss per share | 15 | **(1.55)** | (1.44) |

# Consolidated statement of comprehensive income
## For the year ended 31 March 2017



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

# Consolidated statement of financial position

## As at 31 March 2017

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 16 | **13.5** | 13.5 |
| Other intangible assets | 18 | **1.8** | 2.1 |
| Property, plant and equipment | 19 | **29.3** | 18.0 |
| Trade and other receivables | 23 | **39.8** | 29.5 |
| Derivative financial asset | 35 | **1.3** | 0.8 |
| Deferred tax asset | 21 | **1.8** | 1.5 |
| | | **87.5** | 65.4 |
| **Current assets** | | | |
| Inventories | 22 | **44.8** | 34.0 |
| Trade and other receivables | 23 | **41.1** | 34.4 |
| Corporation tax receivable | | **0.2** | 0.7 |
| Cash and cash equivalents | 24 | **29.4** | 33.4 |
| | | **115.5** | 102.5 |
| **Total assets** | | **203.0** | 167.9 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | **(140.2)** | (109.0) |
| Borrowings | 26 | **(3.7)** | (2.2) |
| Provisions | 28 | **(0.1)** | – |
| | | **(144.0)** | (111.2) |
| **Net current liabilities** | | **(28.5)** | (8.7) |
| **Non-current liabilities** | | | |
| Borrowings | 26 | **(13.7)** | (5.8) |
| Derivative financial liability | 35 | **(3.4)** | (2.7) |
| Provisions | 28 | **(1.4)** | (0.8) |
| **Total liabilities** | | **(162.5)** | (120.5) |
| **Net assets** | | **40.5** | 47.4 |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 29 | **1.1** | 1.1 |
| Share premium account | | **55.7** | 55.7 |
| Other reserves | 31 | **1.0** | 3.8 |
| Retained losses | | **(15.6)** | (12.3) |
| **Total** | | **42.2** | 48.3 |
| **Non-controlling interest** | 30 | **(1.7)** | (0.9) |
| **Total equity** | | **40.5** | 47.4 |

The financial statements of AO World Plc, registered number 05525751 on pages 88 to 118 were approved by the Board of Directors and authorised for issue on 5 June 2017. They were signed on its behalf by:

**Steve Caunce**
CEO
AO World Plc

**Mark Higgins**
CFO
AO World Plc

# Consolidated statement of changes in equity
## As at 31 March 2017

| | | | Other reserves | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital £m | Share premium account £m | Merger reserve £m | Capital redemption reserve £m | Share-based payments reserve £m | Translation reserve £m | Other reserve £m | Retained losses £m | **Total £m** | Non-controlling interest £m | **Total £m** |
| **Balance at 1 April 2015** | 1.1 | 55.7 | 4.4 | (1.1) | 2.8 | 0.4 | – | (4.7) | **58.6** | – | **58.6** |
| Loss for the year | – | – | – | – | – | – | – | (6.0) | **(6.0)** | (0.1) | **(6.1)** |
| Foreign currency gains arising on consolidation | – | – | – | – | – | (2.5) | – | – | **(2.5)** | – | **(2.5)** |
| Share-based payments charge net of tax | – | – | – | – | 0.3 | – | – | – | **0.3** | – | **0.3** |
| Put option over non-controlling interest | – | – | – | – | – | – | (2.1) | – | **(2.1)** | – | **(2.1)** |
| Transfer between reserves | – | – | – | 1.6 | – | – | – | (1.6) | **–** | – | **–** |
| Acquisition of subsidiary | – | – | – | – | – | – | – | – | **–** | (0.8) | **(0.8)** |
| **Balance at 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** |
| Loss for the year | – | – | – | – | – | – | – | (6.6) | **(6.6)** | (0.8) | **(7.4)** |
| Share-based payments charge net of tax (see note 32) | – | – | – | – | 4.0 | – | – | – | **4.0** | – | **4.0** |
| Foreign currency gains arising on consolidation | – | – | – | – | – | (3.5) | – | – | **(3.5)** | – | **(3.5)** |
| Movement between reserves (see note 32) | – | – | – | – | (3.3) | – | – | 3.3 | **–** | – | **–** |
| **Balance at 31 March 2017** | **1.1** | **55.7** | **4.4** | **0.5** | **3.8** | **(5.6)** | **(2.1)** | **(15.6)** | **42.2** | **(1.7)** | **40.5** |

# Consolidated statement of cash flows

## For the year ended 31 March 2017

| | Note | 2017<br>£m | 2016<br>£m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss for the year | | **(7.4)** | (6.1) |
| Adjustments for: | | | |
| Depreciation and amortisation | | **6.0** | 4.8 |
| Finance income | 11 | **(6.8)** | (4.2) |
| Finance costs | 12 | **1.8** | 0.3 |
| Profit on disposal of property, plant and equipment | | **(0.3)** | – |
| Taxation charge/(credit) | | **0.4** | (0.6) |
| Share-based payment charge | 32 | **4.0** | 0.2 |
| Increase in provisions | 28 | **0.7** | – |
| **Operating cash flows before movement in working capital** | | **(1.6)** | (5.6) |
| Increase in inventories | | **(10.3)** | (2.4) |
| Increase in trade and other receivables | | **(13.3)** | (15.8) |
| Increase in trade and other payables | | **28.9** | 20.3 |
| | | **5.3** | 2.1 |
| Taxation paid | | **(0.2)** | – |
| **Cash generated/(used) in operating activities** | | **3.5** | (3.5) |
| **Cash flows from investing activities** | | | |
| Interest received | 11 | **0.2** | 0.2 |
| Proceeds from sale of property, plant and equipment | | **0.9** | – |
| Acquisition of property, plant and equipment | | **(5.7)** | (6.1) |
| Acquisition of intangible assets | | **(0.3)** | (0.5) |
| **Cash used in investing activities** | | **(4.9)** | (6.4) |
| **Cash flows from financing activities** | | | |
| Proceeds from new borrowings | | **8.1** | 0.9 |
| Interest paid | 12 | **(1.1)** | (0.3) |
| Repayments of borrowings | | **(6.4)** | – |
| Payment of finance lease liabilities | | **(3.4)** | (2.4) |
| **Net cash used in financing activities** | | **(2.8)** | (1.8) |
| **Net decrease in cash** | | **(4.2)** | (11.7) |
| **Cash and cash equivalents at beginning of year** | | **33.4** | 44.9 |
| **Exchange gains on cash and cash equivalents** | | **0.2** | 0.2 |
| **Cash and cash equivalents at end of year** | 24 | **29.4** | 33.4 |

# Notes to the consolidated financial statements
## For the year ended 31 March 2017



### 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 2017, and as such comply with Article 4 of the EU IAS regulation.

The address of the registered office is given on page 119. The nature of the Group's operations and its principal activities are set out in note 20 and in the Strategic Report on pages 16 to 51.

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.

The Group has adopted the following standards, amendments and interpretations which have not had a significant impact on the Group's results:

| | |
|---|---|
| Amendments to IAS 1 | *Disclosure initiative* |
| Amendments to IAS 16 and IAS 38 | *Clarification of acceptable methods of depreciation and amortisation* |
| Annual improvements to IFRSs | *2012-2014 cycle (Sept 2014)* |

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 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 27 | *Equity method in separate financial statements* |
| Amendments to IAS 19 | *Defined Benefit Plans: Employee Contributions* |

Management are reviewing the impact of the above on the Group's financial statements. The main changes which may have an impact are:

#### IFRS 9
IFRS 9, "Financial Instruments" is effective for periods commencing on or after 1 January 2018. The revised standard replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new guidance for classification and measurement, impairment of financial instruments and hedge accounting. We intend to quantify the impact of the changes (if any) no later than in the Annual Report and Financial Statements for the year ended 31 March 2018.

#### IFRS 15
IFRS 15, "Revenues from Contracts with Customers" is effective for periods commencing 1 January 2018. IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. We are assessing the impact of IFRS 15 and conducting a systematic review to ensure that the impact of the new standard is fully understood in advance of the effective date. We intend to quantify the impact of the changes (if any) no later than in the Annual Report and Financial Statements for the year ended 31 March 2018.

#### IFRS 16
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. The new standard will replace IAS 17 "Leases" and is effective for annual periods beginning on or after 1 January 2019 unless adopted early. We anticipate the changes will have a significant impact on the financial statements and are currently carrying out a review to quantify this.

### 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").

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.

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.

All intercompany balances and transactions have been eliminated in full.

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 a period of not less than 12 months from the date of this Report. This takes into consideration the forecasted cash flow of the Group, the availability of a £30.0m Revolving Credit Facility and funds from the £50.0m (gross) share placing (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 Directors' Report on page 80.

### 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 and related services have been delivered to customers. The exception to this is revenue in respect of product protection plans and commercial income which is dealt with in the section below.

### 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) is 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 advertising costs 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 is recognised in the consolidated income statement in the period to which it relates using the effective interest rate method.

Finance income comprises of:
- Interest receivable which is recognised in the consolidated income statement as it accrues using the effective interest method
- Income arising from the unwinding of the accrued income in relation to product protection plans in excess of their previously recognised fair value
- Movement in the valuation of the put and call options
- Foreign exchange gains arising on financing (principally intra-Group loans)

Finance costs are recognised in the consolidated income statement in the period in which they occur.

Finance costs comprise of:
- Foreign exchange losses arising on financing (principally intra-Group loans)
- Movement in the valuation of the put and call options
- Finance costs incurred on finance leases are recognised in profit or loss using the effective interest method
- Financing costs of raising debt

### 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 CGU expected to benefit from synergies of the combination.

The recoverable amount of an asset or cash-generating unit 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.

### 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 16. 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.

### 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 CGUs 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 consolidated income statement 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) 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 the income statement.

## 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, 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 remeasurement 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.

### 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 IFRSs. 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) 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.

**3. Significant accounting policies** (continued)
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.

### 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.

Sublease rent is credited to the income statement in other operating income.

### 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 are 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.

The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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 consolidated income statement with a corresponding entry in equity.

### 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 pounds sterling, which is the presentational currency of the Group and its 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.

Intra-Group loans are translated at the year-end exchange rate with the resulting exchange differences recognised within interest.

### Non statutory measures

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

EBITDA is defined by the Group as earnings before interest, tax, depreciation, amortisation and profit/loss on disposal. EBITDA is adjusted for one off items that do not reflect the underlying trading of the business. Such adjustments are:

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

## 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 on-going 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 and recoverability of product protection plans and commercial income as set out below.

### Revenue recognition & recoverability of income from 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 estimate reliably based upon a number of assumptions including the length of the policies, the commission rates payable 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 basis for making these estimates.

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 2017 was £50.9m (2016: £39.0m). The discount rate used to unwind the commission receivable is 4.6% (2016: 4.9%).

### 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 2017 are £9.6m (2016: £8.5m). At 31 May 2017 the balance outstanding was £1.1m.

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 revenue as it represents part of the ordinary activities of the business.

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 2017 £1.4m remains as an outstanding receivable (2016: £0.9m). As at 31 March 2017 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 31 May 2017 the outstanding balance was £nil.

## 5. Revenue

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

| Year ended 31 March | 2017 £m | 2016 £m |
|---|---|---|
| AO website sales | **629.4** | 527.8 |
| Third-party website sales and trade sales | **46.0** | 53.6 |
| Other sales* | **25.8** | 17.8 |
| | **701.2** | 599.2 |

* Other sales includes third-party logistics and recycling services.

Revenue split between sale of goods and services:

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

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, recycling services, strategic marketing income 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.

Transactions between segments are undertaken on an arms-length basis using appropriate transfer pricing policies.

### a. Income statement

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

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

The Group uses alternative performance measures which are not defined within IFRS, as well as IFRS measures.

One of the Group's key performance indictors is Adjusted EBITDA and each segment is measured by the Chief Operating Decision Maker on this basis. The use of this measure is also evidenced by executive management bonus targets and Long Term Incentive Schemes being measured in relation to adjusted EBITDA, amongst other factors. As such, these measures are important and should be considered alongside the IFRS measures.

Adjusted EBITDA is calculated by adding back those material items of income and expense which, because of the nature and expected infrequency of events giving rise to them, merit separate presentation to allow shareholders to better understand the financial performance of the Group in the period.

The adjustments are:

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

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

## b. Geographical analysis

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

## c. Other information

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

| 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 |

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

| | 2017 £m | 2016 £m |
|---|---|---|
| Marketing and advertising expenses | **31.9** | 30.4 |
| Warehousing expenses | **31.3** | 23.3 |
| Other administrative expenses | **79.2** | 62.8 |
| | **142.4** | 116.5 |

## 8. Operating loss for the year

Operating loss for the year has been arrived at after charging/(crediting):

| | 2017 £m | 2016 £m |
|---|---|---|
| Depreciation of: | | |
| Owned assets | **3.3** | 2.3 |
| Assets held under finance leases | **2.0** | 2.0 |
| Amortisation | **0.7** | 0.5 |
| Operating lease expenses of: | | |
| Motor vehicles | **6.4** | 5.1 |
| Other assets | **6.9** | 3.5 |
| Profit on disposal of property, plant and equipment | **(0.3)** | – |
| Cost of inventories | **492.8** | 445.1 |
| Staff costs (see note 10) | **80.0** | 61.1 |
| Other operating income from short-term sublets | **(1.2)** | – |

## 9. Auditor's remuneration

The analysis of the Auditor's remuneration is as follows:

| | 2017 £m | 2016 £m |
|---|---|---|
| Fees payable to the Company's Auditor and their associates for the audit of the Company's annual accounts | **0.1** | 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** | 0.3 |
| **Non-audit fees** | | |
| Review of interim statements | **–** | – |
| Other services | **–** | – |
| Non-audit fee | **–** | – |
| **Total Auditor's remuneration** | **0.3** | 0.3 |

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 63. No services were provided on a contingent fee basis.

KPMG LLP were newly appointed as auditors for the year ending 31 March 2017. The 2017 column reflects KPMG LLP audit fees of £255,000, non-audit fees of £30,000 in relation to the review of the interim financial statements and other non-audit services of £12,500.

Deloitte LLP were the Group's auditors for the year ending 31 March 2016. The 2016 column reflects audit fees of £258,000, non-audit fees of £30,000 in relation to the review of the interim financial statements and other non-audit services of £14,000.

## 10. Staff costs

The average monthly number of employees (including Directors) was:

| | 2017 Number | 2016 Number |
|---|---|---|
| Sales, marketing and distribution | **2,498** | 2,093 |
| Directors (Executive and Non-Executive) | **8** | 8 |
| | **2,506** | 2,101 |

Their aggregate remuneration comprised:

| | 2017 £m | 2016 £m |
|---|---|---|
| Wages and salaries | **66.3** | 53.7 |
| Social security costs | **6.5** | 5.1 |
| Contributions to defined contribution plans (see note 34) | **2.8** | 2.1 |
| Share-based payment charge (see note 32) | **4.0** | 0.2 |
| Social security contributions related to share awards | **0.4** | – |
| | **80.0** | 61.1 |

## 11. Finance income

| | 2017 £m | 2016 £m |
|---|---|---|
| Bank interest | **0.2** | 0.2 |
| Foreign exchange gains on intra-Group loans | **4.4** | 2.7 |
| Movement in valuation of put and call option | **0.5** | 0.2 |
| Unwind of discounting on long-term receivables | **1.7** | 1.1 |
| | **6.8** | 4.2 |

## 12. Finance costs

| | 2017 £m | 2016 £m |
|---|---|---|
| Interest on obligations under finance leases | 0.5 | 0.3 |
| Finance cost of raising debt | 0.6 | – |
| Movement in valuation of put and call option | 0.7 | – |
| | 1.8 | 0.3 |

## 13. Tax

| | 2017 £m | 2016 £m |
|---|---|---|
| Corporation tax: | | |
| Current year | 0.6 | – |
| Deferred tax (see note 21) | (0.2) | (0.6) |
| **Total tax charge/(credit)** | 0.4 | (0.6) |

Corporation tax is calculated at 20% (2016: 20%) of the taxable profit for the year.

Provisions to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020 are contained within the Finance Act 2015 and the Finance Act 2016 respectively. Under IFRS, companies are required to measure deferred tax at the rate at which it is most likely to reverse based upon rates substantively enacted at the balance sheet date. As both Finance Acts received royal assent prior to the end of the year, deferred tax has been measured at either 19% or 17% 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 charge/(credit) for the year can be reconciled to the loss in the statement of comprehensive income as follows:

| Year ended 31 March | 2017 £m | 2016 £m |
|---|---|---|
| Loss before tax on continuing operations | (7.0) | (6.7) |
| Tax at the UK corporation tax rate of 20% (2016: 20%) | (1.4) | (1.3) |
| Non deductible expenses/Non Taxable Iincome | 0.3 | 0.2 |
| Movement in unrecognised deferred tax | 1.7 | 0.5 |
| Impact of difference in current and deferred tax rates | 0.1 | 0.1 |
| Difference in overseas and UK tax rates | (0.3) | (0.1) |
| Income not taxable | (0.8) | – |
| Share-based payments | 0.8 | – |
| **Tax charge/(credit) for the year** | 0.4 | (0.6) |

## 14. Dividends

The Directors do not propose a dividend for the year ended 31 March 2017 (2016: £nil).

## 15. Loss per share

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

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

The basic loss per share is positively affected by foreign exchange gains arising from intra-Group funding arrangements therefore an adjusted basic loss per share has been calculated below excluding this impact. The foreign exchange gain has arisen as a result of the significant movement in the exchange rate between sterling and the euro in the period.

### Adjusted loss per share

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

## 16. Goodwill

| | £m |
|---|---|
| **Carrying value at 1 April 2015** | 12.2 |
| Additions | 1.3 |
| **Carrying value at 31 March 2016** | 13.5 |
| Additions | – |
| **Carrying value at 31 March 2017** | 13.5 |

Historic goodwill relates to purchase of Expert Logistics Limited and the purchase by DRL Holdings Limited (now AO World plc) of DRL Limited (now AO Retail Limited). Additions during the prior year relate to the acquisition of The Recycling Group Limited.

### Impairment of goodwill

At 31 March 2017, 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 2017. The recoverable amount of the CGU has been determined based on the value in use calculations. 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 five, based on an estimated growth rate of 1%. This rate does not exceed the average long-term growth rate for the market. The final year cash-flow is used to calculate a terminal value.

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. In arriving at the appropriate discount rate to use, we adjust the CGU's post-tax weighted average cost of capital of 10% to reflect the impact of risks and tax effects specific to the cash flows. The weighted average pre-tax discount rate we used was approximately 10.8% (2016: 11.1%).

The key assumptions, which take account of historic trends, upon which management have based their cash flow projections are sales growth rates, selling prices, product margin and discount rates.

### 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.

## 17. Acquisition of subsidiary – prior year

On 6 November 2015, the Group acquired 60% of the issued share capital of The Recycling Group Limited (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. As at 31 March 2017 the option agreement was re-drafted to apply to the 5 year period ended 31 March 2022. 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 considered whether any previously unrecognised intangible fixed assets should be recognised on acquisition but, following review, concluded that none arose.

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 included 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 16) | 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 have gained 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 were 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 (£2.1m). Subsequent changes to the carrying value of the asset and liability are recognised within the income statement.

TRG contributed revenue of £2.4m and a loss of £0.1m to the Group between the date of acquisition and 31 March 2016. If the acquisition had been completed on the first day of the 2016 financial year, Group revenues for the year ended 31 March 2016 would have been £601.6m and Group losses would have been £7.6m.

## 18. Other intangible assets

| | Domain names £m | Software £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2015 | 1.3 | 1.3 | 2.6 |
| Additions | 0.1 | 0.4 | 0.5 |
| At 31 March 2016 | 1.4 | 1.7 | 3.1 |
| Additions | – | 0.3 | 0.3 |
| At 31 March 2017 | 1.4 | 2.0 | 3.4 |
| **Amortisation** | | | |
| At 1 April 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 |
| Charge for the year | 0.2 | 0.5 | 0.7 |
| At 31 March 2017 | 0.5 | 1.1 | 1.6 |
| **Carrying amount** | | | |
| **At 31 March 2017** | **0.9** | **0.9** | **1.8** |
| At 31 March 2016 | 1.1 | 1.0 | 2.1 |
| At 1 April 2015 | 1.1 | 1.0 | 2.1 |

Amortisation is charged to Administrative costs in the consolidated income statement.

## 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 2015 | 0.5 | 6.5 | 2.0 | 5.4 | 5.9 | 20.3 |
| Additions | 1.9 | 2.6 | 0.9 | 1.7 | 1.1 | 8.2 |
| Disposals | – | – | (0.1) | – | (0.1) | (0.2) |
| Additions from acquisition of subsidiary | – | – | 0.2 | 0.4 | – | 0.6 |
| At 31 March 2016 | 2.4 | 9.1 | 3.0 | 7.5 | 6.9 | 28.9 |
| Additions | 0.3 | 1.0 | 7.9 | 6.4 | 1.0 | 16.7 |
| Disposals | – | – | – | (3.8) | (1.0) | (4.8) |
| Exchange differences | 0.4 | 0.1 | 0.1 | 0.1 | – | 0.7 |
| At 31 March 2017 | 3.1 | 10.2 | 11.0 | 10.2 | 6.9 | 41.5 |
| **Accumulated depreciation** | | | | | | |
| At 1 April 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 |
| Charge for the year | 0.2 | 0.9 | 0.8 | 1.8 | 1.5 | 5.3 |
| Disposals | – | – | – | (3.2) | (0.9) | (4.1) |
| At 31 March 2017 | 0.2 | 2.8 | 2.6 | 2.0 | 4.5 | 12.1 |
| **Carrying amount** | | | | | | |
| **At 31 March 2017** | 2.9 | 7.4 | 8.4 | 8.2 | 2.4 | 29.3 |
| 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 31 March 2017 the net carrying amount of finance leased plant and machinery was £13.3m (2016: £6.2m). 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 2017.

| Name of subsidiary | Principal place of business | Class of shares held | Proportion of ownership interests and voting rights held by AO World Plc | Principal activity |
|---|---|---|---|---|
| AO Retail Limited | United Kingdom | Ordinary | 100% | Retail |
| Expert Logistics Limited | United Kingdom | Ordinary | 100% | Logistics and transport |
| Worry Free Limited | United Kingdom | Ordinary | 100% | Dormant |
| Elekdirect Limited | United Kingdom | Ordinary | 100% | Retail |
| Appliances Online Limited | United Kingdom | Ordinary | 100% | Dormant |
| AO Deutschland Limited | Germany | Ordinary | 100% | Retail |
| AO Limited | United Kingdom | Ordinary | 100% | Holding company |
| AO.BE SA | Belgium | Ordinary | 99.99%* | Dormant |
| AO.NL BV | The Netherlands | Ordinary | 100% | Retail |
| AO Logistics (Netherlands) BV | The Netherlands | Ordinary | 100% | Logistics and transport |
| The Recycling Group Limited | United Kingdom | Ordinary | 60% | WEEE recycling |
| WEEE Collect It Limited | United Kingdom | Ordinary | 60% | Dormant |
| WEEE Re-use It Limited | United Kingdom | Ordinary | 60% | WEEE recycling |
| Electrical Appliance Outlet Limited | United Kingdom | Ordinary | 100% | Retail |
| BERE Ltd | Jersey | Ordinary and redeemable preference | 89% | Investment company |

All companies within the Group are registered at the same address disclosed on page 119 apart from BERE Ltd, AO.NL BV, AO Logistics (Netherlands) BV, AO.BE SA and Elekdirect Limited who are registered at the addresses listed below.

| BERE Ltd | AO.NL BV | AO Logistics (Netherlands) BV | AO.BE SA | Elekdirect Limited |
|---|---|---|---|---|
| 44 | Nijverheidsweg | Nijverheidsweg | Naamloze Vennootschap | Unit G/G 14-16 |
| Esplanade | 33 | 33 | Esplanade | Gilnow Mill Industrial Estate |
| St Helier | Utrecht | Utrecht | Heysel 1 | Spa Road |
| Jersey | The Netherlands | The Netherlands | Bus 94 | Bolton |
| JE4 9WG | | | 1020 Brussel | BL1 4SF |

* On 3 June 2016 a proportion (0.01%) of the investment held in AO.BE SA was transferred to AO Deutschland from AO Limited.

BERE Limited was incorporated to facilitate our placing of shares. At 31 March 2017, AO World Plc held 89% of the total issued share capital. Following the balance sheet date and completion of the placing, AO World Plc acquired the remaining issued share capital (both ordinary and redeemable preference shares) and accordingly BERE Limited is now a wholly owned subsidiary.

## 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 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 |
| Credit/(debit) to income statement | 0.2 | (0.1) | 0.1 | 0.2 |
| Credit to reserves | 0.1 | – | – | 0.1 |
| **At 31 March 2017** | **0.8** | **0.7** | **0.3** | **1.8** |

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 deferred tax asset of £3.1m (2016: £1.3m) in respect of unused losses carried forward.

## 22. Inventories

| | 2017 £m | 2016 £m |
|---|---|---|
| Finished goods | **44.8** | 34.0 |

Included within inventories are stock provisions of £0.4m (2016: £0.7m).

## 23. Trade and other receivables

| | 2017 £m | 2016 £m |
|---|---|---|
| Trade receivables | **6.3** | 9.7 |
| **Other receivables:** | | |
| – Accrued income | **51.4** | 39.4 |
| – Prepayments | **18.8** | 14.5 |
| – Other | **4.4** | 0.3 |
| | **80.9** | 63.9 |

The trade and other receivables are classified as:

| | 2017 £m | 2016 £m |
|---|---|---|
| Non-current assets – Accrued income | **39.8** | 29.5 |
| Current assets | **41.1** | 34.4 |
| | **80.9** | 63.9 |

### Accrued income

Reconciliation of opening and closing balances for accrued income can be found in the table below:

| | 2017 £m | 2016 £m |
|---|---|---|
| Balance brought forward | **39.4** | 26.1 |
| Commission earned, cash received and revisions to estimates | **10.2** | 11.3 |
| Unwind of discounting on long term receivables | **1.7** | 1.6 |
| Other accrued income (see note below) | **0.1** | 0.4 |
| Balance carried forward | **51.4** | 39.4 |

Accrued income principally represents the expected future commission payments in respect of product protection plans. As set out in note 4, the Group recognises revenue in relation to these plans when it obtains the right to consideration as a result of performance of its contractual obligations (acting as an agent for a 3rd party). Revenue in any one year therefore represents the fair value of the commission due on the plans sold. To calculate the fair value of the revenue and hence the accrued income the Group uses historical empirical data accumulated over 10 years based on over 1.2m plans sold to date of which 0.6m plans are active.

The fair value calculation takes into consideration the following level 3 unobservable data:

- length of individual plans with a range of c.7-16 years included in the calculation;
- historical rate of customer attrition ; and
- contractually agreed margins based on actual historical margins earned.

Expected future commission payments in respect of product protection plans are discounted at 4.6% (2016: 4.9%).

Other accrued income relates to Expert Logistics revenue from third parties not invoiced at 31 March 2017 of £0.5m (2016: £0.4m).

There has been no change to the fair valuation methodology adopted in the year ended 31 March 2017.

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% | (2.3) |
| Cancellation rate decreases by 5% | 2.3 |
| Margin decreases by 5% | (2.5) |
| Margin increases by 5% | 2.5 |

### Prepayments

At 31 March 2017 there is £11.0m (2016: £9.4m) included in prepayments in relation to commercial income.

At 31 May 2017 the balance outstanding was £1.1m (2016: £0.4m).

## 24. Net funds

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

Reconciliation of net cash flow to movement in net funds:

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

## 25. Trade and other payables

| | 2017 £m | 2016 £m |
|---|---|---|
| Trade payables | **105.9** | 79.3 |
| **Other payables:** | | |
| – Accruals | **17.8** | 12.9 |
| – Deferred income | **7.8** | 8.6 |
| – Other | **8.7** | 8.2 |
| | **140.2** | 109.0 |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 63 days (2016: 49 days).

All values are payable within 12 months.

## 26. Borrowings

| | 2017 £m | 2016 £m |
|---|---|---|
| **Secured borrowing at amortised cost** | | |
| Bank loans | **4.3** | 2.5 |
| Finance lease liabilities (see note 27) | **13.1** | 5.5 |
| **Total borrowings** | **17.4** | 8.0 |
| Amount due for settlement within 12 months | **3.7** | 2.2 |
| Amount due for settlement after 12 months | **13.7** | 5.8 |
| **Total borrowings** | **17.4** | 8.0 |

Finance leases relate primarily to certain fixtures and fittings, plant and machinery and motor vehicles.

On 3 June 2016, the Group put in place a £30.0m revolving credit facility.

## 27. Obligations under finance leases

| | Minimum lease payments | |
|---|---|---|
| | **2017 £m** | 2016 £m |
| **Amounts payable under finance leases:** | | |
| Within one year | **3.7** | 2.6 |
| In the second to fifth years inclusive | **10.5** | 3.4 |
| | **14.2** | 6.0 |

| | Present value of minimum lease payments | |
|---|---|---|
| | **2017 £m** | 2016 £m |
| **Amounts payable under finance leases:** | | |
| Within one year | **3.3** | 2.4 |
| In the second to fifth years inclusive | **9.8** | 3.1 |
| | **13.1** | 5.5 |

## 28. Provisions

| | 2017 £m | 2016 £m |
|---|---|---|
| Provisions | **1.5** | 0.8 |

Provisions are classified as:

| | 2017 £m | 2016 £m |
|---|---|---|
| Non-current liabilities | **1.4** | 0.8 |
| Current liabilities | **0.1** | – |
| | **1.5** | 0.8 |

| | Dilapidations provision £m |
|---|---|
| **At 1 April 2016** | 0.8 |
| Utilised | (0.3) |
| Released during the year | (0.1) |
| Provisions created in the year | 1.1 |
| **At 31 March 2017** | **1.5** |

The dilapidations provision is created 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.

## 29. Share capital

| | 2017 £m | 2016 £m |
|---|---|---|
| Issued and fully paid: | | |
| 421,052,631 ordinary shares of £0.0025 each | **1.1** | 1.1 |

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

## 30. Non-controlling interest

| | 2017 £m | 2016 £m |
|---|---|---|
| **Balance at 31 March 2016** | **0.9** | – |
| Acquisition of subsidiary | **–** | 0.8 |
| Share of loss for the period | **0.8** | 0.1 |
| **Balance at 31 March 2017** | **1.7** | 0.9 |

The Non-controlling interest relates to 40% of the share capital of The Recycling Group Limited ("TRG") not currently owned by the AO Group.

At 31 March 2017, TRG had non-current assets of £7.0m, net current liabilities of £7.3m and non-current liabilities of £4.2m. During the year, TRG contributed £4.0m and (£0.7m) to the Group's revenue and Adjusted EBITDA respectively. Net cash outflow was £0.1m.

## 31. Reserves

The analysis of movements in reserves is shown in the statement of changes in equity. Details of the amounts included in other reserves (excluding share-based payment reserve and translation reserve) are set out below.

The merger reserve arose on the purchase of DRL Limited (now AO Retail Limited) in the year ended 31 March 2008.

The capital redemption reserve arose as a result of the redemption of ordinary and preference shares in the years ended 31 March 2012 and 2014 respectively.

The other reserve arose on the acquisition of TRG (see note 17) and relates to the difference between the gross and fair valuation of the put option.

## 32. Share-based payments

### Performance Share Plan

The table below summarises the amounts recognised in the income statement during the year.

| | 2017 £m | 2016 £m |
|---|---|---|
| IPO LTIP | **0.9** | (0.4) |
| 2015 LTIP | **(0.1)** | 0.2 |
| 2016 LTIP | **0.4** | – |
| ERP | **2.4** | – |
| Sharesave scheme | **0.4** | 0.4 |
| | **4.0** | 0.2 |

The table below shows the share-based payment charge/(credit) in relation to exceptional LTIP awards.

| | 2017 £m | 2016 £m |
|---|---|---|
| IPO LTIP | **0.9** | (0.4) |
| ERP | **2.4** | – |
| Employers NI on the above schemes | **0.3** | – |
| **Exceptional LTIP awards** | **3.6** | (0.4) |

### 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.

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:

| | 2017 No. of options | 2017 WAEP(£)* | 2016 No. of options | 2016 WAEP(£)* |
|---|---|---|---|---|
| Outstanding at the beginning of the year | **3,480,976** | **–** | 3,526,296 | – |
| Forfeited during the year | **(76,022)** | **–** | (45,320) | – |
| Lapsed | **(3,404,954)** | | | |
| Outstanding at the end of the year | **–** | **–** | 3,480,976 | – |

* Weighted average exercise price

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 2017 and 31 March 2016:

| | |
|---|---|
| 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 2017 and 31 March 2016:

| | |
|---|---|
| Risk-free rate | 0.00% |
| Expected volatility | N/A |
| Expected dividend yield | 0.00% |
| Option life | 3 years |

At 31 March 2017 the vesting period ended. As no performance criteria were met no options were exercised and the awards in relation to TSR (£3.3m) were transferred from the share option reserve to the profit and loss reserve.

### 2015 LTIP Awards

One third of the 2015 LTIP Award is based on Total Shareholder Return (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 weighted average exercise price (WAEP) of, and movements in, share options granted under the 2015 LTIP Awards.

## 32. Share-based payments (continued)

| | **2017 No. of options** | **2017 WAEP(£)*** | 2016 No. of options | 2016 WAEP(£)* |
|---|---|---|---|---|
| Outstanding at the beginning of the year | **1,224,239** | **–** | – | – |
| Granted during the year | **–** | **–** | 1,249,517 | – |
| Forfeited during the year | **(57,696)** | **–** | (25,278) | – |
| Outstanding at the end of the year | **1,166,543** | **–** | 1,224,239 | – |

* Weighted average exercise price

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 years ended 31 March 2016 and 31 March 2017.

| | |
|---|---|
| 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 and Sales 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 2017.

| | |
|---|---|
| Risk-free rate | 0.00% |
| Expected volatility | N/A |
| Expected dividend yield | 0.00% |
| Option life | 3 years |

The weighted average fair value of options granted was £0.49. For the shares outstanding at 31 March 2017, the remaining average contractual life is 1.25 years.

There were no awards exercisable as at 31 March 2017.

### 2016 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 2016 LTIP Award is based on Total Shareholder Return (TSR) performance condition based on ranking of the Company's TSR during the performance period in comparison to the TSR of companies in the FTSE All Share Retail Index (comparator group or peer group) over the performance period.

| Percentage of shares subject to vesting (straight-line vesting between each point) | Company's TSR percentile ranking against comparator group |
|---|---|
| 0% | Below Median |
| 25% | Median |
| 100% | Upper Quartile |

One third of the awards are subject to a Group Adjusted EBITDA performance condition over the performance period.

| Percentage of shares subject to vesting (straight-line vesting between each point) | Group Adjusted EBITDA for the financial year ending 31 March 2019 |
|---|---|
| 0% | <£23m |
| 25% | £23m |
| 62.5% | £29m |
| 100% | £35m+ |

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.

| Percentage of shares subject to vesting (straight-line vesting between each point) | Sales growth over the three-year performance period |
|---|---|
| 0% | Below 50% |
| 25% | 50% |
| 62.5% | 85% |
| 100% | 120% + |

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 2016 LTIP Awards.

| | **2017 No. of options** | **2017 WAEP(£)*** | 2016 No. of options | 2016 WAEP(£)* |
|---|---|---|---|---|
| Outstanding at the beginning of the year | **–** | **–** | – | – |
| Granted during the year | **3,047,820** | **–** | – | – |
| Forfeited during the year | **(37,932)** | **–** | – | – |
| Outstanding at the end of the year | **3,009,888** | **–** | – | – |

* Weighted average exercise price.

The fair value of the share options granted under the 2016 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 2017.

| | |
|---|---|
| Risk-free rate | 0.21% |
| Expected volatility | 52.2% |
| Expected dividend yield | N/A |
| Option life | 3 years |

The share options granted under the 2016 LTIP Award which are dependent on Group Adjusted EBITDA and Sales performance have a fair value equal to the share price at grant date of £1.48.

The weighted average fair value of options granted during the year was £1.06. For the shares outstanding at 31 March 2017, the remaining average contractual life is 2.3 years.

There were no awards exercisable as at 31 March 2017.

### Employee Reward Plan (ERP)

During the year the Group made conditional awards of nil-cost options to select members of senior management and Directors.

The Awards are based on one performance condition which requires that the Company's Sales growth over the performance period be greater than 10% per annum compound.

The fair value was determined to be the share price at grant date of £1.48.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options granted under the ERP.

| | **2017 No. of options** | **2017 WAEP(£)*** | 2016 No. of options | 2016 WAEP(£)* |
|---|---|---|---|---|
| Outstanding at the beginning of the year | **–** | **–** | – | – |
| Granted during the year | **6,466,667** | **–** | – | – |
| Forfeited during the year | **(122,222)** | **–** | – | – |
| Outstanding at the end of the year | **6,344,445** | **–** | – | – |

The weighted average fair value of options granted during the year was £1.48. For the shares outstanding at 31 March 2017, the remaining average contractual life is 2.3 years.

There were no awards exercisable as at 31 March 2017.

### 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.

As per IFRS 2, these grants have been valued using a Binomial (2014 and 2015) and a Black-Scholes (2016 and 2017) model. The difference in valuations for the 2014 and 2015 schemes between the Binomial and Black-Scholes model is not significant.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options granted under the Sharesave scheme:

| | **2017 No. of options** | **2017 WAEP(£)*** | 2016 No. of options | 2016 WAEP(£)* |
|---|---|---|---|---|
| Outstanding at the beginning of the year | **1,388,617** | **1.56** | 867,366 | 2.42 |
| Granted during the year | **506,252** | **1.49** | 1,047,533 | 1.25 |
| Forfeited during the year | **(415,334)** | **(1.57)** | (526,282) | (2.35) |
| Outstanding at the end of the year | **1,479,535** | **1.54** | 1,388,617 | 1.56 |

* Weighted average exercise price

During the year ended 31 March 2017, options were granted on 1 March 2017. For the shares outstanding at 31 March 2017, the remaining weighted average contractual life is 1.95 years (2016: 2.45 years). The weighted average fair value of options granted during the year was £0.49 per share (2016: £0.47).

The following table gives the assumptions made during the year ended 31 March 2017:

| **For options granted on** | 28 April 2014 | 30 January 2015 | 29 January 2016 | 1 March 2017 |
|---|---|---|---|---|
| Risk-free rate | 1.41% | 0.64% | 0.54% | 0.41% |
| Expected volatility | 27.99% | 24.74% | 43.53% | 49.9% |
| Expected dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Option life | 3 years | 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 3 years.

## 33. Operating lease arrangements

Non-cancellable operating lease rentals are payable as follows:

| | **2017 £m** | 2016 £m |
|---|---|---|
| Within one year | **15.0** | 7.8 |
| In the second to fifth years inclusive | **46.0** | 24.6 |
| After five years | **34.5** | 30.2 |
| | **95.5** | 62.6 |

During the year to 31 March 2017 £13.3m (2016: £8.6m) 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 £2.8m (2016: £2.1m).

Contributions totalling £0.3m (2016: £0.2m) 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 in 2016) 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 inception.

## 35. Financial instruments (continued)

### 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:

| | **2017 Carrying amount £m** | **2017 Fair value £m** | 2016 Carrying amount £m | 2016 Fair value £m |
|---|---|---|---|---|
| **Financial assets designated as fair value through profit or loss** | | | | |
| Accrued income (see note 23) | **51.4** | **51.4** | 39.4 | 39.4 |
| Call option (see note 17) | **1.3** | **1.3** | 0.8 | 0.8 |
| **Loans and receivables** | | | | |
| Cash and cash equivalents | **29.4** | **29.4** | 33.4 | 33.4 |
| Trade receivables (see note 23) | **6.3** | **6.3** | 9.7 | 9.7 |
| Prepayments and other receivables (see note 23) | **23.2** | **23.2** | 14.8 | 14.8 |
| **Total financial assets** | **111.6** | **111.6** | 98.1 | 98.1 |
| **Financial liabilities measured at amortised cost** | | | | |
| Trade payables (see note 25) | **(105.9)** | **(105.9)** | (79.3) | (79.3) |
| Other payables (see note 25) | **(34.3)** | **(34.3)** | (29.7) | (29.7) |
| Borrowings (see note 26) | **(17.4)** | **(17.4)** | (8.0) | (8.0) |
| **Financial liabilities at fair value through profit and loss** | | | | |
| Put option to acquire non-controlling interest (see note 17) | **(3.4)** | **(0.5)** | (2.7) | (0.7) |
| **Total financial liabilities** | **(161.0)** | **(158.2)** | (119.7) | (117.7) |
| **Total financial instruments** | **(48.4)** | **(46.6)** | (21.6) | (19.6) |

### 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 2017** | | | | |
| Accrued income (see note 23) | – | – | 51.4 | 51.4 |
| Call option | – | – | 1.3 | 1.3 |
| **At 31 March 2017** | **–** | **–** | **52.7** | **52.7** |
| At 31 March 2016 | | | | |
| Accrued income (see note 23) | – | – | 39.4 | 39.4 |
| Call option | | | 0.8 | 0.8 |
| At 31 March 2016 | – | – | 40.2 | 40.2 |

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| **At 31 March 2017** | | | | |
| Put option to acquire non-controlling interest | – | – | 3.4 | 3.4 |
| **At 31 March 2017** | **–** | **–** | **3.4** | **3.4** |
| At 31 March 2016 | | | | |
| Put option to acquire non-controlling interest | | | 2.7 | 2.7 |
| At 31 March 2016 | – | – | 2.7 | 2.7 |

Tables below show the movement in valuation for both the call and put option during the year.

| **Call option** | £m |
|---|---|
| At 1 April 2015 | – |
| On acquisition of subsidiary | 0.7 |
| Change in valuation | 0.1 |
| At 31 March 2016 | 0.8 |
| Change in valuation | 0.5 |
| **At 31 March 2017** | **1.3** |

| **Put option** | £m |
|---|---|
| At 1 April 2015 | – |
| On acquisition of subsidiary | 2.8 |
| Change in valuation | (0.1) |
| At 31 March 2016 | 2.7 |
| Change in valuation | 0.7 |
| **At 31 March 2017** | **3.4** |

## 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:

| | **2017 £m** | 2016 £m |
|---|---|---|
| Accrued income | **51.4** | 39.4 |
| Trade receivables | **6.3** | 9.7 |
| | **57.7** | 49.1 |

### 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 | 6.0 | 6.0 |
| Past due 0–30 days | 0.2 | 0.2 |
| Past due 31–120 days | 0.1 | 0.1 |
| More than 120 days | – | – |
| **At 31 March 2017** | **6.3** | **6.3** |
| 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 |

There has been no impairment charged to trade receivables in the current year.

## 35. Financial instruments (continued)

### 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 | 13.1 | 14.2 | 3.7 | 10.5 | – |
| Trade and other payables | 132.4 | 132.4 | 132.4 | – | – |
| Bank loans | 4.3 | 4.5 | 0.8 | 3.7 | – |
| **At 31 March 2017** | **149.8** | **151.1** | **136.9** | **14.2** | **–** |

| | 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 | – |

### 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:

| | **2017 £m** | 2016 £m |
|---|---|---|
| **Fixed and variable rate instruments** | | |
| Finance lease liabilities | **13.1** | 5.5 |
| Bank loans | **4.3** | 2.5 |
| | **17.4** | 8.0 |

### 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 | |
|---|---|---|---|---|
| | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m |
| Euros | **68.6** | 29.0 | **11.5** | 10.2 |

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.

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 Director's 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 | |
|---|---|---|
| | **2017 £m** | 2016 £m |
| Sterling strengthens by 10% | **(5.2)** | (1.7) |
| Sterling weakens by 10% | **6.3** | 2.1 |

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's 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 | |
|---|---|---|---|---|
| | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m |
| Re-Gen (Logistics) Limited | **–** | 0.2 | **–** | – |
| Booker Limited | **–** | – | **0.1** | 0.2 |
| The Recycling Group Limited | **–** | 0.7 | **–** | 0.9 |
| WEEE Re-use it Limited | **–** | 0.2 | **–** | – |

There were no outstanding amounts at the statement of financial position date (2016: £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, resigned on 21 July 2016) has an interest in.

The Recycling Group Limited and WEEE Re-use It Limited are related parties due to common ownership. The Recycling Group Limited and WEEE Re-use It Limited were acquired in November 2015 and therefore intercompany transactions are eliminated on consolidation.

### Transactions with Directors and key management personnel

The compensation of key management personnel (including the Directors) is as follows:

| | **2017 £m** | 2016 £m |
|---|---|---|
| Key management emoluments including social security costs | **4.2** | 3.1 |
| Awards granted under a long-term incentive plan | **3.1** | (0.2) |
| Company contributions to money purchase plans | **0.1** | 0.3 |
| | **7.4** | 3.2 |

Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 67 to 80.

## 37. Events after the reporting period

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

# Company statement of financial position

## As at 31 March 2017

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 5 | **1.2** | 1.5 |
| Property, plant and equipment | 6 | **0.5** | 0.6 |
| Investment in subsidiaries | 7 | **12.2** | 11.5 |
| Deferred tax asset | 8 | **0.8** | 0.7 |
| Derivative financial asset | 12 | **1.3** | 0.8 |
| | | **16.0** | 15.1 |
| **Current assets** | | | |
| Corporation tax receivable | | **0.3** | – |
| Trade and other receivables | 9 | **58.2** | 31.5 |
| | | **58.5** | 31.5 |
| **Total assets** | | **74.5** | 46.6 |
| **Current liabilities** | | | |
| Bank overdraft | | **(0.1)** | – |
| Trade and other payables | 10 | **(11.0)** | (1.7) |
| | | **(11.1)** | (1.7) |
| **Net current assets** | | **47.4** | 29.8 |
| **Non-current liabilities** | | | |
| Derivative financial liability | 12 | **(0.5)** | (0.7) |
| **Total liabilities** | | **(11.6)** | (2.4) |
| **Net assets** | | **62.9** | 44.2 |
| **Equity** | | | |
| Share capital | | **1.1** | 1.1 |
| Share premium | | **55.7** | 55.7 |
| Merger reserve | | **4.4** | 4.4 |
| Capital redemption reserve | | **0.5** | 0.5 |
| Share-based payments reserve | | **3.8** | 3.1 |
| Retained losses | | **(2.6)** | (20.6) |
| **Total equity** | | **62.9** | 44.2 |

The financial statements of AO World Plc, registered number 05525751 were approved by the Board of Directors and authorised for issue on 6 June 2017. They were signed on its behalf by:

**Steve Caunce**
CEO
AO World Plc

**Mark Higgins**
CFO
AO World Plc

# Company statement of changes in equity
## As at 31 March 2017

| | Share capital £m | Share premium account £m | Merger reserve £m | Capital redemption reserve £m | Share-based payments reserve £m | Retained losses £m | Total £m |
|---|---|---|---|---|---|---|---|
| **At 1 April 2015** | 1.1 | 55.7 | 4.4 | (1.1) | 2.8 | (16.4) | 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 | 3.1 | (20.6) | 44.2 |
| Profit for the year | – | – | – | – | – | 14.7 | 14.7 |
| Share-based payments charge net of tax (see note 32 of consolidated accounts) | – | – | – | – | 4.0 | – | 4.0 |
| Transfer between reserves (see note 32 of consolidated accounts) | – | – | – | – | (3.3) | 3.3 | – |
| **Balance at 31 March 2017** | **1.1** | **55.7** | **4.4** | **0.5** | **3.8** | **(2.6)** | **62.9** |

# Company statement of cash flows

## For the year ended 31 March 2017

| | Note | 2017<br>£m | 2016<br>£m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) for the year | | **14.7** | (2.6) |
| Adjustments for: | | | |
| Depreciation and amortisation | | **0.6** | 0.4 |
| Finance income | | **(0.7)** | (0.1) |
| Taxation credit | | **(0.1)** | (0.1) |
| Share-based payment charge/(credit) | | **3.3** | (0.3) |
| Dividend received | | **(15.0)** | – |
| **Operating cash flows before movement in working capital** | | **2.8** | (2.7) |
| Increase in trade and other receivables | | **(2.1)** | (0.5) |
| Increase in trade and other payables | | **2.8** | 1.5 |
| (Increase)/Decrease in intercompany receivable | | **(18.1)** | 1.9 |
| | | **(17.4)** | 2.9 |
| Taxation paid | | **(0.3)** | – |
| **Cash (used)/generated in operating activities** | | **(14.9)** | 0.2 |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | | **(0.1)** | (0.1) |
| Acquisition of intangible assets | | **(0.1)** | (0.1) |
| Dividend received from subsidiary | | **15.0** | – |
| **Cash generated/(used) in investing activities** | | **14.8** | (0.2) |
| **Net decrease in cash** | | **(0.1)** | – |
| **Cash and cash equivalents at beginning of year** | | **–** | – |
| **Cash and cash equivalents at end of year** | | **(0.1)** | – |

## 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.

## 3. Operating profit/(loss)

The Auditor's remuneration for audit and other services is disclosed in note 9 to the consolidated financial statements.

## 4. Profit /(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 profit for the year and total comprehensive profit attributable for shareholders was £14.7m of which £15.0m was dividend income (2016: £2.6m loss).

## 5. Intangible assets

| | Domain names £m | Software £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2015 | 1.1 | 0.5 | 1.6 |
| Additions | – | 0.1 | 0.1 |
| At 31 March 2016 | 1.1 | 0.6 | 1.7 |
| Additions | – | 0.1 | 0.1 |
| At 31 March 2017 | 1.1 | 0.7 | 1.8 |
| **Amortisation** | | | |
| At 1 April 2015 | – | – | – |
| Charge for the year | 0.1 | 0.1 | 0.2 |
| At 31 March 2016 | 0.1 | 0.1 | 0.2 |
| Charge for the year | 0.2 | 0.2 | 0.4 |
| At 31 March 2017 | 0.3 | 0.3 | 0.6 |
| **Carrying amount** | | | |
| **At 31 March 2017** | **0.8** | **0.4** | **1.2** |
| At 31 March 2016 | 1.0 | 0.5 | 1.5 |
| At 1 April 2015 | 1.1 | 0.5 | 1.6 |

## 6. Property, plant and equipment

| | Computer and office equipment £m |
|---|---|
| **Cost** | |
| At 1 April 2015 | 0.7 |
| Additions | 0.1 |
| At 31 March 2016 | 0.8 |
| Additions | 0.1 |
| At 31 March 2017 | 0.9 |
| **Accumulated depreciation** | |
| At 1 April 2015 | – |
| Charge for the year | 0.2 |
| At 31 March 2016 | 0.2 |
| Charge for the year | 0.2 |
| At 31 March 2017 | 0.4 |
| **Carrying amount** | |
| **At 31 March 2017** | **0.5** |
| At 31 March 2016 | 0.6 |
| At 1 April 2015 | 0.7 |

At 31 March 2017, the net carrying amount of property, plant and equipment held under finance lease was £0.4m (2016: £0.6m).

## 7. Subsidiaries
Details of the Company's subsidiaries at 31 March 2017 are as follows:

| Name of subsidiary | Principal place of business | Class of Shares Held | Proportion of ownership interests and voting rights held by AO World Plc | Principal activity |
|---|---|---|---|---|
| AO Retail Limited | United Kingdom | Ordinary | 100% | Retail |
| Expert Logistics Limited | United Kingdom | Ordinary | 100% | Logistics and transport |
| Worry Free Limited | United Kingdom | Ordinary | 100% | Dormant |
| Elekdirect Limited | United Kingdom | Ordinary | 100% | Retail |
| Appliances Online Limited | United Kingdom | Ordinary | 100% | Dormant |
| AO Deutschland Limited | Germany | Ordinary | 100% | Retail |
| AO Limited | United Kingdom | Ordinary | 100% | Holding company |
| AO.BE SA | Belgium | Ordinary | 99.99%* | Dormant |
| AO.NL BV | The Netherlands | Ordinary | 100% | Retail |
| AO Logistics (Netherlands) BV | The Netherlands | Ordinary | 100% | Logistics and transport |
| The Recycling Group Limited | United Kingdom | Ordinary | 60% | WEEE recycling |
| WEEE Collect It Limited | United Kingdom | Ordinary | 60% | Dormant |
| WEEE Re-use It Limited | United Kingdom | Ordinary | 60% | WEEE recycling |
| Electrical Appliance Outlet Limited | United Kingdom | Ordinary | 100% | Retail |
| BERE Ltd | Jersey | Ordinary and redeemable preference share | 89% | Investment company |

* On 3 June 2016 a proportion (0.01%) of the investment held in AO.BE SA was transferred to AO Deutschland from AO Limited.

On 26 July 2016 the company acquired 100% of the incorporated share capital of Electrical Appliance Outlet Limited.

BERE Limited was incorporated to facilitate our placing of shares. At 31 March 2017, AO World Plc held 89% of the total issued share capital. Following the balance sheet date and completion of the placing, AO World Plc acquired the remaining issued share capital (both ordinary and redeemable preference shares) and accordingly BERE Limited is now a wholly owned subsidiary.

All companies within the Group are registered at the same address disclosed on page 119 apart from BERE Ltd, AO.NL BV, AO Logistics (Netherlands) BV, AO.BE SA and Elekdirect Limited who are registered at the addresses listed below.

| BERE Ltd | AO.NL BV | AO Logistics (Netherlands) BV | AO.BE SA | Elekdirect Limited |
|---|---|---|---|---|
| 44 | Nijverheidsweg | Nijverheidsweg | Naamloze Vennootschap | Unit G/G 14-16 |
| Esplanade | 33 | 33 | Esplanade | Gilnow Mill Industrial Estate |
| St Helier | Utrecht | Utrecht | Heysel 1 | Spa Road |
| Jersey | The Netherlands | The Netherlands | Bus 94 | Bolton |
| JE4 9WG | | | 1020 | BL1 4SF |
| | | | Brussel | |

In addition, the Company has made capital contributions to its subsidiaries of £0.7m (2016: £0.5m) in relation to the allocation of share-based payment charges as required by IFRS 2.

## 8. Deferred tax
The following is the asset recognised by the Company and movements thereon during the current and prior reporting year.

| | Other timing difference £m | Share options £m | Total £m |
|---|---|---|---|
| Deferred tax asset at 1 April 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 |
| Credit to income statement | 0.1 | – | 0.1 |
| **Deferred tax asset at 31 March 2017** | **0.1** | **0.7** | **0.8** |

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 £0.1m (2016: £0.3m) in respect of share options.

## 9. Trade and other receivables

| | **2017 £m** | 2016 £m |
|---|---|---|
| Prepayments | **2.2** | 0.2 |
| Other receivables | **0.2** | 0.1 |
| Amounts owed by Group undertakings | **55.8** | 31.2 |
| | **58.2** | 31.5 |

Amounts owed by Group undertakings are short term and carry no interest.

## 10. Trade and other payables

| | 2017 £m | 2016 £m |
|---|---|---|
| Trade payables | **0.3** | 0.3 |
| Accruals | **3.8** | 1.1 |
| Other payables | **0.4** | 0.3 |
| Amounts owed to Group undertakings | **6.5** | – |
| | **11.0** | 1.7 |

The carrying amount of trade payables approximates to their fair value.

## 11. Share-based payments

The Company recognised total expenses of £3.3m (2016: £0.2m) in the year in relation to both the Performance Share Plans (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.

## 12. 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 9 and 10, respectively. The categories of financial assets and liabilities and their related accounting policy are set out in note 3 of 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) 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.

| | 2017 £m | 2016 £m |
|---|---|---|
| **Financial assets designated as fair value through profit or loss** | | |
| Call option | **1.3** | 0.8 |
| **Loans and receivables** | | |
| Amounts owed by Group undertakings (see note 9) | **55.8** | 31.2 |
| Prepayments (see note 9) | **2.2** | 0.2 |
| Other receivables (see note 9) | **0.2** | 0.1 |
| **Total financial assets** | **59.5** | 32.3 |
| **Financial liabilities measured at amortised cost** | | |
| Trade and other payables (see note 10) | **(11.0)** | (1.7) |
| Bank overdraft | **(0.1)** | – |
| **Financial liabilities at fair value through profit and loss** | | |
| Put option to acquire non-controlling interest | **(0.5)** | (0.7) |
| **Total financial liabilities** | **(11.6)** | (2.4) |
| **Total financial instruments** | **47.9** | 29.9 |

#### 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** | – | – | 0.8 | 0.8 |
| Call option | – | – | 0.5 | 0.5 |
| **At 31 March 2017** | **–** | **–** | **1.3** | **1.3** |

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| **At 31 March 2016** | – | – | 0.7 | 0.7 |
| Put option to acquire non-controlling interest | – | – | (0.2) | (0.2) |
| **At 31 March 2017** | **–** | **–** | **0.5** | **0.5** |

Tables below show the movement in valuation for both the call and put option during the year.

| **Call option** | £m |
|---|---|
| At 1 April 2015 | – |
| On acquisition of subsidiary | 0.7 |
| Movement in valuation | 0.1 |
| **At 31 March 2016** | 0.8 |
| Movement in valuation | 0.5 |
| **At 31 March 2017** | **1.3** |

## 12. Financial instruments (continued)

| **Put option** | £m |
|---|---|
| At 1 April 2015 | – |
| On acquisition of subsidiary | 0.7 |
| Movement in valuation | – |
| **At 31 March 2016** | 0.7 |
| Movement in valuation | (0.2) |
| **At 31 March 2017** | **0.5** |

### 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:

| | **2017 £m** | 2016 £m |
|---|---|---|
| Net amounts owed by Group undertakings | **49.3** | 31.2 |

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 | 4.5 | 4.5 | 4.5 | – | – |
| Amounts owed to Group undertakings | 6.5 | 6.5 | 6.5 | – | – |
| **At 31 March 2017** | **11.0** | **11.0** | **11.0** | **–** | **–** |

| | 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 | 1.7 | 1.7 | 1.7 | – | – |
| **At 31 March 2016** | 1.7 | 1.7 | 1.7 | – | – |

### 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.

## 13. Related parties

During the year the Company entered into transactions with Group entities as follows:

| | **2017 £m** | 2016 £m |
|---|---|---|
| Cost recharged to subsidiary undertakings | **23.3** | 14.3 |

Transactions with subsidiaries relate to management charges.

## 14. Events after the reporting period

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

# Important information



## Registered office and headquarters
AO Park
5A The Parklands
Lostock
Bolton BL6 4SD

Registered number: 5525751
Tel: 01204 672400
Web: www.ao.com

## Company Secretary
Julie Finnemore
Email: cosec@ao.com

## Joint Stockbrokers
J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP

Jefferies International Limited
Vintners Place
68 Upper Thames Street
London EC3V 3BJ

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

## Independent Auditor
KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

## Bankers
Barclays Bank plc
51 Mosley Street
Manchester M60 2AU

Lloyds Bank Plc
25 Gresham Street
London EC2V 7HN

## Registrar
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Tel UK: +44 (0) 871 664 0300
(calls cost 12p per minute plus phone company's access charge)

Tel INTL: +44 (0) 371 664 0300
(calls charged at the applicable international rate)

Lines are open 9.00am to 5.30pm Monday to Friday excluding public holidays in England and Wales.

Fax: +44 (0) 20 8639 2200
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 (0371 664 0445). Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK are charged at the applicable international rate. Lines are open between 8am and 4.30pm, Monday to Friday excluding public holidays in England and Wales.

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.

# Glossary

3D animation means animating objects that appear in a three-dimensional space
4Cs strategy means how we will achieve our mission to become the best electrical retailer in Europe, through focusing on culture and brand, customers, categories and countries
Adjusted EBITDA means Profit/(loss) before tax, depreciation, amortisation, net finance costs, "adjustments" and exceptional items
Adjustments means set-up costs relating to overseas expansion and share-based payment charges/(credits) attributable to exceptional LTIP awards which the Board considers one-off in nature.
AGM means the Group's Annual General Meeting
An AO'er means a member of our amazing employees
AO World, AO or the Group means AO World plc and its subsidiary undertakings
AV means audio visual products
Best electrical retailer in Europe means having a market-leading proposition and a brand that customers love
BGT means Britain's Got Talent
Board means the Board of Directors of the Company or its subsidiaries from time to time as the context may require.
Code means the UK Corporate Governance code published by the FRC in 2014
Companies Act means the Companies Act 2006
Company means AO World plc, a company incorporated in England and Wales with registered number 05525751 whose registered office is at 5A The Parklands, Lostock BL6 4SD
CRM means customer relationship management
CRR mean Corporate Risk Register
Customer means an individual customer who has purchased from us
D&G means Domestic and General
DofE means Duke of Edinburgh scheme
ERP means Employee Reward Plan
EPS means earnings per share
Europe means the Group's entities operating within the European Union, but outside the UK
GAAP means Generally Accepted Accounting Practice
GET means our Group Executive Team
GHG means greenhouse gas
HD means high definition
IAS means International Accounting Standards
IFRS means International Financial Reporting Standards
IPO means the Group's Initial Public Offering in March 2014
IVR means our interactive voice response system
KPMG means KPMG LLP
LSE means London Stock Exchange
LTIP means Long-term Incentive Plan
MDA means major domestic appliances
MyAO means AO's app
Nano chat means an automated alternative to live chat
NPS means Net Promoter Score which is an industry measure of customer loyalty and satisfaction
PSP means the AO Performance Share Plan, a form of LTIP
RDC means regional distribution centre
RMC means our Risk Management Committee
SDA means small domestic appliances
SEO means Search Engine Optimisation
SG&A means Selling, General & Administrative Expenses
SID means Senior Independent Director
SKUs means stock keeping units
The AO Way means the Group's business model
UK means the Group's entities operating within the United Kingdom
WEEE means Waste Electrical and Electronic Equipment

## Market overview, GfK definitions

### MDA market size UK
Cooling, cooking, dishwashers, drink chillers, freezers, built in microwave ovens, tumble dryers, washing machines, wine cabinets, hobs, hoods

### MDA market size all other countries
Cooling, cooking, dishwashers, drink chillers, freezers, microwave ovens, tumble dryers, washing machines, wine cabinets, hobs, hoods

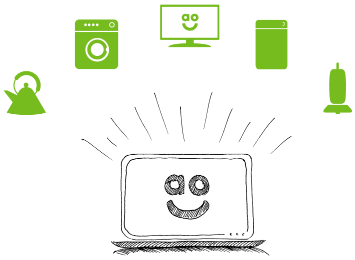
### SDA market size UK
Air treatment, bread makers, can openers, coffee grinders, deep fryers, electric heating, electric blankets, electric fans, electric knives, electrical cooking pots, food steamers, food preparation, hot beverage maker, ice cream maker, irons, juicers/presses, kettles, kitchen scales, free standing microwave ovens, milk frother, mini ovens, rice cookers, sandwich makers/waffle makers/electric grills, steam cleaners, toasters, vacuum cleaners, water filters, window cleaner

### SDA market size all other countries
Air treatment, bread makers, can openers, coffee grinders, deep fryers, electric heating, electric blankets, electric fans, electric knives, electrical cooking pots, food steamers, food preparation, hot beverage maker, ice cream maker, irons, juicers/presses, kettles, kitchen scales, milk frother, mini ovens, rice cookers, sandwich makers/waffle makers/electric grills, steam cleaners, toasters, vacuum cleaners, water filters, window cleaner

### Floorcare market size Germany
Vacuum Cleaners

### AV market size all countries
Audio Home Systems excluding home theatre, docking/mini speaker, headphones and mobile headsets, Loudspeakers non soundbar, radio devices (table top), tuner/amplifier/receiver, turntable, cables, home theatre systems, ptv/flat, set-top-boxes, soundbar/base, AV mounting solutions and furniture, universal remote control, video player/recorder.

### Computing market size all countries
Mobile computing, media tablets, desk computing, storage, monitors, memory cards, communication device, software, visual cams, USB memory, pointing devices, keying devices, multimedia devices, power management, communication cards, multidisc drive



**There's lots more online:**

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**Corporate**
**www.ao.com/corporate**

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