AO WORLD PLC

INTERIM RESULTS FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2020

PROFITABLE GROWTH THE AO WAY

AO World plc ("the Group" or "AO"), a leading European online electrical retailer, today announces its unaudited interim financial results for the six months ended 30 September 2020[1] ("HY21").

BUSINESS OVERVIEW

Financial performance

- Strong revenue growth with total revenue for the period increasing 53.2% to £717.0m (2019: £468.0m[2]) demonstrating our ability to deliver sustained growth in demand in the UK and Germany
- Increase in Group Adjusted EBITDA[3] to £28.8m (2019: £1.0m); EBITDA margin increases to 4.0% (2019: 0.2%) reflecting our ability to leverage efficiencies with scale
- Group Profit Before Tax increased to £18.3m from a loss of £5.9m in the prior year period
- Cash generated during the period of £78.4m (2019: cash utilised of £5.3m)

Operational highlights

- We continue to delight our customers in this period of step change increases in volumes and Covid-19 operational challenges; Net Promoter Scores at consistently high levels of over 80 in the UK[5] and Germany
- Resilient operational performance; ongoing significant investment in our people and infrastructure ensures we are well equipped to serve the step change in online penetration
- AO Germany on track to achieving monthly profitability on an adjusted EBITDA basis during our peak trading period and expect to be profitable from FY22
- Implementation of the One AO approach continues and will allow us to scale efficiently
- AO Culture remains strong; ambitious Value Creation Plan launched to all employees giving every AOer the chance to share in exceptional growth

Financial Summary

£(m)	HY21	HY20	% Mvmt
UK[6] revenue	616.4	400.6	53.9%
Germany[6] revenue	100.6	54.3	85.2%
Total revenue *(excluding impact of NL operations in HY20)*	717.0	454.9	57.6%
UK Adjusted EBITDA	32.6	13.6	140.1%
Germany Adjusted EBITDA	(3.8)	(9.9)	61.6%
Group Adjusted EBITDA *(excluding impact of NL operations in HY20)*	28.8	3.7	686.1%
Group Operating profit / (loss)	16.8	(10.6)	259.8%
Profit before tax	18.3	(5.9)	417.1%
Basic earnings / (loss) per share (pence)[8]	3.45	(1.00)	442.8%
Cash generated / (utilised)	78.4	(5.3)	1,579%
Net debt[4]	(20.7)	(82.8)	75.0%
On a constant currency basis - €m[9]			
Germany Revenue	112.1	61.5	82.2%
Germany Adjusted EBITDA losses	(4.2)	(11.3)	62.4%

John Roberts, AO Founder and Chief Executive Officer, said:

AO Founder and Chief Executive, John Roberts, said: "This has been a half year like no other. I believe our market has changed as a result, forever. Online is now the dominant retail channel for customers and manufacturers alike and I am delighted by how our AOers have risen to the challenge of this structural shift in behaviour.

"We have grown share across all categories and the results we're announcing today give huge confidence that our business is well set for the future to cement the changes. Our growth rates have increased from Q2 to Q3 as we unlock capacity constraints.

"We have taken huge strides forward on our commitment to fix all the fundamentals of our European business and we now have a profitable platform from which to accelerate our growth in Germany and beyond.

"I would like to thank all AOers and all our trading partners for making such structural change possible in such a short period of time. It has been an incredible team effort to serve customers, existing and new, in their moments of need that I believe they will repay us with loyal custom for years to come.

"Now really is our time and we are investing to win and cement the change."

Webcast details

A webcast of our results presentation hosted by Geoff Cooper, John Roberts and Mark Higgins for analysts and investors will be available at AO World FY21 Half Year Results Webcast from 7am (BST) today, 24 November 2020. A live Q&A session for analysts and investors will also be held today at 9:30am (GMT). Please register to join the Q&A session at AO World FY21 Half year Q&A. Both the webcast and a playback of the Q&A session will be available on AO's corporate website at ao-world.com[10] later today.

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About AO

AO World plc, headquartered in Bolton and listed on the London Stock Exchange, is an online electrical retailer, with a mission to be the global destination for electricals. Our strategy is to create value by focussing on being brilliant for our customers to make AO the destination for everything they need, in the simplest and easiest way, when buying electricals.

We sell major and small domestic appliances and a growing range of electrical products in the UK and Germany, delivering 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.

In the UK, AO operates in five main categories (Major Domestic Appliances "MDA", Small Domestic Appliances "SDA", Audio Visual "AV" and Consumer Electronics "CE"). Following the acquisition of Mobile Phones Direct Limited in December 2018, AO has significantly broadened its mobile phone category.

AO Business serves the B2B market in the UK, providing electricals and installation services at scale.

AO launched in Germany in October 2014 with MDA and now sells Floorcare, AV and SDA categories.

AO also has a majority equity stake in AO Recycling, a WEEE processing facility, allowing AO to ensure its customers' electronic waste is dealt with responsibly in the UK.

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[1]The highlights are for the six month period ended 30 September 2020 and the comparative 2019 period. Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.
[2] For the prior year comparative (i)) includes revenue generated by AO.nl, our Netherlands website, which was closed during the quarter ended 31 March 2020 and (ii) has been restated see note 14.
[3]Adjusted EBITDA is defined by the Group as profit/(loss) before tax, depreciation, amortisation, profit on disposal of fixed assets net finance income and adjusting items. Adjusting items are set out in the paragraph below entitled "Alternative Performance Measures".
[4]Net debt is defined by the Group as borrowings and lease liabilities (as set out in Note 11) minus cash.
[5] Net Promoter Score or "NPS" is an industry measure of customer loyalty and satisfaction. UK NPS comprises ao.com and mobilephonesdirect.com and is calculated on a revenue weighted average basis.
[6]UK is defined by the Group as entities operating within the United Kingdom. (It excludes AO Deutschland Limited which is a company registered in England but operates in Germany and therefore is included in the Europe segment).
[7]In the period to 30 September 2020 Europe is defined as being entities operating in Germany. For previous periods Europe was defined as entities operating in Germany and the Netherlands. The Netherlands operation was closed in November 2019. Germany is defined as entities operating within Germany only.
[8]Please refer to the loss per share paragraph later in this announcement for further information.
[9]Where Euro amounts are disclosed they represent the actual Euro revenue, cost or loss for the period. Providing this information eliminates the impact of foreign exchange movements.
[10] The content of the ao-world.com website should not be considered to form part of or be incorporated into this announcement.
[11] Source: GfK, 6 months to 30 September 2020.
[12] For the prior year comparative, excludes revenues generated by AO.nl, our Netherlands website, which was closed during the quarter ended 31 March 2020.
[13] Non-MDA categories are defined by the Group as small domestic appliances, audio visual, computing and gaming.
[14] A customer is defined as an individual customer who has purchased through us via ao.de

Cautionary statement

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

CHIEF EXECUTIVE'S REVIEW

Last year we concentrated on strengthening the fundamentals of our business and refocusing on delighting customers with operational excellence, driving innovation and creating growth. We entered into this financial year as a stronger business with the ability to leverage our "One AO" way of working whilst growing.

Response to Covid-19

This has been a period defined by the impact of Covid-19. It is a period unlike any other we have experienced in the history of AO, however one which we have responded to from our solid foundations.

I am immensely proud of how our people reacted to such a fast-moving external environment and I would like to thank each and every AOer for their phenomenal efforts. It is thanks to them, and the strength of our business model, that we have successfully responded to a structural shift in consumer behaviour.

Our first priority remains the health and safety of our colleagues, customers, suppliers and partners while remaining a lifeline for customers across the UK and Germany. We took on additional costs to comply with new social distancing measures and enhanced cleaning protocols for our warehouse and delivery colleagues, while AOers in office-based roles were mobilised to work from home where effective. We continue to update our measures in line with local Government guidelines.

Trading

Government lockdown measures created a unique set of circumstances from the end of March through to the beginning of June in the UK, and May in Germany. During this period consumers remained at home, high street stores were closed and electricals became an increasingly essential part of everyday life. We experienced a strong increase in demand, delivered record volumes to customers and made significant market share gains across many of our key categories all the while maintaining the AO Way.

Encouragingly the material increases in demand and momentum experienced in Q1 largely continued throughout Q2. Even as lockdown measures were eased and competitors' bricks and mortar stores reopened, we have seen little impact on demand with our revenue capped by physical capacity. During HY21 the market for our core MDA category performed particularly strongly with the value of the UK MDA market increasing by 4.7%[11] compared to HY20. The UK markets for non-MDA categories performed similarly well with AV, SDA and computing total market values growing by circa 12%[11], 17%[11] and 43%[11] respectively versus the prior year comparable period. While we remain watchful of the external consumer environment, the sustained sales trend throughout HY21 and beyond provides us with increased confidence that there has been a permanent shift in demand for shopping our categories online, accelerated by the impact of Covid-19, with UK MDA online market penetration averaging c.70%[11] during HY21.

Cementing change

The electricals market has increasingly moved online during the past six months as customers continue to choose this channel to make their purchases. In the UK, as one of the market-leaders in online electricals, we have focused on cementing the change in consumer habits to ensure that AO is the destination of choice. From a brand perspective, we have continued to invest in order to grow visibility and recognition. We have taken advantage of cheaper advertising slots and returned to TV via a targeted advertising campaign, made by our own in-house production team. In addition, in October, we launched our first trial store within a Tesco Extra store with the aim of growing AO brand awareness. While the initial response has been positive, this pilot remains in its very early stages. In September we were also delighted to announce that we had entered into a five year deal to be the headline sponsor of the Manchester Arena, which has been officially renamed the "AO Arena". This is the biggest indoor stadium of its type in the UK and is a fantastic opportunity to further cement the AO brand into the minds of customers.

In the half our focus was on fulfilling increased customer demand in the core retail channel. As a consequence we delayed the full integration of AO Mobile which is now planned for 2021. While we remain confident in the long-term opportunity that mobile will bring to AO, the latter part of HY21 saw a change in customer behaviour, with increased cashback redemption rates and cancellation of contracts which negatively impacted our gross margin from mobile. Nonetheless, we acted quickly to address this and amend our customer offer. More recently we have seen an encouraging early positive impact on sales as a result of the launch of the new iPhone12.

The investments we continue to make in infrastructure, expertise of our teams and strong supplier relationships means that we have successfully managed the increase in customer demand whilst maintaining our extremely high levels of customer service, delivering consistently high NPS scores. In the UK, we significantly increased capacity in our logistics network with new warehousing, outbases, vehicles and drivers.

Our recycling operations were temporarily scaled back during the first lockdown but are now back to normal levels of operation and consistently at full capacity. The prices we receive for output materials however have been volatile and not generally favourable since March. We are excited to be in discussions with a number of manufacturers about cradle to cradle electricals, using raw materials from our recycling plants to build new products, which may also help to mitigate volatility in output material pricing.

Continuity of service to our B2B customer throughout the pandemic has served us well. We have experienced growth across our differing customer bases and added new market segments as we continue to build our partnerships, solving their supply chain issues and providing them with high service levels and strong levels of stock availability. In particular, we are seeing demand for our services growing amongst housebuilders and their pipelines continue to build. We are approved for 6 of the top 10 UK housebuilders and are receiving a favourable response to the majority of tenders.

In Germany, we have made considerable progress as a business and have benefitted from implementing our 'One AO' approach, having introduced our successful business protocols from the UK. In March 2019, we began to implement our plan to re-engineer the business and its P&L dynamics on our path to profit and the management restructure has now been completed. Meanwhile, the renegotiation of all supplier terms leaves us well-set for future growth and reflects improved relationships across our supplier base in Germany.

Due to the proactive actions we took to remedy our German business, we were well-placed ahead of Covid-19. Over the past six months, we have seen the German market move online quickly, and we have been delighted with the growth in customer numbers as our brand becomes more recognised and trusted.

Outputs

We expect to see many of our new customers stick with AO and we are working hard to enable us to continue to report world class Net Promotor Scores.

For this financial year, we will:

- Be cash generative
- Create meaningful operational gearing through scale leverage
- Consume low amounts of capex relative to growth potential in our market
- Continue to refine the model and develop the underlying systems to repeat easily with low capex into new markets
- Allow flexibility to in-source or out-source front line operations

Future growth

The shift to online is not just a UK phenomenon; it is across the world. European online electrical markets are less mature than the UK therefore presenting us with a significant opportunity on which to capitalise. We have proven our capability in Germany, investing c.£150m in our learnings, and we are refining our proven model, ready to roll out further.

Summary

Group revenue growth in October was higher than the year-on-year HY21 growth rate as we have benefitted from increased capacity, stock availability and further efficiencies following the continuing investments made in our infrastructure and people. As we enter the traditional peak trading period, AO is positioned strongly to capitalise on new opportunities and continue to deliver for customers. Still, there are headwinds, not least in the macroeconomic climate, including the threat of Covid-19-related recessionary behaviour and Brexit from January 2021. The Board remain confident that our customer offering, our business model and the AO Way together will continue to offer our customers great choice together with the service level our customers expect given our One AO approach.

FINANCIAL REVIEW

Revenue

For the six months ended 30 September 2020 total Group revenue increased by 53.2% to £717.0m (2019: £468.0m).

Table 1

(£m)[1]	6 months ended 30 September 2020			6 months ended 30 September 2019			Better/Worse		
	UK	**Germany**	**Total**	**UK**	**Germany**	**Total**	**UK**	**Germany**	**Total**
Product revenue	505.3	98.3	603.6	311.2	52.1	363.3	*62.4%*	*88.7%*	*66.2%*
Services revenue	25.8	1.9	27.6	16.1	2.0	18.1	*60.3%*	*(5.9%)*	*53.1%*
Commission revenue	70.6	0.1	70.7	59.7	0.1	59.8	*18.2%*	*7.3%*	*18.2%*
Third-party logistics revenue	7.8	0.3	8.1	6.8	-	6.8	*15.6%*	-	*19.4%*
Recycling revenue	6.9	-	6.9	6.8	0.1	6.9	*1.5%*	*(100.0%)*	*(0.5%)*
Total revenue	**616.4**	**100.6**	**717.0**	**400.6**	**54.3**	**454.9**	**53.9%**	**85.2%**	**57.6%**
Total revenue including NL*	**616.4**	**100.6**	**717.0**	**400.6**	**67.4**	**468.0**	**53.9%**	**49.2%**	**53.2%**

**the majority of revenue generated in our Netherlands business in the prior year was classified as Product revenue*

Total UK revenue increased by 53.9% to £616.4m (2019: £400.6m). Product revenue, comprising sales generated from ao.com, marketplaces and third-party websites increased significantly to £505.3m, with sales generated from ao.com increasing by 69%. This represents a 62.4% increase in product revenue as we experienced heightened levels of demand following the migration to online in the wake of the implementation of Covid-19 restrictions.

We have seen significant and sustained growth across all categories despite the easing of lockdown restrictions and the reopening of competitor bricks and mortar stores. Our UK MDA sales increased by 52% against a market that has increased by 4.7%[11] over the period to 30 September 2020. We have worked hard with our supply partners to maintain the availability of products with fridges and freezers being of particularly high demand. Non-MDA category sales (comprising small appliances, audio visual, computing and gaming but excluding mobile) increased by c.112% against the prior year, with the significant growth in some categories attributable to the rise in home working.

Our Business to Business (B2B) proposition drove revenue growth of 46% despite the impact of lockdown restrictions causing reduced trading for its customers during April and May in particular. Sales to insurance customers increased by around 60% as we gained market share due to our stock availability and increased integration with our partners enabling extended product ranges and AO services.

Despite the pause in offering installation services as restrictions impacted access to customers houses during the first quarter, UK Services revenue performed broadly in line with product revenue increasing by 60.3% to £25.8m. The restrictions in offering installation services were offset by a significant increase in delivery income as we sought to manage levels of demand through a matrix of pricing on delivery slots.

UK Commission revenue which includes revenues from commissions generated by our mobile business from the Mobile Network Operators for the procurement of connections to their networks and the delivery of the handset to the end customer, and sales of our AO Care products increased by 18.2% to £70.6m. Revenue associated with our AO Care product increased by 82% in the period, ahead of ao.com retail sales. In our mobile business, revenues from the sales of post-pay contracts increased by 26% however this was offset by increased constraint of variable consideration recognised in relation to cashback redemption and commissions receivable (see notes 1, 9 and 10 for further details). The combined effect of this change in customer behaviour resulted in a reduction in revenue of c.£9m in the period. Over the last few months we have significantly reduced the number of cashback offers available in order to reduce revenue volatility and improve customer satisfaction levels.

Our distribution network remained open during the full lockdown period, as we concentrated on the delivery of electrical products and complied with social distancing working restrictions. We paused the logistics services we provide to third-party clients for a short period of time. Nonetheless in the period overall, we experienced growth of 15.6% to £7.8m reflecting the increase in volume from new third-party contracts won in the prior year.

Revenues in our UK Recycling business were broadly flat year on year at £6.9m (2019: £6.8m). During Q1 our operations were materially reduced following the decision by councils to close household waste and recycling centres together with a reduced collection from AO's customers impacting volumes. Although during the reporting period processed volumes have increased overall year on year, we have continued to suffer from a depressed market for output materials and costs of using third parties.

In Germany, sales increased by 82.2% to €112.1m (2019: €61.5m) (equating to £100.5m (2019: £54.3m). New customers[14] grew by 41% in the six months to 30 September 2020 versus the comparable prior year period and over 1 million customers[14] have now shopped with ao.de. As in the UK, this market also experienced a shift to online as a result of Covid-19 restrictions which, combined with the actions taken in the prior year helped us gain market share. These actions were to drive sales in a sustainable way, by implementing techniques to drive customer traffic and conversion rates that had been developed in the UK; to improve margins through bringing our pricing policy in line with the overall group and to continue to develop and improve the overall customer experience.

Following the reporting period our German operations continue to leverage volume efficiencies and we expect that in one or more individual months, on an adjusted EBITDA basis the business will be profitable in H2 21. We continue to expect that the German business will be profitable overall in FY22.

Gross margin

Table 2

6 months ended	**30 September 2020**			**30 September 2019**			**Better/(worse)**		
(£m)[1]	**UK**	**Germany**	**Total**	**UK**	**Germany**	**Total**	***UK***	***Germany***	***Total***
Gross profit/(loss)	122.3	7.4	129.7	76.8	(0.2)	76.6	*59.2%*	*5,230.4%*	*69.1%*
Gross margin	19.8%	7.3%	18.1%	19.2%	(0.3%)	16.9%	*0.6 ppts*	*7.6 ppts*	*1.2 ppts*
Gross margin including NL		7.3%	18.1%		(0.2%)	16.4%		*7.5 ppts*	*1.7 ppts*

On a like for like basis[12], gross profit for the Group grew by 69.1% to £129.7m (2019: £76.6m) with gross margin percentage increasing by 1.2 ppts to 18.1% for the reporting period (2019: 16.9%).

In the UK gross margin percentage increased to 19.8% (2019: 19.2%) as we improved buying prices with manufacturers and saw less pricing tension in the market. We achieved increases in product margin in both our MDA and Non-MDA[13] categories, with particularly pleasing growth in SDA and AV. We also benefitted from increased sales of our AO Care products which were ahead of overall product revenue growth and where we have achieved improved conversion rates. These increases however were partially offset by the impact of the changes in the mobile business as explained above.

We achieved a gross profit of £7.4m in Germany compared to a loss of £0.1m in the comparable prior year period reflecting material improvements made in supplier terms which began to impact towards the end of the 2020 financial year together with efficiencies made in our logistics operations. Product margins in Germany are now materially at the level we experience in the UK albeit it we expect to some small further improvements.

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

Table 3

6 months ended	**30 September 2020**			**30 September 2019**			**Better/(worse) %**		
(£m)	**UK**	**Germany**	**Total**	**UK**	**Germany**	**Total**	***UK***	***Germany***	***Total***
Advertising and marketing	16.5	3.6	20.0	9.3	3.1	12.4	*(76.3%)*	*(16.5%)*	*(61.%)*
% of revenue	*2.7%*	*3.6%*	*2.8%*	*2.3%*	*5.6%*	*2.7%*	*(0.3 ppts)*	*2.0 ppts*	*0.1 ppts*
Warehousing	24.0	3.3	27.3	17.8	2.2	20.0	*(34.7%)*	*(49.6%)*	*(36.4%)*
% of revenue	*3.9%*	*3.2%*	*3.8%*	*4.4%*	*4.0%*	*4.4%*	*6 ppts*	*8 ppts*	*6 ppts*
Research and development	5.8	-	5.8	4.5	-	4.5	*30.6%*	-	*30.6%*
% of revenue	0.9%	-	0.8%	*1.1%*	-	*1.0%*	*2 ppts*	-	*2 ppts*
Other admin	53.2	6.8	60.0	40.4	6.2	46.6	*(31.5%)*	*(10.5%)*	*(28.7%)*
% of revenue	*8.6%*	*6.8%*	*8.4%*	*10.1%*	*11.4%*	*10.2%*	*1.5 ppts*	*4.6 ppts*	*1.9 ppts*
Adjustments	-	0.1	0.1	0.2	1.2	1.5	*100.0%*	*91.9%*	*93.1%*
% of revenue	-	*0.1%*	*0.1%*	*0.1%*	*2.3%*	*0.3%*	*1 ppts*	*2.2 ppts*	*0.2 ppts*
Administrative expenses	**99.5**	**13.8**	**113.2**	**72.3**	**12.7**	**84.9**	***(37.7%)***	***(8.7%)***	***(33.3%)***
% of revenue	16.1%	*13.7%*	*15.8%*	*18.0%*	*23.3%*	*18.7%*	*1.9 ppts*	*9.6 ppts*	*2.9 ppts*
Administrative expenses including NL	***99.5***	***13.8***	***113.2***	***72.3***	***15.5***	***87.7***			
% of revenue	*16.1%*	*13.7%*	*15.8%*	*18.0%*	*23.0%*	*18.7%*			

Total SG&A costs across the Group as a percentage of revenue reduced during the period from 18.7% to 15.8%.

UK SG&A expenses reduced as a percentage of sales by 1.9 ppts to 16.1%. Advertising and marketing costs increased to £16.5m (2019: £9.3m) and as a percentage of revenue increased by 0.3 ppts with higher investment in acquisition costs in line with increased volumes and as we took advantage of cheaper advertising slots and returned to TV via a targeted advertising campaign, compared to no TV advertising in the prior year comparable period. We also increased our Mobile brand spend with Google and invested in our marketing systems to improve our data analytics tools and our customer engagement platforms.

To service increased demand during the period we made significant investments in our warehousing capacity, the number of outbases and recruited additional warehousing agency staff. These costs, together with those arising from safer working practices, resulted in a 35% increase in overall warehousing costs to £24.0m. UK warehousing costs decreased as a percentage of revenue to 3.9% in HY21 compared to 4.4% in the prior year as we have leveraged our infrastructure to serve a significantly higher volume of sales and been able to drive efficiency, despite the changes in working practices introduced by Covid-19.

Research and development costs increased by £1.3m compared to the prior period reflecting the continued investment in our technology teams as we develop initiatives to support future customer proposition.

In the UK, other admin costs increased by £12.7m to £53.2m (2019: £40.4m). As a percentage of revenue, this is a decrease of 1.5 ppts to 8.6% as we gain efficiencies of scale with growth in volumes, despite an increase in actual costs to support the business following the significant increase in demand for our products and services. We have significantly invested in our teams across the business to ensure continued resilience and to maintain our high levels of customer service as we look to cement the current migration to online. IT costs have also increased as we invest to support the growth in the business.

German SG&A expenses reduced significantly as a percentage of sales by 1.9 ppts to 16.1%. Advertising and marketing costs increased in absolute terms to £3.7m (2019: £3.1m) as we increased customer acquisition expenditure but reduced as a percentage of revenue to 3.7% (2019: 5.6%) as we gain efficiencies of scale. Warehousing costs reduced to 3.2% of revenue compared to 4.0% in the prior year period demonstrating leverage from our infrastructure as volume increases. Absolute warehousing costs increased to £3.3m (2019: £2.2m) due to an increase in costs arising from safe working practices and a significant increase in volumes. Other admin costs reduced significantly by 4.6 ppts to 6.8% following the impact of the restructuring on headcount in the prior year as we continue to leverage the skills and knowledge of our people from the UK as part of our One AO approach and strategy.

Operating profit and Adjusted EBITDA

Our operating profit for the period was £16.8m (2019: £(10.6)m).

Alternative Performance Measures

The Group tracks a number of alternative performance measures in managing its business. These are not defined or specified under the requirements of IFRS because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS. The Group believes that these alternative performance measures, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These alternative performance measures are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these alternative performance measures are also used for the purpose of setting remuneration targets. These alternative performance measures should be viewed as supplemental to, but not as a substitute for, measures presented in the consolidated financial statements relating to the Group, which are prepared in accordance with IFRS. The Group believes that these alternative performance measures are useful indicators of its performance.

EBITDA

EBITDA is defined by the Group as earnings before interest, tax, depreciation, amortisation and profit/loss on the disposal of fixed assets.

Adjusted EBITDA

Adjusted EBITDA is calculated by adding back or deducting Adjusting Items to EBITDA. Adjusting Items are those items which the Group excludes in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Chief Operating Decision Maker.

During the six months to 30 September 2020 the following adjustment (**"Adjusting Items"**) was made:

- Consistent with the treatment adopted in prior periods, the full cost of an onerous marketing contract in Germany (which ends in December 2020), have been added back in arriving at Adjusted EBITDA. In the six months to 30 September 2020 these amounted to £1m (2019: £0.5m) and have been added back due to their size, timing and the onerous nature of the contract which management consider to be exceptional.

During the six months to 30 September 2019, as well as the matter noted above, the Adjusting Item was as follows:

- Further to the actions disclosed in the 2019 financial statements regarding a full review of the European business following its unsatisfactory performance in the second half of FY19, the Group undertook a restructure of its European business. The cost of this restructure during the prior year comparable period was £0.9m, which principally related to a reduction in headcount, and was considered to be one-off in nature due to its size and timing and has therefore was added back in arriving at Adjusted EBITDA.

Adjusted EBITDA (excluding Netherlands)

As a consequence of the closure of the Group' s Netherlands operations during the quarter ended 31 March 2020, management have also disclosed the Group's Adjusted EBITDA, as defined above, excluding the financial results of the Dutch business prior to its closure as it is considered an appropriate measure of the continuing Group.

The reconciliation of statutory operating profit/(loss) to Adjusted EBITDA is as follows:

Table 4

6 months ended	**30 September 2020**			**30 September 2019**			**Better/(worse)%**		
(£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Operating profit excluding Netherlands	23.1	(6.4)	16.8	4.9	(12.7)	(7.8)	375.2%	49.8%	315.5%
Netherlands Operating loss	-	-	-	-	(2.8)	(2.8)	-	100.0%	100.0%
Operating profit/(loss)	**23.1**	**(6.4)**	**16.8**	**4.9**	**(15.5)**	**(10.6)**			
Depreciation	8.1	1.6	9.7	7.5	1.6	9.1	(8.3%)	1.5%	(6.6%)
Amortisation	1.3	-	1.3	1.0	-	1.0	(28.0%)	-	(28.0%)
EBITDA Excluding Netherlands	32.6	(4.8)	27.8	13.3	(11.1)	2.2	143.9%	57.1%	1,160.2%
Netherlands EBITDA	-	-	-	-	(2.7)	(2.7)	-	100%	100%
EBITDA	**32.6**	**(4.8)**	**27.8**	**13.3**	**(13.8)**	**(0.5)**	143.9%	65.7%	4,847.7%
Adjusting items									
Adjusting items excluding Netherlands	-	1.0	1.0	0.2	1.2	1.5	100.0%	21.0%	32.8%
Netherlands Adjusting items	-	-	-	-	-	-	-	-	-
Total Adjusting Items	**-**	**1.0**	**1.0**	**0.2**	**1.2**	**1.5**			
Adjusted EBITDA excluding Netherlands	32.6	(3.8)	28.8	13.6	(9.9)	3.7	140.1%	61.6%	686.1%
Netherlands Adjusted EBITDA	-	-	-	-	(2.7)	(2.7)	-	100.0%	100.%
Adjusted EBITDA	**32.6**	**(3.8)**	**28.8**	**13.6**	**(12.6)**	**1.0**	56.0%	79.9%	2,060.6%
Adjusted EBITDA as % of Revenue	5.3%	3.8%	4.0%	3.4%	18.8%	0.2%			

Taxation

The tax charge is recognised based on management's best estimate of the annual corporation tax rate expected for the full financial year applied to the pre-tax results of the interim reporting period. The Group's tax charge for the period is £2.3m (2019: £1.0m credit) as a result of the expected effective tax rate for the year of 19.5% in entities taxable in the UK, before prior period adjustments and discrete tax adjustments relating to the period ended 30 September 2020 only. This results in a combined effective tax rate for the period ended 30 September 2020 of 12.6% (2019: 19.7%). The effective tax rate of 12.6% is lower than the UK corporation tax rate for the period of 19%. The following items were treated as discrete items on the basis that they impact the period ended 30 September 2020 and explain why the rate is lower than 19%; non-taxable foreign exchange gains arising on intercompany balances and the share-based payment charge and the associated relief when the share options were exercised in the period. Deferred tax was previously recognised on the share options but the change in the share price has resulted in higher tax relief than was anticipated when the deferred tax was recognised. Other non-discrete factors impacting the rate also include non-qualifying depreciation. The Group continues not to recognise a deferred tax asset on the cumulative losses carried forward of £6.5m (2019: £6.7m) in the Netherlands and Belgium.

Retained profit/ (loss) and earnings/ (loss) per share

Retained profit for the period was £16.0m (2019: £4.8m loss).

Basic earnings per share was 3.45p (2019: 1.01p loss) and diluted earnings per share was 3.42p (2019: 1.01p loss). Basic earnings per share is reconciled to adjusted basic loss per share (after excluding the impact of foreign exchange differences) of 2.85p (2019: 1.98p loss) as follows:

Table 5

6 months ended (£m)	30 September 2020	30 September 2019
Earnings/(loss)		
Profit/(loss) attributable to owners of the parent company	16.4	(4.8)
Foreign exchange gains/(losses) on intra-group loans	(2.8)	(4.6)
Adjusted earnings/(loss) attributable to owners of the parent company	13.6	(9.4)
Number of shares		
Basic and adjusted weighted average number of ordinary shares	474,507,349	474,232,935
Potentially dilutive share options	3,980,331	5,000,403
Diluted weighted average number of shares	478,487,680	479,233,339
Earnings/(loss) per share (in pence)		
Basic earnings/(loss) per share	3.45	(1.01)
Diluted earnings/(loss) per share	3.42	(1.01)
Adjusted basic earnings/(loss) per share	2.85	(1.98)

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 and prior period. This has impacted the value of intra-group loans held in GBP in the European entities giving rise to the £2.8m gain (2019: £4.6m gain) referenced above.

Cash resources and cash flow

At 30 September 2020, the Group's net debt position was £20.7m (31 March 2020: £82.8m). Net debt comprises cash balances less borrowings and lease liabilities.

Cash balances at 30 September 2020 were £85.4m (31 March 2020: £6.9m; 30 September 2019: -£23.4m). The increase in cash is largely driven by the profit in the period and the inflow from working capital (see below).

Borrowings, which comprises bank borrowings, reduced to £20.8m (31 March 2020: - £21.9m: 30 September 2019: £35.4m) due to debt repayments ad cash generation. As noted below, £20m of the balance outstanding at 30 September 2020 was repaid on 6 October 2020.

Lease liabilities increased to £85.3m (31 March 2020: £84.1m, 30 September 2019: £70.7m) reflecting new right of use lease liabilities relating primarily to the growth in the Group's logistics capacity net of lease payments in the period.

On 6 April 2020 the Group refinanced its debt facilities by consolidating the existing £60m Revolving Credit Facility and the £20m outstanding on the Term Loan into a new £80m RCF which matures in April 2023. The new facility resulted in Natwest Bank plc joining the existing banking syndicate, comprising HSBC Bank plc, Lloyds Bank Plc and Barclays Bank Plc, as an additional lender. The facility is available for general corporate purposes, including UK working capital movements. The undrawn amount at 30 September 2020 was £56.1m. The amount utilised represents £20m drawn in cash on the inception of the new facility to repay the Term loan as well as letters of credit and payment guarantees. The £20m cash drawing was repaid on 6 October 2020 and hence at that date the amount available on the facility was £76.1m.

Working Capital

At 30 September 2020, the Group had net current liabilities of £61.1m (31 March 2020: £53.8m) with the increase principally due to the maturity profile of borrowings.

At 30 September 2020, UK inventories were £78.1m (31 March 2020: £61.7m) and UK stock days increased to 30 days (31 March 2020: 28 days). As we approach our peak trading period, and whilst demand for products remains high as a result of the market shift online, the business has sought to increase inventory levels to support growth.

UK trade and other receivables (both non-current and current) were £241.8m as at 30 September 2020 (31 March 2020: £216.3m) mainly reflecting an increase in contract assets in respect of commissions due on product protection plans (£96.4m at the balance sheet date) driven by the increased revenue in the period and the timing of rebates receivable.

UK trade and other payables at £354.9m have increased significantly compared to £246.7m at 31 March 2020, with an increase in trade payables driven by the higher level of activity and an improvement in trade terms with several suppliers together with an increase in deferred income as result of the continued high sales volumes. Payables days at 30 September 2020 were 69 days (31 March 2020: 61 days) reflecting the increase in terms.

Net working capital increased from £9.7m to £10.4m in Europe with all balances impacted principally by the significant increase in activity in the period.

Table 6

6 months ended	**30 September 2020**			**31 March 2020**			**30 September 2019**		
(£m)	**UK**	**Germany**	**Total**	**UK**	**Germany**	**Total**	**UK**	**Germany**	**Total**
Inventories	78.1	15.1	93.2	61.7	10.9	72.6	53.2	15.6	68.8
Trade and other receivables	241.8	17.3	259.1	216.3	9.1	225.4	190.5	13.3	203.8
Trade and other payables	(354.9)	(22.0)	(376.9)	(246.7)	(10.3)	(257.1)	(232.2)	(17.2)	(249.4)
Net working capital	**(35.0)**	**10.4**	**(24.6)**	**31.2**	**9.7**	**41.0**	**11.5**	**11.7**	**23.2**
Change in net working capital	(66.2)	0.7	(65.5)	19.7	(2.0)	17.8	(9.4)	(0.4)	(9.8)

Capital Expenditure

Total cash capital expenditure for the six-month period was £3.2m (2019: £5.4m), with the largest single item being the completion of the plastics plant in our Recycling business (c £1.5m) and fit out costs related to our additional logistics capacity.

John Roberts
CEO

Mark Higgins
CFO

CONDENSED CONSOLIDATED INCOME STATEMENT
For the 6 months ended 30 September 2020

£m	Note	6 months ended 30 September 2020	6 months ended 30 September 2019 (Restated)	Year ended 31 March 2020
Continuing operations				
Revenue excluding Netherlands		717.0	454.9	1,026.9
Netherlands revenue		-	13.1	19.3
Total Revenue	2	**717.0**	**468.0**	**1,046.2**
Cost of sales		(587.3)	(391.4)	(867.9)
Gross profit		**129.7**	**76.6**	**178.3**
Administrative expenses		(113.2)	(87.7)	(183.3)
Other operating income		0.4	0.5	1.2
Operating profit/(loss) excluding Netherlands		16.8	(7.8)	1.4
Netherlands operating loss		-	(2.8)	(5.2)
Total operating profit / (loss)		**16.8**	**(10.6)**	**(3.8)**
Finance income	4	4.8	7.5	10.9
Finance costs	5	(3.3)	(2.8)	(5.6)
Profit/(loss) before tax		**18.3**	**(5.9)**	**1.5**
Taxation (charge)/credit		(2.3)	1.0	(0.1)
Profit/ (loss) after tax excluding Netherlands		16.0	(2.4)	6.6
Netherlands loss after tax		-	(2.4)	(5.2)
Profit/(loss) after tax for the period		**16.0**	**(4.8)**	**1.4**
Profit/(loss) for the period attributable to:				
Owners of the parent company		16.4	(4.8)	1.7
Non-controlling interest		(0.4)	-	(0.3)
		16.0	**(4.8)**	1.4
Earnings/(Loss) per share (pence)				
Basic earnings/(loss) per share	6	3.45	(1.01)	0.38
Diluted earnings/(loss) per share	6	3.42	(1.01)	0.37

The comparative numbers have been restated as set out in Note 14

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the 6 months ended 30 September 2020

£m	6 months ended 30 September 2020	6 months ended 30 September 2019	Year ended 31 March 2020
Profit/ (loss) for the period	16.0	(4.8)	1.4
Items that may be subsequently recycled to Income Statement			
Exchange differences on translation of foreign operations	(2.6)	(4.0)	(5.5)
Total comprehensive profit / (loss) for the period	**13.4**	**(8.8)**	(4.1)
Total comprehensive profit / (loss) for the period attributable to:			
Owners of the Company	13.8	(8.8)	(3.8)
Non-controlling interests	(0.4)	-	(0.3)
	13.4	**(8.8)**	(4.1)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2020

£m	Note	30 September 2020	30 September 2019 (Restated)	31 March 2020
Non-current assets				
Goodwill	7	28.2	28.2	28.2
Other intangible assets		15.6	16.2	15.8
Property, plant and equipment		29.4	30.6	29.3
Right of use assets	8	67.7	59.5	64.7
Trade and other receivables	9	93.4	78.4	87.9
Derivative financial asset	13	0.6	0.8	0.6
Deferred tax asset		5.5	4.5	4.5
		240.4	**218.2**	**231.0**
Current assets				
Inventories		93.2	68.7	72.7
Trade and other receivables	9	165.7	125.3	137.4
Corporation tax receivable		-	1.3	1.0
Cash and cash equivalents	11	85.4	23.4	6.9
		344.3	**218.7**	**218.0**
Total assets		**584.7**	**436.9**	**449.0**
Current liabilities				
Trade and other payables	10	(367.1)	(240.5)	(249.6)
Borrowings	11	(20.8)	(13.4)	(5.2)
Lease liabilities	11	(15.7)	(11.4)	(16.1)
Corporation tax payable		(0.5)	-	-
Derivative financial liability	13	(0.4)	(0.5)	(0.2)
Provisions		(0.9)	-	(0.7)
		(405.4)	**(265.8)**	**(271.8)**
Net current liabilities		**(61.1)**	**(47.1)**	**(53.8)**
Non-current liabilities				
Borrowings	11	-	(22.0)	(16.7)
Lease liabilities	11	(69.6)	(59.3)	(68.0)
Trade and other payables	10	(9.8)	(8.9)	(7.5)
Derivative financial liability	13	(0.5)	(2.6)	(0.8)
Deferred tax liability		(2.5)	(2.3)	(2.6)
Provisions		(2.0)	(1.9)	(1.9)
		(84.4)	**(97.0)**	**(97.5)**
Total liabilities		**(489.8)**	**(362.8)**	**(369.8)**
Net assets		**94.9**	**74.1**	**79.7**
Equity attributable to owners of the parent				
Share capital		1.2	1.2	1.2
Share premium account		103.7	103.7	103.7
Other reserves		20.7	25.9	21.9
Retained losses		(29.6)	(56.0)	(46.1)
Total		**96.0**	**74.8**	**80.7**
Non-controlling interest		**(1.1)**	**(0.7)**	**(1.0)**
Total equity		**94.9**	**74.1**	**79.7**

The comparative numbers have been restated as set out in Note 14.

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

At 30 September 2020

				Other reserves								
	Share capital	Investment in own shares	Share premium account	Merger reserve	Capital redemption reserve	Share-based payment reserve	Translation reserve	Other reserve	Retained losses	**Total**	Non-controlling interest	**Total**
	£m	£m	£m	£m	£m	£m	£m	£m	£m	**£m**	£m	**£m**
Balance at 1 April 2020	1.2	-	103.7	22.2	0.5	11.7	(9.7)	(2.7)	(46.1)	**80.7**	**(1.0)**	**79.7**
Profit for the period	-	-	-	-	-	-	-	-	16.4	**16.4**	(0.4)	**16.0**
Acquisition of minority interest	-	-	-	-	-	-	-	(0.2)	-	**(0.2)**	0.4	**0.2**
Issue of share capital (net of expenses)	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Foreign currency gains arising on consolidation	-	-	-	-	-	-	(2.6)	-	-	**(2.6)**	**-**	**(2.6)**
Share-based payments charge net of tax	-	-	-	-	-	1.6	-	-	-	**1.6**	**-**	**1.6**
Balance at 30 September 2020	**1.2**	**-**	**103.7**	**22.2**	**0.5**	**13.3**	**(12.3)**	**(2.9)**	**(29.6)**	**96.0**	**(1.1)**	**94.9**

At 30 September 2019

				Other reserves								
	Share capital	Investment in own shares	Share premium account	Merger reserve	Capital redemption reserve	Share-based payment reserve	Translation reserve	Other reserve	Retained losses	**Total**	Non-controlling interest	**Total**
	£m	£m	£m	£m	£m	£m	£m	£m	£m	**£m**	£m	**£m**
Balance at 1 April 2019	1.2	-	103.7	22.2	0.5	13.1	(4.2)	(2.5)	(51.2)	**82.7**	**(0.9)**	**81.8**
Loss for the period	-	-	-	-	-	-	-	-	(4.8)	**(4.8)**	-	**(4.8)**
Acquisition of minority interest	-	-	-	-	-	-	-	(0.1)	-	**(0.1)**	0.2	**0.1**
Issue of share capital (net of expenses)	-	-	-	-	-	-	-	-	-	**0.0**	-	**0.0**
Foreign currency gains arising on consolidation	-	-	-	-	-	-	(4.0)	-	-	**(4.0)**	**-**	**(4.0)**
Share-based payments charge net of tax	-	-	-	-	-	1.0	-	-	-	**1.0**	**-**	**1.0**
Balance at 30 September 2019	**1.2**	**-**	**103.7**	**22.2**	**0.5**	**14.1**	**(8.2)**	**(2.6)**	**(56.0)**	**74.8**	**(0.7)**	**74.1**

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY (CONTINUED)

At 31 March 2020

				Other reserves								
	Share capital	Investment in own shares	Share premium account	Merger reserve	Capital redemption reserve	Share-based payment reserve	Translation reserve	Other reserve	Retained losses	**Total**	Non-controlling interest	**Total**
	£m	£m	£m	£m	£m	£m	£m	£m	£m	**£m**	£m	**£m**
Balance at 1 April 2019	1.2	-	103.7	22.2	0.5	13.1	(4.2)	(2.5)	(51.2)	**82.7**	**(0.9)**	**81.8**
Profit for the period	-	-	-	-	-	-	-	-	1.7	**1.7**	(0.3)	**1.4**
Acquisition of minority interest	-	-	-	-	-	-	-	(0.2)	-	**(0.2)**	0.2	**-**
Issue of share capital (net of expenses)	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Foreign currency gains arising on consolidation	-	-	-	-	-	-	(5.5)	-	-	**(5.5)**	**-**	**(5.5)**
Share-based payments charge net of tax	-	-	-	-	-	2.0	-	-	-	**2.0**	**-**	**2.0**
Movement between reserves	-	-	-	-	-	(3.4)	-	-	3.4	**-**	**-**	**-**
Balance at 31 March 2020	**1.2**	**-**	**103.7**	**22.2**	**0.5**	**11.7**	**(9.7)**	**(2.7)**	**(46.1)**	**80.7**	**(1.0)**	**79.7**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the 6 months ended 30 September 2020

£m	6 months ended 30 September 2020	6 months ended 30 September 2019 (Restated)	Year ended 31 March 2020
Cash flows from operating activities			
Profit /(loss) for the period	16.0	(4.8)	1.4
Adjustments for:			
Depreciation and amortisation	11.0	10.1	21.1
Finance income	(4.8)	(7.5)	(10.9)
Finance costs	3.3	2.8	5.6
Taxation charge / (charge)	2.3	(1.1)	0.1
Share-based payment charge	1.0	1.0	2.0
Increase / (Decrease) in provisions	0.3	(0.3)	0.4
Operating cash flows before movement in working capital	**29.1**	**0.2**	**19.7**
(Increase) / Decrease in inventories	(20.3)	8.0	**4.0**
Increase in trade and other receivables	(31.1)	(10.1)	**(29.5)**
Increase in trade and other payables	119.5	15.4	**19.7**
Net movement in working capital	**68.1**	**13.3**	**(5.8)**
Taxation (paid) / received	(1.0)	0.2	**0.2**
Cash generated from operating activities	**96.2**	**13.7**	**14.1**
Cash flows from investing activities			
Interest received	-	-	0.1
Proceeds from sale of property, plant and equipment	-	0.1	0.1
Acquisition of property, plant and equipment	(3.2)	(5.4)	(6.9)
Acquisition of intangible assets	(1.0)	(0.5)	(1.1)
Cash used in investing activities	**(4.2)**	**(5.7)**	**(7.9)**
Cash flows from financing activities			
Acquisition of non controlling interest	(0.1)	(0.5)	(0.5)
Interest paid on borrowings	(1.9)	(0.7)	(1.5)
Interest paid on lease liabilities	(1.8)	(1.9)	(3.7)
Repayment of borrowings	(1.1)	(2.5)	(6.4)
Repayment of lease liabilities	(8.5)	(7.6)	(16.2)
Net cash used in financing activities	**(13.5)**	**(13.2)**	**(28.2)**
Net increase / (decrease) in cash	**78.4**	**(5.3)**	**(22.1)**
Cash and cash equivalents at beginning of period	**6.9**	**28.9**	**28.9**
Exchange gains on cash & cash equivalents	-	(0.2)	0.1
Cash and cash equivalents at end of period	**85.4**	**23.4**	**6.9**

The comparative numbers have been restated as set out in Note 14.

NOTES TO THE FINANCIAL INFORMATION

1. Basis of preparation

The interim financial information was approved by the Board on 23 November 2020. The financial information for the 6 months ended 30 September 2020 has been reviewed by the Group's external auditor. Their report is included within this announcement. The financial information for the year ended 31 March 2020 is based on information in the audited financial statements for that period which are available online at https://www.ao-world.com/investor-centre/ as restated for the matters included in note 14.

The comparative figures for the year ended 31 March 2020 are an abridged version of the Group's full financial statements and, together with other financial information contained in these interim results, do not constitute statutory financial statements of the Group as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 March 2020 has been delivered to the Registrar of Companies. The auditors have reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498(2) or (3) of the Companies Act 2006.

Going concern

Notwithstanding net current liabilities of £61.1m as at 30 September 2020 the interim financial information has been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Group meets its day to day working capital requirements from its cash balances and the availability of its revolving credit facility.

The Directors have prepared base and sensitised cash flow forecasts for the period to March 2022 which indicate that the Group and Company will remain compliant with its covenants and will have sufficient funds through its existing cash balances and availability of funds from the its £80m Revolving Credit Facility (of which £76.1m is currently undrawn at the date of this report) to meet its liabilities as they fall due for that period.

In assessing the going concern basis, the Directors have taken into account reasonably possible downsides e.g., a reduction in sales growth and a reduction in margin as a result of the continued uncertainties in the wider economies relating to Covid-19 and Brexit, including the potential impact on customer spending habits, unemployment and market share, as well as considering potential controllable mitigating factors. This analysis has included a severe but plausible scenario whereby results revert to pre-Covid 19 trading levels to emulate the improbable outcome that the increased online market share is not sustained post FY21. Substantial headroom continues to be demonstrated in this scenario.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the interim financial information and therefore have prepared the financial statements on a going concern basis.

Basis of preparation and accounting policies

The annual financial statements of AO World plc are prepared in accordance with IFRSs as adopted by the European Union. The unaudited condensed consolidated set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in the condensed set of interim financial information as applied in the Group's latest annual audited financial statements.

Restatement of comparatives

The comparatives for the primary statements have been restated following a number of presentational changes implemented in the full year financial statements to 31 March 2020. These followed further consideration of the definitions in IFRS 15 and its practical application. The impact on the income statement, statement of financial position and statement of cash flows as a result of the restatements are presented in Note 14.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant and are reviewed on an ongoing basis. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information becomes available. Accounting standards require the Directors to disclosure those areas of critical accounting judgement and key sources of estimation uncertainty which carry a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next 12 months. These are discussed below.

Impairment of intangible assets and goodwill
As part of the acquisition of Mobile Phones Direct Limited in the prior year, the Group recognised goodwill of £14.8m.

Intangible assets including goodwill are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is reviewed for impairment on an annual basis. When a review for impairment is conducted, the recoverable amount is determined based on the higher of value in use and fair value less costs to sell. The value in use method requires the Group to determine appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flow projections over the three-year strategic plan period, the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value.

Whilst at 30 September 2020, the Directors have concluded that the carrying value of the goodwill is appropriate changes in any of these assumptions, which could be driven by the end customer behaviour with the Mobile Network Operators, could give rise to an impairment in the carrying value.

Revenue recognition for variable consideration
In addition to the specific area noted above, as a consequence of the unprecedented changes seen during the period with regard to customer behaviour particularly in relation to Mobile contracts, as well as the ongoing uncertainty in the wider economy as a result of Covid19, the Directors believe that the recognition of commissions from both product protection plans and mobile network operator contracts should be considered as an area of estimation uncertainty in relation to the revenue constraints applied.

The historical information available to the Group prior to 31 March 2020 resulted in the application of estimates such that the directors did not believe there to be a risk of a significant reversal of revenue in future periods. However, the changes observed, in particular in the second quarter of the current financial year, have resulted in the directors reassessing the estimates at the balance sheet date. Details of the changes in estimates are included in notes 9 and 10.

Revenue recognition and 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 in line with the principles of IFRS 15, 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 an estimate of the commission due on the plans sold, which management estimate reliably based upon a number of assumptions which are set out in more detail in note 9.

Commission receivable also 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 adjustment to the amount of revenue recognised is made for the risk of potential changes in customer behaviour, but they are nonetheless inherently uncertain, e.g. any change in behaviour as a result of Covid-19 and its impact on the wider economy.

Reliance on historical data assumes that current and future experience will follow past trends. The Directors believe that the quantity and quality of historical data available provides an appropriate proxy for current and future trends. Any information about future market trends or economic conditions that we believe suggests historical experience would need to be adjusted, is taken into account when finalising our assumptions each year. Our experience over the last decade, which has been a turbulent period for the UK economy as a whole, is that variations in economic conditions have not had a material impact on consumer behaviour in this area and, therefore, no adjustment to commissions is made for future market trends and economic conditions. However the Directors remain cognisant of the uncertainty created by Covid 19 which is inherently difficult to estimate its ongoing impact.

In assessing how consistent our observations have been, we compare cash received in a period versus the forecast expectation for that period as we believe this is the most appropriate check on revenue recognised. Small variations in this measure support the assumptions made. For plans sold prior to 1 December 2016, the commission rates receivable are based on pre-determined rates.

For plans sold post that date, base assumed commissions will continue to be earned on pre-determined rates but overall commissions now include a variable element based on the future overall performance of the scheme.

The commission receivable balance as at 30 September 2020 was £92.7m (31 March 2020: £81.2m). The discount rate used to unwind the commission receivable is 3.7% (2019: 4.7%).

Revenue recognition and recoverability of income in relation to network commissions
Revenue in respect of commissions receivable from the Mobile Network Operators ("MNOs") for the brokerage of network contracts is recognised in line with the principles of IFRS 15, 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 an estimate of the commission due on the contracts sold, which management estimate reliably based upon a number of assumptions which are set out in more detail in note 9.

Such assumptions are based on extensive historical evidence, and adjustment to the amount of revenue recognised is made for the risk of potential changes in customer behaviour, but they are nonetheless inherently uncertain, e.g. any change in behaviour as a result of Covid-19 and its impact on the wider economy. This has been seen in the current period – see notes 9 and 10 which has resulted in the Directors reassessing the estimates and assumptions. The revenue recognised and associated receivable in the month of connection is estimated based on all future cash flows that will be received from the MNO and these are discounted based on the timing of receipt.

This amount of revenue recognised also takes into account the potential clawback of commission by the MNOs for which a reduction to revenue is made based on historical experience. In addition, revenue is constrained based on an estimate of potential cash-back redemptions payable to the end customer calculated based on historical redemption rates Historically, the Directors considered that the quality and quantity of the data available from the MNOs and that it holds internally was appropriate for making these estimates and, as the contracts are primarily for 24 months, the period over which the amounts are estimated is relatively short. As with commissions recognised on the sale of production protection plans, the Directors compare the cash received to the initial amount recognised in assessing the appropriateness of the assumptions used. However, due to the impacts on behaviour seen in the period and the inherent uncertainty which remains for the wider economy relating to Covid 19 the Directors now believe the level of uncertainty has increased and therefore this source of revenue is considered to be an area of estimation uncertainty. Further details are provided in notes 9 and 10.

The commission receivable balance as at 30 September 2020 was £84.7m (31 March 2020: £90.9m). The discount rate used to unwind the commission receivable is 1.5% (2019: 2.75%).

2. Revenue

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

Major product/services lines

(£m)	6 months ended 30 September 2020			6 months ended 30 September 2019*			Year ended 31 March 2020		
	UK	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Product revenue	505.3	98.3	603.6	311.2	65.2	376.4	692.8	140.7	833.5
Service revenue	25.8	1.9	27.6	16.1	2.0	18.1	35.0	3.4	38.3
Commission revenue	70.6	0.1	70.7	59.7	0.1	59.8	143.8	0.2	144.0
Third party logistics revenue	7.8	0.3	8.1	6.8	-	6.8	16.6	-	16.7
Recycling revenue	6.9	-	6.9	6.8	0.1	6.9	13.5	0.2	13.6
Total revenue	**616.4**	**100.6**	**717.0**	**400.6**	**67.4**	**468.0**	**901.6**	**144.5**	**1,046.2**

* The comparatives have been restated as set out in Note 14.

3. Segmental analysis

The Group has two reportable segments, online retailing of domestic appliances to customers in the UK and online retailing of domestic appliances to customers in Germany.

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 they have 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.

Income statement

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

(£m)	6 months ended 30 September 2020			6 months ended 30 September 2019 *			Year ended 31 March 2020		
	UK	Europe	Total	UK	Europe	Total	UK	Europe	Total
Total revenue	**616.4**	**100. 6**	**717.0**	**400.6**	**67.4**	**468.0**	**901.6**	**144.5**	**1,046.2**
Cost of sales	(494.2)	(93.1)	(587.3)	(323.7)	(67.6)	(391.4	(724.3)	(143.6)	(867.9)
Gross profit/(loss)	**122.3**	**7.4**	**129.7**	**76.8**	**(0.2)**	**76.6**	**177.4**	**0.9**	**178.3**
Administrative expenses	(99.5)	(13.8)	(113.2)	(72.3)	(15.5)	(87.7)	(153.2)	(30.1)	(183.3)
Other operating income	0.3	-	0.4	0.3	0.2	0.5	0.8	0.4	1.2
Operating profit/(loss)	**23.1**	**(6.4)**	**16.8**	**4.9**	**(15.5)**	**(10.6)**	**25.0**	**(28.8)**	**(3.8)**
Finance income	2.1	2.7	4.8	3.3	4.3	7.5	6.4	4.5	10.9
Finance costs	(3.0)	(0.3)	(3.3)	(2.5)	(0.3)	(2.8)	(4.9)	(0.7)	(5.6)
Profit/(loss) before tax	**22.2**	**(3.9)**	**18.3**	**5.7**	**(11.6)**	**(5.9)**	**26.5**	**(25.0)**	**1.5**
Tax (charge) / credit	(2.3)	-	(2.3)	1.1	-	1.1	-	(0.1)	(0.1)
Profit/(loss) after tax	**19.9**	**(3.9)**	**16.0**	**6.8**	**(11.6)**	**(4.8)**	**26.5**	**(25.1)**	**1.4**

* The comparatives have been restated as set out in Note 14.

The Group uses alternative performance measures which are not defined within IFRS, as well as IFRS measures. One of these is adjusted EBITDA.

The reconciliation of operating profit/(loss) to Adjusted EBITDA is shown on page 11.

4. Finance income

(£m)	6 months ended 30 September 2020	6 months ended 30 September 2019	Year ended 31 March 2020
Foreign exchange gains on intra-group loans	2.8	4.6	6.0
Movement in valuation of put and call option	-	-	1.9
Unwind of discounting on non-current contract assets	1.9	2.9	2.9
Other interest	-	-	0.1
Total	**4.8**	**7.5**	**10.9**

5. Finance costs

(£m)	6 months ended 30 September 20202020	6 months ended 30 September 2019	Year ended 31 March 2020
Interest on lease liabilities	1.8	1.9	3.7
Interest on bank loans	0.4	0.3	0.6
Unwind of discounting on long term payables	-	-	0.3
Movement in valuation of put and call option	0.1	0.1	0.1
Other finance costs	0.9	0.4	0.9
Total	**3.3**	**2.8**	**5.6**

6. Earnings/(loss) per share

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

(£m)	6 months ended 30 September 2020	6 months ended 30 September 2019	Year ended 31 March 2020
Earnings/(loss)			
Profit/ (Loss) attributable to owners of the parent company	**16.4**	**(4.8)**	**1.7**
Reduction of foreign exchange movements on intra-Group loans	**(2.8)**	**(4.6)**	**(6.0)**
Adjusted loss attributable to owners of the parent company	**13.6**	**(9.4)**	**(4.3)**
Number of shares			
Basic and adjusted weighted average number of ordinary shares	474,507,349	474,232,935	472,462,309
Potentially dilutive shares options	3,980,331	5,000,403	4,857,812
Diluted weighted average number of ordinary shares	**478,487,680**	**479,233,339**	**477,320,121**
Earnings/(loss) per share (in pence)			
Basic Earnings/(loss) per share	**3.45**	**(1.01)**	**0.38**
Diluted Earnings/(loss) per share	**3.42**	**(1.01)**	**0.37**
Adjusted earnings/(loss) per share	**2.85**	**(1.98)**	**(0.91)**

7. Goodwill

	£m
Carrying value as reported 30 September 2019	28.1
Adjustment in hindsight period	0.1
Carrying value as restated 30 September 2019	**28.2**
Carrying value as restated 30 September 2020	**28.2**

Goodwill relates to the purchase of Expert Logistics Limited, the purchase by DRL Holdings Limited (now AO World PLC) of DRL Limited (now AO Retail Limited), the acquisition of AO Recycling Limited (formerly The Recycling Group Limited) and the acquisition of Mobile Phones Direct Limited (now AO Mobile Limited).

The adjustment in the hindsight period relates to the finalisation of the purchase price allocation exercise for AO Mobile Limited which was completed in the year ended 31 March 2020. This resulted in an increase in goodwill of £0.1m with the balance sheet at 30 September 2019 being restated as if the increase had taken place at the date of acquisition.

Impairment of goodwill

UK CGU - £13.5m

At 30 September 2020, goodwill acquired through UK business combinations (excluding AO Mobile Limited) 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 2020 which showed there was significant headroom against the carrying value. There have been no changes in the assumptions or performance of the related businesses which would indicate an impairment test is required at 30 September 2020.

Management do not believe that any reasonable possible sensitivity would result in any impairment to this goodwill.

AO Mobile Limited - £14.8m

At 31 March 2020, The Group has assessed the goodwill arising on the acquisition of AO Mobile Limited. This was performed based on a value in use calculation in the same way as for the UK business noted above but using a weighted average cost of capital appropriate for MPD as a standalone business of 11.7% (2019: 13.4%).

The total recoverable amount in respect of goodwill for this CGU was greater than the carrying value. The main assumptions underlying the value in use calculation were revenue growth, gross margin and the discount rate. The Directors performed sensitivity analysis on the numbers included in the three year strategic plan for the business in assessing the value in use. This showed that, based on the sensitivities performed, the recoverable amount of the goodwill was in excess of the carrying value, albeit with significantly reduced headroom, principally as a result of sensitivity applied to margin.

Due to changes in customer behaviour seen throughout the second quarter of FY21, the amount of cashback redemptions and customer contract cancellations has increased and as a result the financial performance in the period has been significantly below expectations. Management have reassessed the recoverable amount of the goodwill based on this updated information and the recoverable amount is still in excess of the carrying value and hence management have concluded that there is no current impairment of the goodwill.

8. Right of use assets

	Land and buildings £m	Motor vehicles £m	Computer Equipment £m	Total £m
Cost				
At 1 April 2020	84.8	20.0	1.0	**105.7**
Additions	10.5	1.7	-	**12.2**
Disposals	(4.2)	-	-	**(4.2)**
Exchange differences	0.2	-	-	**0.2**
At 30 September 2020	**91.3**	**21.7**	**1.0**	**114.0**
Accumulated depreciation				
At 1 April 2020	(29.5)	(11.1)	(0.4)	**(41.0)**
Charge for the year	(3.9)	(2.3)	(0.1)	**(6.3)**
Disposals	1.1	-	-	**1.1**
At 30 September 2020	**(32.4)**	**(13.4)**	**(0.5)**	**(46.2)**
Carrying amount				
At 30 September 2020	**58.9**	**8.3**	**0.5**	**67.7**
At 30 September 2019	**52.1**	**6.6**	**0.7**	**59.5**
At 31 March 2020	**55.3**	**8.9**	**0.6**	**64.7**

	Land and buildings £m	Motor vehicles £m	Computer Equipment £m	Total £m
Cost				
At 1 April 2019	**77.4**	**14.8**	**1.0**	**93.2**
Additions	**1.7**	**-**	**-**	**1.7**
Exchange differences	**0.3**	**0.1**	**-**	**0.4**
At 30 September 2019	**79.4**	**14.9**	**1.0**	**95.2**
Accumulated depreciation				
At 1 April 2019	(23.7)	(6.2)	(0.1)	**(30.0)**
Charge for the year	(3.6)	(2.0)	(0.1)	**(5.8)**
At 30 September 2019	**(27.3)**	**(8.3)**	**(0.2)**	**(35.8)**
Carrying amount				
At 30 September 2019	**52.1**	**6.6**	**0.7**	**59.5**

9. Trade and other receivables

(£m)	6 months ended 30 September 2020	6 months ended 30 September 2019*	Year ended 31 March 2020
Trade receivables	23.4	15.6	20.5
Contract assets	177.4	148.5	172.1
Prepayments and accrued income	57.2	35.1	29.7
Other receivables	1.1	4.5	3.0
Total	**259.1**	**203.7**	**225.3**

* The comparatives have been restated as set out in Note 14.

The trade and other receivables are classified as:

(£m)	6 months ended 30 September 2020	6 months ended 30 September 2019	Year ended 31 March 2020
Non-current assets	93.4	78.4	87.9
Current assets	165.7	125.3	137.4
Total	**259.1**	**203.7**	**225.3**

Contract assets

Contract assets represent the expected future commission receivable in respect of product protection plans and mobile phone connections. The Group recognises revenue in relation to these plans and connections when it 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 estimate of the commission due on the plans sold or connections made. The reconciliation of opening and closing balances for contract assets is shown below:

(£m)	6 months ended 30 September 2020	6 months ended 30 September 2019	Year ended 31 March 2020
Balance brought forward	172.1	151.1	151.1
Revenue recognised*	85.6	61.2	153.8
Cash received	(77.6)	(66.7)	(134.7)
Revisions to estimates	(4.6)	-	(0.7)
Unwind of discounting	1.9	2.9	2.6
Balance carried forward	**177.4**	**148.5**	**172.1**

* Revenue recognised is gross, that is excluding the deduction of cashback payments, which are deducted from revenue in the Income statement but are shown as contract liabilities in the Statement of Financial Position.

Commission receivable on mobile phone connections is estimated based on a number of assumptions. These include the customer default rate, being the rate at which the customers disconnect from the mobile network operators. The directors have historically considered this not to be an area of significant estimate due to relatively small fluctuations in the cash received compared to the revenue recognised. However, during the second quarter of FY21, there has been a significant change in customer behaviour resulting in the tenure of contracts reducing as end customers have cancelled contracts or have defaulted with the networks and accordingly the estimated transaction price has been reconsidered.

Included in the total contract asset balance at 31 March 2020 was an amount of £4.0m in respect of variable consideration recognised as revenue up to that date that has been reversed in the six months ended 30 September 2020. This has been included in the revision in estimates in the above table. Overall the estimated transaction price recognised as revenue and contract assets up to 30 September 2020 in relation to mobile commission is constrained by £19.6m (31 March: £11.7m).

Product protection plans

Under our arrangement with Domestic & General ("D&G"), the Group receives commission in relation to its role as agent for introducing its customers to D&G and recognises revenue at the point of sale as it has no future obligations following this introduction.

A discounted cash flow methodology is used to measure the estimated value of the revenue and contract assets in the month of sale of the relevant plan, by estimating all future cash flows that will be received from D&G and discounting these based on the expected timing of receipt. Subsequently, the contract asset is measured at the present value of the estimated future cash flows.

The key inputs into the model which forms the base case for management's considerations are:

- the contractually agreed margins which differ for each individual product covered by the plan as is included in the agreement with D&G;
- the number of plans based on information provided by D&G;
- the discount rate using external market data – 3.7% (2019: 4.7%);
- historic rate of customer attrition which uses actual cancellation data for each month since the start of the plans in 2008 to form an estimate of the cancellation rates to use by month going forward (Range of 0% to 10.7% weighted average cancellation by month);
- the estimated length of the plan based on historical data plus external assessments of the potential life of products (5 to 16 years); and
- the estimate of profit share relating to the scheme as a whole based on information provided by D&G.

The last three inputs are estimated based on extensive historical evidence obtained from our own records and from D&G. The Group has accumulated historical empirical data over the last 13 years from circa 2.2 million plans which have been sold. Of these, 0.9 million are live.

Applying all the information above, management calculate their initial estimate of commission receivable. Consideration is then given to other factors outside of the historical data noted above which could impact the valuation. This primarily considers the reliance on historical data as this assumes that current and future experience will follow past trends. There is therefore a risk that changes in consumer behaviour reduce or increase the total cash flows ultimately realised over the forecast period. Management make a regular assessment of the data and assumptions with a detailed review at half year and full year to ensure this continues to reflect the best estimate of expected future trends.

The sensitivity analysis below is disclosed as we believe it provides useful insight to the users of the financial statements into the factors taken into account when calculating the revenue to be recognised. The table shows the sensitivity of the carrying value of the commission receivables and revenue to a reasonably possible change in inputs to the discounted cash flow model over the next 12 months.

Sensitivity	Impact on contract asset (£m)	Impact on revenue (£m)
25% reduction in terminal drop off rate after actual data available	1.8	1.8
Cancellations increase by 2%	(2.6)	(2.6)

Terminal drop off rate – cancellations
The total expected life length of the average plan is dependent on an estimated end of life cancellation. Due to having less empirical data, management accelerated the drop off rate of cancellations beyond the period for which there is actual data as inherently there is a greater degree of judgement required. The drop off rate assumptions used by management have not changed during the year albeit over the past year there has been a 25% improvement in the terminal drop off rate. As the amount of data beyond the period is limited, no adjustment has been to the assumption in the model. However, we believe it is more likely that there would be an improvement in the terminal drop off rate.

Cancellations
The number of cancellations and therefore the cancellation rate can fluctuate based on a number of factors. These include macro economic changes e.g. unemployment but will also reflect the change in nature of the plan itself (insurance plan versus service plan). The impact of reasonable potential changes are shown in the sensitivities above and reflect the continued uncertainties arising from Covid19.

Network commissions
The Group operates under contracts with a number of Mobile Network Operators ("MNOs"). Over the life of these contracts the service provided by the Group to each MNO is the procurement of connections to the MNO's networks. The individual consumer enters into a contract with the MNO for the MNO to supply the ongoing airtime over that contract period. The Group earns a commission for the service provided to each MNO ("network commission"). Revenue is recognised at the point the individual consumer signs a contract with the MNO. Consideration from the MNO becomes receivable over the course of the contract between the MNO and the consumer. The Group has determined that the number and value of consumers provided to each MNO in any given month represents the measure of satisfaction of each performance obligation under the contract.

A discounted cash flow methodology is used to measure the estimated value of the revenue and contract assets in the month of connection, by estimating all future cash flows that will be received from the MNOs and discounting these based on the expected timing of receipt. Subsequently, the contract asset is measured at the present value of the estimated future cash flows.

The key inputs to management's base case model are:
• revenue share percentage, i.e. the percentage of the consumer's spend (to the MNO) to which the Group is entitled;
• the discount rate using external market data (principally forecasts of inflation – 1.5% (2019: 2.75%);
• the length of contract entered into by the consumer (12 to 24 months); and
• consumer average tenure which takes account of both the default rate during the contract period and the expectations that some customers will continue beyond the initial contract period and generate out of contract ("OOC") revenue (4% - 12.5%);

The last two inputs are estimated based on extensive historical evidence obtained from the networks, and adjustment is made for the risk of potential changes in consumer behaviour. Applying all the information above, management calculate their initial estimate of commission receivable.

Consideration is then given to other factors outside of the historical data noted above which could impact the valuation. This primarily considers the reliance on historical data as this assumes that current and future experience will follow past trends. As noted earlier, the impact of customer behaviour with regard to contract cancellations and defaults due primarily to Covid 19 has impacted previously recognised revenue in the current year with revisions to estimates amounting to c£4m. The risk remains that changes in consumer behaviour may continue and could reduce or increase the total cash flows ultimately realised over the forecast period. Management make a regular assessment of the data and assumptions with a detailed review at half year and full year to ensure this continues to reflect the best estimate of expected future trends and appropriate revisions are made to the estimates. The sensitivity analysis below is disclosed as we believe it provides useful insight to the users of the financial statements by giving insight into the factors taken into account when calculating the revenue to be recognised. The table shows the sensitivity of the carrying value of the commission receivables and revenue to a reasonably possible change in inputs to the discounted cash flow model over the next 12 months, having taken account of the changes in behaviour experienced in the period.

Sensitivity	Impact on contract asset (£m)	Impact on revenue (£m)
2% increase in consumer default rate	(3.9)	(3.9)
1% increase in out of contract revenue	2.3	2.3

Consumer default rate
The amount of revenue recognised at the point of sale uses an estimate of the likely tenure of the end customers contracts which determines the number of months commission that the Group would receive. This takes into account historical disconnection rates using information provided by the networks. As has been seen in the current period, the disconnection rates can be impacted by the customers behaviour after the point of sale driven by external factors in the wider economy. The sensitivity above considers the impact on the contract asset if the overall tenure of the connection reduces by a further 2% compared to the levels of consumer default rates included in the initial recognition assumptions across all networks.

Out of Contract
Out of contract revenue is recognised when the Group has sufficient historical data to estimate the behaviour of the end customer outside of the normal terms of the contract. In the majority of cases this revenue is recognised on the receipt of the cash due to its variable nature. With certain MNO's as further information is considered there is a reasonable probability that this source of revenue may become more predictable and therefore this sensitivity estimates the potential impact on average tenure should OOC extend beyond the initial anticipated terms by 1%.

Prepayments and accrued income
At 30 September 2020, there is £20.4m (2019: £15.4m) included in prepayments and accrued income in relation to volume rebates receivable. The amounts are largely coterminous and are mainly agreed in the month after recognition.

At 31 October 2020, the balance outstanding was £11.0m (2019: £9.4m).

10. Trade and other payables

(£m)	6 months ended 30 September 2020	6 months ended 30 September 2019	Year ended 31 March 2020
Trade payables	230.2	152.8	139.6
Accruals	38.4	24.1	23.1
Contract liabilities	63.7	45.5	61.5
Deferred income	29.9	13.1	15.2
Other payables	14.7	13.9	17.6
Total	**376.9**	**249.4**	**257.1**

The comparatives have been restated as set out in Note 14.

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 61 days (31 March 2020: 52 days; 30 September 2019 - 61 days).

Contract liabilities includes payments on account from Mobile Network Operators where there is no right of set off with the contract asset and cashback liabilities due to the end customer.

Certain Mobile phone contracts include variable consideration resulting from cash-back rights that a customer must claim periodically. As explained in note 1, the Group constrains the transaction price in relation to the cash back based on historical information and did not consider that estimate to be significant in prior periods. Historically, many customers have not fully claimed cash back to which they are entitled.

During the second quarter, the Group saw an unprecedented increase in the level of cashback redemptions which was inconsistent withthe previous trend of redemptions reducing year on year. Management believe that the financial impact of Covid19 has contributed to the increased redemptions and as a consequence, the Group has revised its estimate of the transaction price based on current consumer behaviour.

Included in the total contract liability balance at 31 March 2020 was an amount of £4.9m (31 March 2019 £nil) in respect of variable consideration recognised as revenue in prior years that has been reversed in the six months ended 30 September 2020.

At 30 September 2020 a liability of £15.3m has been recognised out of a maximum potential exposure of £39.7m. Taking into consideration the revenue constraints required by IFRS15, the range of the estimated liability is between £15.3m and £nil ((31 March 2020: £12.9m and £nil).

The trade and other payables are classified as:

(£m)	6 months ended 30 September 2020	6 months ended 30 September 2019	Year ended 31 March 2020
Current liabilities	367.1	240.5	249.6
Long-term liabilities	9.8	8.9	7.5
	376.9	**249.4**	**257.1**

11. Net debt and movement in financial liabilities

(£m)	6 months ended 30 September 2020	6 months ended 30 September 2019	Year ended 31 March 2020
Cash and cash equivalents	85.4	23.4	6.9
Borrowings – Repayable within one year	(20.8)	(13.4)	(5.2)
Borrowings – Repayable after one year	-	(22.0)	(16.7)
Lease liabilities – Repayable within one year	(15.7)	(11.4)	(16.1)
Lease liabilities – Repayable after one year	(69.6)	(59.3)	(68.0)
Net debt	**(20.7)**	**(82.8)**	**(99.0)**

The movement in financial liabilities in the period ending 30 September 2020 was as follows:

(£m)	Loans and borrowings	Lease Liabilities	Total
Balance at 1 April 2020	21.9	84.1	106.0
Changes from financing cash flows			
Repayment of borrowings	(21.1)	-	(21.1)
Repayment of lease liabilities	-	(8.5)	(8.5)
Payment of interest	(0.4)	(1.8)	(2.2)
Total changes from financing cash flows	**(21.5)**	**(10.4)**	**(31.9)**
Other changes			
New finance leases	-	12.5	12.5
Net drawdown from rolling credit facility	20.0	-	20.0
Reassessment of lease terms	-	(3.1)	(3.1)
Interest expense	0.4	1.8	2.2
Foreign exchange differences	-	0.3	0.3
Total other changes	**20.4**	**11.5**	**31.9**
Balance at 30 September 2020	**20.8**	**85.3**	**106.0**

(£m)	Loans and borrowings	Lease Liabilities	Total
Balance at 1 April 2019	30.4	82.1	112.5
Changes from financing cash flows			
Repayment of borrowings	(2.5)	-	(2.5)
Repayment of lease liabilities	-	(7.6)	(7.6)
Payment of interest	(0.3)	(1.9)	(2.2)
Total changes from financing cash flows	**(2.8)**	**(9.5)**	**(12.3)**
Other changes			
New finance leases	-	3.5	3.5
Interest expense	0.3	1.9	2.2
Foreign exchange differences	-	0.4	0.4
Total other changes	**0.3**	**5.8**	**6.1**
Balance at 30 September 2019	**27.9**	**78.4**	**106.3**

On 6 April 2020, AO Limited entered into a new Revolving Credit Facility of £80m. This replaced the existing revolving credit facility and the term loan. At 30 September 2020, AO Limited, a direct subsidiary of AO World Plc, had undrawn amounts on its Revolving Credit Facility of £56.1m (2019: £56.7m). The amount drawn at the year end was in relation to a drawdown on the facility (£20m), letters of credit (£2.9m) and payment guarantees (£1.0m). The drawdown was repaid on 6 October 2020. The facility expires in April 2023 and is secured by a debenture over the assets of the relevant companies, a charge over the shares in the relevant companies and a charge over the AO.com domain name.

12. Share-based payments

On 21 July 2020, the AO 2014 Performance Share Plan (2017 grant) partially vested following the achievement of certain of the performance criteria and, as a result, the Company issued 602,102 shares to an Employee Benefit Trust, to settle the relevant options.

On 14 July 2020, following the measurement of the various performance criteria relating to the AO 2018 Incentive Plan (2019 grant), 1,701,663 conditional deferred share awards were granted which will vest subject to the relevant employees being in service at 31 March 2023 and the remuneration committee of the Company being satisfied with the underlying performance of the Group (the performance underpin).

On 20 August 2020, the Company made awards to Participants under the AO 2018 Incentive Plan (2020 grant) in which the Directors and key members of staff participate. The Plan combines an annual bonus element and a conditional deferred share award based on various financial and non-financial performance criteria as well as the continuing employment of the individuals. The bonus and number of conditional deferred share awards will be calculated based on the performance criteria for the year ending 31 March 2021.

The total charge in the Income Statement in relation to all share plans was £0.7m (2019: £0.5m) and SAYE Schemes was £0.3m (2019: £0.5m).

On 30 September 2020, the Company granted awards under the Valuation Creation Plan to both executives and employees. The awards are conditional and will vest at certain measurement dates from 31 March 2025 to 31 March 2027 dependent on continued employment as well as meeting a share price performance condition. As the Deed of Grant was on the last day of the period, the charge in the six months to 30 September 2020 is immaterial. The anticipated annual charge for the scheme, based on an external fair value exercise is expected to be c£1.7m.

13. Financial instruments

As detailed in the Group's most recent annual financial statements, our principal financial instruments consist of a call and put option, trade and other receivables, accrued income, cash and cash equivalents, trade and other payables and borrowings. As indicated in Note 1, there have been no changes to the accounting policies for financial instruments, from those disclosed in the Company's Annual Report at 31 March 2020.

There have been no changes to the categorisation or fair value hierarchy (level three) of our financial instruments. The fair values of cash and cash equivalents, trade and other receivables, accrued income, and trade and other payables and borrowings are all deemed to approximate their carrying values and these can be identified on the face of the Statement of Financial Position and accompanying notes.

During the period, the Group exercised the third option over shares in AO Recycling Limited. As a result, the Company has acquired a further 7.2% of the issued share capital of AO Recycling Limited for consideration of £0.1m, taking its holding to 81.6%. The movement in the put and call option in the period is as follows:

(£m)	Call Option	Put Option
At 1 April 2020	0.6	1.1
Exercise of option	-	(0.3)
Unwind of discount	-	0.1
At 30 September 2020	0.6	0.9

There has been no change in the valuation methodology from that adopted at 31 March 2020 which utilised the Monte Carlo model for the call option and the gross liability method for the put option. The latter equates to an estimate of the amount payable over the life of the option based on discounted future cashflows.

14. Restatement of comparatives

On the 1 April 2018 the Group adopted IFRS 15 'Revenue from contracts with customers'. Following further consideration of the definitions in IFRS15 and its practical application, the Group has reconsidered and amended the presentation of certain balance sheet amounts as described below. Comparative amounts have been restated for consistency in line with a change in accounting policy, but the changes in presentation have had no effect on net assets or profit and loss for any period presented.

In the prior year, receivables in relation to commission from product protection plans and mobile network operators were classified as receivables at fair value through profit or loss on the basis that the Group has no further obligations to undertake after the point of sale when revenue is recognised and therefore commissions receivable were only dependent on the passage of time (albeit subject to the behaviour of the end customer). As a consequence, amounts recognised as accrued income in the 30 September 2019 statement of financial position of £152.9m have been presented as a contract asset under IFRS 15, reflecting the variable nature of the commission receivable based on future customer behaviour.

In the prior year, clawback provisions in relation to commission from mobile network operators were classified as provisions. As the clawback provision relates to commissions which could be returned to the mobile network operators should a customer cancel a contract, the amounts have now been included as a reduction in contract assets to more appropriately reflect the net amount of commission receivable. As a consequence, £3.0m has been reclassified against the contract asset and the comparatives changed accordingly. There is no impact on the income statement.

In the prior year, cashback liabilities in respect of cashback schemes operated by Mobile Phones Direct, which were calculated based on historic redemption rates, were included within provisions. Payments are expected to be made up to 23 months from the year end. Having considered the requirements of IFRS 15, because the company does not receive any goods or services in relation to the cash paid to the end customer, management believe it is appropriate to treat these as a reduction in revenue and a contract liability. As a consequence £5.5m of provisions at 30 September 2019 have been reclassified as contract liabilities and £2.1m has been reclassified from cost of sales to revenue.

In addition the balance sheet at 30 September 2019 has been restated to reflect the final changes to the assets, liabilities and subsequent goodwill arising from the acquisition of AO Mobile Limited in December 2018. This has had the impact of reducing contract assets by £0.1m and increasing goodwill by £0.1m.

The impact on the income statement, statement of financial position and statement of cash flows as a result of the restatements are presented below:

Income statement (including segmental analysis)

	30 September 2019 as reported			Effect of IFRS15 reclassification			30 September 2019 as restated		
£m	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Revenue	402.7	67.3	470.1	(2.1)	-	(2.1)	400.6	67.3	468.0
Cost of sales	(325.8)	(67.6)	(393.5)	2.1	-	2.1	(323.7)	(67.6)	(391.4)
Gross profit	76.8	(0.2)	76.6	-	-	-	76.8	(0.2)	76.6
Administrative expenses	(72.3)	(15.5)	(87.7)	-	-	-	(72.3)	(15.5)	(87.7)
Other operating income	0.3	0.2	0.5	-	-	-	0.3	0.2	0.5
Operating profit / (loss)	4.9	(15.5)	(10.6)	-	-	-	4.9	(15.5)	(10.6)
Finance income	3.3	4.3	7.5	-	-	-	3.3	4.3	7.5
Finance costs	(2.5)	(0.3)	(2.8)	-	-	-	(2.5)	(0.3)	(2.8)
Profit / (Loss) before tax	5.7	(11.6)	(5.9)	-	-	-	5.7	(11.6)	(5.9)
Tax credit	1.1	-	1.1	-	-	-	1.1	-	1.1
Profit / (Loss) for the year	6.8	(11.6)	(4.8)	-	-	-	6.8	(11.6)	(4.8)

Statement of financial position

£m	At 30 September 2019 reported	Effect of IFRS 3	Effect of IFRS15 reclassification	At 30 September 2019 restated
Non current assets				
Goodwill	28.1	0.1	-	28.2
Other intangible assets	16.2	-	-	16.2
Property, plant and equipment	30.6	-	-	30.6
Right of use assets	59.5	-	-	59.5
Trade and other receivables	78.4	-	-	78.4
Derivative financial asset	0.8	-	-	0.8
Deferred tax asset	4.5	-	-	4.5
	218.1	0.1	-	218.2
Current assets				
Inventories	68.7	-	-	68.7
Trade and other receivables	128.4	(0.1)	(3.0)	125.3
Corporation tax receivable	1.3	-	-	1.3
Cash and cash equivalents	23.4	-	-	23.4
	221.8	(0.1)	(3.0)	218.7
Total assets	439.9	-	(3.0)	436.9
Current liabilities				
Trade and other payables	(236.3)	-	(4.2)	(240.5)
Borrowings	(13.4)	-	-	(13.4)
Lease liabilities	(11.4)	-	-	(11.4)
Derivative financial liability	(0.5)	-	-	(0.5)
Provisions	(7.2)	-	7.2	-
	(268.8)	-	3.0	(265.8)
Net current liabilities	(47.0)	(0.1)	-	(47.1)
Non current liabilities				
Trade and other payables	(7.6)	-	(1.3)	(8.9)
Borrowings	(22.0)	-	-	(22.0)
Lease liabilities	(59.3)	-	-	(59.3)
Derivative financial liability	(2.6)	-	-	(2.6)
Deferred tax liability	(2.3)	-	-	(2.3)
Provisions	(3.2)	-	1.3	(1.9)
	(97.0)	-	-	(97.0)
Total liabilities	(365.8)	-	3.0	(362.8)
Net assets	74.1	-	-	74.1
Equity attributable owners of the parent				
Share capital	1.2	-	-	1.2
Share premium account	103.7	-	-	103.7
Other reserves	25.9	-	-	25.9
Retained losses	(56.0)	-	-	(56.0)
Total	74.8	-	-	74.8
Non controlling interest	(0.7)	-	-	(0.7)
Total equity	74.1	-	-	74.1

Statement of cash flows

£m	6 months ended 30 September 2019 reported	Reclassification	IFRS 15 Reclassification	6 months ended 30 September 2019 restated
Cashflows from operating activities				
Loss for the period	(4.8)	-	-	(4.8)
Depreciation and amortisation	10.1	-	-	10.1
Finance income	(7.5)	-	-	(7.5)
Finance costs	2.8	-	-	2.8
Taxation credit	(1.1)	-	-	(1.1)
Share based payment charge	1.0	-	-	1.0
Decrease in provisions	(0.6)	-	0.3	(0.3)
Net operating cashflows before movement in working capital	(0.1)	-	0.3	0.2
Decrease in inventories	8.0	-	-	8.0
Increase in trade and other receivables	(10.3)	-	0.2	(10.1)
Increase in trade and other payables	15.9	-	(0.5)	15.4
Net movement in working capital	13.6	-	(0.3)	13.3
Taxation received	0.2	-	-	0.2
Net cash from operating activities	13.7	-	-	13.7
Cashflows from investing activities				
Acquisition of non controlling interest	(0.5)	0.5	-	-
Proceeds from sale of property, plant and equipment	0.1	-	-	0.1
Acquisition of property, plant and equipment	(5.4)	-	-	(5.4)
Acquisition of intangible assets	(0.5)	-	-	(0.5)
Net cash used in investing activities	(6.3)	0.5	-	(5.8)
Cashflows from financing activities				
Acquisition of non controlling interest	-	(0.5)	-	(0.5)
Interest paid on borrowings	(0.7)	-	-	(0.7)
Interest paid on lease liabilities	(1.9)	-	-	(1.9)
Repayment of borrowings	(2.5)	-	-	(2.5)
Repayment of lease liabilities	(7.6)	-	-	(7.6)
Net cash used in investing activities	(12.7)	(0.5)	-	(13.2)
Net decrease in cash	(5.3)	-	-	(5.3)
Cash and cash equivalents at beginning of the period	28.9	-	-	28.9
Exchange gains and losses	(0.2)	-	-	(0.2)
Cash and cash equivalents at end of the period	23.4	-	-	23.4

15. Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected or historical results. The Directors do not consider that the principal risks and uncertainties have changed materially since the publication of the Annual Report for the year ended 31 March 2020, save as set out below.

The principal risks as set out in the Annual Report are summarised below and further information on these together with information as to how the Group seeks to mitigate these risks is set out on pages 33-48 inclusive and 96 of the Annual Report and Accounts 2020 which can be found at www.ao-world.com:

- Risks relating to Brexit should there be a disorderly exit from the membership of the European Union:
    - Supply chain friction
    - People
    - Currency exposure
    - UK electrical market / consumer demand
- Risks relating to the impact of Covid-19:
    - General disruption to operations including from Government restrictions and the impact on the supply chain and people availability
    - Macroeconomic impacts to consumer confidence and demand
- Risks relating to our culture and people.
- Risk relating to IT systems resilience and agility.
- Risks relating to compliance with laws and regulations.
- Risks of business interruption.
- Risks relating to the UK electricals market
- Risks relating to our key commercial relationships
- Risk relating to our funding and liquidity
- Risks in relation to significant accounting matters including revenue recognition, debtor recoverability and the status of product protection plans, network commission receivable and the carrying value of goodwill and intangible assets arising on the acquisition of AO Mobile Ltd.

Given the improvements in both the financial performance and operational model of the German business, together with increasing confidence of profitability, the risk of a failure of our German operations has significantly reduced to the extent that we do not consider it to be a principal risk.

As mentioned in the Annual Report, we have ceased to consider brand or reputational damage as a standalone risk, rather it now forms part of the impact analysis when looking at how we assess other principal risks.

Responsibility statement

Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU
- The interim management report includes a fair review of the information required by
- The condensed set of financial statements have been prepared in accordance with ASB's 2007 Statement Half-Yearly Reports:

(a)DTR 4.2.7R of the *Disclosure Guidance and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b)DTR 4.2.8R of the *Disclosure Guidance and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

John Roberts
CEO
23 November 2020

Mark Higgins
CFO
23 November 2020

INDEPENDENT REVIEW REPORT TO AO WORLD PLC
Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2020 which comprises a Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2020 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1 annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

David Neale
For and on behalf of KPMG LLP
Chartered Accountants
1 St. Peter's Square
Manchester
M2 3AE
23 November 2020