Relentlessly striving
for a better way

AO World Plc
Annual Report and Accounts 2018

How we performed in 2017/18

£796.8m

Group revenue up 13.6%

£(16.2)m

Operating Loss increased by 35.5%

£22.6m

UK Adjusted EBITDA down 7.1%

£(3.4)m

Group Adjusted EBITDA losses increased by 65.9%

Operational Highlights

- Transactional Mobile App successfully launched across all territories
- Competencies being leveraged: recycling facilities fully operational and new categories rolled out
- Excellent customer service demonstrated by high NPS and recent UK Trustpilot achievement driving pleasing repeat metrics across all territories

Contents

Our purpose is to have the happiest customers by relentlessly striving for a better way.

AO at a glance
Who we are and what we do

We sell electricals in the UK, Germany and the Netherlands and deliver them via our in-house logistics business and carefully selected third parties.

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

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

Where we operate

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

See page 50 for further information on the trends, insights and opportunities in our markets.

Our scalable business model

Our business model is the result of years of expertise and investment in delivering the best service for our customers. This has resulted in the development of core competencies which provide us with a platform for the execution of our purpose: to have the happiest customers by relentlessly striving for a better way.

Our business model and proposition is scalable and provides us with a platform to enter new countries and vertically integrate our supply chain where we can leverage our core competencies.

See pages 32 to 35 for further information on how we create and capture value.

Our strategy

- Customers: Consolidate a leading position in our core UK markets through continuing to grow our market share in white goods and adding further complementary categories to our offering
- Competencies: Leverage our competencies in the UK to extract further value from our supply chain and develop new business streams
- Countries: Establish a profitable business in Europe

See pages 22 to 31 for information on progress against our strategic objectives and how our culture is driving us forward.

Customers

Competencies

Countries

Our investment case

1 A leading position in the online electricals market

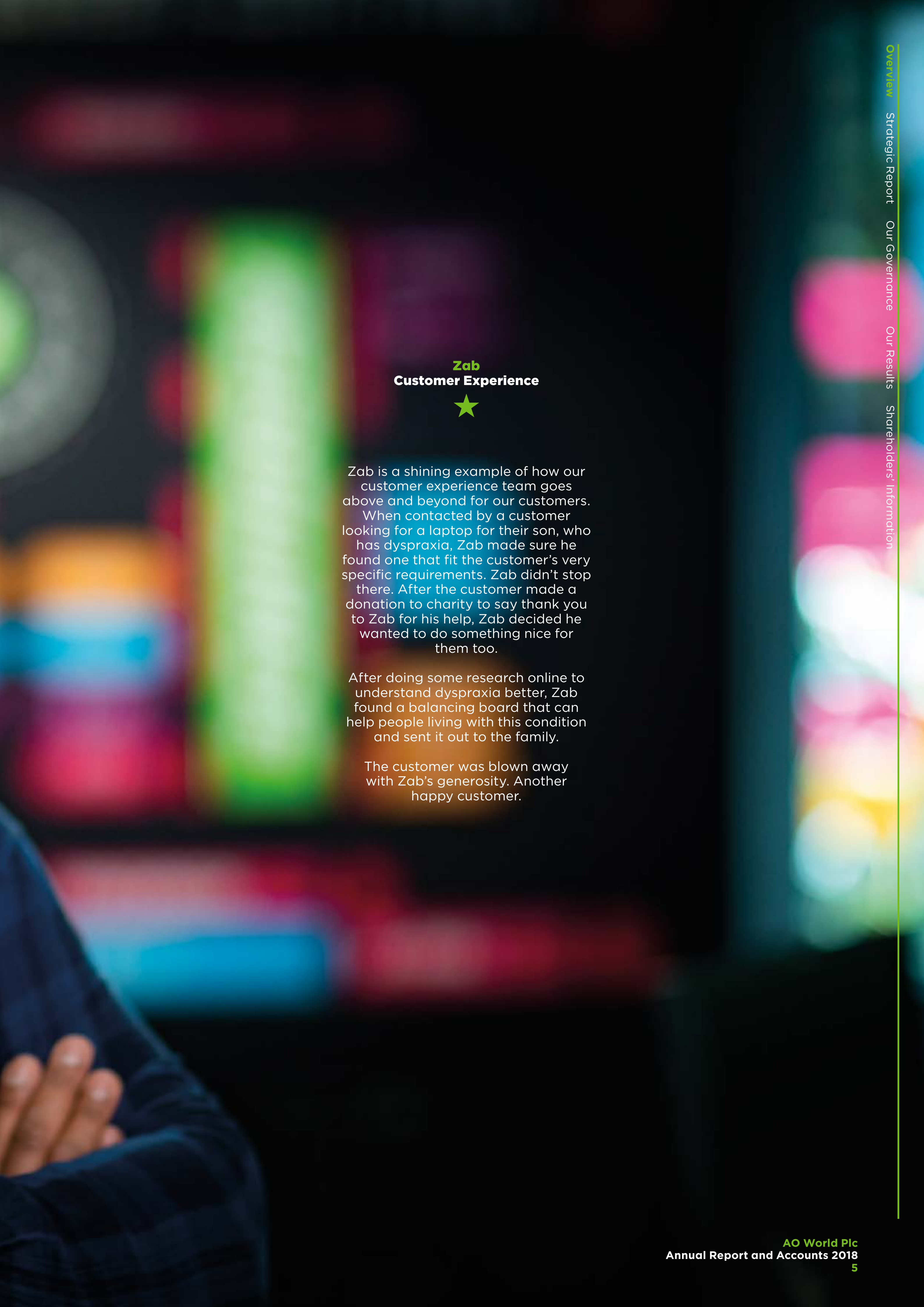
2 Compelling customer proposition

3 Control of the end-to-end customer experience

4 Strong culture

5 Multiple growth opportunities

6 Track record of growth/ability to replicate model



Zab
Customer Experience

Zab is a shining example of how our customer experience team goes above and beyond for our customers. When contacted by a customer looking for a laptop for their son, who has dyspraxia, Zab made sure he found one that fit the customer's very specific requirements. Zab didn't stop there. After the customer made a donation to charity to say thank you to Zab for his help, Zab decided he wanted to do something nice for them too.

After doing some research online to understand dyspraxia better, Zab found a balancing board that can help people living with this condition and sent it out to the family.

The customer was blown away with Zab's generosity. Another happy customer.

Sophie
Trade

★

Sophie is an integral part of the trade buying team, based at our headquarters in Bolton. Responsible for liaising with our key manufacturers on a daily basis, Sophie has been inspirational over the last year, relentlessly working to improve current working processes, after her role changed to cover a maternity leave.

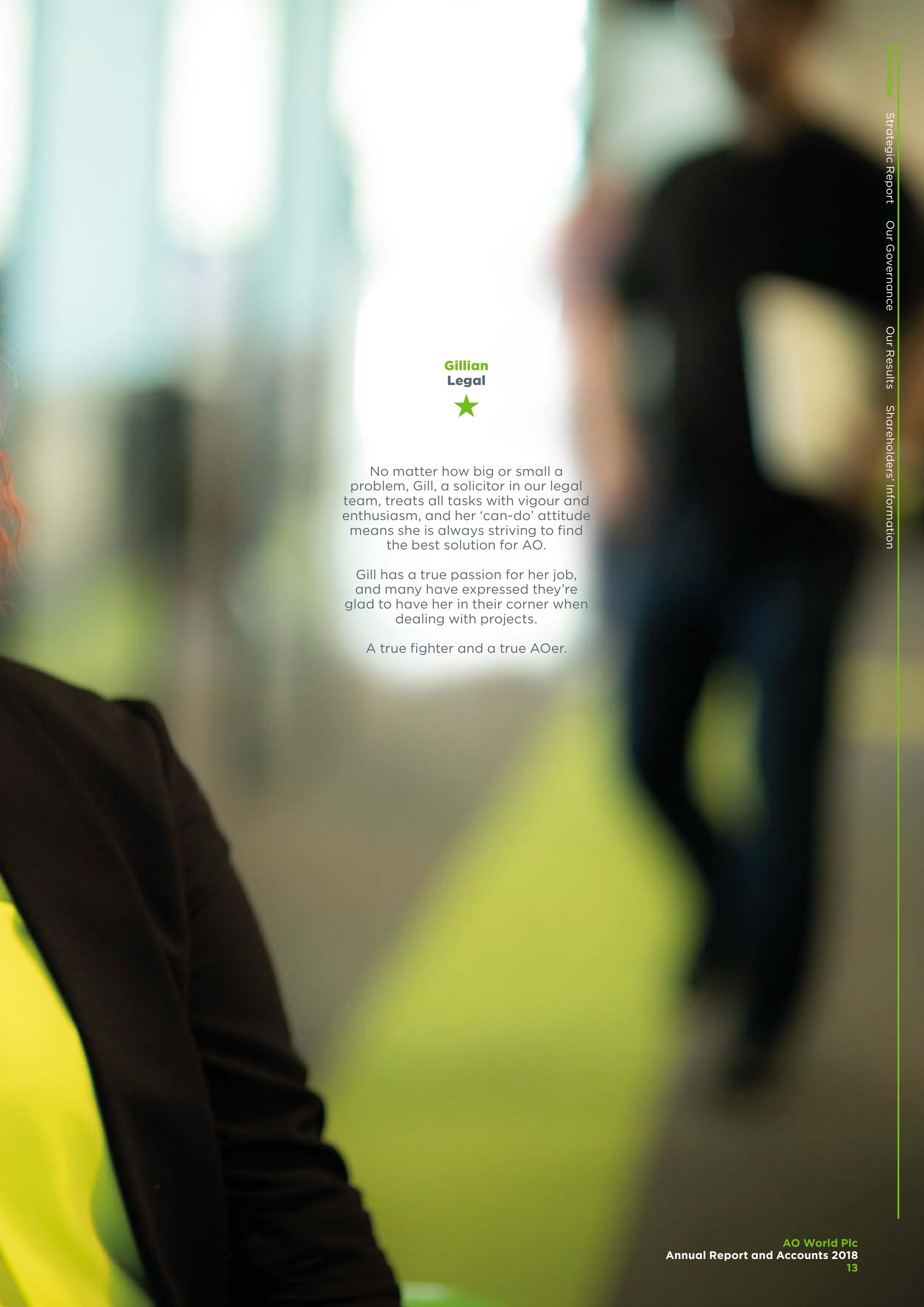
Having to manage a full team of buyers in a category different to her usual area, Sophie has moved into this role with determination and passion, stepped out of her comfort zone and embraced the challenge.

Maciej
Recycling

Maciej works at our recycling plant in Telford. He is responsible for sorting through all the fridges that come into the site on AO vans after they have been collected from customers' homes. Recently promoted to Yard supervisor, Maciej makes sure that this important step in the recycling process runs like clockwork.

Kyle
Marketing

Kyle is a senior motion graphics designer, working in our multimedia team. Following his team's move to our new offices in Manchester City Centre in 2017, Kyle has been instrumental in bedding the team into their new premises. Not only has he taken on the role of 'social exec', organising nights out for the team and helping integrate new starters but he has played a huge role in keeping the team motivated. Throughout busy periods Kyle has continually given up his own time and took on extra responsibility to get projects finished.



Gillian
Legal

★

No matter how big or small a problem, Gill, a solicitor in our legal team, treats all tasks with vigour and enthusiasm, and her 'can-do' attitude means she is always striving to find the best solution for AO.

Gill has a true passion for her job, and many have expressed they're glad to have her in their corner when dealing with projects.

A true fighter and a true AOer.

Section 1 Strategic report: In this section we describe how our revised strategy works and how we create value. As well as what makes us unique.

In this section:

An evolving business

Geoff Cooper
Chairman

Later in the year, our business will turn 18. Having started life as a retailer of major domestic appliances in the UK, we are now a multi-category electrical retailer with operations across three countries, we have market-leading logistics and recycling businesses in the UK and we are now leveraging our core competencies to drive growth through new opportunities. As I walk around the business and see what we have created and the opportunities ahead, I can't help but be impressed by the progress we have made during the last two years I have been with AO.

This year, during his first full year as Chief Executive Officer, Steve Caunce has focused on ensuring that AO's reason for existing and its strategy is appropriate to the AO business of today and for its future aspirations. Details of the process undertaken to define our Purpose are set out in the case study on page 18 with further details of our evolved strategy and business model on pages 22 to 34. The Board's objective now is to ensure we execute effectively against this strategy and to capitalise on the opportunities we have created.

We have continued to grow revenue in the UK, against the backdrop of a continuingly competitive market. Group revenue increased by 13.6% to £796.8m. Year-on-year UK revenue was up 8.1% to £680.8m (with UK AO website sales accounting for £606.6m, up 8.7% year on year) in a particularly challenging market, especially in MDA, and a tough prior year comparable in the first and last quarters of our reporting period. Revenue for our European business was £116.0m/€131.2m, up 54.8% year-on-year on a constant currency basis as both of our businesses continue to perform to plan (despite limited marketing expenditure).

Group Adjusted EBITDA losses for the period were £3.4m (2017: £2.1m), with the UK impacted by market pressure on margins, and we therefore experienced a £1.8m year-on-year reduction in Adjusted EBITDA to £22.6m. Our Europe business reduced its Adjusted EBITDA losses year-on-year on a sterling basis (following foreign exchange translation) from £26.5m to £26.0m and on a constant currency basis from €31.5m to €29.6m. Group operating loss for the year was £16.2m (2017: £12.0m) as it started to benefit from building scale and critical mass.

Mindful of the continued uncertainty in the UK markets, and to provide the Group with appropriate financial resources to continue its growth, we took steps in the year to strengthen the balance sheet as well as securing additional facilities to provide the Group with liquidity headroom. In April 2017 we successfully raised £50m of gross proceeds via a share placing with existing and new investors, and in November 2017 we increased our Revolving Credit Facility by £30m to £60m.

We have also made progress during the year to increase the strength and diversity of our Board following the appointment of Jacqueline de Rojas CBE as a Non-Executive Director in November 2017. Jacqueline brings a wealth of global experience, specifically in fast moving and global technology businesses, and is also a passionate advocate for diversity, supporting the Group's work in this area. We continue to work to identify two additional Non-Executive Directors to develop the Board's skill set, and we hope to be able to announce further appointments over the coming months.

Towards the end of our reporting period, and against our review of Purpose and Strategy, our organisational structure was further refined to give the business stability and the freedom to grow in line with our evolved strategy. This will also allow Steve, as he puts it, to focus on the business rather than being in the business.

In summary, the Group has continued to make good progress over the year. We have a unique culture at AO, centred on our five values, which will continue to drive our performance in the future.

Geoff Cooper
Chairman
4 June 2018

Our purpose.
Uncovered from 100s of stories, collected from 250 people, 26 workshops and 7 locations.
The AO way.

Finding our way

Our purpose was uncovered by talking to our people, by asking for examples of when they felt proud to work at AO.

During this process, in total, we spoke to 250 AOers, during 26 internal workshops, at seven different sites so that we could answer the question... Why does AO exist?

We collected hundreds of stories, and when we looked at all of them collectively, we could see what it is that makes AOers unique:

AO is at its best when three things happen

1. **We understand what customers really want and then work out how to do it:** We make it work for customers, then we make it work for us.

2. **We are true to our roots as a human business:** We genuinely care about people, and we empower our own people to always do what's right for the customer NOT just what's right for us.

3. **We roll our sleeves up and make things happen... together, in a way that is not constrained by convention or rules.**

From the hundreds of stories we heard, our purpose "to have the happiest customers by relentlessly striving for a better way" was defined.

Using what we know to grow

Steve Caunce
Chief Executive Officer

Overview

In the UK we have executed against our plan and proven the strength of our business in an increasingly competitive market. Our European operations continue to build scale and confidence as we remain on track to achieve our FY21 profitable run rate* objective, and we are evolving our strategy to accommodate the growing complexity of the Group; it's been an exciting year!

Our Purpose

In my first year as CEO I've focused on reviewing our purpose. Our purpose from inception was "to change the face of the white goods industry." I truly feel that we achieved this before adapting it to allow for additional categories and countries to become "The Best Electrical Retailer in Europe". As we have grown in scale and complexity (for example, our recycling business) that purpose seems no longer appropriate.

I wanted to revisit what it was that drives and connects our people to AO. We now employ over 2,800 people across three countries, and we must make sure that our purpose and reason for existing is clear and relatable to every employee, regardless of where in the business they work. Our people and culture underpin our business model; they are key to us attracting and retaining our customers and the physical representation of our brand.

I didn't want the purpose to be something dictated from me or our Board; it had to be and feel real. We conducted workshops across all our sites and asked our people to tell us where they felt the AO culture had truly shone through. From the hundreds of stories we heard, our new purpose was born: "to have the happiest customers by relentlessly striving for a better way". When we unveiled this to our staff, it didn't feel new to them; it was what we were doing and how we were living and breathing all along. However, having a clearly defined purpose has allowed us to really set the tone to the business of why we are here and what we are here to achieve and it will allow us to pursue our strategic objectives through one common and simple goal. You can see more about the process and what we uncovered in the Purpose case study on page 19.

* By "run rate" we mean achieving a positive Adjusted EBITDA for the Europe segment in at least one month of the financial year ending 31 March 2021, as we set out in our Capital Markets Day in February 2017.

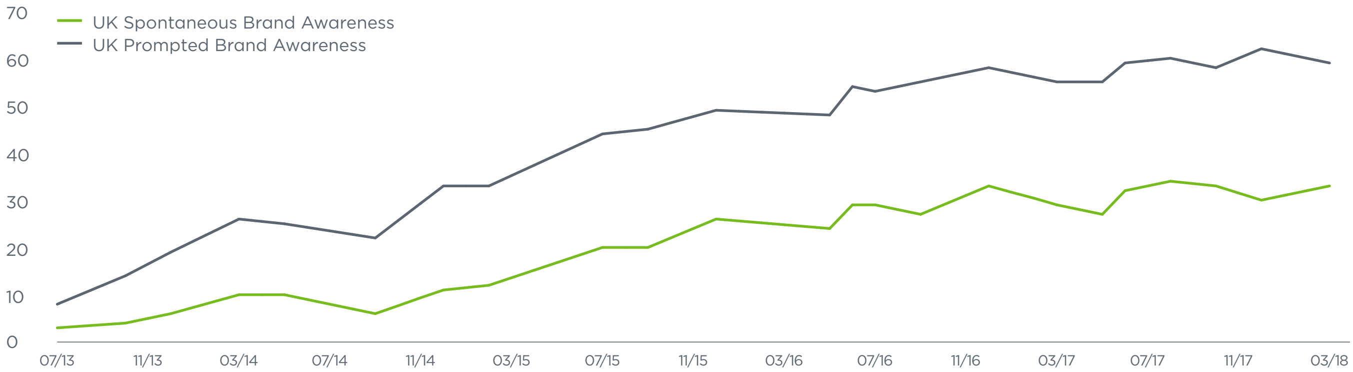
Our brand in the UK

The potential for the AO brand is significant; we are an exciting brand with an offering which we believe appeals to a variety of consumer demographics. Over the reporting period, whilst our levels of promoted and spontaneous brand awareness experienced growth, this was modest and in line with our historical growth trajectory. Our data shows that once customers experience AO they shop with us again but overall our levels of spontaneous and promoted brand awareness are relatively low. Effective marketing should therefore provide us with a significant opportunity.

We are an innovative company operating in a rapidly developing market. As such we are always testing new ways of connecting with our customers and driving our brand to attract new consumers. As reported at the time of our half-year results in November 2017, the sponsorship of ITV's Britain's Got Talent in the first half of the year was undertaken in that light and was designed to build brand awareness in the UK rather to directly drive sales. While the initiative generated incremental traffic to our site over the period, it fell short of our expectations.

In the second half of the year, our marketing expenditure in the UK has been limited but we have experienced good growth in a challenging market, demonstrating the underlying strength of our brand. During this period, we have been through a rigorous process, looking at what's important to customers. We have implemented extensive consumer research looking at our proposition, messaging, positioning and creative routes. This research has revealed key insights, enabling a new direction aimed at illustrating our strengths. The new UK brand platform will be brought to life through all channels and all customer touch points; it is going to shape our thinking on all aspects of the brand, not just TV advertising. We are set to launch a new creative campaign in the first half of FY19, with our brand about to embark on a really exciting journey; becoming even more widely trusted, famous for our difference and loved by our customers.

UK Brand Awareness (%)



Source: Mediacom Brand Tracking survey, Large Kitchen Appliances.

Our values

Bold
We have always been **Bold** from day one. We dare to be different and we thrive in a seriously competitive sector. Still, we don't follow trends we set them.

Smart
To make our bold aims work we're **Smart** – anyone can promise the earth, but we aim to find a way to do what looks impossible.

Driven
To turn impossible-sounding ideas into reality you have to be **Driven**. Things may get tough but we've never done anything just because it's easy.

Fun
Doing challenging things with like-minded people is what gets us out of bed and give our best. That's what makes AO a place where you can really have **Fun**.

Care
Underpinning everything is the way we **Care**, about people, about our work and about building something that really makes a difference.

One of our key strategic aims during the year was to significantly increase the number of MDA deliveries from ao.com in the UK to be delivered on AO liveried vans. I am pleased that the vast majority of these customers now receive their products on a green AO van promoting and reinforcing our brand.

Our business model & strategy

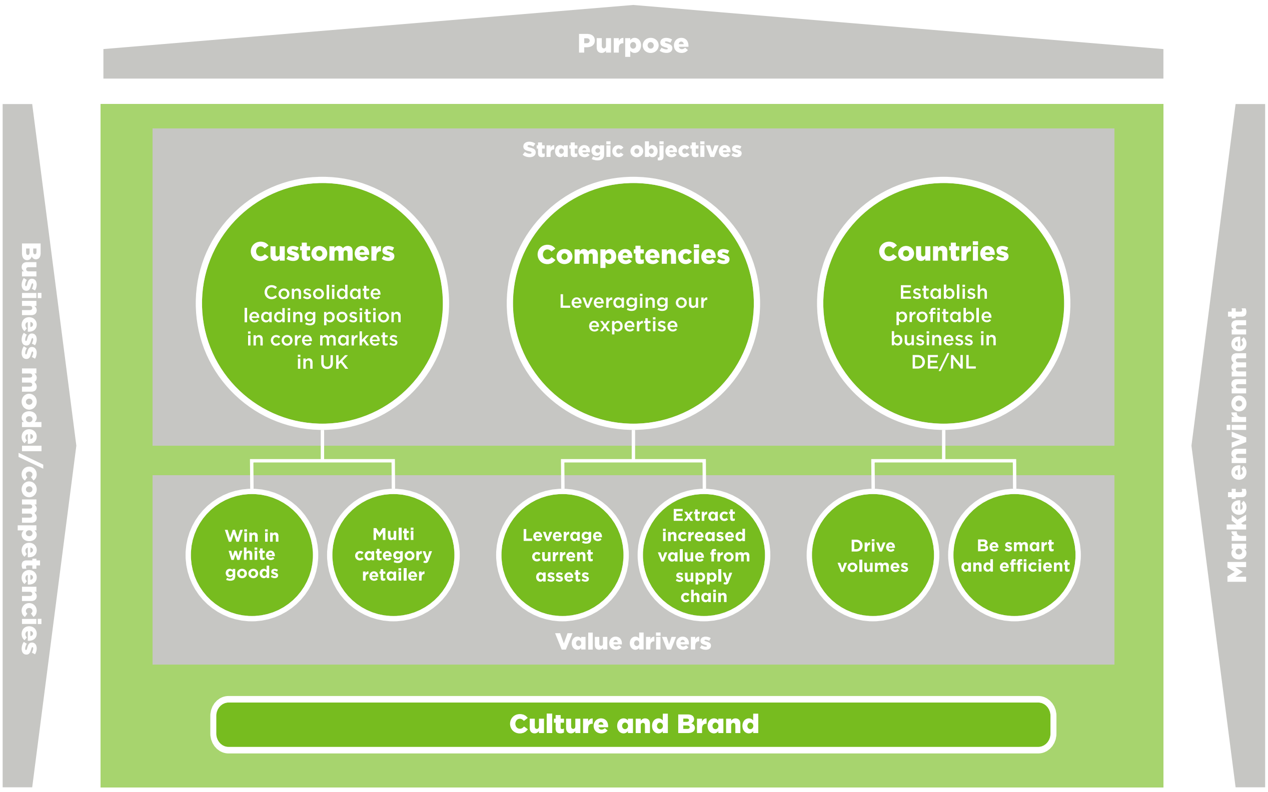
At the time of our IPO in March 2014, AO was a one country, one category business and our strategy and model fitted that profile. Over time we have grown in both scale and complexity. We now serve not only retail customers, but logistics customers, recycling customers and more. In conjunction with our purpose work, and given the growth and development of the business, I've reviewed our business model and our strategic objectives to ensure that these are still applicable to the AO of today.

Our business model is set out on pages 32 to 34 and highlights how we have diversified, developing our competencies in the UK and leveraging our core assets to drive opportunities whilst always looking to accelerate growth in the AO brand through using what we know to grow. For example, we are exploring opportunities in the appliance rental market, the B2B market and further recycling opportunities – areas where we can look to leverage our infrastructure and the knowledge we have gained. Our approach is always to learn before we take the next step and be led by our customers.

In recent years we have described our strategy through the use of our 4Cs: Customers, Countries, Culture & Brand and Categories. Following my review, I determined that this over-arching strategy should remain broadly unaltered; focusing on growing our brand and customer base through delivering a market-leading proposition in both the UK and in new territories whilst protecting our unique culture. However, we are now at a stage in our development where we are able to look not only at expanding our UK retail category offering but diversifying into new opportunities that fit within our supply chain where we can leverage our brand, our core competencies and our culture and infrastructure, as we are currently doing with our UK Recycling business. Our previous "Category" objective has now therefore evolved into "Competencies". Our strategic objectives are illustrated below:

Each of our strategic objectives, **Customers**, **Competencies** and **Countries**, has its own value drivers with our customer, culture and brand proposition underpinning each. Our performance against each of our objectives, together with our priorities for the medium term, is discussed in the following pages.

Our strategic objectives

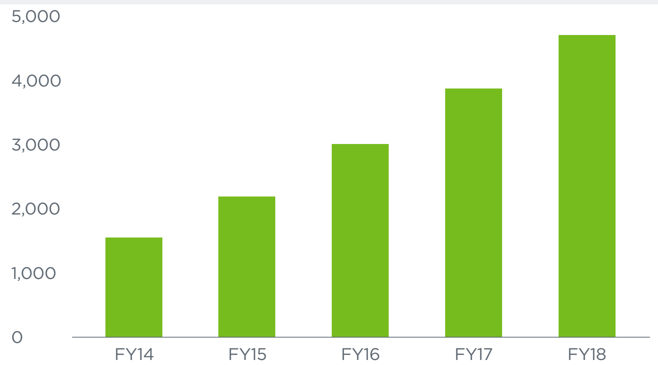


Customers

We continue to focus on our market-leading proposition across all our competencies. We have invested over the years to create a delivery and service infrastructure that customers can depend on when they need it most. Our key offering in our core retail business remains strong; unbeatable prices, huge range, wide availability, smart and innovative web content and amazing service.

As a result, we made good progress across our key customer metrics over the period. We are now approaching five million customers, which provides us with a fantastic asset from which to leverage our brand. Our repeat business remains strong and we continue to attract new customers. Our customer satisfaction levels remain exceptional as our Net Promoter Score (NPS is an industry measure of customer loyalty and satisfaction) has been maintained at a consistently high level of over 80. There is no better testament to our service than the feedback from our customers, and we were delighted to reach over 100,000 reviews on customer feedback website Trustpilot in the UK, being one of only 20 companies to achieve this. Our continual obsession over our customer service means that we also currently have a 95% "great" or "excellent" score on this platform which places us in the top 0.01% of companies to achieve this threshold. In November 2017 we were also very proud to be voted third best online shop by Which? and to win UK IT Team of the year at the BCS & Computing UK IT Industry Awards, demonstrating how IT has been fundamental to developing our offering.

UK customers (000s)*



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

We have made many improvements to our customer proposition over the reporting period reflecting our values, our "care-more" culture and our purpose to have the happiest customers by relentlessly striving for a better way. Those customers that use us again and again do so because we make the experience a great one, from the website, to the products, to the people – we just make it an easy choice to pick AO.

Every week thousands of new customers are discovering who we are and what it means to shop with us. We continue to evolve the customer journey, adding more features and providing easier ways to shop and get the most from our products and services.

We have worked to make the customer journey easier and have enhanced the retail experience with the launch of our fully transactional app on both iOS and android operating systems, which is highly rated on the app store and Google Play. This means that our customers now have the ability to shop from their desktop, tablet or mobile. We will continue to ensure that we evolve to keep up with changes in consumer preferences.

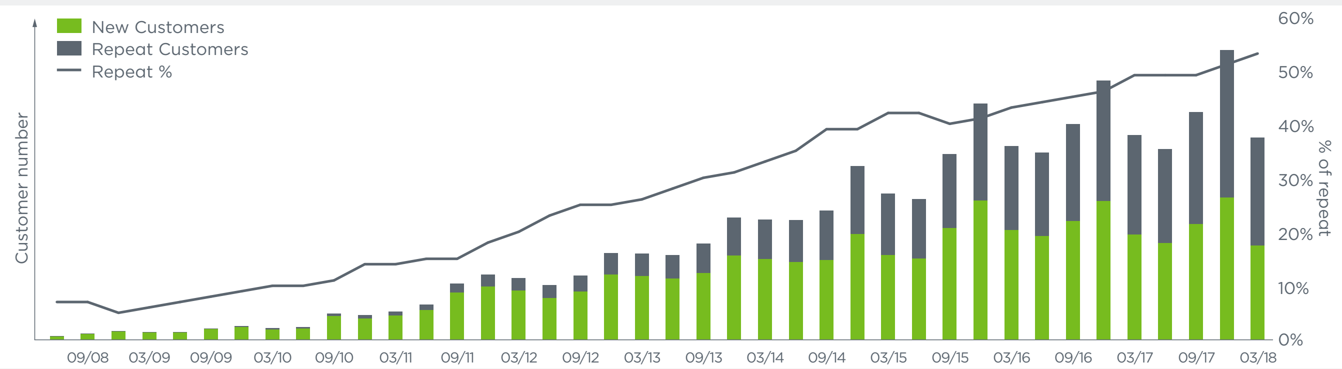
Early in the year we opened a new outbase in Bridgend which will help improve delivery availability and services to our south-west customers whilst reducing our stem mileage and improving efficiencies in our logistics business. Our outbase infrastructure has increased from 4 in 2012 to 14 by 31 March 2018. Our premium installation fleet, which offers a full installation service on integrated products, has experienced strong growth over the period with improved lead times and an improving proposition. We have also developed a traineeship programme offering newly qualified gas engineers the opportunity to complete a 16-week programme and become experienced enough to install for us at the end. Towards the end of the year our logistics business also won a distribution contract with a new third-party client as we look to refocus on this income stream and leverage our existing competencies.

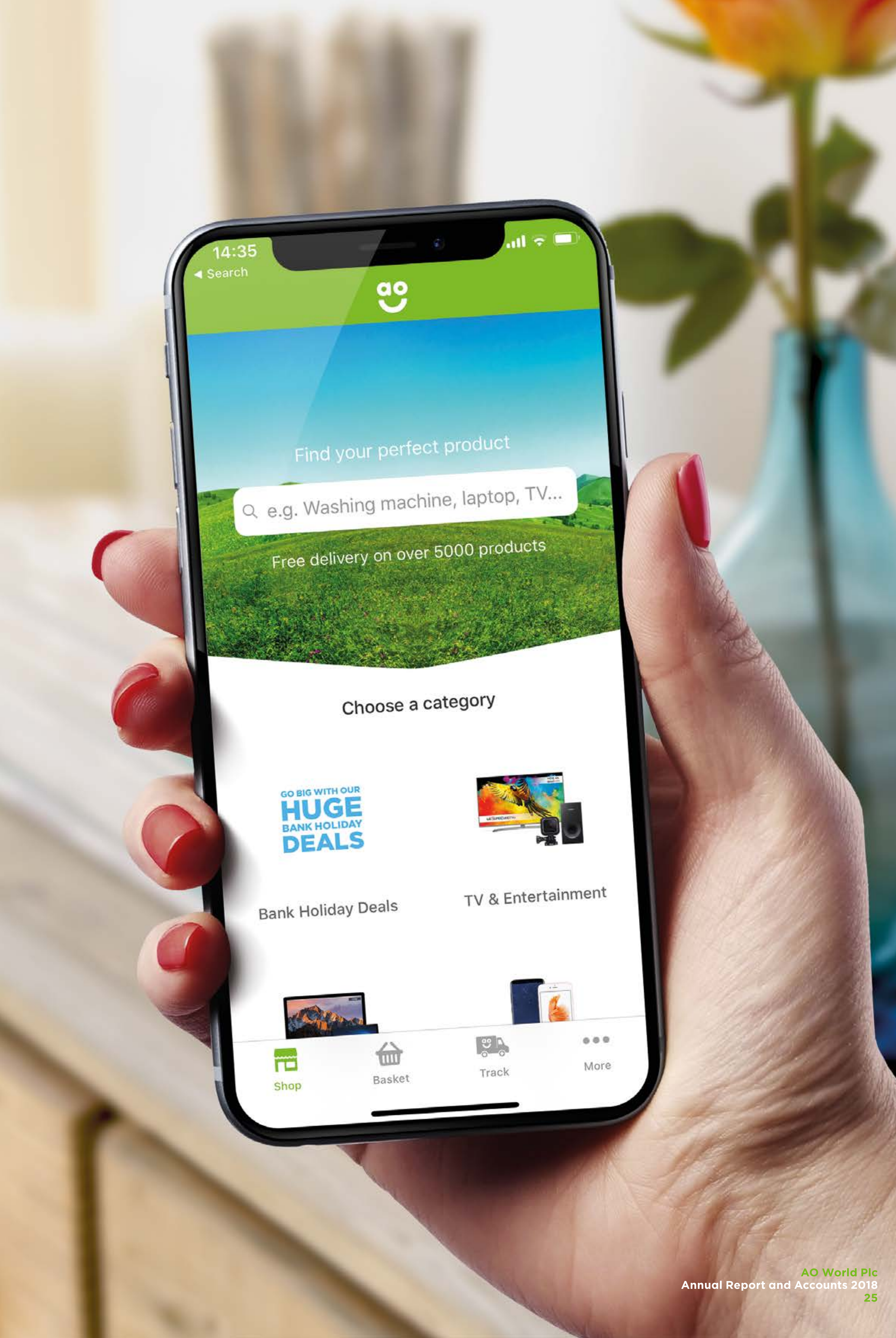
We have made lots of progress over the last year to expand the products we offer our customers as we have bolted on complementary categories and expanded ranges within existing categories.

Our strategic priority for the coming year will be to continue our focus on our core UK AO Retail business, to ensure we are ready to launch into other territories when the time is right and to leverage into further categories. We will continue to deliver amazing customer service to have the happiest customers who will return to AO time and time again.

We are also working to further improve our product protection plan that we sell as agent for Domestic and General to ensure we have a product that is appropriate for all categories and territories that demonstrates our values and excels in service delivery and care. We expect that the legal form of our product protection plans will transform from being purely service backed to insurance or hybrid insurance and service plans later in the year. Following this, the existing AO Aftercare business will be rebranded as AO Care, which will provide ongoing, in-life experience to match that of the initial purchase and provide AO with a point of contact with our customers that continues to build our relationship and generate repeat business.

UK – New Customers vs Repeat Customers (%)




14:35
Search
Find your perfect product
e.g. Washing machine, laptop, TV...
Free delivery on over 5000 products
Choose a category
GO BIG WITH OUR
HUGE
BANK HOLIDAY
DEALS
Bank Holiday Deals
TV & Entertainment
Shop
Basket
Track
More


DANGER
Confined space
No unauthorised entry
Permit to work must be obtained
ao
ANDRITZ

Competencies

This objective not only includes the categories we offer as an electrical retailer but also how we can leverage our competencies into new opportunities and expand into our supply chain.

We have added a second drop ship vendor to our infrastructure, which has helped us to increase our computing range and allowed us to bolt on new categories to ao.com. We now retail Gaming, Mobile, Smart Home devices and Photography, adding key brand names such as xBox, PlayStation, Hive, Nest and Go Pro to our brand portfolio. We are encouraged by the progress made in these categories so far. In our core major domestic appliances market, we believe we have maintained share, reflecting our approach to foreign exchange-driven price increases by manufacturers, where we sought to protect our gross margins whilst still offering great value to our customers. Whilst competition in the Audio-Visual ("AV") and computing markets has been fierce, market share has been gained, and our small domestic appliances ("SDA") category is performing very well.

Trade customers (or Business-to-Business "B2B") have been buying from our ao.com website for years, from schools and offices to large landlords and housebuilders. This year we have formalised this offering with the launch of ao-business.com and a dedicated team. Our proposition remains centred on AO's amazing customer service but tailored to trade customers. Our agents and account managers are specialists in dealing with complex orders and offline queries. We have also made changes to payment methods; for example, offering credit accounts and BACs payments.

B2B is an important opportunity for us to further leverage our group logistics and recycling competencies in a market where nationwide next day delivery or removal of products is not necessarily standard. Our suppliers have been fantastically supportive in this venture – their support is pivotal to its success. They recognise the power of AO's offering and the difference we can make in this market.

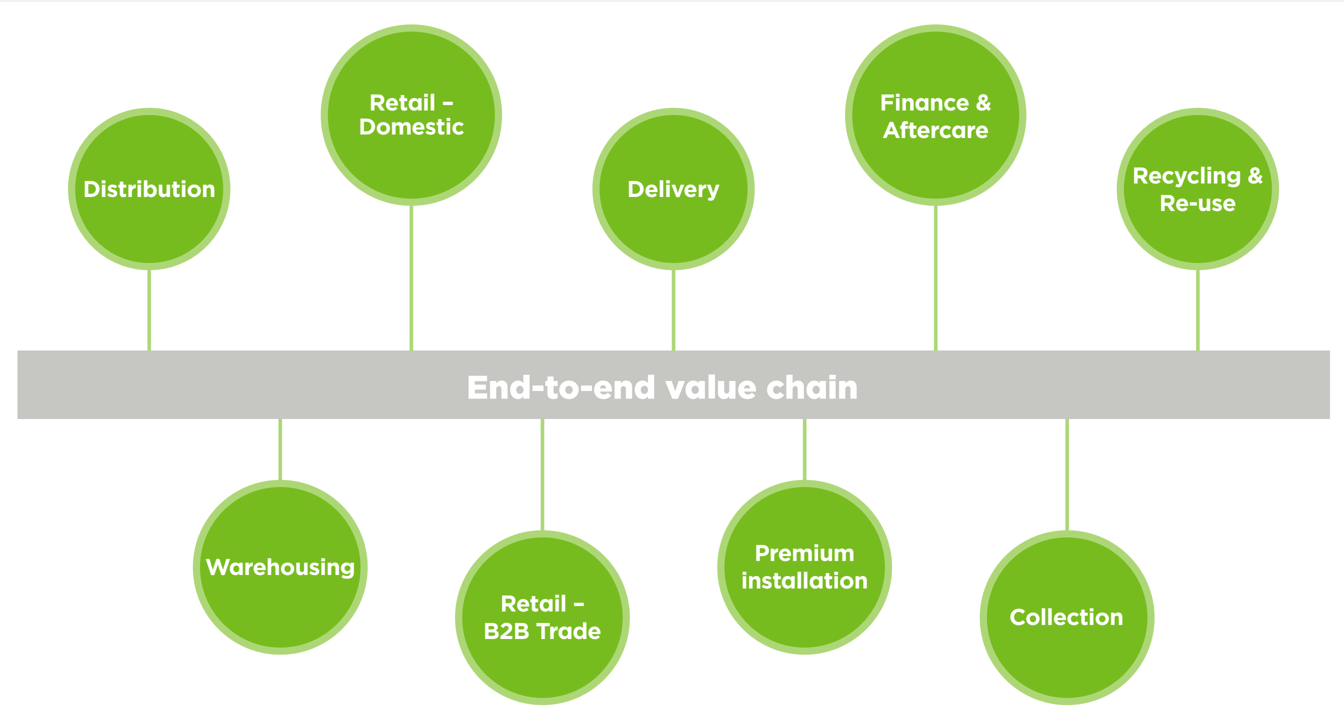
Our UK recycling facility became fully operational during the first half of the year, building upon our vertically integrated infrastructure and helping our environmental credentials as we move towards a circular economy. You can read more about this in our CSR section on page 38.

Our priority next year will be to leverage our existing competencies whilst exploring others where we can apply our skills and knowledge and increase profitability. For example, we will focus more on our third party logistics and recycling businesses, which we expect to invest in further over the coming years.

Our end-to-end proposition is best in class and there is demand for our services from third parties both within and outside of our market. A good example is our retail website capabilities, which we are able to sell to third parties illustrating our ability to leverage AO's group competencies into new markets. We are confident that our culture and service levels are being replicated and appreciated by our trade customers.

These developments give us more addressable markets, more opportunities to cross-sell and more reasons for our customers to come back to us, helping us reinforce our brand credentials and build trust and loyalty. We benefit from increased volume in our core business and at the same time improve quality of earnings. We also get the opportunity to learn about new and adjacent markets, which is a powerful research tool.

Our end-to-end competencies



Countries

In recent years the Group has launched its retail business in Germany and the Netherlands. Progress made in territories subsequent to the UK continues to give us confidence of the value of our retail business model and shows how we are able to leverage our brand and competencies, giving us a strong platform for future growth.

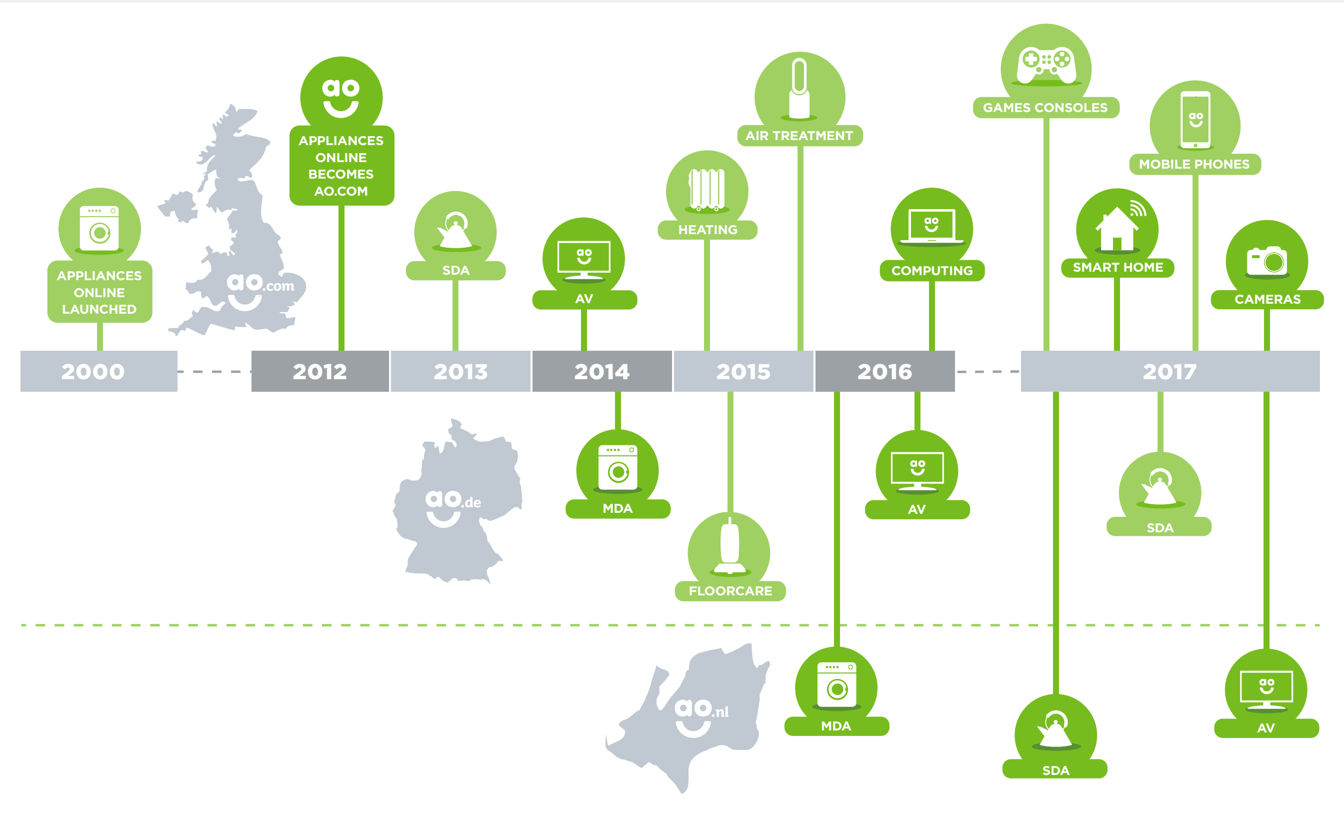
We continue to drive our European operations responsibly in a controlled manner. As planned, our growth in Europe has yet again been delivered with very little investment in traditional marketing and we are pleased with the awareness generated by customer recommendations. Launching our proposition through marketplaces with Amazon in Germany and through Blokker and BOL in the Netherlands is giving our brand more visibility and the opportunity to reach new customers.

During the period we launched our transactional app, the "help me choose" function that we have in the UK, and we now sell warranties in the Netherlands, providing customers with protection for their products. In Germany the SDA category now has a broader complement of products, with the addition of food preparation appliances, and in the Netherlands customers are now able to shop for AV products. Work continues with a German distributor as we look to broaden our categories in these territories much as we have in the UK.

We have worked hard to transfer our culture across to our European operations, always respectful of different customs and ways. In essence this has been achieved; although certain aspects of our UK culture may not exactly be mirrored in our overseas territories it is enormously satisfying to know that the values shine in each and every one of our European AOers and that they strive for exactly the same purpose as those in the UK: to have the happiest customers by relentlessly striving for a better way.

Our key priority over the coming year will be to deliver the second year of our European plan to achieve a profitable adjusted EBITDA run rate by FY21.

Category competencies; Relentlessly offering more to our customers



Our People
Last year I reported that our business divisions had been restructured to give greater responsibility and accountability to senior management and their respective teams. In line with defining our purpose and reviewing our business model and strategy, we further refined the senior organisational structure at the end of the reporting period. To better support our growth, a new UK Chief Operating Officer role has been created into which the UK divisional managing directors will report and we have created a Europe Chief Operating Officer role under which we will look to diversify our business, much as we have done in the UK. Our Chief Brand and People Officer will have responsibility for communicating and protecting our brand together with ensuring our culture remains true to AO across our entire Group. Importantly, this structure will also allow me to spend more time focusing on the business rather than being in the business.

Our people and culture is at the heart of our brand and provides us with a real advantage over our competitors; as always we will protect it fiercely. To achieve our goal, we will nurture it, attract the best people who live our five values and then retain them. That means being the best employer we can be for our people, so high employee engagement and development is fundamental to achieving our objectives. Our values are set out on page 21. It is the combination of each of our values: Bold, Driven, Smart, Fun and Care that creates our behaviour and gives us our competitive advantage.

You can read more about our People in the Resources and Relationships section on page 35.

Summary & Outlook
Great things have happened operationally in our business during the year which reflect our purpose and values. We have continued to successfully launch new categories across our territories and formalised our B2B offering to leverage our proposition. Further, we have opened a new office in Manchester for our IT, media and financial services AOers and our UK recycling facility became fully operational, building upon our vertically integrated infrastructure and helping our environmental credentials as we move towards a circular economy.

In the UK we have maintained market share in our core UK MDA business despite a competitive electricals market and limited marketing expenditure in the second half of the year, adding new customers whilst experiencing healthy repeat purchase rates. These metrics highlight the underlying strength of our business model and the AO brand; once a customer shops with us they remain loyal and they go on to recommend us because we make their experience a great one.

In Europe towards the end of the period we reached an inflexion point where incremental revenues reduce losses.

Our over-riding objective remains to continue to deliver amazing customer service to ensure we have the happiest customers who will return to AO time and time again. Our consistently high NPS scores and our amazing Trustpilot achievement proves we are firmly on track.

Our Trustpilot achievement

FY18 has been a year of fantastic progress for AO and I want to thank all our AOers for their hard work and dedication this year. There has been amazing collaboration across our business as we have come together to define what we really stand for. I've never been so excited about AO and look forward to the future with confidence.

Steve Caunce
Group Chief Executive Officer
4 June 2018

How our model has developed

At the time of our IPO we operated in one country and principally in one category, the retail of Major Domestic Appliances in the UK. Since this time our business model has become more complex as we have broadened our offering into new categories and countries. We have also expanded vertically into our supply chain, leveraging our brand and competencies and successfully replicating our culture, always striving for a better way.

The AO business model reflects the core competencies we have built over the years to support our purpose; to have the happiest customers.

As our brand grows, and we make more customers happy, we should consolidate a loyal customer base to enable us to continually reinvest in and develop these competencies to support further growth and profitability, thereby creating sustainable value for all our stakeholders.

AO's culture and values are the most important aspect of our competitive advantage as we relentlessly strive for a better way for our customers. Underpinned by our continued investment in people, infrastructure and systems and our relationships with our suppliers, our culture and values provide the glue that binds our model together.

Creating value: having the happiest customers by relentlessly striving for a better way

At the heart of our model are our resources and relationships (the things we are really good at): People, culture and values, our scalable systems and processes and our supplier relationships.

You can read more about them on page 35.

Inputs

Our business model comprises the following core competencies:

Retail

In 2000 the AO business was born as our founder, John Roberts, sought to change the way white goods are purchased in the UK. Since this time our offering has broadened to include the sale of more and more categories and ranges, ancillary services, and we have also expanded into new territories. This core retail competency, and its customers, remain at the heart of what we do with simply excellent execution in both our core UK and European Retail businesses through our ao.com, ao.de and ao.nl websites. We have a market-leading customer proposition through our website platform with rich and innovative content across a huge range of products, supported by a full service and delivery proposition, all at a competitive price.

We continually obsess over our customer service and as such we recently achieved 100,000 reviews on customer feedback site Trustpilot, making ao.com the 20th company to break this threshold globally and the first online appliance retailer. We currently have a 95% "great" or "excellent" score on the Trustpilot platform, which places us in the top 0.01% of companies to achieve this threshold whilst managing to keep the highest accolade available.

Logistics

Our logistics business is one of the leading home delivery providers of white goods in the UK. From our 'hub' in Crewe, comprising two distribution centres with a total of over 700,000 square foot of space via our network of 14 delivery depots, we deliver millions of products to customers each year, both for our retail business and third-party clients. We currently operate around 450 trucks and 150 trailers, delivering nationwide seven days a week from 7 am to 7 pm and offer end customers the benefit of dynamic timeslots. Our service is broad, from the basics of unpacking and inspecting customers products, to complex gas cooking and integrated installations.

Financial Services

Our financial services business currently encompasses the sale and promotion of product protection plans and consumer credit products (where we act as agent and broker respectively). As with the core retail proposition, we strive to have the happiest customers and so naturally the financial products we promote need to offer great value and benefits. The pay-monthly product protection plan (which we promote as agent for D&G) can last indefinitely and gives customers the opportunity to receive a repair or replacement product should their protected product breakdown at any point in its life, providing security and peace of mind. We promote a range of credit products with a competitive general credit product offering at 19.9%, but also use 0% interest free offerings and buy now pay later for promotional purposes; we adhere to responsible lending practices and provide simple and clear finance options for our customers.

As with our core retail business, we are very much led by the wants and needs of our customers, and we are evolving our existing financial products to ensure that we are able to offer a market-leading proposition which demonstrates our values and excels in service delivery and care.

Business-to-Business ("B2B")

Trade customers have been buying from our ao.com website for years, from schools and offices to large landlords and house builders. This year we have formalised our B2B offering through the launch of our ao-business.com website and dedicated team. Our proposition remains centred on AO's amazing customer service but is tailored to "trade" customers. Our agents and account managers are specialists in dealing with complex orders and offline queries. B2B is an important opportunity for us to further leverage our logistics and recycling competencies in a market where nationwide next-day delivery or the removal of products is not necessarily standard.

Recycling

Our purpose-built state-of-the-art WEEE recycling facility in Telford is the biggest in the UK and has the capacity and capability to process fridges as well as other large domestic appliances responsibly and correctly, as well as refurbishing appliances brought in from AO customers for resale. The new venture aims to recycle 700,000 appliances per year and means we can play our part as a responsible retailer in ensuring our customers' old products don't end up in landfill but are recycled or reused. AO Recycling provides us with a number of potential business opportunities and is a great example of how we can vertically integrate into our supply chain.

New verticals/Business streams

Our end-to-end proposition is best in class and there is demand for these services from third parties, both within and outside of our market; for example, our retail website capabilities.

This year, retail B2B has been an excellent example of our ability to leverage AO's group competencies into new markets. We are pleased with our development in this area and are confident our culture and service levels are being replicated and appreciated by our customers. The next step in this journey will be to focus more on our third-party logistics and recycling B2B opportunities, which we will develop further over the coming years.

How we will create value

Our business model is the result of years of expertise and investment in delivering the best service for our customers. This has resulted in the development of core competencies which provide us with a platform for the execution of our purpose. This in turn will further build our brand and reputation to become one of our greatest assets as we become partner of choice for customers across our chosen businesses, attracting new and repeat custom, thereby growing market share, revenue and profits, in a responsible manner for the benefit of all our stakeholders. As we continue to grow, we can reinvest in these competencies for the further benefit of our customers. This will include the addition of complementary categories, services and products in the usual AO way.

Our business model and proposition is scalable and provides us with a platform to enter new countries and vertically integrate our supply chain where we can leverage our core competencies.

We continue with our strategy of allocating capital generated by our UK business to be invested in EU operations during its early growth phase until it reaches critical mass. We will build a scaled business that is profitable, with our systems and culture, fully integrated, which will in turn become a future source of capital generation for the Group.

Our competitive advantage or what sets us apart

Our people, culture and values

The most important element binding the competencies in our business model together is our unique and vibrant culture. We have a team of people who genuinely care more about our business and its customers, and who live our five values. AOers seek to understand what our customers really want and how to make AO's offering work for them. They then roll up their sleeves and make things happen in an innovative, collaborative way across our business. You can read more about our people in our Resources and Relationships section on page 35.

We give customers a flexible and personal approach and make clear commitments to them which we then deliver on. This is true of customers of our AO branded websites across territories, our third-party logistics clients and, new for this year, our recycling customers. There is no stronger testament to this than our recent Trustpilot achievement. In April 2018, our Retail website ao.com had received over 100,000 reviews on customer feedback website Trustpilot, making us the 20th company to break this threshold. We are very proud to have a 95% "great" or "excellent" score on Trustpilot's platform which allows customers to feedback on the services they have received once they have made a purchase.

Underpinning our competitive advantage are:

Our scalable systems and processes providing operational leverage

Our key IT systems are developed in-house. As part of striving for a better way, we are therefore able to develop and customise our customer offering in a dynamic and timely manner. We also benefit as they are scalable and transferable and reduce our reliance on third parties. This creates a significant barrier to entry and makes it difficult for competitors to copy our model but easy for us to replicate in new categories and territories.

Our supplier relationships

We recognise that we form part of a supply chain in all of the businesses that we operate in. Our belief is that both we and our suppliers benefit the most where we have long-term mutually supportive relationships in place. This may manifest itself differently across our business units; for example, manufacturer suppliers supporting the formalisation of our B2B offering or the collaborative approach undertaken with the supplier for the design and build of our recycling plant. Our relationships with them are extremely important as we seek to develop new opportunities, driving value as part of a two-way relationship.

You can find out more about our suppliers in our resources and relationships on pages 35 to 36.

Who we benefit

Our customers

The customer is at the heart of everything we do. We are relentlessly striving to improve and transform the services, journey and products we offer to our customers across all the territories and verticals in which we operate.

Our employees

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

Our suppliers

We aim to partner with our suppliers in a collaborative way, seeking to drive and develop new opportunities that are beneficial for all. The importance of our suppliers continues to grow as we look to develop new opportunities.

Our communities

We are an employer of over 2,800 employees and contract with a large number of third parties. We invest time and money in local communities through employees volunteering and via the AO Smile Foundation.

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

Our shareholders

The benefits we provide to other stakeholders drive the benefits to shareholders. We are a high-growth company. Our profits generated from our UK operations are invested into building our European businesses, which we expect to achieve a profitable run rate during the financial year ending 31 March 2021. As the Company intends to retain any earnings to support the growth and development of the business, we do not anticipate paying any dividends in the foreseeable future.

We go to great lengths to offer our customers a first-class experience at every touch point, whether that's through delivery, our website or customer service.

We have continued our commitment to the Duke of Edinburgh Award. This year, 16 of our apprentices received their gold award.

Our resources and relationships

Our success to date has been based on a number of key elements, including: our customer service which is driven by people and culture; our supplier relationships; and our systems and processes.

Customer relationships

Our online platforms include detailed technical information, customer reviews, product and price comparison tools and an enhanced retail experience, which are not always available in stores.

One of our aims is to become the "destination for information" helping our retail customers (both consumers and trade) decide which product best matches their needs. We provide 3D animation and feature-led reviews to bring products to life, we simplify complex technologies, highlight user benefits and then deliver it to the customer with our market-leading standards. Our best service goal means that we aim to develop a retail experience which is as easy and effortless as possible, always maintaining a personal touch.

We have developed the AO app to be fully transactional and customers are able to shop on their Desktop, Tablet or Mobile device and speak to an adviser on the telephone or via our Live chat function. We believe we care more about the customer than most of our competition.

We offer over 8,400 SKUs in the UK, nearly 4,000 in Germany and nearly 1,700 in the Netherlands, a price match promise and deliver seven days a week (six in Germany and the Netherlands) at no extra charge. We offer a broad range of MDA, SDA and AV across all territories in which we operate. In the UK we also offer a growing range of computing, gaming, phone and smart appliance products. The range of ancillary services we offer, such as customer finance options, product protection plans, an unpack and recycle service, product care packs and disposal and connection services, is also growing.

Customers are looking for the best products, best service, best price and the easiest shopping experience so that's what we offer. As a result customer satisfaction levels are high and our customers love us. In April 2018, our UK retail website ao.com had received over 100,000 reviews on customer feedback website Trustpilot, making us the 20th company to break this threshold. We are very proud to have a 95% "great" or "excellent" score on Trustpilot's platform which allows customers to feedback on the services they have received once they have made a purchase. Our AO app currently has a 4.8 out of 5 rating, and as at 31 March 2018 we had 4.8 out of 5 stars on Trusted Shops for AO.de. Our NPS scores remain consistently high.

As we've developed our supply-chain capabilities to support the retail business, we now have excellent logistics and recycling businesses which we can leverage with third-party clients. Over the last few years we have been focusing on growing our green fleet and so third-party logistics sales reduced. However, we are looking to leverage our capabilities and brand to grow this business once more, giving amazing service to customers and making the experience of having a delivery from us as enjoyable and stress free as possible. In recycling, our plant processes MDA WEEE from our UK retail business and we have opened up our spare capacity to third parties, providing them with best-in-class recycling to ensure waste is dealt with efficiently and responsibly.

Supplier relationships

Historically, our supplier relationships have been focused on the product manufacturers for our retail business. As we diversify and leverage our competencies in the UK, supplier relationships have broadened and we now see our key relationships as:

- The manufacturers and distributors that supply products to us;
- Our delivery providers (ranging from national organisations e.g. DPD and Collect+) to whom we now outsource deliveries of smaller products to individual contracted drivers and small/local businesses who provide the two-man home delivery service for our MDA products); and
- Third-party providers of significant plant and infrastructure (particularly in our recycling business and IT systems).

These relationships also include our relationship with D&G, for whom we provide product protection plans as agent

Our belief is that both we and our suppliers benefit the most where we have long-term mutually supportive relationships in place; we recognise that driving a fair bargain rather than a hard bargain will build long-lasting and fruitful relationships.

We are careful to listen to the concerns of all suppliers and act accordingly, have regular meetings at both operational and strategic levels with key suppliers and put in place clear service level agreements to ensure suppliers have a good understanding of, and are able to meet our expectations.

This may manifest itself differently across our business units; for example, manufacturer suppliers supporting the formalisation of our B2B offering or the collaborative approach undertaken with the supplier for the design and build of our recycling plant. Our relationships with them are extremely important as we seek to develop new opportunities, driving value as part of a two-way relationship.

This photo was taken recently when we took our suppliers on a tour around our recycling facility. They were very impressed.

This spring, we once again turned our customer service centre into donation lines for Sport Relief; helping raise money for our communities.

We recognise that we form part of a supply chain in all of the businesses that we operate in. There is considerable interdependence between us and the manufacturers, and most of the relationships have been in place for many years in the UK. These relationships are becoming increasingly strategically important to our suppliers as we grow our customer base, sales volumes and influence on customer demand, but also to us as we seek to launch in new countries and try to leverage our competencies. We aim to work in partnership with them, sharing insight and knowledge, innovating categories and changing the normal course of retailing.

We understand that our manufacturer suppliers invest significantly in research to develop product features so we think a lot about and invest in how we add value for supplier brands to be the trusted partner in our channel and we always think long term. Our innovative content offers our manufacturers a great platform to showcase their products and deliver our brand messages as our 3D animation and feature-led reviews bring products to life.

Our people and culture

AO employs over 2,800 people across three countries. We believe that happy people care more and require a lot less management. So we make sure they're happy by giving them autonomy where appropriate, support where needed and a great environment to work in. They are empowered; they are incentivised; and they know they are trusted. We love watching them grow and thrive. We recruit and retain the best talent and look for people who are smart, bold and driven. They must care more, not only about our customers but other stakeholders of the business too, be it our suppliers or other employees and, of course, do it all with a sense of fun.

Last year saw a huge focus on defining what our Purpose was as a business and this was uncovered by talking to our people, by asking for examples of when they felt proud to work at AO. From the hundreds of stories we heard, our Purpose "to have the happiest customers by relentlessly striving for a better way" was defined. You can read more about why and how we defined our Purpose on pages 18 to 20.

Having a clearly defined Purpose has allowed us to really set the tone to the business of why we are here and what we are here to achieve. The Purpose has sharpened the lenses through which we operate and has allowed us to align our people with a renewed sense of direction and motivation.

Our Purpose has also allowed us to refresh our people experience and to truly understand how our people feel working at AO. In 2018 we took a step away from an annual employee engagement survey approach and opted for an "always on" strategy that enables us to keep our finger on the pulse of what our employees are feeling. This level of analysis will improve and steer our people strategy about where we are as an employer and where we want to be. Our last survey has focused our attention on a number of areas, one of which included our internal communication strategy, specifically our communications channels.

The Company intranet has seen a shift in its design and usability and traditional internal communication channels, print, visual and email have all undergone a design overhaul to ensure a consistency in look and feel, with the new look materials entering circulation at the beginning of the year.

We have also introduced new feedback loops into the business, driving two-way communication with employees. Our 'People Labs' allow us to explore business topics that impact our people as part of our decision making and planning. The second feedback loop that we have introduced is 'AO Ideas'. This is a virtual suggestion box where we ask employees to submit their suggestions on how we as a business can improve through a channel that is always open and non-topical.

AO is committed to maintaining good practice in relation to equal opportunities and reviews its policies on a regular basis in line with legislative changes and best practice benchmarking. It is Company policy that no individual (including job applicants) is discriminated against, directly or indirectly, on the grounds of colour, race, ethnic or national origins, sexual orientation or gender, marital status, disability, religion or belief, being part time or on the grounds of age or frankly anything else, and recruit on this basis.

The Company aims to ensure that:
- Recruitment practices and selection procedures are free from discrimination or bias;
- Working practices, career progression and promotion opportunities are free from discrimination or bias; and
- Employees are aware of their own personal responsibility in ensuring the support of the policy in practice.

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

There are now over 2,800 AOers working across our business. We want to encourage our people to collaborate and share ideas as much as possible, which is why our offices offer lots of areas of open space for creative thinking.

We continue to do what we believe is best for employees, particularly when it comes to providing working environments where they can really flourish.

Female representation on our Group and senior leadership team (excluding the Executive Directors) was 32% at the end of the reporting period, whilst the number of female employees across the whole of our business was 26%. Understanding how we can further diversify our workforce has formed a key part of our 2018 people agenda. Creating an environment where people can succeed and deliver their best every day is central to this. To kick-start this, a series of workshops have been delivered across the business to help us further understand our positioning on diversity. We have spoken to numerous employees in all areas of our business and at all levels to understand their stories and experiences. This has ensured that all action plans are built on insight, focused on creating an inclusive environment and delivered to effect real change.

Investing for the Future

We understand that our people are the reason behind our success and we also recognise that our people need support and leadership to guide them as we move our business forward. For this reason, we have made leadership strength and capability development a priority in the last six months. We are currently working with our executive leaders to build on their existing strengths as individuals and develop a solid executive leadership unit that takes our business forward together.

We are taking careful steps to ensure our areas of focus stay aligned to our business and we are able to adapt as our business changes. This next financial year will see us continue this work and widen our reach to our next level of leaders, so they too are armed with the critical skills to lead our fantastic business.

In line with our work on the AO Purpose, we have reviewed our training and development strategy for our Customer Experience agents. To ensure we have the "Happiest Customers…" we have designed a new induction and training programme catered specifically for our customer contact employees focusing on our values. The new programme gives our agents the essential skills they need to hit the ground running. Incorporating a 12-month view of the training and development of our customer-facing employees, we are aiming to equip them with the right level of knowledge to help our customers more effectively. This covers essential product knowledge so they can provide the exceptional advice and assistance that our customers expect from AO. It is important that we train and encourage our customer agents to care, and nurture their soft skills and problem-solving abilities to ensure that every contact they have with our customers is both efficient and effective.

The opening of AO Manchester in Baskerville House during the year has been key in our plans to create an environment that is attractive to talent in our IT and Digital Skills teams. The state-of-the-art central Manchester location is enabling us to tap into talent pools previously unavailable to AO in Bolton. With its central location, great design, the facilities available and proximity to public transport hubs, we are now able to compete for talent with North West businesses, to attract the best in the market and prevent us missing out on those that are unable to travel to Bolton. The new offices are set up to promote collaborative working and the impressive design of the workspace is a vital part of the strategy to attract talent, especially in the IT and digital skills sectors.

Our investment in emerging talent is a focus as we continue to support the next generation of talent. Our apprenticeship programme provides the opportunity to build both life and workplace skills, and we currently have around 30 apprentices across our business completing a range of qualifications such as project management, digital, marketing and finance. In the year to 31 March 2018 we have seen five apprentices complete their apprenticeship qualification and move into a permanent junior role, 16 apprentices complete the Duke of Edinburgh Gold Award (helping to build important life skills) and 12 apprentices embark on their second qualification with us.

The next year will see more of our apprentices complete their Duke of Edinburgh Gold Award and their apprenticeship qualifications, and we will continue to work with our emerging talent on work skills to prepare them for their future roles.

Supporting our Employees Needs

We continue to do what is best for our employees, providing a supportive and nurturing environment in which they are given the encouragement, support and training to develop their skills. In addition to provide a supportive environment, we are working on developing our employee wellbeing proposition to ensure that employees are happy. We have run ad hoc wellbeing activities in the workplace during 2017, to gauge employee attitudes towards workplace Health and Wellbeing initiatives. This has been received well amongst employees, and we are working on a strategic and aligned Health & Wellbeing programme to deliver services, advice, products and awareness in a consistent and holistic manner. Developing a coherent programme of wellbeing initiatives, rather than running ad hoc activities, is a vital part of our People strategy for next year.

We have increased support, activities and communication about Health & Wellbeing issues, to ensure employees feel engaged with their work, understand AO's challenges and priorities, and recognise the importance and value of their contribution and involvement. This strategy lends itself to the overarching people plan and is underpinned by our values.

Systems and processes

Distribution

Our UK in-house delivery network runs from Crewe and 13 outbases around the UK. We operate a similar model in Europe and currently have a European Regional Distribution Centre in Bergheim and a number of outbases and customer service centres across Germany and the Netherlands.

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

IT

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

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

A modern company with old fashioned values. Our values are what set us apart.

Responsible retailing
The Board considers that the development, wellbeing and safekeeping of people is central to supporting its strategy and this, coupled with our social and environmental credentials, is fundamental in creating a sustainable business. You can read more about the importance of our People on page 31.

Keeping people safe
We are committed to maintaining the highest standards of Health and Safety practice for anyone affected by our business activities. We have rapidly grown the health and safety culture alongside the continued growth of the business.

Over the year we further invested in various forms of recognised external training and internal education to ensure we are even more knowledgeable on the subject. This enables us to have a workplace where employees take individual responsibility for their actions and promote safety on a daily basis.

Our Health and Safety policies and procedures include:
- Periodic internal audits on our Health and Safety performance by an independent expert, which reviews legal compliance, how we benchmark against best practice and how we maintain a safe environment.
- Regular internal inspections completed by the department to monitor performance in each area.
- Managing risk and promoting Health and Safety culture in the Board's agenda and Senior Management meetings.
- Consistently supporting the network of Health and Safety Representatives across the group.
- Seeking accreditation and aligning long-standing Company programmes and procedures to internationally recognised Quality Assurance standards.
- Appropriate training and education of all employees to adhere to legal compliance and best practice.
- Providing a safe environment to significantly reduce occupational injuries or illnesses.

Supporting our communities
AO actively encourages all employees to support and give back to their local community, and the AO Smile Foundation continues to facilitate this.

Many of our UK employees make a regular monthly gift to the charity, and during the year over £56,000 was raised through payroll giving, which makes the process of giving as easy, flexible and tax efficient as possible.

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

Over the year we have continued to encourage colleagues to have a positive impact within their local communities and continued to support a number of charities and community projects, including:
- Manchester One Love concert volunteering
- National 3 peaks Challenge
- Macmillan Coffee Morning
- Big Manchester Sleep out
- Christmas Jumper campaign

We are pleased that our call centre was once again chosen to be an official call centre for Sport Relief in March 2018. The night saw AOers from our head office, Manchester office and AO Logistics taking calls from members of the public making donations. We received 1,147 calls and collected over £45,000 in donations. We are also proud to have been named one of Comic Relief's fundraisers of the year following this.

Business ethics
Our Modern Slavery statement for the year ended 31 March 2017 was published during the year, and we have continued to look at our due diligence processes in this area to ensure we are complying with the law but above all doing the right thing in accordance with our values. Our Modern Slavery statement can be found at ao-world.com

We also have in place a formal anti-bribery policy and whistleblowing procedures.

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

As a country, annually, we throw away 1.4 million tonnes of WEEE. This challenging waste stream presents a major problem, but what's the best way to deal with this mountain of discarded metal, plastic and hazardous materials? How can we do it safely, efficiently and in an environmentally responsible way, while extracting the most value from it?

In July, we launched AO Recycling in a bid to meet some of these challenges head on and to take a lead on the issue of WEEE recycling. Our state-of-the-art new recycling facility at Telford in Shropshire has set new standards for WEEE reprocessing with high levels of recyclate, gas, oil and refrigerant recovery.

Our move into recycling has been, in many respects, a natural progression for the business. We've always strived to be more than just a retailer and, as we have developed our logistics credentials into a leading business in its own right, so our recycling business was born. AO Recycling is about taking responsibility for our customers' waste electrical appliances. We also want to make it easier for customers to recycle and for them to have peace of mind that it will be done to a high standard.

The plant's focus is on fridge recycling, however other large WEEE is also brought to Telford. These are either recycled or, if possible, refurbished for resale as secondhand items. Every year, the plant will reprocess 700,000 fridges – about one-fifth of the 3.5 million thrown away annually in the UK.

At our plant, compressors, gases and oils, as well as refrigerants, are carefully and safely removed from the fridges. The remains are then deposited inside an 80-tonne shredding machine and broken into small pieces by rotating steel chains inside a sealed chamber and then separated out into raw materials. The crucial thing is nothing is wasted – as much value as possible is extracted from the waste. Even the packaging from a customer's new appliance is recycled at the plant.

Energy-efficient operations

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

In order to drive energy efficiencies:

— Our home delivery fleet comprises 3.5 tonne "Hi-Cube" trucks– these trucks are lighter and have a greater space and weight capacity;
— We have opened one additional outbase in the UK during the year to service demand and improve the efficiency of our fleet, taking our total to 14; and
— We also try to maximise our fuel efficiencies through the use of vehicle telematics, and, for example, by employing double-decker trunking so that we can deliver more products in one go to our outbases.

Greenhouse Gas Emissions Statement

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

The methodology used to calculate our emissions is based on the Greenhouse Gas Protocol Corporate Standard and emissions reported correspond with our financial year. This year we have reported on all material emissions from both our owned and leased assets for which we are responsible across the UK, Germany and the Netherlands (the prior year period included less than one month of trading from the Netherlands). Emission factors used are from UK Government (Defra) conversion factor guidance current for the year reported, with the exception of Germany and the Netherlands, for which current conversion, factors were unavailable and therefore UK equivalent CO_2 factors have been used. Any changes in factors between the current and prior year reporting periods are considered minimal.

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

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

Greenhouse Gas Emissions data

Year ending 31 March	Tonnes of CO_2e* 2018	2017
Emissions from operations and combustion of fuel (Scope 1)	25,608	25,600
Emissions from energy usage (Scope 2)	4,260	3,865
Total	**29,868**	**29,465**
Intensity ratio: tonnes of CO_2e per £m of revenue	37.48	42.01

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

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

* CO_2e conversion factors in respect of gas and electricity for the Group's German and Netherlands operations for the current year were unavailable therefore UK equivalent CO_2 factors have been used.

Steve Caunce
Chief Executive Officer

How we manage our risks

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

How we manage risks
We have developed a risk management framework with policies in place for identifying and addressing risks and with clearly defined lines of responsibility, accountability and delegation of authority.

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

Audit Committee
Delegated responsibility from the Board to oversee risk management and internal controls
Assesses their effectiveness by having regard to the risks elevated to the Corporate Risk Register
Reviews and oversees Corporate Risk Register and advises Board on risk appetite

Risk Management Committee ("RMC")
Ensures robust risk management procedures are implemented and complied with
Develops strategies and programmes to embed risk management as a core management skill
Promotes a culture to encourage risk awareness and integrity
Attended by senior management to ensure engagement in risk management practice
Critically reviews risk register; assesses materiality/measurement of risk and monitors mitigation and controls
Supports business unit leaders and their teams in assessing risk

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

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

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

Risk identification and assessment

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

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

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

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

Risk appetite

Overall, the Group has a "balanced" approach to risk taking; we will not be unduly aggressive with our risk taking but, being mindful of our distinct appetite for strategic, operational and legal risk, we may accept a limited number of significant risks at any one time in order to foster innovation and to facilitate growth. We recognise that it is not possible or necessarily desirable to eliminate some of the risks inherent in our activities. However, these must be reviewed against the assessment of other principal risks to ensure that the level of net risk remains within the overall accepted risk appetite. For example, where we have already accepted an aggressive or material risk, this would then limit the acceptance of additional material risks.

The Risk Appetite Statement is reviewed annually, in line with the strategic direction of the Group, recent experience and the regulatory environment.

This year's achievement and future actions

This year we have continued to fine-tune our risk management processes, developed our risk appetite and its application to different types of risk, and revisited our scoring mechanisms and categorisation and the controls and mitigants relating thereto. Further, we have continued to ensure that appropriate risk management is embedded in all areas of the business and that a consistent approach to risk is taken.

We have also spent time understanding where we are currently acting outside our risk appetite and also where we could improve risk mitigation; debating whether these are conscious decisions or where action plans need to be put in place.

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

- Our ongoing GDPR programme: We have performed an extensive audit of our data processing activities, completed privacy impact assessments and legitimate interest assessments, revisited the basis on which we market to our customers, redefined retention policies, updated privacy policies and rolled out training across the Group. We have also enhanced our IT security and improved access controls.
- Establishing a team to monitor the current political and legal environment around worker status, including analysing recommendations of the Taylor Review and what this may mean for our driver model and participating in BEIS consultation on this issue.
- Introducing internal rules governing the structure of our pricing claims to ensure our messaging is clear and transparent.
- Planning to transition our product protection plans from purely service-backed warranties to insurance-backed warranties.
- Continuing to roll out our Business Continuity and Disaster Recovery Plans across all our sites.
- Reinforced our culture with purpose and values workshops.

These projects will continue in the year ahead and we will continue to embed our risk culture throughout our Group, in all territories and areas in which we operate.

Principal risks

As we set out last year, Culture and People, Brand Recognition and Damage, Failure of European Expansion, IT Systems Resilience, Business Interruption, Compliance with Laws and Regulation, and the UK Economy pose significant risks to our business.

Given the continuing uncertain outlook for the UK economy and softening of consumer demand, we have seen an increase in the amount of promotional activity undertaken by our competitors in the retail sector. We therefore think a better way to articulate this principal risk is to rename it "Brexit and the UK electricals market".

Following our ongoing risk appraisal work, we now think it appropriate to include "Key Commercial Relationships" as a principal risk. This includes:

- the manufacturers and distributors that supply products to us;
- our delivery providers (ranging from national organisations, e.g. DPD and Collect+) to whom we now outsource deliveries of smaller products to individual contracted drivers and small/local businesses who provide the two-man home delivery service for our MDA products); and
- third-party providers of significant plant and infrastructure (particularly in our recycling business).

It also includes D&G for whom we act as agent in the promotion of product protection plans.

Whilst we feel our key commercial relationships are stronger than ever, the relationships with manufacturers in particular are critical to the core retail business and therefore to the verticals that we have created around that business. We are aware that suppliers often rely on credit insurance to protect their receivables against the risk of bad debt or insolvency. Should such cover be materially reduced or withdrawn (as seems to be more frequently reported in the retail sector as of late), there would inevitably be an impact on the business. Given the financial resources available to the Group (including the proceeds of the placing of shares carried out last year), we believe we are suitably capitalised and have sufficient funds to be able to deal with reduced payment terms from suppliers, if this were to be a consequence of the withdrawal or reduction of a suppliers' credit insurance. However, there would probably be a negative impact, in particular on our purchasing strategy.

For details on the changes to our principal risks over the year, please see the table overleaf:

Key risk	Nature of the risk	Mitigating activities	Overall change during the year
Culture and people **Impact on strategic objectives:** — Culture & Brand — Customers — Competencies — Countries	Culture is a key ingredient in the success of the business and a unique differentiator from our competitors. If we fail to maintain the culture in conjunction with our growth, this could affect all areas of the business from our ability to attract customers, our dealings with suppliers and the way we deliver. We rely on our senior leadership team to provide strategic direction to the business. Significant erosion of this team would have a material impact on our strategy being realised.	— AO culture is supported by a wide range of tools, workshops and events with a dedicated employee events team — The senior leadership team have a shared responsibility to drive culture throughout the business on the basis of AO's values — Senior employees continue to receive attractive remuneration packages and we have redesigned our incentive package to improve retention — Strengthened operational management teams in each business unit give the benefit of localised decision making and reduce reliance on individuals — Some succession planning is in place	**Risk decrease** Our purpose work over the last six months has helped cement our mission and values, further instil the culture amongst our colleagues and provide greater unity across the Group. Our European businesses have well-developed teams who are able to apply the culture and values and to pass this on to new recruits. Further refinements to our leadership structure have also provided clarity and unity.
Failure of European Expansion **Impact on strategic objectives:** — Countries	Expanding into new territories is a key part of our strategy. Failure in these territories would limit our long-term growth and negatively impact the Group's finances.	— Expansion into new territories is only undertaken after extensive research — Expansion leverages AO's existing UK online retailing expertise and experience that has been built up over many years — Capital requirements are relatively low and investment is managed in stages — Specific targets are in place for new territories to enable focus on objectives and measurement of performance	**Risk decrease** We are on track with our goal to have a profitable run rate in the Europe segment by FY21. Now there is a roadmap and defined milestones are in place, our teams have a clear focus and, as we see these milestones being met and the progress we are making on product margin, we have more confidence that the model can be replicated.

Key risk	Nature of the risk	Mitigating activities	Overall change during the year
Brand recognition and damage **Impact on strategic objectives:** — Customers — Competencies — Countries	Damage to our brand or failing to achieve growing recognition would lead to a reduction in customer loyalty, a failure to attract new customers or suppliers or affect existing relationships.	— Ongoing marketing campaigns to raise brand awareness through different mediums — Rigorous monitoring of customer feedback through quality processes — In-house PR teams established to deal with press and events. — There is a dedicated social media team in place to increase brand awareness and generate consumer interest in ao.com	**No change** High NPS and Trustpilot scores in the UK and in Europe show that our proposition resonates and customers continue to love our brand, and we continue to enjoy strong repeat business in all our territories. Our purpose work should provide the platform from which we can make a step-change in our brand awareness and help prevent damage.
IT systems resilience and agility **Impact on strategic objectives:** — Customers — Competencies — Countries	AO's main IT systems are interlinked and critical for ongoing operations. Therefore failure of one system may disrupt others. The majority of customer orders are taken through our website ao.com, and therefore significant downtime as a result of a successful systems breach or failure would affect the ability to accept customer orders and may affect customer loyalty, AO's reputation or our competitive advantage and result in reduced growth. The loss of sensitive information relating to strategic direction or business performance may compromise our future strategies, or the loss of data relating to individuals may result in an ICO complaint and negative publicity.	— Physical and system controls in place to minimise data breaches — There is a continual improvement cycle in respect of access levels, housing of critical data, encryption and penetration testing for customer data — Software is rigorously tested and follows a robust release process before being deployed in live environment — Operation of the IT environment is continuously monitored and disaster recovery plans are in place to ensure business can recover from any interruptions with minimal impacts — The AO website and internal network are protected by a firewall, a holistic view of routers and switches with potential for individual configuration change, frequently updated anti-virus and penetration testing	**Risk increase** Whilst we have improved our IT systems resilience over the period, the pace of change with cyber-crime, in particular denial of service and brute force attacks, appears to be increasing. Further, as we grow, our IT systems become more complex and less agile.

Key risk	Nature of the risk	Mitigating activities	Overall change during the year
Compliance with Laws and Regulation **Impact on strategic objectives:** — Customers — Competencies — Countries	Changes in regulations or compliance failures may affect our strategy or operations, in particular to the following areas: — Data protection — The basis upon which the Company offers and sells product protection plans or the basis upon which revenue from the sale of such plans is accounted for. — Driver employment status — Health and Safety ("H&S")	— Regulatory developments are routinely monitored both in the UK and in Europe to ensure that potential changes are identified, assessed and appropriate action is taken — AO are supported by a Legal and tax team who promote awareness and best practice and an Internal Audit team who provide assurance on compliance — Third-party specialist advice is sought where necessary and any recommendations are implemented and subject to ongoing monitoring — AO's business is supported by a qualified H&S team — Changes to the macro environment and legislation are monitored and implemented promptly	**Same overall** Whilst the commencement of operations at the Group's new recycling facility in Telford has increased the overall H&S risk to the Group, we have recruited and integrated a bespoke H&S to monitor the operation and instil the right culture around H&S at the site. Continuing scrutiny of the "gig economy" and government consultation on employment status has increased the risk of legislation changing in this area, however during the year we were successful in defending the driver's employment status at an employment tribunal, which decision was upheld by the Employment Appeal Tribunal. GDPR poses potential challenges to working and marketing practices, and we are working through these,designing solutions and implementing better controls. We are transitioning the legal form of our product protection plans from being purely service backed to insurance or a hybrid insurance and service plan. Whilst this increases compliance work and regulatory risk around the sale of the product, going forward the risk of a challenge on legal form of the plan (i.e. whether or not it should be classified as insurance) should cease to be relevant.

Key risk	Nature of the risk	Mitigating activities	Overall change during the year
Business Interruption **Impact on strategic objectives:** — Customers — Countries — Competencies	A disastrous event occurring at or around one or more of the Group's sites, including our main distribution centres in both the UK and Germany, may affect the ongoing performance of our operations and negatively impact the Group's finances and our customers.	— Two NDCs in the UK reduce reliance on any one distribution centre, and in Germany the distribution centre is separated into chambers to reduce the impact of fire or damage — Dedicated engineering teams on-site with daily maintenance programmes to support the continued operation of the NDCs — A number of standalone controls are in place to mitigate a major event occurring at one of the Group's sites — Enhanced business continuity planning continues — Insurance policies are also in place to further mitigate this risk	**Risk decrease** In the UK we have a new facility in Manchester that can be used by staff in the event of interruption to our head office facility. We have continued to increase the number of outbases in the UK and are looking to increase our outbases in Germany. We are working to improve our BCDR plans across all key sites in both Europe and the UK.
Brexit and the UK electricals market **Impact on strategic objectives:** — Customers — Culture	Uncertainty in the UK economy following the outcome of the EU Referendum (Brexit), the risk of inflation and the dampening of consumer confidence may affect the ability of the Group to maintain sales growth. Controls on the freedom of movement of people could add friction into the supply chain. Controls on the freedom of movement of people may impact the availability of workers in the UK or the ability of our people to move freely between our UK business and our mainland Europe operations. Potential for an online sales tax once no longer a member of the EU. Currency risk from profit and loss translation from Europe to the UK adds uncertainty. Reduced consumer demand drives increased competitor promotional activity.	— Customer proposition remains strong and continued migration to online shopping should soften macro-economic impacts — Robust relationships with suppliers and improved stock holding could mitigate impacts on lead times — Long-term recruitment planning underway to reduce potential for gaps in worker availability — We closely monitor competitor activity and have the ability to react quickly to ensure our proposition remains competitive	**Risk increase** Continued uncertainty in the economy and the softening in consumer demand and the housing market has caused the MDA market to shrink year on year, which in turn has driven competitive activity. Whilst we believe we have maintained our share of this market (see page 51) (in spite of limited promotional activity), the macro-economic risk is increasing.

Key risk	Nature of the risk	Mitigating activities	Overall change during the year
Key Commercial Relationships **Impact on strategic objectives:** — Customers — Competencies — Countries	The achievement of our strategy is partly dependent upon relations, support and the service provided by key suppliers. If there was failure on the part of the suppliers or a breakdown in our relationship, this would affect our proposition to the customer. Key suppliers include: — Manufacturers and Distributors — Delivery Providers — Plant and Information Technology Systems Suppliers It also includes our relationship with D&G, whom we act for as agent in selling product protection plans. As well as a general relationship risk, there is a credit risk with D&G, given the size of the debtor and our ability to recover such debt. See further on page 119. The risk includes the ability to achieve favourable terms, suppliers' credit insurance being maintained, competitive rebates being agreed and the ability to attract premium brand suppliers to work with AO.	— There is ongoing management of relationships with key suppliers to ensure strong business relations — The increased strength of the ao.com brand has resulted in an improved negotiation position with existing key suppliers and potential new suppliers, however, we recognise that driving a fair bargain rather than a hard bargain will build long-lasting and fruitful relationships — We are careful to listen to the concerns of all suppliers and act accordingly, have regular meetings at both operational levels and strategic levels with key suppliers and put in place clear service level agreements to ensure suppliers have a good understanding of and are able to meet our expectations — Given the financial resources available to the Group (including the proceeds of the placing of shares carried out last year), we believe we are suitably capitalised and have sufficient funds to be able to deal with reduced payment terms from suppliers, if this were to be a consequence of the withdrawal or reduction of a suppliers' credit insurance — In terms of rebates, these are formally agreed with suppliers via annual trading terms	**New Principal Risk** Whilst we feel our key supplier relationships are stronger than ever, the relationships with manufacturers in particular are critical to the core retail business and therefore to the verticals that we have created around that business. Should a supplier's credit insurance cover be materially reduced or withdrawn (as seems to be more frequently reported in the retail sector as of late), there would probably be a negative impact, in particular on our purchasing strategy. Further, as we have diversified our product offering, we are becoming increasingly reliant on third-party carriers for deliveries of our smaller products in the UK. In Europe we are sub-contracting some deliveries whilst we build scale.

Details on our significant accounting risks, namely the accounting in relation to product protection plans and commercial income are set out on page 74.

Assessment of Group's prospects

Viability assessment

In accordance with Code C.2.2 of the UK Corporate Governance Code 2016 ("the Code"), the Directors are required to assess the longer-term viability of the Company taking into account the principal risks facing the Company.

The Directors have considered whether the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 March 2021. This period was considered appropriate due to: the rapid growth plans of the Group and changes in its strategic opportunities; changes in the economic environment which may alter consumer demand patterns and the Group's business planning processes which cover this period and help to support the Board's assessment.

In making its assessment of the longer-term viability of the Group, the Board have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency, or liquidity. These risks and how they are mitigated are set out above on pages 40 to 46 and in the Corporate Governance Statement on page 74. The Directors have also reviewed the Group's annual and longer-term financial forecasts and have considered the resilience of the Group using sensitivity analysis to test these metrics over the three-year period. This analysis involves varying a number of main assumptions underlying the forecasts (including, without limitation revenue, margin and working capital), and evaluating the monetary impact of severe but plausible risk combinations and the likely degree of mitigating actions available to the Company over the three-year period if such risks did arise.

Based on the Company's current position and principal risks, together with the results of the assessment detailed above and the Group's enhanced risk management processes (see pages 40 to 46) and internal controls (see page 72), the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Going concern statement

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 16 to 57. The financial position of the Company and its cash flows are described in the Chief Financial Officer's Review on pages 48 to 56. In addition, the notes to the financial statements include the Company's policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

In making their assessment of going concern, the Directors considered the Board-approved budget, the three-year business plan, cash flow forecast, the availability of a £60m Revolving Credit Facility, the proceeds raised from the placing of new shares in the Company completed in April 2017 and the Principal Risks set out on pages 40 to 46.

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

Continued revenue growth and progress in our European business

Mark Higgins
Chief Financial Officer

The Group has continued to execute against its strategy in the year to 31 March 2018. We have continued to grow Group revenue despite a challenging trading environment in the UK. We are on track with our plans in Europe and have re-capitalised our balance sheet and increased our Revolving Credit Facility to give us headroom to continue our growth both in the UK and Europe. Going forward we expect to increase revenue and improve profitability by leveraging the assets we have built, driving out further efficiencies and, in the short to medium term, reinvesting our cash in the growth of our European operations.

In the UK, against a backdrop of a fiercely competitive market, total revenue increased by 8.1% to £680.8m. This growth was achieved despite the core UK MDA market experiencing overall lower volumes year on year[1], set against an environment of lower consumer confidence associated with the Brexit process[2], as well as our relatively low level of marketing spend in the second half of the year. In Europe, both businesses continue to perform to plan, with revenue increasing by 54.8% on a constant currency basis as the brand attracts both new and repeat customers with high levels of customer satisfaction.

Adjusted EBITDA losses increased slightly in the year, with the UK impacted by pressure on margins and investment for future growth and higher marketing costs in the first half of the year reflecting TV sponsorship. Europe, on a constant currency basis, reduced its losses as it starts to benefit from scale. The European business overall continues to perform to plan and we expect these losses to continue to reduce. We remain confident of achieving a profitable run rate during the financial year ending 2021.

Mindful of the continued uncertainty in the UK markets, and to provide the Group with resources as it continues its growth and investment, we took steps in the year to strengthen the balance sheet of the Group as well as securing additional facilities to provide the Group with liquidity headroom. In April 2017 we successfully raised £50m of gross proceeds via a share placing with existing and new investors and in November 2017 we increased our Revolving Credit Facility by £30m to £60m (of which £58.6m remains undrawn at the end of March 2018).

Our customer base and repeat purchase metrics continue to be healthy, highlighting the strengths of our model, which will help drive continued growth across our new territories. Our expanding range and categories together with our strategy to leverage our competencies into other opportunities should ensure resilience as we broaden our revenue streams. This, together with our strengthened balance sheet and outstanding customer proposition, will ensure that we are well positioned to trade well through any potential future/continued challenging market conditions.

Year ended 31 March	2018	2017	% change
Financial KPIs			
Group revenue (£m)	796.8	701.2	13.6%
UK revenue (£m)	680.8	629.7	8.1%
Europe revenue (€m)	131.2	84.7	54.8%
UK Adjusted EBITDA (£m)	22.6	24.4	(7.1)%
Europe Adjusted EBITDA losses (€m)	(29.6)	(31.5)	5.8%
Group Adjusted EBITDA (£m)	(3.4)	(2.1)	(65.9)%
Group Operating Loss (£m)	(16.2)	(12.0)	(35.5)%
Non-Financial KPIs			
Non-Financial KPIs, such as Brand Awareness and Trustpilot scores, are highlighted on pages 24, 27 and 29.			

Mark Higgins
Chief Financial Officer
4 June 2018

1 Source: GfK.
2 Source: GfK's Consumer Confidence Index.

2018 performance at a glance

£796.8m
Group revenue up 13.6%

£(16.2)m
Group Operating Loss increased by 35.5%

£22.6m
UK Adjusted EBITDA down 7.1%

€(29.6)m
European Adjusted EBITDA losses reduced by 5.8%

Trends and insights into our markets

Summary

Over the years, we have expanded from one country and one category into three countries and six categories. Our primary business continues to be the retail of Major Domestic Appliances to individual consumers ("MDA"), however the dependency on this continues to reduce as we leverage our capabilities into new markets (representing 70% of total Group revenue in FY18 versus 74% for FY17).

Core market – overview

The MDA opportunity is vast. GfK estimates that the total spend[1] on MDA products in the top ten European countries[2] is around £21bn in FY18[3], or £12.7bn in our current countries of operation (UK, Germany and the Netherlands)[3].

We consider there to be four main factors influencing the size and shape of our addressable MDA markets, as set out below. In the last year, a combination of these trends has resulted in these markets growing in value terms by 1%, 1% and 8% in the UK, Germany and the Netherlands respectively[4].

97%

Washing machine ownership in UK households

1 Total spend is defined as value of sales generated through price paid at the till
2 Included in our Europe market size is UK, Germany, the Netherlands, Ireland, France, Poland, Austria, Belgium, Switzerland and Czech Republic
3 GfK, inc VAT, 12 months to March 2018
4 GfK, 12 months to March 2018 vs. 12 months to March 2017
5 ONS, 2016
6 ONS, 2017
7 ONS, 2016-17
8 ONS
9 https://www-genesis.destatis.de/genesis
10 https://tradingeconomics.com/netherlands/inflation-cpi

Exchange rates used are the average for the period under review.
GfK UK references are defined as GB.

1 Demographic trends and home ownership

There are over 66 million people[5] and 27 million households[6] in the UK, and 97% of these households own a washing machine[7]. Most MDA products are essentials for modern life, which provides a level of stability to future volumes.

Further, we believe that the majority of MDA purchases are replacement in nature. We have invested in a market-leading delivery and service infrastructure so that customers can depend on us when they need it most.

Discretionary volumes are impacted by more cyclical factors such as housing transactions and/or kitchen refurbishments, which we are responding to through new channels such as B2B. This has also positioned us well for recent structural demographic trends such as the increased popularity of rented accommodation.

2 Economic trends and disposable income

CPI inflation (%)

Following the UK referendum in 2016 and ensuing exchange rate movements, we are experiencing some inflationary pressure within our supply chain. We have chosen to maintain competitive prices in this period, supporting our customers with visibility through price-match commitments, better value alternatives and trade-up/down options. This has supported transaction volumes through the period.

MDA is a relatively expensive (and often unforeseen) purchase, and therefore we are also exploring the launch of innovative and broader finance options and a rental model to widen the support available to customers.

However, given the complexity of MDA as a category, price is not the only consideration and we continue to invest against other purchasing criteria including range, customer experience, delivery and services proposition, web content and journey. Further details of our retail offering can be found in our Business Model on page 32.

3 Technological trends and product innovation

The continued adoption of new technology and new product innovation are important drivers of transaction volumes and average product values ("APVs"). Smart Tech, connected home and the Internet of Things are valuable and growing markets.

In part, this has led to a growing peak at Black Friday in recent years, not only for gifting but also for personal consumption. Our teams at AO have become better at excelling in these seasonal peaks, and we continue to invest in our infrastructure and capacity to support this.

4 Consumer trends and competition
The MDA market has seen similar changes in consumer shopping habits to the broader retail market, with ever increasing expectations for choice, availability and convenience. This requires operational and financial capability and flexibility. Our strong supplier relationships, end-to-end control of our efficient operating model and relentless focus on the customer means we are able to adapt and react quickly.

Our services portfolio is becoming ever more important in supporting this. Our distribution, installation and recycling infrastructure is optimised to deal with the complexities of MDA, resulting in a benefit of scale not available to smaller providers.

Customers also expect more choice and flexibility in where and when they browse and purchase items, across a range of channels and devices. The primary sales channel for MDA continues to be bricks and mortar, representing 60% of the MDA market in the UK, 82% in Germany and 76% in the Netherlands[3], however online migration continues. Online MDA in the UK grew by 4% in 2018[4], more quickly than the overall UK market (comprising online and offline sales) at 1%[4]. AO are well positioned to take advantage of these structural trends.

AO faces competition from a small number of specialist MDA retailers, including Currys, Argos and John Lewis in the UK, Media Saturn and Notebooksbilliger in Germany and Coolblue and BCC in the Netherlands. Most of these have large store portfolios to manage. Some have in-house infrastructure and control over end-to-end-services. There is also a broader selection of generalist providers over whom we have a structural advantage.

Our MDA market share (in value terms) is still relatively modest at around 15% in the UK, 1.5% in Germany and 1.2% in the Netherlands[3] – broadly flat year on year[4] in a period of tough market conditions and as we have been preparing for our next phase of growth in new markets, categories and geographies.

The market remains competitive and the winners will be those with operational flexibility and a focused and well-invested brand and customer proposition. Scale will become ever more key. We continue to believe there is an opportunity to surprise and excite the customer, become a trusted and loved partner, and bring humanity and care to what is otherwise quite an ordinary purchase. It's this amazing service that our brand will be famous for.

Market development – Customers and countries
We are now present in three European countries, with dependence on our UK operations reducing to c.85% of sales in FY18 (FY17: c.90%). The four growth drivers vary in each, providing us with some diversification benefits.

This year also saw the formalisation of our B2B/Trade division in the UK, allowing us to leverage our core capabilities into a whole new marketplace; our initial research suggests this is a sizeable and incremental opportunity.

We are also live on eBay, Mail Shop, Bol, Blokker and Amazon Marketplace which represent an interesting opportunity for incremental volume throughput, enabling us to invest further in our core proposition.

Product development – Categories
Diversifying into new categories helps us to attract more customers to the AO brand, drive average order values and lessen our dependency on MDA. With the launch of Mobile and Gaming in September 2017, AO now operates in six categories in the UK with a combined market size estimated at £16.2bn[3]. We are live with three categories in Germany and the Netherlands (MDA, SDA and AV) with a combined market size of £29bn[3]. The market sizes are shown below:

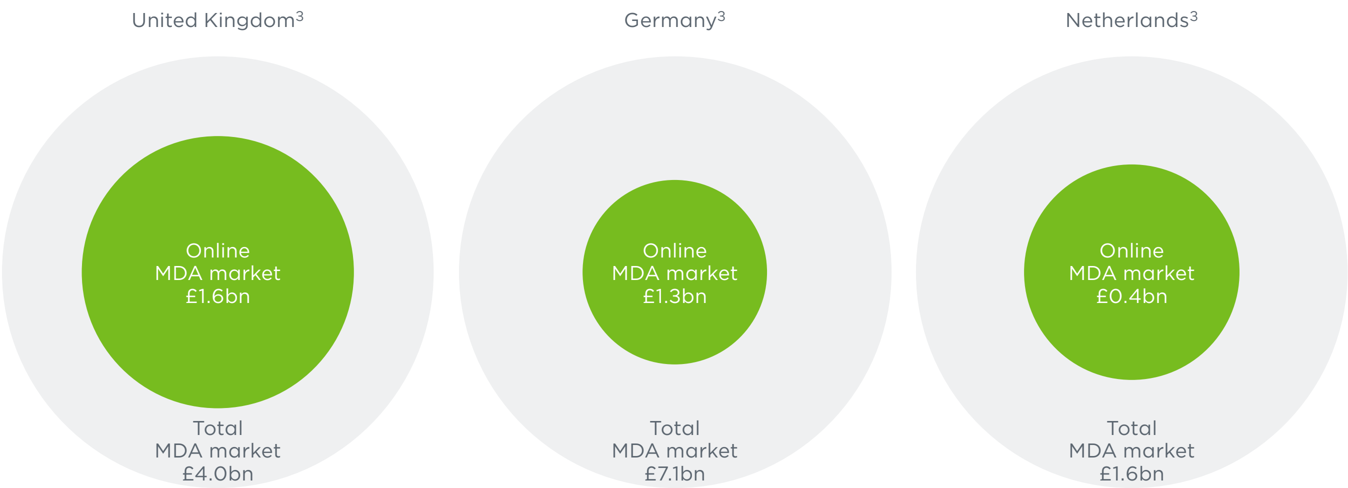
£bn GBP	MDA	SDA	AV	Total
UK	4.0	2.0	4.0	10.0
Germany	7.1	2.6	6.2	15.9
The Netherlands	1.6	0.5	1.0	3.1
Total	12.7	5.1	11.2	29.0

The total European[1] market for all six categories (MDA, SDA, AV, IT, Mobile & Gaming) is £84bn[3].

Diversification – Competencies
The steps we have taken to leverage our competencies in adjacent markets will provide us with increased scope for growth at limited marginal cost. Recent examples of this include third-party logistics and recycling (which follows a number of years of third-party web sales).

These businesses also offer some contractual protection to earnings – enabling us to invest in greater capacity, and in many cases provides counter-seasonal benefits. We will explore these opportunities in detail and focus our investment on the areas of highest potential for customer and shareholder benefit.

MDA market opportunity in current territories



Financial Review

Revenue (see table 1)
For the year ended 31 March 2018 total Group revenue increased by 13.6% to £796.8m (2017: £701.2m).

Revenue in the UK increased by 8.1% to £680.8m (2017: £629.7m). This growth was largely driven by an 8.7% increase in "AO" website sales (which includes ao.com and AO branded eBay shops) to £606.6m (2017: £557.9m) and is in line with our strategy to consolidate our position in our core UK markets, driving growth through expanding our offering whilst continuing to deliver the highest levels of customer service. Progress in the UK has been achieved despite an increasingly competitive market as well as a year-on-year decline in the overall MDA market on a volume basis and is in line with our own expectations. It has also been achieved with a relatively low level of TV and marketing spend in the second half of the year following our levels of expenditure in the first half of the year on the BGT sponsorship, showing our strengths in repeat purchases and word of mouth recommendations.

In Europe, AO website sales from our German website AO.de, and also our Netherlands website, AO.nl, generated revenues, on a constant currency basis[1], of €131.2m (2017: €84.7m), an increase of 54.8%, which equates to £116.0m (2017: £71.5m) on a reported currency basis. This growth is in line with our expectations and is largely driven by recommendations from our customers who have experienced the AO Way of shopping and expansion of our categories in both territories and the launch of new routes to market; for example, through Amazon Marketplace in Germany. It is also pleasing that growth has been delivered despite a planned and continued low level of promotional activity. Growth in the final quarter, however, was at a slightly slower pace as we consolidated our logistics operations with the benefits of this experience in the first quarter of our current financial year.

AO branded website sales (including ao.com, AO.de, AO.nl and AO branded eBay shops) now account for 88.9% of total Group revenue (2017: 89.8%).

1 Where euro amounts are disclosed in these financial statements, they represent the actual euro revenue, costs or loss for the period. The term constant currency is used by the Group to describe the increase or decrease as actual euro amounts recorded for the relevant period. Providing this information eliminates the impact of foreign exchange movements.

Sales from third-party websites in the UK were broadly in line with the prior year at £46.7m (2017: £46.0m). Our focus remains on promoting and investing in the ao.com brand but, in line with our strategy, we have been able to leverage our competencies to increase revenue generated from certain third parties.

Included within "Other sales" is revenue from UK third-party logistics services and our recycling business. This segment experienced a 7.6% increase in revenue to £27.8m (2017: £25.8m) driven by increased revenue from our recycling business following the successful commissioning of the new fridge recycling plan during the year partly offset by the impact of the completion of a short-term logistics contract in the prior year.

"AO website sales" and, for the UK, "Third-party website sales" includes revenue earned from the sale of physical products and also ancillary services such as delivery, the installation of products, unpack, inspect, together with commission earned from the promotion of Domestic and General's product protection plans and, in the UK, customer finance. Revenue from such ancillary service sales in the period achieved growth broadly consistent with product sales, representing 11.1% of total sales at £88.6m (2017: 11.5%, £81.0m).

Gross margin (see table 2)
Gross margin for the Group, which includes product margin, delivery costs, commissions from selling product protection plans and other ancillaries (which attract a higher margin as a percentage of revenue than product sales) reduced to 17.8% for the reporting period. This was a fall of 0.6ppts against the prior year with total gross profit increasing by 9.7% to £141.8m (2017: £129.2m).

Despite the competitive pricing environment in our more mature categories and the dilutive impact of new categories, in the UK gross margin increased by 0.1ppts to 21.3% (2017: 21.2%). Product margins remained in line with the prior year, with the improvement in the year largely driven by further efficiencies in delivery and trunking costs realised from our increased delivery base.

In line with the increase in revenue relative to the prior period, in the UK the contribution from ancillaries increased with a full year's benefit of the new product protection plan agency agreement with Domestic and General (which became effective 1 December 2016) at higher commissions and with customer cancellations improving.

Table 1:

	2018			2017			% change		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
AO website sales	606.6	115.7	722.3	557.9	71.5	629.4	8.7%	61.7%	14.8%
Third-party website sales	46.5	0.2	46.7	46.0	–	46.0	1.0%	–	1.4%
Other sales	27.7	0.1	27.8	25.8	–	25.8	7.6%	–	7.8%
Revenue	**680.8**	**116.0**	**796.8**	**629.7**	**71.5**	**701.2**	**8.1%**	**62.1%**	**13.6%**

Table 2:

	2018			2017			% change		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Gross profit/(loss)	144.6	(2.8)	141.8	133.2	(4.0)	129.2	8.5%	-28.4%	9.7%
Gross margin %	21.3%	-2.5%	17.8%	21.2%	-5.6%	18.4%	0.1ppts	3.1ppts	-0.6ppts

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

In Europe the gross loss reduced by 28.4% to £2.8m (2017: £4.0m loss) and gross margin improved by 3.1ppts to -2.5% (2017: -5.6%). During the period we have continued to make significant progress with our supplier relationships resulting in further improvements to product margin. In addition, our costs to make an individual delivery continue to improve with increasing order levels and the use of a third-party delivery model to serve some outlying areas. These have enabled the European operations to deliver on the first stage of the plans as set out in our Capital Markets Day in February 2017. As volumes, and therefore drop densities, continue to increase our Europe business will be able to leverage its existing cost base to drive further improvement in gross margin.

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

(see table 3)

Total Group SG&A expenses increased by £17.4m to £159.8m (2017: £142.4m).

UK SG&A expenses for the year to 31 March 2018 increased by 13.1% to £134.3m (2017: £118.6m) and represented 19.7% of sales (2017: 18.8%). UK advertising and marketing expenditure as a percentage of revenue remained broadly unchanged year on year at 4.2% (2017: 4.1%) with lower than normal spend in the second half offsetting our Britain's Got Talent marketing expenditure in the first half. Despite this, the UK business achieved sales growth in the second half of the year of 8.9% compared to the prior year. We expect these costs to revert to a more normalised average spend in the current financial year (FY19) as we seek to increase our brand awareness through investment in a new brand campaign. We continue to achieve a reduction across our traditional customer acquisition costs due to an increase in direct traffic as a result of brand advertising and improved Search Engine Optimisation ("SEO") performance.

UK warehousing costs increased by £2.7m to £30.0m (2017: £27.3m), representing 4.4% of revenue (2017: 4.3%) as a result of a full year's costs for two outbases opened in the prior year and the opening of a new outbase in Bridgend in the current year. The addition of the further outbase helps to reduce stem mileage thus creating efficiencies in delivery costs which are reflected in gross margin. As we continue to grow, we should continue to achieve greater efficiencies due to scale from this physical structure.

UK other administration expenses increased by £9.3m to £70.7m (2017: £61.4m) and as a percentage of sales increased to 10.4% (2017: 9.7%). The increase largely related to investments made in our IT, ecommerce and aftercare teams, including new premises costs in Manchester, to support our growing operation and generate additional revenue from warranty sales.

In Europe, our SG&A costs as a percentage of revenue continue to decrease as volumes increase and represented 22.2% of revenue (2017: 33.2%).

Europe advertising and marketing expenses reduced by £1.4m to £4.8m in the 12 months to 31 March 2018. This reduction is largely a result of us applying our learnings from our UK business, particularly in relation to customer acquisition costs and our continued policy of low TV spend as we seek to grow through word of mouth and customer recommendations. Warehousing costs increased slightly to £4.3m (2017: £4.0m) as we experience a full year of cost from our NDC in Bergheim, and we will continue to leverage this asset as we grow our volume. Other administration expenses increased by 21.2% to £16.4m (2017: £13.6m) as we grew our headcount to support the increased complexity of the business (but as a % of sales reduced significantly).

Operating loss and Adjusted EBITDA (see table 4 overleaf)

Operating loss was £16.2m for the period increasing by £4.2m against the prior year. However, when reviewing profitability, the Directors use an adjusted measure of EBITDA in order to give a meaningful year-on-year comparison, and it is a performance criteria for the purposes of both the Executive management's historic annual bonus and LTIP awards (along with other measures including revenue). Whilst we recognise that the measure is an alternative (non-Generally Accepted Accounting Principles ("non-GAAP")) performance measure which is also not defined within IFRS, this measure is important and should be considered alongside the IFRS measures. Operating profit is reconciled to Adjusted EBITDA as set out in table 4 on page 54. The adjustments are as follows:

Adjustments

Exceptional share-based payment charges

LTIP awards were made to a number of senior staff under the Performance Share Plan at the time of the Company's IPO in 2014 and also under the Employee Reward Plan (ERP) in July 2016. The Board considers that the magnitude and timing of these awards are exceptional in nature and so add-back any charge in arriving at Adjusted EBITDA.

AO Sharesave scheme charges and LTIP charges relating to the LTIP awards which are not considered to be exceptional in nature are not adjusted for.

Exceptional restructuring costs

During the year, and following the appointment of Steve Caunce as Group CEO, the Group has undertaken a restructure of its executive team. The cost of this restructure, including the impact of the acceleration of certain share option charges, is considered to be one-off in nature due to its size and timing, and has therefore been added back in arriving at Adjusted EBITDA.

Table 3:

	2018			2017			% change		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Advertising and marketing	28.4	4.8	33.2	25.7	6.2	31.9	10.5%	-22.6%	4.1%
% of revenue	*4.2%*	*4.1%*	*4.2%*	*4.1%*	*8.6%*	*4.5%*			
Warehousing	30.0	4.3	34.3	27.3	4.0	31.3	9.6%	6.2%	9.1%
% of revenue	*4.4%*	*3.7%*	*4.3%*	*4.3%*	*5.6%*	*4.5%*			
Other administration	70.7	16.4	87.1	61.4	13.6	75.0	15.2%	21.2%	16.3%
% of revenue	*10.4%*	*14.2%*	*11.0%*	*9.7%*	*19.0%*	*10.7%*			
Adjustments[1]	5.2	0.1	5.3	4.3	–	4.3	21.9%	–	23.1%
% of revenue	*0.9%*	*0.0%*	*0.7%*	*0.7%*	*n/a*	*0.6%*			
Administrative expenses	**134.3**	**25.5**	**159.8**	**118.6**	**23.8**	**142.4**	13.1%	7.5%	12.2%
% of revenue	*19.7%*	*22.2%*	*20.1%*	*18.8%*	*33.2%*	*20.3%*			

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

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

Europe set-up costs
These are costs incurred in connection with our European expansion strategy and our continuing research into other further countries along with strategic post "go-live" costs.

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

Group Adjusted EBITDA losses increased to £3.4m (2017: £2.1m losses) after allowing for £26.0m of Europe Adjusted EBITDA losses (2017: £26.5m). In local currency (removing the impact of foreign exchange movements), European losses decreased by 5.8% to €29.6m (2017: €31.5m), reflecting the impact of increased volumes particularly in Germany.

UK Adjusted EBITDA for the 12 months to 31 March 2018 was £22.6m (2017: £24.4m) with the decrease primarily driven by the investment in SG&A costs noted above.

Taxation
The tax credit for the year was £0.2m (2017: £0.4m charge). The effective rate of tax for the year was 1.9% (2017: -6.3%). The Group is subject to taxes in the UK, Germany and the Netherlands. The Group continues to be able to offset its German losses against profits within the UK through its registered branch structure in Germany. The changes in the UK loss utilisation rules have not had an impact on this utilisation of current year losses. No overseas tax is attributable to Germany and the Netherlands as they continue in the start-up phase of their operations as in the prior year, the deferred tax asset arising on these carried forward losses continues to be treated as not recognised on the basis that the Group does not expect these territories to be profitable in the short term.

The above, along with movements in the deferred tax asset arising on share options included in the tax computations for the year ended 31 March 2018, have resulted in a small tax credit in the income statement.

Our tax strategy can be found at www.ao-world.com

Retained loss for the year and loss per share
Retained loss for the year was £13.3m (2017: £7.4m). Basic loss per share was 2.93p (2017: 1.56p loss) which is positively affected by a foreign exchange gain of £1.1m (2017: £4.4m) arising from intra-Group funding arrangements.

The foreign exchange gain has arisen as a result of the movement in the exchange rate between sterling and the euro in the period. This has impacted the value of intra-Group loans held in GBP in the European entities and EUR loans in the UK giving rise to the £1.1m gain referenced above.

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

Year ended 31 March (£m)	2018	2017
Loss		
Loss attributable to owners of the parent company	(13.4)	(6.6)
Foreign exchange gains on intra-Group loans	(1.1)	(4.4)
Adjusted loss attributable to owners of the parent company	(14.5)	(11.0)
Number of shares		
Basic and adjusted weighted average number of ordinary shares	458,788,480	421,052,631
Loss per share (in pence)		
Basic loss per share	(2.93)	(1.56)
Adjusted basic loss per share	(3.16)	(2.62)

Diluted loss per share was 2.92p (2017: 1.55p).

Cash resources and cash flow
Net cash balances at 31 March 2018 were £52.9m (2017: £29.4m). The increase in cash in the year reflects the proceeds from the successful share placing in April 2017 of £48.1m, principally offset by a working capital outflow and capital expenditure in the UK (including investment in our new premises in Manchester).

Borrowings (which comprises bank borrowings and finance leases) reduced by £2.8m to £14.6m, resulting in net funds at 31 March 2018 of £38.3m (2017: £12.0m).

Table 4:

	2018			2017			% change		
Year ended 31 March (£m)	UK	Europe	Total	UK	Europe	Total	UK	Europe	Total
Operating profit/(loss)	11.6	(27.8)	(16.2)	15.6	(27.6)	(12.0)	-25.4%	1.1%	35.5%
Add adjustments: *Europe set-up costs*	0.3	–	0.3	0.7	–	0.7	-57.1%	–	-57.1%
Non-cash share-based payments charge for exceptional LTIP awards	3.5	–	3.5	3.6	–	3.6	-4.1%	–	-4.1%
Executive restructuring costs	1.4	0.1	1.5	–	–	–	–	–	–
Adjusted operating profit	**16.8**	**(27.7)**	**(10.9)**	**19.8**	**(27.6)**	**(7.8)**	-15.0%	0.7%	40.7%
Add: Depreciation and amortisation	5.8	1.8	7.6	4.9	1.1	6.0	18.2%	53.5%	25.7%
Less: Profit on disposal	–	(0.1)	(0.1)	(0.3)	–	(0.3)	-93.5%	–	-77.0%
Adjusted EBITDA	**22.6**	**(26.0)**	**(3.4)**	**24.4**	**(26.5)**	**(2.1)**	-7.3%	-1.4%	65.9%
Adjusted EBITDA as % of revenue	3.3%	-22.5%	-0.4%	3.9%	-37.0%	-0.3%	-0.6ppts	14.5ppts	-0.1ppts

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

In November 2017, the Group increased its existing revolving credit facility by £30m to £60m, with HSBC Bank plc joining Lloyds Bank Plc and Barclays Bank Plc in the banking syndicate. The facility is available for general corporate purposes, including UK working capital movements, with the undrawn amount at 31 March 2018 being £58.6m the balance being allocated against guarantees.

Working capital (see table 5)
At 31 March 2018, the Group had net current assets of £0.7m (31 March 2017: net current liabilities of £28.5m) principally as a result of the increase in cash balances resulting from the share placing in April 2017.

Movements in working capital in the year were as follows:

As at 31 March 2018, UK inventories were £42.1m (2017: £35.7m) reflecting an increase in sales volumes and stock build ahead of the Easter bank holiday weekend. UK average stock days decreased to 27 days (2017: 31 days).

UK trade and other receivables (both non-current and current) were £91.5m as at 31 March 2018 (2017: £76.9m) principally reflecting an increase in accrued income in respect of commissions due on product protection plans as a result of the higher retail volumes.

UK trade and other payables increased to £140.9m (2017: £129.0m) primarily reflecting the increased inventory noted above.

At 31 March 2018, European inventories were £11.1m (2017: £9.1m) principally as a result of the increase in sales volumes in both territories during the year. Trade and other receivables increased to £11.2m (2017: £4.0m), reflecting an increase in trade particularly through new payment providers and the impact of yearly supplier agreements.

Trade and other payables increased to £15.1m (2017: £11.2m), reflecting the increase in such levels and trade.

Capital expenditure
Total capital expenditure in the year returned to levels previously experienced at £5.5m (2017: £16.9m). The expenditure in 2018 principally comprised costs in relation to our new office in Manchester, continued investment in our recycling facility in Telford and the purchase of a number of delivery vehicles in Germany. The prior year included significant expenditure in relation to our distribution centre in Bergheim, the opening of two new outbases in the UK, the initial investment to develop our recycling facility and the refresh of trailers in our logistics operation.

Going forward, the Group is assessing the possibility of further developing our recycling capabilities with an investment in a plastic recycling plant and therefore expects capital expenditure levels in the coming year to be higher than usual.

Mark Higgins
Group Chief Financial Officer
4 June 2018

The Company's Strategic Report is set out on pages 16 to 55. Approved by the Board on 4 June 2018 and signed on its behalf by:

Julie Finnemore
Company Secretary
4 June 2018

Table 5:

	2018			2017		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Inventories	42.1	11.1	53.2	35.7	9.1	44.8
As % of COGS	*7.8%*	*9.3%*	*8.1%*	*7.2%*	*11.9%*	*7.8%*
Trade and other receivables	91.5	11.2	102.7	76.9	4.0	80.9
As a % of revenue	*13.4%*	*9.7%*	*12.9%*	*10.6%*	*11.2%*	*10.7%*
Trade and other payables	(140.9)	(15.1)	(156.0)	(129.0)	(11.2)	(140.2)
As a % of COGS	*26.3%*	*12.7%*	*23.8%*	*23.0%*	*13.7%*	*22.1%*
Net working capital	**(7.3)**	**7.2**	**(0.1)**	**(16.3)**	**1.8**	**(14.5)**
Change in net working capital	9.0	5.4	14.4	(3.7)	0.4	(3.3)

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.

Welcome back

In 2014, in my first report to you as a publicly listed business, I explained our future plans; what we would build and how we were going to go about it. It was an uncertain road ahead and we were full of excitement to get on with it. The key element to our strategy was that we were going to broaden the existing one-category UK business into new categories and new territories.

It is said that when planning any kind of building work at home, it always takes twice as long and costs twice as much as you ever think it is going to. Building businesses is similar; it's messy and it's an inexact science. Patience, passion, belief and conviction are critical, and the process of broadening and vertically integrating a business like AO is not for the faint hearted or for those who expect life to evolve in a straight line. I am therefore very proud that as a direct result of that patience, passion, belief and conviction from thousands of AOers we are now well on with completing the heavy lifting of that journey.

We have built, brick by brick, the confidence with the manufacturers in new categories in the UK such that we now sell TV's, computers, phones, coffee machines, floorcare and much more. We have proven that in these new product spaces, AO adds value to their brands and products. We retail their technology, I believe, better than the vast majority of store-based retailers and help customers choose the right product. Customers have voted with their credit cards and sales are growing well in all categories, which means we are giving more customers more reasons to shop with us more often. This should only compound. We have added in a vast array of additional services for our customers. Not content with inventing concepts in our space like next-day delivery and time slots, we have rolled out a premium fleet offering, which means we now install gas cookers.

Our international expansion has taken longer than we hoped it would and has cost more than we thought it would. The opportunity ahead of us is also a lot bigger than we imagined it would be. There have been a lot of things to learn and we have learned them. It is easy to forget how hard start-ups really are. We now have a 600-strong team in Germany and the Netherlands with a capability to deliver any product next day to the majority of the population. We can deliver and install a washing machine as fast as Deutsche Post deliver a letter, which is quite a statement. We have built a business from scratch in a little over three years that has a market-leading proposition and service reputation with annual sales running at over €100m. It is a machine that we have built that still gives me goose bumps every time I visit; one that the team are extremely and rightly proud of. Our job now is to drive that machine and we have just reached the inflexion point where our scale means that every additional order now contributes to profit so reducing our investment as we grow. This marks the move from 'if' our international operations will make money (for some) to 'when' as Steve and Mark have updated the market.

We have considered our wider corporate responsibilities as well. We weren't happy with the way recycling operated and so invested over the last three years to develop a state-of-the-art recycling business. It has been a long journey but we are now setting the standards and look forward in time to rolling out those learnings internationally.

So, the strategy we set out at our IPO is very firmly on track. We are now a multi-category, multi-country company with an eco-system of businesses that both ensure we are pushing the boundaries of service and proposition for our retail customers as well as creating distinct businesses in their own right to create significant resilience and long-term structural advantage. Having all these businesses living our values and relentlessly striving for a better way in their own specialties, but collaboratively, is creating multiple flywheels for the benefit of the whole, and everything has our people, culture and fanatical passion for customer services at its heart.

We now need to raise the bar on our brand awareness. Steve and the team have been busy working on evolving our Purpose and linking that to our brand campaigns. We have learned some lessons during the year and have realised that sponsorship is not necessarily the right way to convey our brand message. So in the short term we will move back to our more traditional marketing channels. I'm very excited about the direction our creative is moving in, and the early feedback from customers has been great; I can't wait to see the reaction in the next few months.

It is time, as we look ahead over the next few years, to realise the returns and compound the capabilities created. I have every faith in Steve's ability to make that reality with the support of an amazing team that lives our values every day and I would like to extend a huge thanks to all AOers for their grit, spirit and determination over the last few years.

John Roberts
Founder, Executive Director
4 June 2018


Welcome
ICY
COOL
DELICIOUS

Section 2 Governance report: Our leadership team make sure that good governance is an integral part of good peformance.

In this section:

A strong team leading a great business

Geoff Cooper
Chairman

Geoff Cooper
Chairman

On behalf of the Board, I am pleased to present AO's Statement of Corporate Governance for the reporting period ended 31 March 2018.

AO is a business experiencing strong growth in a fast-moving sector. As such, we need to ensure our controls, oversight and level of risk appetite provide robust Corporate Governance whilst at the same time allowing for growth and maintaining the entrepreneurial spirit that has helped the business thrive and get to where it is today. On the following pages, we explain our approach to Corporate Governance and set out how the Board and its Committees have fulfilled their responsibilities during the reporting period.

Despite not currently being a member of the FTSE350, to maintain best practice we look to adopt the approach recommended for these companies as set out in the Code and other appropriate regulatory guidance. Therefore, during the year I commissioned our first external evaluation of the Board through Equity Communications Ltd. The results of the evaluation indicated that the Board is working well and that there are no significant concerns about its effectiveness. Specific actions arising from the review included:

— extending the time allocated to strategic discussions at Board meetings, providing more opportunity for the Non-Executive Directors to add more value; and
— encouraging our Non-Executive Directors to spend more time in the business with our people.

I assessed the Board's role in strategy following my appointment as Chairman in July 2016 which resulted in Board strategy days being formally scheduled to allow the Directors to debate, challenge and understand the opportunities ahead. These strategy days have been successful, and readdressing the format of Board meetings over the coming year should add further value and increase our effectiveness as a Board. More details on the external evaluation of the effectiveness of the Board are set out on page 67.

As reported last year, during the period under review we undertook a process to appoint two new independent Non-Executive Directors; the aims being to help expand the Board's skill set, provide a new avenue of thought to drive growth; and increase Board diversity whilst also addressing our existing Code non-compliance with independence criteria. In November 2017, we were delighted to welcome Jacqueline de Rojas CBE as a Non-Executive Director to the Board. Jacqueline brings a wealth of global experience, specifically in fast moving and global technology businesses and is also a passionate advocate for diversity, supporting the Group's work in this area. Further details regarding Jacqueline's appointment are set out in the work of the Nomination Committee on pages 69 to 71. We are continuing to work with an external search consultancy to identify an additional independent Non-Executive Director with suitable experience to continue to develop the Board's skill set and also a further Non-Executive Director to support the work of the Audit Committee, thus addressing our Code non-compliance issues and also as part of our succession planning. We hope to be able to announce further appointments over the coming months.

Last year I reported that, below the plc Board, our business divisions were restructured to give more responsibility and accountability to senior management and their respective teams. This structure was further refined at the end of the reporting period to provide a senior organisational structure to give the business stability and the freedom to drive and grow in line with the Group's strategy. A new UK Chief Operating Officer role has been created into which the UK divisional managing directors will report and we have created a Europe Chief Operating Officer role under which we will look to diversify our business, much as we have done in the UK. Our Chief Brand and People Officer will have responsibility for communicating and protecting our brand together with ensuring our culture remains true to AO across our entire Group. Importantly, this structure will also allow our Chief Executive Officer, Steve Caunce, to increase his focus on driving the Company's strategic objectives; as Steve puts it, focusing on the business rather than being in the business. Due to the growth and agility of the business, our people and culture (including succession planning) will continue to be a key topic for consideration in the year ahead.

Group-wide diversity is a key governance topic for the Board. With the appointment of Jacqueline de Rojas in November this year, our Board currently includes two women, representing 25% of its membership, so we are pleased to have moved closer to the Hampton-Alexander recommended voluntary target for a minimum of 33% women's representation on their Boards by 2020. Whilst AO endeavours to achieve appropriate diversity, including gender diversity, we will continue to make appointments based on merit and against objective criteria, without setting prescriptive targets.

AO is currently in an ambitious growth phase (both through its core retail businesses but also through new verticals) and as it establishes its businesses in new territories. Because of this, the Remuneration Committee has found it difficult to set meaningful long-term targets – reflected in historic lapsing of PSP awards – and there is a risk that targets are either simply unachievable and therefore of no worth or far too easily achieved and therefore superior reward may be delivered for what transpires to be insufficiently stretching performance. Accordingly, it proposes to introduce a new single incentive plan, combining the annual bonus and current LTIP/PSP into one plan, measured over one year but with high, compulsory deferral periods. The aim: to get annual actions and objectives right, which will bear fruit over the longer term. Naturally, we have consulted our major shareholders on this issue and I'm pleased to confirm the proposal has received much support. As the Group's strategy and development evolves, we expect to continue to engage with our shareholders on any required changes to the executive remuneration arrangements.

Corporate Governance has remained in the spotlight during our last financial year, especially in the areas of diversity, remuneration and, significantly, through the consultation on a revised Corporate Governance Code. The Board is very mindful of its responsibilities on these aspects of governance and will continue to look for opportunities to develop and refine its approach and practices whilst adopting a pragmatic view of what is appropriate, and what will allow AO to drive value through achieving its strategic objectives.

As was the case last year, at our Annual General Meeting ("AGM") all Directors will seek election and re-election. I look forward to welcoming shareholders at the Company's AGM in July.

Geoff Cooper
Chairman

Introduction

This Corporate Governance Statement explains key features of the Company's governance structure and how it complies with provisions set out in the 2016 UK Corporate Governance Code ("the Code") which is the version of the Code that applies to its 2017/18 financial year. This Statement also includes items required by the Listing Rules and the Disclosure Guidance and Transparency Rules. The Code is available on the Financial Reporting Council website at www.frc.org.uk.

Compliance with the Code

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

Code provision	Detail	Explanation of non-compliance
B.1.2	Less than half of the Board, excluding the Chairman, are independent Non-Executive Directors.	Excluding the Chairman who was deemed independent on appointment, the Board currently has three independent Non-Executive Directors. As discussed elsewhere in this report, the Board is currently seeking to add to its independent component through the appointment of two new Non-Executive Directors and therefore expects to comply with the Code provision in the near future. However, notwithstanding these appointments, the Board is satisfied that during the year no individual has dominated its decision making, no undue reliance has been placed on particular individuals, there has been sufficient challenge of executive management in meetings of the Board and the Board has operated effectively.
B.2.1	The Nomination Committee did not comprise a majority of independent Non-Executive Directors throughout the reporting period (but does so now).	During the first eight months of the reporting period, only Brian McBride was considered independent, and while Geoff Cooper, Chairman of the Company and the Committee, was considered to be independent on appointment, and remains so, the Code provides that thereafter the test of independence is not appropriate in relation to the Chairman. As set out elsewhere in this report, during the reporting period the Board conducted a search for the appointment of two new Non-Executive Directors, and as a result Jacqueline de Rojas was appointed to the Board and as a member of the Nomination Committee on 23 November 2017. The Company therefore now complies with this Code provision.
C.3.1	The Audit Committee does not comprise three independent Non-Executive Directors.	Chris Hopkinson is not considered to be independent for the purposes of the Code given his long-term involvement with the business. The Board considers that the composition of the Audit Committee has a strong independent non-executive component and that the continuity, experience and knowledge of Chris Hopkinson ensured that he made a significant contribution to the work of the Committee and that it ran effectively over the period under review. As set out elsewhere in this report, the Board is currently conducting a search for a suitably experienced independent Non-Executive Director to support the work of this Committee.

More information on our approach to governance is included in the introduction, the report on Corporate Governance and the reports of the Committees set out on pages 58 to 95. These reports describe how we have applied the main principles of the Code. In addition, this information is set out in detail on our website at www.ao-worldcom/.

Leadership

Overview of Governance structure

AO World Plc Board

The Company is led and controlled by the Board. The structure and business of the Board is designed to ensure that the Directors focus on strategy, monitoring, governance and the performance of the Group. The Board is collectively responsible to shareholders for the long-term success of the Company. The Board has delegated certain responsibilities to Board Committees to assist it with discharging its duties, and delegates the detailed implementation of matters approved by the Board and the day-to-day operational aspects of the business to the Executive Directors who cascade this responsibility to the Group Leadership Team and throughout the Group. The Reports of each Committee can be found on pages 68 to 91.

Group Leadership Team

Senior Leadership Team

Committees

Audit
see page 73

Risk
see page 40

Remuneration
see page 77

Nomination
see page 68

The Board

Role of the Board

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

The Board has an annual rolling plan of items for discussion which is reviewed and adapted regularly to ensure all matters reserved to the Board, with other items as appropriate, are discussed. At each meeting, the Chief Executive Officer updates the Board on key operational developments, provides an overview of the market, reports on Health and Safety and other key operational risks and highlights the important milestones reached in the delivery of the Group's strategic objectives. The Founder provides an update and insight on market dynamics and the Chief Financial Officer provides an update on the Group's financial performance, banking arrangements, AO's relationships with investors and potential investors and shareholder analysis. Meeting proceedings and any unresolved concerns expressed by any Director are minuted by the Company Secretary who, as Director of Group Legal, provides the Board with an update on any legal issues. Other members of management are also invited to attend Board meetings to present on specific business issues and proposals. This way the Board is given the opportunity to meet with the next layers of management and gain a more in-depth understanding of key areas of the business. External speakers are also invited to present to the Board on topical industry issues. All of these topics lead to discussion, debate and challenge amongst the Directors.

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

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

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

Current composition of our Board

As at the date of this Annual Report, the Board comprises eight members: the Chairman, three Executive Directors and four Non-Executive Directors, which includes the Senior Independent Director. All our Directors served throughout the year with the exception of Jacqueline de Rojas who was appointed to the Board as an independent Non-Executive Director on 23 November 2017. Further details of the relevant skills and experience of the Board are set out in their biographical details set out on pages 64 and 65. The Board regularly reviews its composition, experience and skills to ensure that the Board and its Committees continue to work effectively and that the Directors are demonstrating a commitment to their roles. In addition to strengthening the Board with the appointment of Jacqueline de Rojas in November 2017, the Board continues to engage with a specialist search consultancy to identify an additional individual with the skills, experience and knowledge to further broaden and strengthen the Board's existing composition and also a further Non-Executive Director to support the work of the Audit Committee, thus addressing our Code non-compliance issues and also as part of our succession planning. We hope to be able to announce further appointments over the coming months.

Further details about the appointment of Jacqueline de Rojas and the work of the Nomination Committee is disclosed on pages 70 and 71.

For information on our procedures concerning the appointment and replacement of Directors, please see the Directors' Report on page 91.

Board meetings and attendance
Nine Board meetings (scheduled in the ordinary course of business) were held during the year ended 31 March 2018 and there are currently eight meetings scheduled for the year ending 31 March 2019. Unscheduled supplementary meetings take place as and when necessary. The table below summarises the attendance of the Directors during the reporting period.

Director	Meetings eligible to attend	Meetings attended
Geoff Cooper	9	9
John Roberts	9	8
Steve Caunce	9	9
Mark Higgins	9	9
Brian McBride	9	9
Chris Hopkinson	9	9
Marisa Cassoni	9	9
Jacqueline de Rojas*	3	3

* Jacqueline de Rojas was appointed to the Board on 23 November 2017.

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

Division of responsibilities
The positions of our Chairman and Chief Executive Officer are not exercised by the same person, ensuring a clear division of responsibility at the head of the Company. The division of roles and responsibilities between Geoff Cooper and Steve Caunce is clearly established.

As Chairman of the Board, Geoff Cooper is responsible for its leadership, setting its agenda, monitoring its effectiveness and ensuring good governance. He facilitates both the contribution of the Non-Executive Directors and constructive relations between the Executive and Non-Executive Directors.

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

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

Diversity
Following the appointment of Jacqueline de Rojas in November 2017 our Board currently includes two women, representing 25% of its membership (2017: 14%). We are pleased with the progress made, having regard to the voluntary target set out in the Hampton-Alexander 2016 and 2017 reviews for FTSE350 companies to aim for a minimum of 33% women's representation on their Boards by 2020. While we are supportive of the aims, objectives and recommendations outlined in this review and in Lord Davies' original report "Women on Boards", we do not consider that it is in the best interests of the Company and its shareholders to set prescriptive targets for gender on the Board and we will continue to make appointments based on merit, against objective criteria to ensure we appoint the best individual for each role whilst maintaining an overall objective to have a Board of mixed gender and background that has an instinctive feel for our customers and people.

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

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

Board of Directors

After this year's Board tour, we asked each Board member to say what they thought was AO's point of difference. Here's what they said.

What makes AO different?
People work with head and heart.

1. Geoff Cooper
Non-Executive Chairman

Appointment to the Board
1 July 2016

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

Significant current external appointments
Non-Executive Chairman of Card Factory plc and Bourne Leisure Holdings Limited. Senior adviser to Charterhouse Private Equity

Committee membership
Geoff chairs the Nomination Committee.

Independent
Yes.

What makes AO different?
Each and every stakeholder is treated as if they were our most important customer.

2. Steve Caunce
Chief Executive Officer

Appointment to the Board
13 October 2005

Relevant skills & experience
- Thorough knowledge and understanding of the Group's business, having held Chief Operating and Chief Financial Officer positions from 2005 until 2017
- Substantial experience in growth businesses with a strong consumer focus
- Significant Board and management experience: previously Finance Director at Phones 4U Limited and senior positions held at MyTravel Plc and Preston North End Plc
- Associate of the Institute of Chartered Accountants in England and Wales

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

What makes AO different?
We're a human business; passion is in our DNA.

3. John Roberts
Founder, Executive Director

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

Relevant skills & experience
- Co-founded the business over 17 years ago, giving him thorough knowledge and understanding of the Group's business
- Extensive CEO experience; led the management team to successfully develop and expand the business during periods of challenging market conditions
- Innovator and visionary lead
- Significant market knowledge and understanding

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

What makes AO different?
Personal ownership is encouraged; employees have the freedom to make a difference.

4. Mark Higgins
Chief Financial Officer

Appointment to the Board
1 August 2015

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

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

What makes AO different?
We're always on the move.

5. Brian McBride
Senior Independent Director

Appointment to the Board
6 February 2014

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

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

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

Independent
Yes.

What makes AO different?
We aim to give all customers a buying experience that is unexpectedly amazing.

6. Chris Hopkinson
Non-Executive Director

Appointment to the Board
12 December 2005

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

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

Committee membership
Chris is a member of the Audit Committee.

Independent
No.

What makes AO different?
We are passionate about everything we do and being the very best we can be, all done with good humour and great courtesy.

7. Marisa Cassoni
Non-Executive Director

Appointment to the Board
5 February 2014

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

Significant current external appointments
Non-Executive Director of Skipton Group Holdings Ltd and Ei Group Plc.

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

Independent
Yes.

What makes AO different?
Innovation is everyone's responsibility and comes from right accross the business – not just from the top.

8. Jacqueline de Rojas CBE
Non-Executive Director

Appointment to the Board
23 November 2017

Relevant skills & experience
- Significant experience in fast-moving technology businesses
- Previous senior roles held at major global technology companies, including Sage Group plc, Citrix Systems Inc, CA Technologies, Novell and McAfee International and Non-Executive Director at Home Retail Group plc
- President of techUK, Chair of the Digital Leaders Technology Group and also serves on the government's Digital Economy Council.
- A passionate advocate for diversity and inclusion in the workplace
- Awarded a CBE for services to international trade in the technology industry In the 2018 New Year's Honours list

Significant current external appointments
Non-Executive Director of Costain Group plc and Rightmove plc.

Committee membership
Jacqueline is a member of the Nomination and Remuneration Committees.

Independent
Yes.

Committees of the Board

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

Committee	Role and terms of reference	Membership required under terms of reference	Minimum number of meetings per year	Committee report on pages
Audit	Reviews and reports to the Board on the Group's financial reporting, internal control and risk management systems, whistleblowing, internal audit and the independence and effectiveness of the external auditors.	At least three members At least two should be independent Non-Executive Directors	Three	73 to 75
Remuneration	Responsible for all elements of the remuneration of the Executive Directors and the Chairman, the Company Secretary and the Group Executive Team.	At least three members At least two should be independent Non-Executive Directors	Three	77 to 90
Nomination	Reviews the structure, size and composition of the Board and its Committees and makes appropriate recommendations to the Board.	At least three members At least one should be an independent Non-Executive Director	Two	68 and 69

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

Effectiveness

Board evaluation and effectiveness

The effectiveness and performance of the Board is vital to our success. During the year, an external evaluation of the Board and its Committees was conducted by Equity Communications Ltd. The evaluation process involved the completion of questionnaires followed by a Board discussion. The results of the evaluation indicated that the Board is working well and that there are no significant concerns among the Directors about its effectiveness. Some actions were agreed and will be progressed over the coming year; for example, extending the time allocated to strategy to allow the Non-Executive Directors to add more value and to add qualitative debate and encouraging our Non-Executives to spend more time in the business with our people. Further details of this process and the key action areas are set out in the Report of the Nomination Committee on pages 68 and 69.

During the year, the Chairman met with the Non-Executive Directors without the Executive Directors present to discuss Board balance, monitor the powers of individual Executive Directors and raise any issues between themselves as appropriate. Led by the Senior Independent Director an appraisal of the performance of the Chairman was conducted by the Non-Executive Directors.

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

Independence

For the purposes of assessing compliance with the Code, the Board considers that Marisa Cassoni, Brian McBride and Jacqueline de Rojas are Non-Executive Directors who are independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Board also considers that Geoff Cooper, Chairman of the Company, was independent at the time of his appointment in July 2016 and remains so. As previously stated, the Board continues to engage with a specialist search consultancy to identify an additional individual with the skills, experience and knowledge to further broaden and strengthen the Board's existing composition and also a further Non-Executive Director to support the work of the Audit Committee, thus addressing our Code non-compliance issues and also as part of our succession planning.

Having regard to the character, judgement, commitment and performance of the Board and Committees to date, and following the Board evaluation conducted during the year, the Board is satisfied that no one individual will dominate the Board's decision taking and considers that all of the Non-Executive Directors are able to provide objective challenges to management. A key objective of the Board is to ensure that its composition is sufficiently diverse and reflects a broad range of skills, knowledge and experience to enable it to meet its responsibilities. As can been seen from the biographies on pages 64 and 65, the Chairman and the Non-Executive Directors collectively have significant industry, public company and international experience which will support the Company in executing its strategy.

Director election

Following the Board evaluation process and the subsequent recommendations from the Nomination Committee, the Board considers that all Directors continue to be effective, committed to their roles and are able to devote sufficient time to their duties. Accordingly, all Directors will seek election and re-election at the Company's AGM.

Annual General Meeting

The AGM of the Company will take place at 8.00 am on Thursday 19 July 2018 at the Company's Manchester office at Baskerville House, Browncross Street, West Riverside, Salford M60 9HP. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The notice of the AGM can be found in a booklet which is being mailed out at the same time as this Report and can also be found on our website www.ao-world.com. The notice of the AGM sets out the business of the meeting and an explanatory note on all resolutions. Separate resolutions are proposed in respect of each substantive issue.

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

Information, support and development opportunities available to Directors

All Board Directors have access to the Company Secretary, who advises them on governance matters. The Chairman and the Company Secretary work together to ensure that Board papers are clear, accurate, delivered in a timely manner to Directors and of sufficient quality to enable the Board to discharge its duties. Specific business-related presentations are given by members of the senior leadership team when appropriate and external speakers also attend Board meetings to present on relevant topics. As well as the support of the Company Secretary, there is a procedure in place for any Director to take independent professional advice at the Company's expense in the furtherance of their duties, where considered necessary; for example, Deloitte advise on remuneration matters and Audit Committee members have received guidance from the external auditors on new developments in reporting standards. As part of the Board Evaluation process, training and development needs are considered and training courses are arranged, where appropriate.

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

External directorships

Any external appointments or other significant commitments of the Directors require the prior approval of the Board. Details of the Directors' significant external directorships can be found on pages 64 and 65. No new appointments were made during the year.

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

Delivering a balanced Board with the right skills mix

Geoff Cooper
Chairman

Report of the Nomination Committee

Geoff Cooper
Chairman

I am pleased to introduce the report of the Nomination Committee for the year. Full details of the Committee and its activities during the year are given below.

Composition and attendance of the Committee

The members of the Nomination Committee who served during the year ended 31 March 2018 and their attendance at Committee meetings is as follows:

Director		Meetings eligible to attend	Meetings attended
Geoff Cooper	Chairman and Chairman of the Board	3	3
Brian McBride	Senior Independent Non-Executive Director	3	3
Chris Hopkinson*	Non-Executive Director	2	2
Jacqueline de Rojas**	Non-Executive Director	1	1

* Chris served on the Committee from 1 April 2017 until the appointment of Jacqueline de Rojas on 23 November 2017

** Jacqueline joined the Board and the Nomination Committee on 23 November 2017

The Code recommends that the Nomination Committee is comprised of a majority of independent Non-Executive Directors. For the first eight months of the reporting period only Brian McBride was deemed as independent, as whilst I was considered to be independent on appointment, the Code provides that thereafter the test of independence is not appropriate in relation to the Chairman. Chris Hopkinson is not deemed as independent for the purposes of the Code due to his historic involvement with the Company. However, following the appointment of Jacqueline de Rojas to the Board, Chris Hopkinson stepped from the Committee on 23 November 2017 and Jacqueline became a member. The Company now complies with the Code's provision on independence. Notwithstanding the changes made to the Committee, during the year the Board considered that it had a strong independent non-executive component and that the continuity, experience and knowledge of Chris made a significant contribution to the work of the Committee, ensuring it was run effectively.

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

Role of the Nomination Committee

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

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

The Nomination Committee takes into account the provisions of the Code and any regulatory requirements that are applicable to the Company.

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

Main activities of the Committee during the year

During the year, in line with the requirements of the Code, on behalf of the Board the Nomination Committee instructed an externally facilitated evaluation of the composition and effectiveness of the Board and its Committees be undertaken by Equity Communications Ltd (having no other connection with the Company). The evaluation process involved the completion of questionnaires followed by a Board discussion. The results of the evaluation indicated that the Board is working well and that there are no significant concerns about its effectiveness. Specific actions arising from the review, which will be addressed over the coming year, included:

- extending the time allocated to strategic discussions at Board meetings providing more opportunity for the Non-Executive Directors to add more value; and
- encouraging our Non-Executive Directors to spend more time in the business with our people.

The Committee will continue to review the succession planning of senior management; it recognises that effective succession planning is fundamental to the success of the Company and that ensuring the continued development of talented employees and appropriately rewarding them helps to mitigate the risks associated with unforeseen events, such as key individuals leaving the business. Last year I reported that, below the PLC Board, our business divisions were restructured to give more responsibility and accountability to senior management and their respective teams. This structure was further refined at the end of the reporting period to provide a senior organisational structure to give the business further stability and the freedom to drive and grow in line with the Group's strategy. A new UK Chief Operating Officer role has been created into which the UK divisional managing directors will report and we have created a Europe Chief Operating Officer role under which we will look to diversify our business, much as we have done in the UK. Our Chief Brand and People Officer will have responsibility for communicating and protecting our brand together with ensuring our culture remains true to AO across our entire Group. Importantly, this structure will also allow our Chief Executive Officer, Steve Caunce, to increase his focus on driving the Company's strategic objectives. Due to the growth and agility of the business, our people and culture (including succession planning) will continue to be a key area of consideration in the year ahead.

Under its terms of reference the Nomination Committee is required to regularly review the structure, size and composition of the Board (including the balance of skills, experience, independence and knowledge on the Board) taking into account the Company's current requirements, the results of the Board performance evaluation process that relate to the composition of the Board and the future development of the Company, and make recommendations to the Board with regard to any adjustments that are deemed necessary. As I reported last year, based on the recommendation of the Nomination Committee, during the period under review we undertook a process to appoint two new independent Non-Executive Directors to help expand the Board's skill set, seeking to provide a new avenue of thought to drive growth and increase Board diversity whilst also addressing our existing Code non-compliance issues with respect to independence. Led by myself as Chairman and in consultation with an external independent non-executive search consultancy (Russell Reynolds Associates) and having met with a number of high-calibre candidates, in November 2017 the Nomination Committee recommended the appointment of Jacqueline de Rojas as a Non-Executive Director to the Board. The Board was delighted to welcome Jacqueline to the Board as she brings a wealth of global experience, specifically in fast-moving and global technology businesses and is also a passionate advocate for diversity, supporting the Group's work in this area. Further details regarding the process undertaken to appoint Jacqueline, together with her own initial observations of AO are set out in the case study on page 70. The Board continues to work with an external search consultancy to identify an additional independent Non-Executive Director with suitable experience to continue to develop the Board's skill set and also a further Non-Executive Director to support the work of the Audit Committee, thus addressing our Code non-compliance issues and also as part of our succession planning. We hope to be able to announce further appointments over the coming months.

Diversity

The Committee takes into account a variety of factors before recommending any new appointments to the Board, including relevant skills to perform the role, experience, knowledge, ethnicity and gender, and supports the recommendations of Lord Davies', and other subsequent, reviews. Following the appointment of Jacqueline de Rojas to the Board in November 2017, the Company has moved closer towards the 2016 and 2017 Hampton-Alexander recommended target of 33% female representation on the Boards of FTSE350 companies by 2020 now having two female Board members out of eight, representing 25%. AO endeavours to achieve appropriate diversity, including gender diversity, and notably, Russell Reynolds Associates (who we worked with in seeking the appointment of Jacqueline de Rojas and who we are continuing to work with to help identify one additional Non-Executive Director as set out above) are well known for their work in the appointment of women. However, the most important priority of the Committee has been and will continue to be ensuring that members of the Board should collectively possess the broad range of skills, expertise and industry knowledge, and business and other experience necessary for the effective oversight of the Group.

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

On the recommendation of the Nomination Committee and in line with the Code, all currently appointed Directors will retire at the 2018 AGM and offer themselves for reappointment. The biographical details of the current Directors can be found on pages 64 and 65. The Committee considers that the performance of the Directors standing for election and re-election continues to be effective and that they each demonstrate commitment to their role and devote sufficient time to attend Board and Committee meetings and any other duties.

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

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

Geoff Cooper
Chairman, Nomination Committee
AO World Plc
4 June 2018

Strengthening our team. Bringing fresh thinking to our business. The AO way.

Jacqueline de Rojas' first impressions of AO

"AO is a very agile business which views every line as an opportunity. It's refreshing that the drive to find a better way and to innovate comes from across the business, not just senior management"

"It's pleasing to see that there is work underway to increase diversity, in particular gender and ethnicity."

"AO has a great culture and operates with lots of heart. I am excited to join such a passionate business at this stage in its growth."

Strengthening the team in 2018

1 Selection criteria established

Having evaluated the existing balance of skills, experience and knowledge already on the Board, a written description of the role, capabilities required and time commitment expected was prepared. An individual with relevant industry and public company experience which would help to expand the Board's existing skill set in terms of understanding rapid developments in the digital world and internationalising the AO brand was sought to provide a new avenue of thought. In setting the criteria, the Committee endeavoured to achieve appropriate diversity, including gender diversity, and sought to meet candidates from a wide range of backgrounds.

2 Market search

Based on our brief, external search consultancy, Russell Reynolds Associates, conducted a search using their high-level professional networks, industry knowledge and internal research resources to identify suitable candidates for the role. Competency interviews, leadership questionnaires, culture assessments and references were then undertaken to compile a shortlist of individuals.

3 Candidates shortlisted

The Committee reviewed the shortlist of candidates against its selection criteria, having regard to each candidates' existing commitments to ensure sufficient time was available to undertake the role, with advice sought as appropriate from the external search consultancy. At each stage of refining the shortlist to a smaller group of candidates, Russell Reynolds Associates were asked to look again with the aim of ensuring we retained a 50:50 male to female representation.

4 Appointment

The recommendation for Jacqueline's appointment was based on merit, against objective criteria and with due regard for the benefits of diversity on the Board. Jacqueline's appointment to the Board was effective from 23 November 2017 with the appropriate announcement and disclosures made.

5 Induction and site visits

A tailored induction process was created for Jacqueline involving the collation of relevant Company, Board and Committee information. One-to-one meetings were arranged with key personnel from across the business and, as our Board meetings are scheduled to take place at different locations, Jacqueline has been able to receive tours at a number of our sites and therefore experience AO's culture in action.

Accountability

Internal controls

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

The Board and the Audit Committee review on an ongoing basis the effectiveness of the system of internal controls and did so during the year ended 31 March 2018 and for the period up to the date of approval of the consolidated financial statements contained in the Annual Report. The review covered all material controls, including financial, operational and compliance controls and risk management systems. The Board confirms that no significant failings or weaknesses have been identified from its review of the system of internal control. This has involved considering the matters reported to it and developing plans and programmes that it considers are reasonable in the circumstances. The Board also confirms that it has not been advised of material weaknesses in the part of the internal control system that relates to financial reporting.

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

- **Risk management:** Our Risk Management Committee has a clear framework for identifying, evaluating and managing risk faced by the Group on an ongoing basis, both at an operational and strategic level. This internal control process starts with the identification of risks through regular routine reviews with our AO team representatives facilitated by our internal audit team with appropriate action taken to manage and mitigate the risks identified. These risks are recorded in the Group's Corporate Risk Register and the implications and consequences for the Group together with the likelihood of occurrence are assessed. This register is reviewed and discussed quarterly by the Risk Management Committee and follow-up actions are assigned as appropriate. The Risk Management Committee issues a report to the Audit Committee and the key risks are included within the Group's Corporate Risk Register which is then reviewed and scrutinised by the Board and from which the Group's principal risks are determined. For further details of our risk management and risk appetite, and the developments made during the year, please see pages 40 to 46.

- **Management structure:** There is a clearly defined organisational structure throughout the Group with established lines of reporting and delegation of authority based on job responsibilities and experience. Within the businesses, senior leadership team meetings occur regularly to allow prompt discussion of relevant business issues and to ensure alignment on strategy. Please see page 62 for further details on our management structure.

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

- **Information systems:** Information systems are developed to support the Group's long-term objectives and are managed by professionally staffed teams. The integration of Microsoft Dynamics, our financial reporting system, is continuing and is working to improve internal controls and the efficiency of our processes, to assist with the segregation of duties and standardise procedures across the Group. Appropriate policies and procedures are in place covering all significant areas of the business.

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

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

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

Marisa Cassoni
Chair, Audit Committee

Report of the Audit Committee

Marisa Cassoni
Chair, Audit Committee

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

Composition and attendance of the Committee

The members of the Audit Committee who served during the year ended 31 March 2018 and their attendance at Committee meetings is as follows:

		Meetings eligible to attend	Meetings attended
Marisa Cassoni	Chair	6	6
Chris Hopkinson	Non-Executive Director	6	6
Brian McBride	Senior Independent Non-Executive Director	6	6

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

The Code recommends that the Audit Committee should comprise at least three members, all of whom should be independent Non-Executive Directors with at least one member having recent and relevant financial experience. I am the independent Non-Executive Director considered to have recent and relevant financial experience, and am pleased to confirm that all members have had extensive and relevant experience (Directors' biographies appear on pages 64 and 65).

Chris Hopkinson is not regarded as an independent Non-Executive Director for the purposes of the Code and therefore, during the year, the Committee was not fully compliant in this respect. However, Chris' financial experience and knowledge is valuable to the Committee and will help to ensure that the Committee is run effectively. As set out elsewhere in this report, the Board continues to engage with a specialist search consultancy to identify an additional Non-Executive Director, with suitable skills and experience, to be appointed to the Audit Committee, to address its Code compliance issue (and as part of our succession planning).

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

Role of Audit Committee

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

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

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

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

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

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

Significant work undertaken by the Committee during the year

Review of the 2018 Financial Statements

During the year to 31 March 2018, the Audit Committee reviewed and endorsed, prior to submission to the Board, full-year financial statements and the preliminary, interim results and trading update announcements. We considered internal audit reports and risk management updates, agreed external and internal audit plans, approved accounting policies and ensured appropriate whistleblowing arrangements and associated policies were in place.

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

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

Significant financial accounting matters	
Revenue recognition, debtor recoverability and legal risk in respect of product protection plans	The Company sells product protection plans to customers purchasing electrical appliances, as agent for Domestic and General, who administer the plans, collect money from the customers and pay a commission to the Company for each plan sold. Commission receivable for sales of product protection plans for which the Group acts as an agent are included within revenue based on the estimated fair value of future commissions receivable over the life of the product protection plan. Revenue is recognised up front on the basis that the Group has fulfilled its obligations to the customer in line with accounting standards relating to revenue recognition. The fair value calculation takes into consideration the anticipated length of the plan and the historical rate of customer attrition and is discounted to reflect the time value of money but also risks around the recoverability of the receivable balance attributable to the product protection plans. The Company accounts for this income on the basis that it is agent. The basis upon which the Company offers and sells product protection plans could change due to (i) a change in law or regulation or the interpretation of existing law or regulation, or (ii) a change in how the plans are managed or controlled or the level of risk that the Company assumes in relation thereto. Any such change could affect the Company's accounting of such income and/or could subject the Company to claims or proceedings in relation to such product protection plans. Whilst this is an area of estimate and judgement, the management team has prepared detailed policies setting out the key assumptions in the model. The Committee has reviewed the judgements made in this area by management and, following appropriate challenge, we consider the policy and practice appropriate.
Commercial income arrangements	The Group has a number of contracts with its suppliers where additional discounts can be applied based on purchase levels. The Group accrues the additional discounts by reference to the expected level of purchases. The percentage discount accrued may differ to the current run rate of purchases as the calculation takes seasonality into account. There is a risk therefore that the level of discounts provided for at the year end could materially differ from the actual number of purchases when compared to assumptions made by management. The management team has prepared detailed policies setting out the key assumptions and judgements in this area. The Committee has reviewed the judgements made in this area by management and, after due challenge and debate, was content with the assumptions made and the judgements applied.

Training

During the year, the Audit Committee members have received advice on new developments in reporting standards from the Company's Auditors and I have received appropriate training from Deloitte.

Going Concern Assumption and Viability Statement

The Committee reviewed the Going Concern Assumption and Viability Statement reported by the Group, as required by the UK Corporate Governance Code 2016 including the risks that could arise from a partial or full withdrawl of suppliers' credit insurance (see page 46). Further information on the Going Concern Assumption can be found on page 47. The Committee was satisfied that the Viability Statement, noted on page 47 of the Strategic Report, presented a reasonable outlook for the Group to March 2021.

Fair, balanced and understandable assessment

The Committee has reviewed the financial statements together with the narrative contained within the Strategic Report set out on pages 16 to 57 and believes that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable. In arriving at this conclusion the Committee undertook the following:

- review of early drafts of the Annual Report and Accounts, providing relevant feedback;
- regular review and discussion of the financial results during the year; and
- receipt and review of reports from the external and internal Auditors.

The Committee advised that the Annual Report and Accounts, taken as a whole, were fair, balanced and understandable at a meeting of the Directors on 4 June 2018.

Internal Audit

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

External Auditor

The Audit Committee has primary responsibility for leading the process for selecting the external Auditor. It is required to make appropriate recommendations on the external Auditor through the Board to the shareholders to consider at the Company's AGM.

In 2016, following a tender process, KPMG LLP were appointed as the Group's Auditor for the 12 months ending 31 March 2017. Following approval by shareholders at the AGM held on 21 July 2017, KPMG LLP was reappointed as AO's external Auditor for the financial year ending 31 March 2018. The Committee has been satisfied with the quality of the audit provided, as well as with the independence of KPMG as Auditor. During the year, KPMG charged the Group £0.3m (2017: £0.3m) for audit-related services.

Internal controls

During the year, the Committee continued to oversee and review AO's internal financial controls and risk management processes, risk appetite statement and principal risks, details of which are set out in the Risk section of the Strategic Report on pages 40 to 46.

Non-audit services

The Company's external Auditor may also be used to provide specialist advice where, as a result of their position as Auditor, they either must, or are best placed to, perform the work in question, subject always to EU audit rules surrounding prohibited non-audit services. The Company's general policy is not to use the appointed external Auditor for any non-audit services, however a formal policy is in place in relation to ad-hoc occurrences to ensure that there is adequate protection of their independence and objectivity and any such use requires approval of the Audit Committee. Further, any fees for non-audit services must fall within the limits specified by EU legislation, and various services are wholly prohibited; including tax, legal, valuation and payroll services.

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

During the year under review, KPMG charged the Group £30,000 plus VAT for non-audit related services relating to the half-year review.

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

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

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

Marisa Cassoni
Chair, Audit Committee
AO World Plc
4 June 2018

Shareholder relations

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

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

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

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

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

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

Rewarding performance and providing long-term stewardship

Brian McBride
Chair, Remuneration Committee

Report of the Remuneration Committee

Brian McBride
Chair, Remuneration Committee

This report sets out our proposal for a revised remuneration policy (which incorporates a new incentive plan) for the Directors of AO World Plc, what we paid our Directors in FY18 and how we propose to pay them in FY19. The report is structured as follows:
— The annual statement from the Chairman of the Remuneration Committee.
— The proposed new Directors' Remuneration Policy (which is subject to a shareholder vote at the 2018 AGM).
— The Annual Report on Remuneration (which will be subject to an advisory vote at the 2018 AGM).

Annual Statement by the Chairman of the Remuneration Committee

Dear Shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for our financial year ended 31 March 2018.

Performance and reward for 2017/18
The Annual Report on Remuneration (set out on pages 86 to 90) describes how the policy approved at last year's AGM has been implemented in the year under review. It will be the subject of an advisory vote at the forthcoming AGM.

Whilst the Group performed well over the financial year, with total Group revenue increasing by 13.6% to £796.8m, our profitability expectations were not met. We reduced our losses in our Europe segment but, given the impacts of the competitive UK electricals market and economic uncertainty, our UK business did not achieve the UK Adjusted EBITDA as planned. The year's annual bonus scheme consisted mainly of financial targets, addressing both top-line growth and profit. For Group revenue, the target of £787.1m was reached, with us missing the next (stretch) target (set at £803.2m). As noted above our profitability expectations were not met and therefore the Group Adjusted EBITDA threshold target of £2.1m losses was missed.

The cashflow target was to achieve a cash outflow of less than £8.6m (before proceeds from the equity placing). Our cash outflow was £21.4m (before such proceeds) and therefore this target was not met.

However, good progress was made against the Company's strategic objectives, notably:
— the launch of an international transactional app on both iOS and Android (in the UK, Germany and the Netherlands) designed to deliver both revenue and profit growth;
— the launch of additional categories in both the UK and Europe (which is a fundamental part of our strategy);
— our recycling facility becoming fully operational; and
— maintaining exceptional customer satisfaction rates in all territories.

The launch of the app was one of the strategic bonus targets for the year, which has been met. We have also done a significant amount of work around our purposes (see pages 18 to 20) which will drive our brand messaging and we expect will bear fruit in the longer term vis-a-vis brand awareness. Whilst our latest surveys show brand awareness slightly below the targets we set last year, we do not believe that this is fully reflective of our current position and we are pleased with all the work achieved by the team over the year. In total, therefore, we have awarded 37.5% of the maximum bonus to each of CEO and CFO.

Full details of bonuses paid against the bonus targets set last year are disclosed on page 87.

This is the second year we have had a completed PSP award cycle, with the performance period of our 2015 LTIP Award spanning the three financial years ended 31 March 2018. Both Steve and John waived their entitlements to participate in this award back in 2015, given their gains from the IPO itself, however Mark Higgins participated.The stretching targets set in 2015 were based one-third on absolute TSR (requiring the share price to increase by 33% (from £1.92) for a quarter to vest and by 100% for full vesting); one-third on EPS growth (requiring Adjusted EPS to increase by 50% for a third to vest and by 120% for full vesting), and the final third on revenue growth (requiring revenue to increase by 100% for a quarter to vest and by 140% for full vesting). These targets were not met and therefore no awards have vested.

Proposed Remuneration Policy
Last year, we undertook a full review of our remuneration structure to ensure that we would be operating within a framework consistent with best practice, while being mindful of the need to retain and attract high-quality talent. As I set out in my last report, that review was undertaken in light of some of the challenges that we had experienced in forecasting robust long-term targets but against a volatile and uncertain landscape surrounding Executive Pay. I highlighted that the Committee had considered alternative pay models but felt that it was not the right time to introduce a markedly different policy. Over the year, we have continued to review the appropriateness of long-term incentives and considered an alternative approach to setting three-year targets for financial measures based around annual measurement that help reduce the sensitivity of vesting to "forecasting error" but that align interests between shareholders and management in the longer term.

Following the review, we have concluded that a change is needed and propose to adopt a single incentive structure for our CEO and CFO (and also the layers of management beneath them) in the place of separate annual bonus and long-term incentive awards. For the avoidance of doubt, our Founder, John Roberts (who is an Executive Director), does not participate in our incentive programs. We believe the proposed single incentive structure provides alignment with immediate short-term strategic priorities which are of considerable importance to generating longer-term value in the business. Long-term stewardship of the Company will be reinforced via significant and compulsory deferral for three years following the initial performance period, and the deferred portion would be subject to a minimum level of performance, determined by the Committee.

As AO expands into new markets and diversifies into new verticals, we believe that it is important to motivate our Executive team via their remuneration and ensure that this is aligned closely to our strategy. With our plans for growth and considering the start-up nature of some of our businesses, we have reviewed our incentive arrangements to ensure they continue to be appropriate to support AO's forward looking strategy allowing flexibility to overcome any challenges we face. We believe that with a one-year performance period we retain the flexibility to focus our executive team on the business strategy via meaningful, yet stretching targets.

The following sets out our rationale behind the proposed approach:

- *Supporting AO's business strategy.* AO is currently in an ambitious growth phase. The Committee has found it difficult to set meaningful long-term targets – reflected in an historic lapsing of our long-term Performance Share Plan ("PSP") awards and very low levels of bonuses being granted – and there is a risk that targets are either simply unachievable and therefore of no worth, or far too easily achieved and therefore superior reward may be delivered for what transpires to be insufficiently stretching performance. We think it is better to get annual actions and objectives right, which will bear fruit over the longer term. The high, compulsory deferral and long-term time horizons provide long-term stewardship and therefore alignment for executives with value creation for shareholders.
- *Simplification.* We currently have two incentive plans, the annual bonus and the PSP. Under the proposed new structure, there would only be one incentive plan.
- *Reduction in maximum total incentive opportunity.* Under the single incentive model, we are reducing the maximum total incentive opportunity for the CEO and CFO from 350% to 300% salary.
- *High levels of deferral.* Two-thirds of the incentive award is deferred. Previously, the bonus was delivered in cash, with any awards above 100% of salary deferred into shares. With recent performance against stretching targets, this deferral element has had no impact.
- *Longer-term time horizons.* Both existing annual bonus and PSP represent a three-year horizon. The proposed plan extends the time period for the majority of any award (two-thirds) to four years.
- *Cascading beyond the board.* We intend to cascade the incentive structure down through the organisation, with significant deferral provisions and extended time horizons, thus retaining alignment between CEO, CFO and senior management.
- *Motivational value.* We believe that the approach provides a greater motivation to our Executive and senior management participants relative to our existing combination of annual bonus and PSP. It is deliberately simple in its design and operation and concentrates our Executives on AO's immediate business strategy, which will flow into long-term, sustainable performance.

The Committee has consulted with our main independent shareholders (representing c.50% of our shareholder base), and also with certain shareholder advisory bodies. Many of the shareholders consulted were supportive of the proposed structure in general; in particular with the simplified approach and the longer time horizons. Shareholders have also given specific feedback on their key priorities for the future of the business (and the use and weighting of different performance metrics). We will be considerate of these views when it comes to (i) setting specific performance conditions for each award and (ii) exercising our final discretion for the future vesting of deferred shares granted under awards. I would like to thank our shareholders and the advisory bodies, for their time and constructive feedback.

The outcome of our review and consultation, therefore, is the new Policy which is presented in the following pages for your approval. It is straightforward, transparent and aligned with the strategic and financial objectives of the business; it delivers market-competitive packages to the senior executives at base level and rewards the achievement of stretching targets at the other end. It allows us to pay for performance, whilst ensuring that we do not reward failure and will be a better tool with which we can motivate and retain our Executives and senior management and provide long-term stewardship.

Approach to Remuneration for 2018/19

Executives

For the year ahead base salaries have been reviewed and no increases have been awarded. We are also not proposing any change to pension levels or other benefits. In terms of variable pay, the Executives (other than John Roberts) will be entitled to participate in the AO Incentive Plan, if approved, where performance conditions have been set in line with the Company's strategic and financial goals. Financial metrics – including revenue, Group Adjusted EBITDA and cash flow – represent the majority of targets, with the remainder based on achievement of key strategic milestones (see page 89 for further details). The maximum opportunity will be 300% of salary, with no more than one-third paying out in cash and the remaining being deferred into shares vesting after a further three-year period.

Further details of the AO Incentive Plan are set out on pages 81 and 89.

Non-Executives

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

Further details regarding the implementation of our proposed policy in the year ahead are provided on pages 89 to 90.

I hope this sets out clearly how the Committee has implemented the existing policy during FY18, how we have developed the remuneration policy and how we propose to move forward and implement the proposed policy in FY19. I hope that all shareholders are able to support the decisions we have taken and would like to again thank those that have given feedback during consultation. I welcome any comments from shareholders and will be available to answer any questions at the AGM.

Brian McBride
Chairman, Remuneration Committee
AO World Plc
4 June 2018

Policy Report

This part of the Directors' Remuneration Report sets out the directors' remuneration policy for the Company ("the Policy") and has been prepared in accordance with the Companies Act 2006, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the UKLA's Listing Rules. The Policy has been developed taking into account the principles of the UK Corporate Governance Code ("the Code") as it currently applies.

This Policy will be put to a binding shareholder vote at the 2018 AGM and, subject to approval, will take formal effect from that date. We received good support for the Policy at the 2017 AGM and, whilst this was put to shareholders with the intention of being applied for the three-year period, we highlighted at the time we would keep it under review given the volatility and uncertainty in the executive remuneration landscape and may propose a new policy before the end of the three-year period. We have done just that and, following careful consideration of the remuneration landscape, and taking into account our evolving strategy and shareholder views, we believe that the proposed new Policy is more aligned closely to our business strategy.

Again, whilst it is again intended that the Policy will apply for three years following approval, the Policy will be kept under review on an annual basis.

Role of the Committee in setting the Policy

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

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

The Committee's terms of reference are available on the Company's website at www.ao-world.com

How the views of shareholders are taken into account

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

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

While deliberating on the proposed incentive structure, we have actively sought shareholder opinions on the incentive structure proposed in the Policy and welcomed the opportunity to discuss our proposals with a number of key investors and shareholder advisory bodies.

Consideration of employment conditions elsewhere in the Group

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

Consideration of the impact of remuneration on risk

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

Summary of our remuneration policy

The table below provides a summary of the key aspects of the Policy for Executive Directors.

Element	Base salary	Pension
Purpose and link to strategy	— To aid the recruitment and retention of high-calibre Executive Directors — To reflect experience and expertise — To provide an appropriate level of fixed basic income	— To aid recruitment and retention of Executive Directors with the expertise and experience to deliver the Company's strategy — To provide an appropriate level of fixed income
Operation	— Normally reviewed annually, with any increase normally effective on 1 April — Set initially at a level required to recruit suitable Executive Directors, reflecting their experience and expertise — Any subsequent increase determined by the Committee may be influenced by (a) the scope of the role; (b) experience and personal performance in the role; (c) average change in total workforce salary; (d) performance of the Company; and (e) external economic conditions, such as inflation — Periodic account of practice in comparable companies (e.g. those of a similar size and complexity) may be taken by the Committee	— Executive Directors may receive an employer's pension contribution and/or a cash payment in lieu of pension
Maximum opportunity	— Whilst no monetary maximum has been set, annual increases will generally be linked to those of the average of the wider workforce — Increases beyond those awarded to the wider workforce (in percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility or experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group — The Committee retains the flexibility to set the salary of a new hire at a discount to the market initially, and implement a series of planned increases over the subsequent few years, potentially higher than for the wider workforce, in order to bring the salary to the desired position, subject to Group and/or individual performance	— Employer's defined contribution and/or cash supplement of up to 12.75% of salary
Framework used to assess performance	— The Committee reviews the salaries of Executive Directors each year taking due account of all the factors described in how the salary policy operates	— N/A

Other benefits	"AO Incentive Plan"
— To provide a competitive benefits package to aid recruitment and retention of Executive Directors with the expertise and experience to deliver the Company's strategy	— To reward the delivery of annual objectives relating to the business strategy — Through significant deferral into the Company's shares to align the long-term interests of Executive Directors with those of shareholders
— Directors are entitled to benefits, including a car allowance or company car, private family medical cover, death in service, life assurance and other Group-wide benefits offered by the Company. Executive Directors are also eligible to participate in any all-employee share plans operated by the Company, in line with HMRC guidelines currently prevailing (where relevant), on the same basis as for other eligible employees — In certain circumstances the Committee may also approve additional allowances relating to relocation of an Executive Director or other expatriate benefits required to perform the role — The Committee may provide other employee benefits to Executive Directors on broadly similar terms to the wider workforce — The Committee has the ability to reimburse reasonable business-related expenses and any tax thereon	— The vesting of awards will be subject to the satisfaction of performance conditions set by the Committee at the time of grant and measured over a performance period — The performance period will be of at least one year and will normally be one financial year of the Company — Upon completion of the performance period the Committee will deliver a portion of the award in cash and defer the remaining portion into an award of shares — No more than one-third of the total award will be delivered in cash — Deferred share awards will be subject to additional performance underpin conditions measured over a period of at least three years running from the end of the performance period — Awards are not pensionable — Awards are subject to recovery provisions that enable the Committee to withhold or recover the value of awards within five years of the grant date where there has been a misstatement of accounts, an error in assessing any applicable performance condition or employee misconduct
— As the value of benefits may vary from year to year depending on the cost to the Company and the Executive Director's individual circumstances, no monetary maximum has been set — The Committee has discretion to approve a higher cost in exceptional circumstances (such as relocation), or where factors outside of the Committee's control have changed materially (such as increases in insurance premiums)	— Up to 300% of salary for each Executive Director in respect of any financial year
— N/A	— Awards are based on performance measures with stretching targets as set and assessed by the Committee — Financial measures (e.g. EBITDA, Revenue, Cash flow) will represent the majority (at least 70%) of the award, with any other measures representing the balance — Subject to the above, measures and weightings may change each year to reflect any year-on-year changes to business priorities and ensure they continue to be aligned to the business strategy — The Committee has discretion to adjust the outcome where appropriate to ensure it is a true reflection of the overall performance of the Company during the performance period. Any use of discretion will be detailed in the following year's Annual Report on Remuneration — The Committee has discretion to adjust the number of shares if it is not deemed that the value of the award does not appropriately reflect the underlying performance of the Company over the vesting period — No vesting will occur below a threshold level of performance as set by the Committee on a year-by-year basis

Changes to the proposed Policy

Following a comprehensive review of remuneration over the last year, supported by independent external advice, the Committee proposes a new incentive structure which aligns Executive Directors' remuneration both with short-term business priorities while promoting significant and long-term stewardship of the Company. This change to the incentive structure removes the operation of separate annual bonus and long-term incentive plans and instead operates a single incentive plan. Key features of this new incentive plan are:

- A single, combined incentive plan, the AO Incentive Plan, which promotes simplicity for both participants and shareholders alike;
- Subject to the completion of the relevant performance condition, awards will be paid partially in cash with the remaining portion delivered in a deferred share award which vests after three years subject to Committee discretion on the underlying performance of the business;
- A strengthening of malus/clawback provisions for up to five years from the date of grant of the award.

Implementation for the plan for the Company's financial year ending 31 March 2019 can be found in the Annual Report on Remuneration.

We have retained key features which were introduced to the Policy approved at the 2017 AGM. These were made at the time to incorporate the developments in best practice, including the following:

- Significant deferral of any incentive award into shares;
- Share ownership guidelines of 200% of salary for all Executive Directors.

Historic arrangements

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy where the terms of the payment were agreed (i) before 17 July 2014 (the date the Company's first shareholder-approved Directors' remuneration policy came into effect); (ii) before the Policy came into effect, provided that the terms of the payment were consistent with the remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

For the purposes of transparency, the terms of the awards granted prior to 2018 under the PSP are summarised below:

Element	Performance Share Plan ("PSP")
Purpose and link to strategy	— Intended to align the long-term interests of Executives with those of shareholders — To incentivise the delivery of key strategic objectives over the longer term
Operation	— The PSP was introduced on Admission in 2014. Awards of free performance shares may be granted annually in the form of conditional awards or nil cost options — Vesting is dependent on performance targets being met during the performance period and continued service of the Directors — A dividend equivalent provision exists which allows the Committee to pay dividends on vested shares at the time of vesting
Maximum opportunity	— Maximum limit contained within the plan rules is 200% of salary although up to 300% of salary may be made in exceptional circumstances — Normal Policy awards may be made at lower levels than this
Framework used to assess performance	— Awards vest after three years, based on challenging targets measured over a three-year period, the majority of which (at least 70%) will normally be based on financial performance metrics — Performance measures and weightings will be reviewed annually by the Committee prior to each grant, and the Committee has discretion to vary measures and weightings as appropriate to ensure they continue to be aligned to the business strategy — No more than 25% vests at threshold — The Committee has discretion to adjust the vesting outcome in exceptional circumstances to ensure it is a true reflection of the overall performance of the Company over the performance period. Any use of discretion will be detailed in the following year's Annual Report on Remuneration

Clawback and withholding provisions apply in circumstances where the Committee considers it to be appropriate where there has been a misstatement of accounts, or an erroneous calculation used to calculate the grant or vesting of an award for up to three years after vesting.

Prior to vesting of an award, an award may also be reduced if the Executive Director engages in conduct justifying summary dismissal.

Terms common to the AO Incentive Plan and the PSP

Awards under any of the Company's incentive plans referred to in this report, namely the AO Incentive Plan and Performance Share Plan ("PSP"), may:

a) be granted as conditional share awards or nil-cost options or in such other form that the Committee determines has the same economic effect;
b) have any performance condition or underpin applicable to them amended or substituted by the Committee if an event occurs which causes the Committee to determine an amended or substituted performance condition or underpin would be more appropriate and not materially less difficult to satisfy;
c) incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under a share-based award that vest up to the time of vesting. This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis;
d) be settled in cash at the Committee's discretion; and
e) be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may materially affect the Company's share price.

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

Choice of performance measures and approach to target setting

The performance metrics and targets that are set for the Executive Directors via the AO Incentive Plan are carefully selected to align closely with the Company's strategic plan.

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

Where possible, the Committee will disclose the targets for each of the Executive Directors' awards in advance in the Annual Report on Remuneration, but targets will generally be disclosed retrospectively where they are considered to be commercially sensitive. The Committee will review the choice of performance measures and the appropriateness of the performance targets prior to each performance year and will consult with major shareholders in the event of any significant proposed change.

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

Share ownership guidelines

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

The required level is set at 200% of salary. Where the holding is not already attained it is required to be achieved through retention of at least 50% of shares or the vesting of awards (on a net of tax basis) from share plans.

Differences in remuneration policy for Executive Directors compared to other employees

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

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

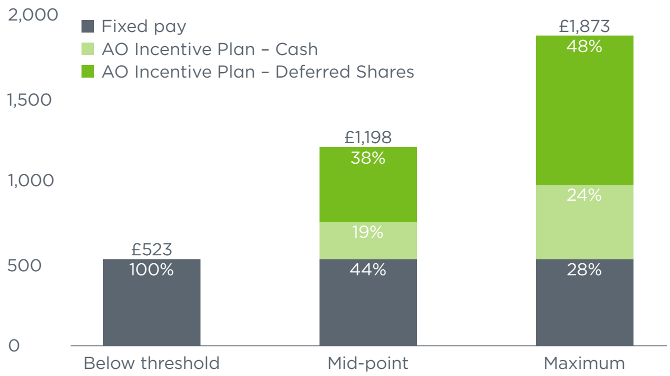
The level of performance-related pay varies within the Group by grade of employee, but the Policy is applied consistently across each grade of the senior management population.

Reward scenarios

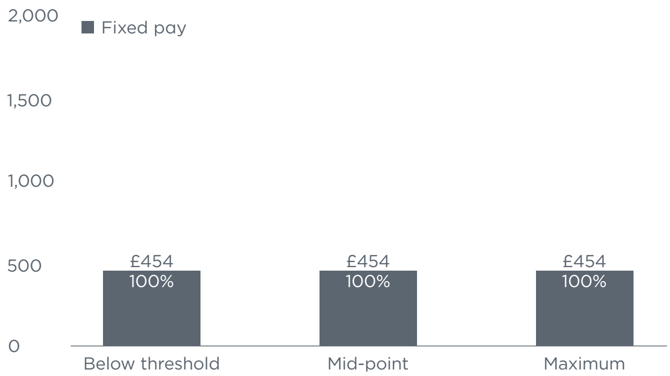
Under the Policy, a significant proportion of remuneration received by Executive Directors is variable and dependent on the performance of the Company. The charts opposite illustrate how the total pay opportunities for the Executive Directors vary under three different performance scenarios: below target and maximum and the mid-point, between based on implementation of the AO Incentive Plan for the year ahead.

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

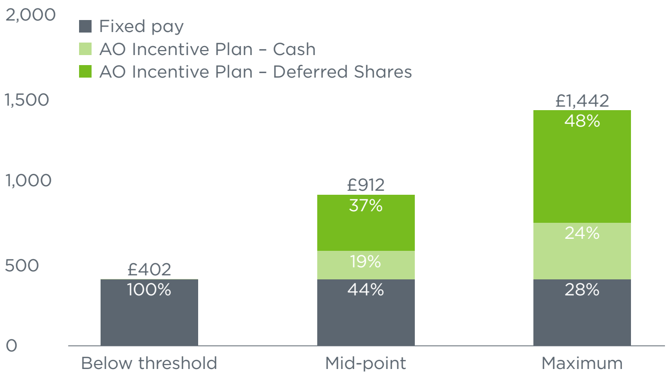
CEO total remuneration opportunity at different levels of performance (£000)



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



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



Assumptions:

- Below threshold = fixed pay only (i.e. basic salary, benefits and pension).
- Mid-point = fixed pay plus 50% of maximum Incentive payout.
- Maximum = fixed pay plus 100% of maximum Incentive payout.
- Fixed pay includes the base salaries for each Executive Director applying on 1 April 2018 together with pension (at 12.75% of base salary), a car allowance of £12,000 for each Executive Director and the value of other taxable benefits (such as gym membership and medical cover) based on the cost of supplying those benefits in the 2018 financial year.
- Maximum Incentive is equivalent to 300% of salary.

Service contracts and loss of office payments

Service contracts normally continue until the Executive Director's agreed retirement date or such other date as the parties agree. The Company's policy is that Executive Directors' service contracts must provide that no more than 12 months' notice to terminate employment (by either party) must be given.

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

In summary, the contractual provisions are as follows:

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

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

Incentives on termination

AO Incentive Plan on termination

Any cash or share entitlements granted under the AO Incentive Plan will be determined on the basis of the relevant plan rules. The default position is that where the Executive Director leaves due to ill health, injury or disability, or the sale of their employing company or business out of the Group, the "leaving" Executive Director will be deemed to be a good leaver. In all other circumstances (unless the Committee has exercised its discretion) the "leaving Executive Director" will be classed as a bad leaver and any outstanding awards and unvested share awards will lapse immediately when the Executive Director ceases to be employed by or to hold office with the Group.

If deemed by the Committee to be a 'good' leaver:

a) during the performance period, awards will ordinarily continue to be satisfied in accordance with the rules of the plan; and
b) during the vesting period, deferred share awards will ordinarily continue to vest on the date when it would have vested as if he had not ceased to be a Group employee or Director.

The extent to which awards may be satisfied and deferred share awards may vest in these circumstances will be determined by the Committee, taking into account the satisfaction of any relevant performance or underpin conditions measured over the original performance period.

Unless the Committee decides otherwise, any outstanding awards will also be reduced to take into account the proportion of the performance period which has elapsed on the individual's cessation of office or employment.

However, the Committee retains discretion to allow awards to be satisfied and deferred share awards to vest as soon as reasonably practicable after the individual's cessation of office or employment. If the participant ceases to hold office or employment prior to the satisfaction of an award, the Committee may also decide to satisfy awards entirely in cash, rather than delivering a deferred share award to the Executive Director.

If a participant dies, unless the Board decides otherwise, his outstanding awards will be satisfied and deferred share awards will vest as soon as reasonably practicable after the date of his death on the basis set out for other 'good leavers' above.

PSP on termination

Any share-based entitlements previously granted under the Company's PSP will be determined on the basis of the relevant plan rules. In determining whether an Executive Director should be treated as a good leaver under the plan rules the Committee will take into account the performance of the individual and the reasons for their departure. The default position is that where employment ceases due to injury or disability, redundancy or retirement, the "leaving" Executive Director will be deemed to be a good leaver. In all other circumstances (unless the Committee has exercised its discretion) the "leaving employee" will be classed as a bad leaver (in which case unvested PSP awards lapse). In the event that the Committee does class an Executive Director as a good leaver, the Committee will set out its rationale in the Annual Report on Remuneration following departure. For good leavers, awards will continue to vest in accordance with the original vesting date unless the Committee determined that they should vest as soon as is reasonably practicable following the date of cessation. Further, awards ordinarily vest on a time pro-rata basis subject to the satisfaction of the relevant performance criteria with the balance of the awards lapsing. The Committee retains discretion to alter the basis of time pro-rating if it deems this appropriate. However, if the time pro-rating is varied from the default position, an explanation will be set out in the Annual Report on Remuneration following departure. For the avoidance of doubt, performance conditions will always apply to awards for good leavers, although the Committee may determine that it is appropriate to assess performance over a different period than the default three-year period.

If an individual dies holding unvested PSP awards, his awards will vest at the time of death.

Approach to recruitment and promotions

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

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

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

Change of control

PSP

In the event of a takeover, PSP awards will vest subject to the determination of the performance conditions as determined by the Committee and, unless the Committee determines otherwise, the proportion of the three-year vesting period that has elapsed.

AO Incentive Plan

Awards will be satisfied and deferred share awards will vest taking into account the extent to which the performance and/or underpin conditions have been satisfied. In these circumstances, the Committee may determine that any outstanding awards are settled in cash, rather than delivering a deferred share award. Unless the Committee determines otherwise, outstanding awards will also be reduced to take into account the proportion of the performance period that has elapsed. If the Company is wound up or there is a demerger, delisting, special dividend or other event, which, in the Committee's opinion, may materially affect the Company's share price, the Committee may allow awards to be satisfied and deferred share awards to vest on the same basis as a takeover.

Chairman and Non-Executive Directors' letters of appointment

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

Non-Executive Directors' fees

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

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

Annual Report on Remuneration

The Annual Remuneration for the year ended 31 March 2018 was structured within the framework of the remuneration policy adopted by shareholders in 2017 and has been implemented accordingly. This will be put to an advisory vote at the Company's AGM on 19 July 2018.

Single figure of total remuneration for 2017/2018 (Audited)

The audited table below shows the aggregate emoluments earned by the Directors of the Company during the period 1 April 2017 to 31 March 2018 (or relating to that period in the case of Bonus) and, for comparison, the amounts earned during the period 1 April 2016 to 31 March 2017 (or relating to that period in the case of Bonus).

		Salaries and fees[1] £	Benefits[2] £	Pension[3] £	Bonus[4] £	Value of SAYE[5] £	Value of PSP[6] £	Total £
Chairman								
Geoff Cooper[7]	2017/18	165,000	3,347	–	–	–	–	**168,347**
	2016/17	116,692	98	–	–	–	–	**116,790**
Executive Directors								
Steve Caunce	2017/18	450,000	15,452	57,375	253,325	4,504		**780,656**
	2016/17	395,000	14,895	42,559	58,700	–	–	**511,154**
John Roberts	2017/18	390,000	13,877	49,725	200	4,504		**458,306**
	2016/17	445,000	13,253	47,601	67,700	4,487	–	**578,041**
Mark Higgins	2017/18	340,000	18,304	43,350	191,450	4,504		**597,608**
	2016/17	300,000	17,807	32,756	45,200	–	–	**395,763**
Non-Executive Directors								
Christopher Hopkinson	2017/18	50,000	–	–	–	–	–	**50,000**
	2016/17	50,000	–	–	–	–	–	**50,000**
Brian McBride	2017/18	65,000	3,009					**68,009**
	2016/17	65,000	1,494	–	–	–	–	**66,494**
Marisa Cassoni	2017/18	60,000	2,008					**62,008**
	2016/17	60,000	1,664	–	–	–	–	**61,664**
Jacqueline De Rojas[8]	2017/18	17,820	459					**18,279**
	2016/17	–	–	–	–	–	–	**–**

1 Steve Caunce became CEO of the Company in February 2017 and John Roberts transitioned to the role of Founder. Accordingly, the basic salary reported for Steve Caunce for 2016/2017 is calculated at 11 months' pay at the COO/£390,000 rate of pay and one month pay at the CEO/£450,000 rate of pay. Similarly, the basic salary reported for John Roberts for 2016/2017 is based on 11 months' pay at the CEO/£450,000 rate and one month at the Founder/£390,000 rate.

2 For John Roberts and Steve Caunce, benefits include medical and life assurance, a car allowance of £12,000 paid in cash, and for Steve Caunce, gym membership, for both years reported. For Mark Higgins, benefits include gym membership, medical and life assurance, car allowance and private fuel. Benefits for the Non-Executive Directors are the values of expenses incurred in connection with attending Board meetings and Company events which the Company has paid for.

3 Executive Directors are entitled to Company pension contributions of 12.75% of gross basic salary. However, given the new pension rules only £10,000 is paid into a pension and the balance is paid in cash (after deducting employer National Insurance contributions at 13.8%).

4 Bonuses are paid post year-end but relate to the year under review. For Steve Caunce and Mark Higgins, the maximum bonus opportunity was equivalent to 150% of salary and due to the meeting of certain performance targets 37.5% of the maximum will be paid. See further details below. Bonuses for 2016/2017 were calculated on salaries in force prior to the change in CEO (given this was when the bonus objective was achieved). For both years the Bonus amounts include an attendance bonus of £200 which is paid Group-wide to employees with the relevant attendance. John Roberts was not entitled to variable remuneration in relation to 2017/2018 (other than the attendance bonus).

5 All of the Executive Directors participated in full in the 2018 AO Sharesave Scheme (withdrawing from previous schemes) and were granted options over 20,224 shares. The SAYE value is calculated by multiplying the number of shares under option by the value of discount (in pounds sterling (being £0.2225)) at the time the scheme was launched. The exercise price for each award was set at 80% of the market value of the share price prior to the scheme launch.

6 The performance conditions relating to the 2015 IPO LTIP (covering a performance period 1 April 2015 to 31 March 2018) were not met and accordingly no share options vested in year 2017/2018.

7 Geoff Cooper was appointed as a Non-Executive Director on 1 July 2016 and took the role of Chairman following Richard Rose's retirement at the AGM, on 21 July 2016. His aggregate salary for 2016/2017 therefore reflects a period at the basic Non-Executive Director rate and the relevant period at the agreed Chairman fee of £165,000 per annum.

8 Jacqueline De Rojas was appointed as a Non-Executive Director on 23 November 2017.

Details of variable pay earned in 2017/18 (Audited)

Annual bonus payments

For both Steve Caunce and Mark Higgins, the maximum bonus entitlement for the year ended 31 March 2018 was 150% of base salary. The targets for the annual bonus scheme were weighted towards financial metrics, with 35% of maximum bonus subject to Group Revenue performance conditions, 35% of maximum bonus subject to Group Adjusted EBITDA performance conditions, 10% of maximum bonus subject to a cash flow target, with the remaining 20% subject to the achievement of strategic objectives, split equally against the achievement of a successful launch of an international mobile application and growing unprompted brand awareness of AO as a retailer of MDA to 35% and 5%, in the UK and Europe respectively. The strategic targets of growing brand awareness and launching a mobile app are critical drivers of sustainable growth. Brand awareness is a lead indication to future sales and is a direct driver for long-term growth. We look to incentivise our Executives to drive this long-term metric (which does not necessarily increase short-term revenue or profits). Similarly, improving the mobile journey for our customers across the Group is also key to development of our offering for customers which we see as a long-term driver of growth.

The following table sets out the targets at threshold, "on target"; stretch and super-stretch for the Group Revenue and Adjusted EBITDA targets, actual performance against these targets and accordingly, the applicable payout.

Measure (weighting)	Targets £m		% payout at threshold (for this element)	Performance achieved £m	Payout
Group Revenue (35%)	Threshold	763.0	25%	796	50%
	On target	787.1	50%		
	Stretch	803.2	75%		
	Super-Stretch	819	100%		
Group Adjusted EBITDA (35%)	Threshold	-2.1	25%	-3.4	0%
	On target	2.9	50%		
	Stretch	7.9	75%		
	Super-Stretch	10	100%		

Under the cash flow performance condition for the relevant part of the bonus to vest we needed to achieve a threshold cash outflow of less than £8.6m (before fund raising). Our cash outflow was £21.4m (before fund-raising) and therefore this target was not met.

As for the strategic targets; an international app has been launched on both iOS and Android and both have a five star rating at the App Store and Google Play respectively (in the UK, Germany and the Netherlands). We are therefore pleased to confirm this strategic target has been met. On brand awareness, as can be seen from Steve's report, we've spent a considerable amount of time shaping and redefining our purpose. This purpose will be the platform from which we launch our new creative campaigns which have been designed and will be rolled out over the next few weeks. Whilst our latest surveys show brand awareness slightly below the targets we set, we do not believe that this is reflective of our current position; we are pleased with all the work achieved by the team over the year and expect this to yield significant brand growth over the year ahead.

In total therefore, we have awarded 37.5% of the maximum bonus to each of CEO and CFO.

Vesting of long-term incentive awards

In July 2015 we granted an LTIP award to Mark Higgins (both John Roberts and Steve Caunce were entitled to participate but waived their awards that year). The Award was subject to performance over the three-year period ended 31 March 2018. The stretching targets set in 2015 were based one-third on absolute TSR (requiring the share price to increase by 33% (from £1.92) for a quarter to vest and by 100% for full vesting); one-third on EPS growth (requiring Adjusted EPS to increase by 50% for one third to vest and by 120% for full vesting; and the final third on revenue growth (requiring revenue to increase by 100% for a quarter to vest and by 140% for full vesting). These targets were not met and therefore no awards have vested.

Details of long-term incentive awards granted during 2017/18

In the year, the Committee made awards to Steve Caunce and Mark Higgins (but not John Roberts) under the PSP, see table 1 below.

As we reported last year, we agreed to grant LTIP awards at an enhanced level (of 300% of salary) to Mark, our CFO, following his promotion to the Board and for the first two years he was in the role. This reflected his initial below-median salary positioning and so ensuring that in achieving a market competitive overall package, a higher proportion of his overall remuneration was share-based and subject to long-term performance. Further, the decision to grant at such level was made in light of the strategic progress made by the Company and individual performance (particularly with regard to ensuring that the Company had adequate funds, with the putting into place of the revolving credit facility (which has since been increased) and managing the placing of shares raising c. £50m in share capital). 2017/2018 was the final year we agreed to make an award at this enhanced level.

The above awards were granted on 21 July 2017 and will, subject to performance, vest three years after the grant date. Performance will be assessed over the three financial years starting on 1 April 2017 and ending on 31 March 2020, and the measures, weightings and targets are as set out in table 2, below.

Table 1

Executive Director	Type of award	Basis of award granted (% of salary)	Share price at date of grant (£)	Number of shares awarded	Face value of award (£)*	% of face value that vests at threshold
Steve Caunce	Nil-cost option	150%	1.19	567,227	675,000	25%
Mark Higgins	Nil-cost option	300%	1.19	857,143	1,020,000	25%

* Based on share price at the date of grant of £1.19.

Table 2

Metric	Weighting (% of award)	Threshold		Target		Stretch performance	
		Target	% Vesting	Target	% Vesting	Target	% Vesting
Group Revenue for FY20	One-third	£921.3m	25%	£969.8m	62.5%	£1,081.3m	100%
Group Adjusted EBITDA for FY20	One-third	£15.3m	25%	£21.9m	62.5%	£28.5m	100%
Relative TSR	One-third	Median	25%		Not applicable	Upper quartile	100%

The Committee believes these metrics provided the appropriate balance vis-à-vis the long-term growth of the Company and shareholder return at the time of grant.

Payments to past Directors and loss of office payments (Audited)
There were no payments to past Directors or loss of office payments made in the year ended 31 March 2018.

Directors' shareholdings (Audited)
Directors' shareholdings as at 31 March 2018 are set out below in table 3. No PSP options vested over the year as historic performance conditions were not met.

There have been no changes to Directors' shareholdings during the period from 1 April 2018 to the date of this report.

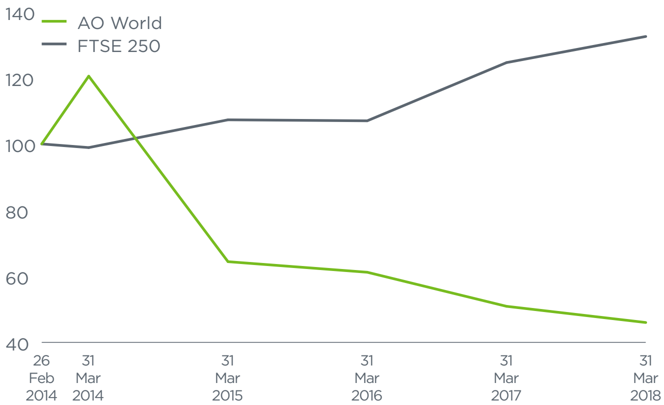
Percentage change in remuneration levels (Unaudited)
The table below shows the movement in the salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared to that for the average employee. For the benefits and bonus per employee, this is based on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

	Chief Executive	Average per employee
Salary	0%	6.1%[1]
Benefits[2]	0%	0%
Bonus[3]	375%	349%

1 Reflects the average change in pay for employees, calculated by reference to the aggregate remuneration for all employees in each year divided by the average number of employees.
2 There are no changes to benefit entitlements.
3 The Chief Executive Officer received a bonus of 10% of maximum entitlement for the year ended 31 March 2017 as did the other Executive Directors. Members of the Group Executive Team and other employees eligible to participate in the Group's bonus scheme received 10% of their maximum bonus entitlement. For the year ended 31 March 2018, the CEO received a bonus of 37.5% of maximum entitlement. Members of the Group Executive Team and other employees eligible to participate in the Group's bonus scheme received 37.5%% of their maximum bonus entitlement.

Performance graph and pay table (Unaudited)
The chart below shows the Company's TSR performance against the performance of the FTSE 250 Index from 25 February 2014 (the date on which the Company's shares were first conditionally traded) to 31 March 2018. This index was chosen as it represents a broad equity market index which includes companies of a broadly comparable size and complexity.

Total Shareholder Return (Rebased)



Source: Thomson Reuters Datastream

Table 4 below shows the total remuneration figure for the Chief Executive during the financial years ending 31 March 2010 to 31 March 2018. The total remuneration figure includes the annual bonus payable for performance in each of those years. No long-term incentives were eligible for vesting based on performance ending in any of those years. The annual bonus percentage shows the payout for each year as a percentage of the maximum (i.e. 150% of salary).

Table 3

	Shares held beneficially[1] at 31 March 2018	Target shareholding guidelines (% of salary)[2]	Target shareholding achieved	PSP Options[3]	SAYE Options[4]
Geoff Cooper	128,573	N/A	N/A	N/A	N/A
John Roberts	109,504,019	200%	Yes	502,232	20,224
Steve Caunce	51,975,815	200%	Yes	1,002,495	20,224
Mark Higgins	27,701	200%	No	1,526,786	20,224
Christopher Hopkinson	22,956,306	N/A	N/A	N/A	N/A
Brian McBride	52,628	N/A	N/A	N/A	N/A
Marisa Cassoni	52,628	N/A	N/A	N/A	N/A
Jacqueline De Rojas	NIL	N/A	N/A	N/A	N/A

1 Includes shares held by connected persons.
2 Comprises shares held beneficially only (and excludes options).
3 None of these PSP options (which have performance conditions) have yet vested.
4 None of these SAYE options (which have no performance conditions) have vested.

Table 4

	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
Total remuneration (£'000)[1]	680	292	243	227	537	537	588	575	781
Annual bonus (% of maximum)	59%	18%	0%	0%	0%	0%	10%	10%	37.5%
PSP vesting (% of maximum)	–	–	–	–	–	–	–	–	–

1 The total remuneration for the financial years ended 31 March 2010 to 31 March 2016 represent amounts earned by John Roberts. The figure stated for the financial year ended 31 March 2017 (2016/2017) is the total remuneration that Steve Caunce would have earned for 2016/2017 had he been CEO for the full year (at the basic salary of £450,000 per annum). The total remuneration for the financial year ended 31 March 2018 (2017/2018) represents amounts earned by Steve Caunce.

Relative importance of the spend on pay (Unaudited)
The table below shows the movement in spend on staff costs versus that in distributions to shareholders.

	2016/2017	2017/2018	% change
Staff costs (£m)[1]	£75.6	£89.3	18%
Distributions to shareholders	No distributions were made to shareholders in the year		

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

External appointments
No fees were received by Executive Directors for external appointments during the year ended 31 March 2018.

Implementation of remuneration policy for 2017/2018

The Company intends to move a resolution to approve a new Policy at the AGM on 19 July 2018. If approved, the new Policy will be effective from 1 April 2018. The new Policy can be found on pages 79 to 85 of this Annual Report.

Salary
We have not increased the base salaries of our Executive Directors for the year ahead. They will next be eligible for a salary review in early 2019, with any changes effective from 1 April 2019. For comparison, the average salary increase provided to UK employees in the 2018 financial year was 2%.

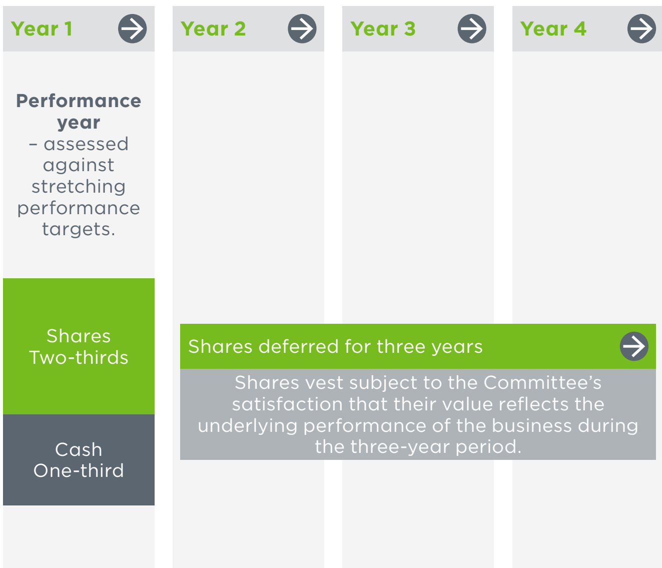
The current salaries as at 1 April 2018 (and those as at 1 April 2017) are as follows:

Individual	Role	Base salary at 1 April 2018	Base salary at 1 April 2017	% increase
Steve Caunce	CEO	£450,000	£450000	0%
Mark Higgins	CFO	£340,000	£340,000	0%
John Roberts	Founder	£390,000	£390,000	0%

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

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

AO Incentive Plan



AO Incentive Plan
In respect of FY19, the Executive Directors (excluding John Roberts) will, subject to the policy and the new incentive plan receiving support of shareholders at the AGM, have a maximum award opportunity of 300% of basic salary. Performance will be measured between 1 April 2018 and 31 March 2019 and against the measures disclosed below.

Subject to the achievement of the performance measures, one-third of the award will be paid in cash subject to approval of the audited accounts for FY19. The remaining two-thirds of the award will be granted in shares. These shares will vest after three years subject to the Committees' satisfaction that their value reflects the underlying performance of the business.

Performance conditions for the FY19 AO Incentive Plan Award

The performance conditions proposed for this year's award comprise revenue and Adjusted EBITDA targets, a cash flow target and two strategic targets; maintaining customer NPS scores (across the Group) at high levels and successfully launching our purpose, each with the weighting as set out below. The Committee believes these measures provide the appropriate balance, with revenue reflecting the Group's high growth strategy but with an EBITDA target to ensure the team are driving profitable growth. For the Revenue, Group Adjusted EBITDA and cash flow metrics, we have set targets having regard to the Company's budget for the year ahead. We deem the budget numbers to be commercially sensitive at this juncture but will disclose these retrospectively. As can be seen on page 32, customers, culture and brand underpin our business model and strategy, and are the drivers for creating long-term sustainable growth. NPS is a measure of customer satisfaction, therefore clearly linking to our strategy and launching our purpose effectively and should allow that culture to flourish and provide greater unity across the Group.

Metric	Weighting (% of award)
Group Revenue for FY19	40%
Group Adjusted EBITDA for FY19	30%
Cash Flow	10%
NPS Scores	10%
Successful Launch of Purpose	10%

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

Share ownership requirements
The required share ownership level for the Executive Directors for 2018/19 will be 200% of salary. There are no share ownership requirements for the Non-Executive Directors.

Non-Executive Director fees
No changes to Non-Executive Director fees are proposed. Accordingly, the fees payable per annum for 2018/19 are shown in the table below.

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

Details of Directors' service contracts and letters of appointment

Details of the service contracts and letters of appointment in place as at 31 March 2018 for Directors are shown in table 5.

All Non-Executive Directors agreed to an extension of the term of their appointments for one further year in February 2018, following expiry of the initial three-year terms which commenced around IPO and a one-year extension from such expiry. The extension of such appointment is subject to the terms of the letters of appointment in force.

Remuneration Committee membership

The members of the Committee were for the year in question Brian McBride (Chairman), Marisa Cassoni, Geoff Cooper on an interim basis (following the retirement of Rudi Lamprecht in February 2017 until the appointment of Jacqueline de Rojas in November 2017) and Jacqueline de Rojas since her appointment. All current members of the Committee are deemed to be independent. Accordingly, the Committee continues to comply with the independence requirements set out in the Code.

During the year to 31 March 2018, there were three formal meetings of the Remuneration Committee, all of which achieved full attendance by the relevant committee members.

The responsibilities of the Committee are set out in the Corporate Governance section of the Annual Report on page 77. The Executive Directors may be invited to attend meetings to assist the Committee in its deliberations as appropriate. The Committee may also invite other members of the management team to assist as appropriate. No person is present during any discussion relating to their own remuneration or is involved in deciding their own remuneration.

Advisers to the Committee

New Bridge Street ("NBS") provided advice during the year to 31 March 2018 in relation to remuneration and share plans both for Executive Directors and the wider senior management population and was appointed by the Committee. Deloitte LLP ("Deloitte") has provided advice in relation to incentive arrangements and the proposed remuneration policy for Executive Directors and the wider senior management population and was appointed by the Committee. Both NBS and Deloitte are signatories to the Remuneration Consultants Group Code of Conduct and any advice provided by them is governed by that code. NBS's and Deloitte's terms of engagement are available on request from the Company Secretary. NBS is a trading name of Aon Hewitt Limited (an Aon Plc company) which, other than acting as independent consultant to the Committee, provided no further services to the Company during the year.

Deloitte also provided certain tax advice during the year to the Group.

The Committee is committed to regularly reviewing the external adviser relationship and is comfortable that NBS's advice remains objective and independent.

For the year under review, NBS's total fees charged were £29,301 plus VAT and Deloitte's were £9,063 plus VAT.

Shareholder feedback (Unaudited)

At the 2017 AGM, the Policy Report was put to shareholders for a binding vote and the Annual Remuneration Report for the year ended 31 March 2017 was put to shareholders by way of an advisory vote, with votes cast as follows:

	Annual Report On Remuneration		Policy Report	
	Number of votes	% of votes cast	Number of votes	% of votes cast
Votes cast in favour	310,008,134	86.21	359,543,265	99.23
Votes cast against	49,582,704	13.79	2,806,634	0.77
Total votes cast (excluding withheld votes)	359,590,838	100	362,349,899	100
Abstentions	2,759,061	–	0	–

The Committee will continue to monitor developments in market trends and the best practice expectations of investors as part of the ongoing review of how the Policy is implemented. As ever, the Committee welcomes any enquiries or feedback shareholders may have on the Policy or the work of the Committee.

Brian McBride
Chairman, Remuneration Committee
AO World Plc
4 June 2018

Table 5

Director and date of service contract or letter of appointment	Unexpired term	Notice period by Company (months)	Notice period by Director (months)	Date joined Group
Marisa Cassoni 31/01/2014	Initial term of three years expired – renewed for successive one-year periods subject to termination by either party	3	3	05/02/2014
Steve Caunce 14/02/2014	Continuous employment until terminated by either party	12	12	13/10/2005
Geoff Cooper 01/07/2016	Initial term of three years from date of letter subject to notice	3	3	01/07/2016
Mark Higgins 31/05/2014	Continuous employment until terminated by either party	12	12	10/07/2011
Christopher Hopkinson 14/02/2014	Initial term of three years expired – renewed for successive one-year periods subject to termination by either party	3	3	12/12/2005
Brian McBride 17/02/2014	Initial term of three years expired – renewed for successive one-year periods subject to termination by either party	3	3	06/02/2014
John Roberts 14/02/2014	Continuous employment until terminated by either party	12	12	19/04/2000
Jacqueline De Rojas 23/11/2017	Initial term of three years from date of appointment	3	3	23/11/2017

The Directors have pleasure in submitting their report and the audited financial statements of AO World Plc (the "Company") and its subsidiaries (together the "Group") for the financial year to 31 March 2018.

Statutory Information

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

Statutory Information	Section	Page
Amendment of the Articles	Directors' Report	92
Appointment and replacement of Directors	Directors' Report	91
Board of Directors	Corporate Governance Statement	64 and 65
Change of control	Directors' Report	93
Community	Strategic Report; Corporate Social Responsibility	38
Directors' indemnities	Directors' Report	93
Directors' interests	Remuneration Report	93
Directors' responsibility statement	Directors' Report	94
Disclosure of information to Auditors	Directors' Report	93
Diversity policy	Corporate Governance Statement; Strategic Report; Resources and Relationships	36
Employee involvement	Strategic Report; Resources and Relationships	36 and 37
Employees with disabilities	Strategic Report; Resources and Relationships	36
Future developments of the business	Strategic Report	16 to 57
Going concern	Strategic Report	47
Greenhouse gas emissions	Corporate Social Responsibility	39
Independent Auditor	Directors' Report	93
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Political donations	Directors' Report	93
Post-balance sheet events	Directors' Report	93
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Research and development activities	Directors' Report	93
Restrictions on transfer of securities	Directors' Report	92
Rights attaching to shares	Directors' Report	92
Risk management	Strategic Report; note 4 to the consolidated financial statements	40 to 46 and 107
Share capital	Directors' Report	92
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Statement of corporate governance	Corporate Governance Statement	58 to 74
Voting rights	Directors' Report	92
Waiver disclosure in accordance with Rule 9 of The Takeover Code	Directors' Report	92

Management Report

This Directors' Report, on pages 91 to 94, together with the Strategic Report on pages 16 to 57, form the Management Report for the purposes of DTR 4.1.5R.

The Strategic Report

The Strategic Report, which can be found on pages 16 to 57, sets out the development and performance of the Group's business during the financial year, the position of the Group at the end of the year, strategic KPIs and a description of the principal risks and uncertainties, which is set out on pages 40 to 46.

UK Corporate Governance Code

The Company's statement on corporate governance can be found in the Corporate Governance Statement, the Audit Committee Report, the Nomination Committee Report and the Directors' Remuneration Report on pages 77 to 90. The Corporate Governance Statement, the Audit Committee Report and the Nomination Committee Report form part of this Directors' Report and are incorporated into the Directors' Report by reference.

Appointment and replacement of Directors

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

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

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

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

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

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

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

For further details of our Directors, please refer to pages 64 and 65.

Amendment of the Articles

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

Share capital and control

The Company's issued share capital comprises of ordinary shares of 0.25p each of which are listed on the London Stock Exchange (LSE: AO.L). The ISIN of the shares is GB00BJTNFH41. As at 31 March 2018, the issued share capital of the Company was £1,146,971, comprising 458,788,480 ordinary shares of 0.25p each.

During the year, the Company issued 37,735,849 ordinary shares of 0.25p each pursuant to a placing of new shares. Further details of the issued share capital of the Company, together with movements in the issued share capital during the year, can be found in note 28 to the financial statements on page 118. All the information detailed in note 28 on page 118 forms part of this Directors' Report and is incorporated into it by reference.

Details of employee share schemes are provided in note 31 to the financial statements on pages 118 to 121.

At the Annual General Meeting of the Company to be held on 19 July 2018 the Directors will seek authority from shareholders to allot shares in the capital of the Company up to a maximum nominal amount of £763,882.82 (305,553,127 shares (representing approximately 66.6% of the Company's issued ordinary share capital)) of which 152,776,563 shares (representing approximately 33% of the Company's issued ordinary share capital (excluding treasury shares)) can only be allotted pursuant to a rights issue.

Authority to purchase own shares

The Directors will seek authority from shareholders at the forthcoming Annual General Meeting for the Company to purchase, in the market, up to a maximum of 45,878,848 of its own ordinary shares either to be cancelled or retained as treasury shares. The Directors will only use this power after careful consideration, taking into account the financial resources of the Company, the Company's share price and future funding opportunities. The Directors will also take into account the effects on earnings per share and the interests of shareholders generally. Additionally, this authority is subject to the waiver under Rule 9 of the Takeover Code being approved by shareholders as set out in the Notice of AGM accompanying this document.

Rights attaching to shares

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

No shareholder holds shares in the Company which carry special rights with regard to control of the Company. There are no shares relating to an employee share scheme which have rights with regard to control of the Company that are not exercisable directly and solely by the employees, other than in the case of the AO Sharesave Scheme, the AO Performance Share Plan ("PSP"), the Employee Reward Plan ("ERP") or the proposed Single Incentive Plan (to be adopted by the Company subject to obtaining shareholder approval at the forthcoming AGM) where share interests of a participant in such scheme can be exercised by the personal representatives of a deceased participant in accordance with the Scheme rules.

Rule 9 waiver

Disclosure in accordance with Rule 9 of the Takeover Code Pursuant to Rule 9 of the Takeover Code, when a waiver has been granted in respect of convertible securities, options or rights to subscribe for shares, details, including the fact of the waiver and the maximum number of securities that may be issued as a result, should be included in the Company's Annual Report and accounts until the securities in respect of which the waiver has been granted have been issued or it is confirmed that no such issue will be made.

At the AGM of the Company held on 21 July 2017, shareholders granted approval for the waiver by the Takeover Panel of any obligation that could arise, pursuant to Rule 9 of the Takeover Code for John Roberts and Steve Caunce (the "Concert Party Directors") and any persons acting in concert with them to make a general offer for all the issued ordinary share capital of the Company following any increase in the percentage of shares of the Company carrying voting rights in which the Concert Party Directors and any person acting in concert with them are interested, resulting from the exercise by the Concert Party Directors of any options over up to 1,612,500 ordinary shares in the capital of the Company granted (or to be granted) to them pursuant to the PSP or any of the options over 26,480 ordinary shares in the capital of the Company granted to them pursuant to the AO Sharesave Scheme.

A similar waiver is again being sought at the Company's AGM scheduled for 19 July 2018, the details of which can be found in the Notice of AGM accompanying this document.

Voting rights

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

Restrictions on transfer of securities

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

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

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

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

Change of control

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

Save in respect of the Company's share schemes and also the revolving credit facility agreement entered into with Lloyds Bank Plc and Barclays Bank Plc on 3 June 2016, and extended on 16 November 2017 with the addition of HSBC Bank plc as an additional lender, there are no significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control.

2018 Annual General Meeting

The Annual General Meeting will be held at 8.00 am on 19 July 2018 at Baskerville House, Browncross Street, West Riverside, Salford M60 9HP. The Notice of Meeting which sets out the resolutions to be proposed at the forthcoming AGM is enclosed with this Annual Report. The Notice specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes will be counted and the numbers for, against or withheld in relation to each resolution will be announced at the Annual General Meeting and published on the Company's website.

Interests in voting rights

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

Shareholder	Number of ordinary shares/voting rights notified or aware of	Percentage of voting rights over ordinary shares of 0.25p each
John Roberts (including Persons Closely Associated)*	109,504,019	23.87%
Steve Caunce (including Persons Closely Associated)*	51,975,815	11.33%
Odey Asset Management LLP (including 10,288,000 through financial instruments)	41,064,849	8.95%
Ruane, Cunniff & Goldfarb Inc.	31,215,124	6.80%
Camelot Capital Partners LLC	24,829,276	5.41%
Chris Hopkinson (including Persons Closely Associated)	22,956,306	5.00%
Rovida Holdings	21,725,702	4.73%
Baillie Gifford & Co Ltd	21,065,087	4.59%
First Pacific Advisors Inc	20,432,016	4.45%
MassMutual Life Insurance Company	20,000,000	4.36%
Julie Holroyd	18,877,335	4.11%
N K Stoller	17,629,098	3.84%

* Crystalcraft Limited is a person connected with both John Roberts and Steve Caunce and holds 6,348 ordinary shares in the issued ordinary share capital of the Company. These 6,348 ordinary shares are included in the interests of John Roberts but not in the interests of Steve Caunce in the table above to avoid double counting.

Results and dividends

The Group's and Company's audited financial statements for the year are set out on pages 95 to 130.

No dividend was paid by the Company during the year to 31 March 2018.

Post-balance sheet events

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

Research and development

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

Indemnities and insurance

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

Environmental

Information on the Group's greenhouse gas emissions is set out in the Corporate Social Responsibility section on page 39 and forms part of this report by reference.

Political donations

During the year, no political donations were made.

External branches

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

Financial instruments

Details of the financial risk management objectives and policies of the Group, including hedging policies and exposure of the entity to price risk, credit risk, liquidity risk and cash flow risk, are given on pages 121 to 125 in note 34 to the consolidated financial statements.

Independent Auditor

The Company's Auditor, KPMG LLP have indicated their willingness to continue their role as the Company's Auditor. A resolution to reappoint KPMG LLP as Auditor of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the forthcoming AGM.

Disclosure of information to Auditor

Each of the Directors has confirmed that:

(i) So far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
(ii) The Director has taken all the steps that he/she ought to have taken as a Director to make him/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

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

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

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departure disclosed and explained in the parent Company financial statements;
- assess the Group and parent Company's ability to continue as a going concern disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

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

We confirm that to the best of our knowledge:

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

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

Julie Finnemore
Company Secretary
For and on behalf of the Board of Directors
AO World Plc
4 June 2018

Opinions and conclusions arising from our audit

1. Our opinion is unmodified

We have audited the financial statements of AO World plc ("the Company") for the year ended 31 March 2018 which comprise the Consolidated Income Statement, Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Financial Positions, Company Statement of Changes in Equity and the related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 19 July 2016. The period of total uninterrupted engagement is for the 2 financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	£2.0m (2017:£2.0m) 0.3% (2017: 0.3%) of group total revenues	
Coverage	99% (2017: 99%) of group total revenues	
Risks of material misstatement		**vs 2017**
Recurring risks	Product protection plans accrued income	⇔
	Volume rebates receivable	⇔
	Recoverability of Parent Company's investment in subsidiaries and debt due from group entities	⇔

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2017), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Product protection plans accrued income (£61.6m accrued income; 2017: £50.9m accrued income) *Refer to page 74 (Audit Committee Report), page 106 and 110 (accounting policy) and page 116 (financial disclosures).*	Accrued income is recognised based on the fair value of commissions due over the expected life of the plans. As this requires subjective estimates to be made, as well as the use of a complex model, there is a risk that the accrued income is materially misstated. **Data capture** Data used in the model used to calculate the fair value could be incorrect because of the complexities and manual nature involved in the data transfer from the third party into the database system and subsequently onwards into the model. **Calculation error** The model used to calculate the fair value is complex and so open to the possibility of arithmetical error. **Subjective estimate** Subjective inputs into the product protection plan accrued income calculation, such as the life of the plans, cancellation rates and future contractual margins based on forecast performance expected require judgement.	Our procedures included: — **Data comparisons:** With the assistance of our own data modelling specialists we performed reconciliations of the third party data to the database system which stores this data and onwards into the model. From the third party data, we agreed a sample of income from new plans, cancellations and renewals of plans to both bank statements and the database system. — **Methodology implementation:** With the assistance of our own data modelling specialists we assessed the appropriateness of the methodology behind the calculation. — **Historical comparisons:** Evaluating the historical accuracy of the model with reference to past data e.g. cumulative cash received. — **Benchmarking assumptions:** Assessing the directors' assumptions over the average life of the products against externally available market data. — **Our sector experience:** Challenging the assumptions made such as life of the plans, cancellation rates and expected margins based on our knowledge of the business and the group. — **Sensitivity analysis:** Performing sensitivity analysis on judgemental assumptions as described above. — **Assessing transparency:** Assessing the adequacy of the group's disclosures about the subjectivity of the unobservable measures and the sensitivity of the outcome of the calculation to changes in key assumptions, reflecting the risks inherent in the valuation of accrued income. **Our results** — We found product protection plans accrued income to be acceptable (2017: acceptable)

	The risk	Our response
Volume rebates receivable (£14.5m 2017: £9.6m) *Refer to page 74 (Audit Committee Report), page 106 and 110 (accounting policy) and page 116 (financial disclosures).*	**Subjective estimate** Volume rebates as part of commercial income recognised are significant and the receivable outstanding at the year end represents an estimate for amounts based on forecasts in relation to factors such as future volumes. **Data capture** The volume rebate calculations include supplier turnover and agreed contractual percentages which vary per supplier. Due to the manual nature of the calculations, the data used in the rebates calculation may be inaccurate.	Our procedures included: — **Control operation:** Testing the operating effectiveness of controls over supplier statement reconciliations including the controls over the monitoring and timely reconciliations of the supplier statements. — **Historical comparisons:** Evaluating the accuracy of the Group's product volume forecasting against actual out-turns. — **Reperformance:** Recalculating a sample of rebates based on agreed supplier turnover and the contractual percentages as stated in the contract. — **Tests of detail:** Agreeing a sample of the year end receivable back to post year end confirmatory evidence, including credit notes and supplier email confirmation. **Our results** — We found the volume rebates receivable to be acceptable (2017: acceptable).
Parent: Recoverability of Parent Company's investment in subsidiaries and debt due from group entities Investment in subsidiaries (£63.1m; 2017: £12.2m) *Refer to page 128 (accounting policy) and page 128 (financial disclosures).* Debt due from group entities (£73.7m; 2017: £55.8m) *Refer to page 107 (accounting policy) and page 130 (financial disclosures).*	**Low risk, high value** The carrying amount of the Parent Company's investment in subsidiaries and intra-group debtor balance represents 41% (2017: 16%) and 48% (2017: 75%) respectively of the Company's total assets. The recoverability of these is not at high risk of significant misstatement or subject to significant judgement. However, due to the materiality in the context of the parent company financial statements, these are considered to be the areas that had the greatest effect on our overall parent company audit.	Our procedures included: — **Tests of detail:** Assessing 100% of group debtors of the total group debtors balance to identify, with reference to the relevant debtors' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making. — **Tests of detail:** Comparing the carrying amount of the investment with the subsidiaries draft balance sheet to identify whether net assets, being an approximation of the minimum recoverable amount, was in excess of the carrying amount and assessing whether the subsidiaries have historically been profit-making. — **Assessing subsidiary audits:** Considering the results of the work on those subsidiaries' profits and net assets. — **Comparing valuations:** Comparing the carrying amount of the investment to the Group's market capitalisation to assess whether there are any indicators of impairment. **Our results** — We found the Group's assessment of the recoverability of the Parent Company's investment in subsidiaries and group debtor balance to be acceptable (2017: acceptable).

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

Materiality for the group financial statements as a whole was set at £2.0 million, determined with reference to a benchmark of group total revenues of £796.8 million, of which it represents 0.3% (2017: 0.3% of group total revenues).

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

Materiality for the parent company financial statements as a whole was set at £0.75 million, determined with reference to a benchmark of parent company total assets, of which it represents 0.5% (2017: 1.0% of parent company total assets).

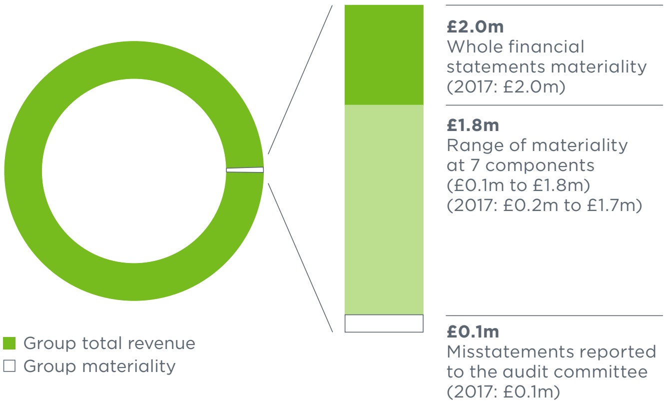
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.1 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 10 (2017: 9) reporting components, we subjected 7 (2017: 5) to full scope audits for group reporting purposes, all of which, including the audit of the parent company, were performed by the group audit team. We subjected 1 (2017: 0) reporting component to specific risk-focused audit procedures as it was not individually significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

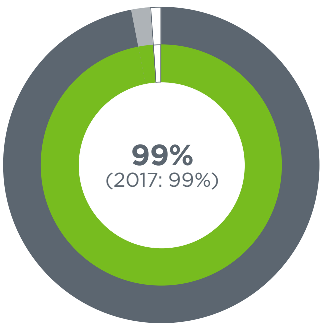
The components within the scope of our work accounted for 99% of group total revenues (2017: 99%), 98% of group total assets (2017: 99%) and 97% of group total profits and losses that made up the group loss before tax (2017: 97%).

Group total revenues
£796.8m (2017: £701.2m)

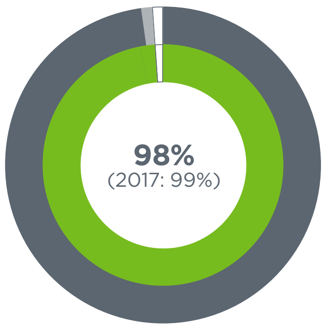
Group Materiality
£2.0m (2017: £2.0m)



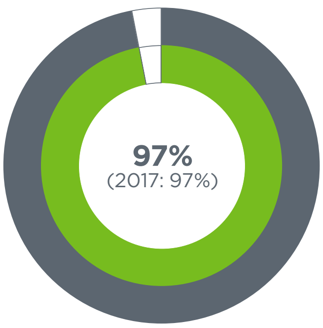
Group total revenues



Group total assets



Group total profits and losses that made up the group loss before tax



- Full scope for group audit purposes 2018
- Specified risk-focused audit procedures 2018
- Full scope for group audit purposes 2017
- Specified risk-focused audit procedures 2017
- Residual components

4. We have nothing to report on going concern

We are required to report to you if:

— we have anything material to add or draw attention to in relation to the directors' statement in note 3 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or

— if the related statement under the Listing Rules set out on page 47 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

— we have not identified material misstatements in the strategic report and the directors' report;

— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report
In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability
Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:
— the directors' confirmation within the statement of viability assessment on page 47 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
— the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
— the directors' explanation in the statement of viability assessment of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the statement of viability assessment. We have nothing to report in this respect.

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

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception
Under the Companies Act 2006, we are required to report to you if, in our opinion:
— adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
— the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
— certain disclosures of directors' remuneration specified by law are not made; or
— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities
Directors' responsibilities
As explained more fully in their statement set out on page 94, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of product protection plans. With the exception of any known or possible irregularities, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible irregularities in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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

Mick Davies (Senior Statutory Auditor)

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

4 June 2018

Consolidated income statement
For the year ended 31 March 2018

	Note	2018 £m	2017 £m
Continuing operations			
Revenue	5,6	**796.8**	701.2
Cost of sales	6	**(655.0)**	(572.0)
Gross profit		**141.8**	129.2
Administrative expenses	6,7	**(159.8)**	(142.4)
Other operating income	8	**1.8**	1.2
Operating loss	6,8	**(16.2)**	(12.0)
Finance income	11	**4.8**	6.8
Finance costs	12	**(2.1)**	(1.8)
Loss before tax		**(13.5)**	(7.0)
Tax credit/(charge)	13	**0.2**	(0.4)
Loss for the year		**(13.3)**	(7.4)
Loss for the year attributable to:			
Owners of the parent company		**(13.4)**	(6.6)
Non-controlling interest	29	**0.1**	(0.8)
		(13.3)	(7.4)
Loss per share (pence)			
Basic loss per share	15	**(2.93)**	(1.56)
Diluted loss per share	15	**(2.92)**	(1.55)

Consolidated statement of comprehensive income
For the year ended 31 March 2018

	2018 £m	2017 £m
Loss for the year	**(13.3)**	(7.4)
Items that may subsequently be recycled to income statement		
Exchange differences on translation of foreign operations	**(1.0)**	(3.5)
Total comprehensive loss for the year	**(14.3)**	(10.9)
Total comprehensive loss for the year attributable to:		
Owners of the parent company	**(14.4)**	(10.1)
Non-controlling interest	**0.1**	(0.8)
	(14.3)	(10.9)

Consolidated statement of financial position
As at 31 March 2018

	Note	2018 £m	2017 £m
Non-current assets			
Goodwill	16	**13.5**	13.5
Other intangible assets	17	**1.2**	1.8
Property, plant and equipment	18	**28.0**	29.3
Trade and other receivables	22	**47.9**	39.8
Derivative financial asset	34	**2.2**	1.3
Deferred tax asset	20	**1.7**	1.8
		94.5	87.5
Current assets			
Inventories	21	**53.2**	44.8
Trade and other receivables	22	**54.8**	41.1
Derivative financial asset	34	**0.2**	–
Corporation tax receivable		**0.2**	0.2
Cash and cash equivalents	23	**56.0**	29.4
		164.4	115.5
Total assets		**258.9**	203.0
Current liabilities			
Bank overdraft	23	**(3.1)**	–
Trade and other payables	24	**(156.0)**	(140.2)
Borrowings	25	**(4.2)**	(3.7)
Derivative financial liability	34	**(0.4)**	–
Provisions	27	**–**	(0.1)
		(163.7)	(144.0)
Net current assets/(liabilities)		**0.7**	(28.5)
Non-current liabilities			
Borrowings	25	**(10.4)**	(13.7)
Derivative financial liability	34	**(3.4)**	(3.4)
Provisions	27	**(1.8)**	(1.4)
Total liabilities		**(179.3)**	(162.5)
Net assets		**79.6**	40.5
Equity attributable to owners of the parent			
Share capital	28	**1.1**	1.1
Share premium account	28	**103.7**	55.7
Other reserves	30	**5.3**	1.0
Retained losses		**(28.9)**	(15.6)
Total		**81.2**	42.2
Non-controlling interest	29	**(1.6)**	(1.7)
Total equity		**79.6**	40.5

The financial statements of AO World Plc, registered number 05525751, on pages 100 to 130 were approved by the Board of Directors and authorised for issue on 4 June 2018. They were signed on its behalf by:

Steve Caunce
CEO
AO World Plc

Mark Higgins
CFO
AO World Plc

Consolidated statement of changes in equity
As at 31 March 2018

			Other reserves								
	Share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Share-based payments reserve £m	Translation reserve £m	Other reserve £m	Retained losses £m	**Total £m**	Non-controlling interest £m	**Total £m**
Balance at 1 April 2016	1.1	55.7	4.4	0.5	3.1	(2.1)	(2.1)	(12.3)	**48.3**	(0.9)	**47.4**
Loss for the year	–	–	–	–	–	–	–	(6.6)	**(6.6)**	(0.8)	**(7.4)**
Share-based payments charge net of tax	–	–	–	–	4.0	–	–	–	**4.0**	–	**4.0**
Foreign currency gains arising on consolidation	–	–	–	–	–	(3.5)	–	–	**(3.5)**	–	**(3.5)**
Movement between reserves	–	–	–	–	(3.3)	–	–	3.3	**–**	–	**–**
Balance at 31 March 2017	1.1	55.7	4.4	0.5	3.8	(5.6)	(2.1)	(15.6)	**42.2**	(1.7)	**40.5**
(Loss)/profit for the year	–	–	–	–	–	–	–	(13.4)	**(13.4)**	0.1	**(13.3)**
Share-based payments charge net of tax	–	–	–	–	5.4	–	–	–	**5.4**	–	**5.4**
Foreign currency gains arising on consolidation	–	–	–	–	–	(1.0)	–	–	**(1.0)**	–	**(1.0)**
Issue of shares net of expenses	–	48.0	–	–	–	–	–	–	**48.0**	–	**48.0**
Movement between reserves (see note 30)	–	–	–	–	(0.1)	–	–	0.1	**–**	–	**–**
Balance at 31 March 2018	**1.1**	**103.7**	**4.4**	**0.5**	**9.1**	**(6.6)**	**(2.1)**	**(28.9)**	**81.2**	**(1.6)**	**79.6**

Consolidated statement of cash flows
For the year ended 31 March 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Loss for the year		**(13.3)**	(7.4)
Adjustments for:			
Depreciation and amortisation		**7.6**	6.0
Finance income	11	**(4.8)**	(6.8)
Finance costs	12	**2.1**	1.8
Profit on disposal of property, plant and equipment		**(0.1)**	(0.3)
Taxation (credit)/charge		**(0.2)**	0.4
Share-based payment charge	31	**5.5**	4.0
Increase in provisions		**0.3**	0.7
Operating cash flows before movement in working capital		**(2.9)**	(1.6)
Increase in inventories		**(8.4)**	(10.3)
Increase in trade and other receivables		**(21.5)**	(13.3)
Increase in trade and other payables		**17.1**	28.9
Total movement in working capital		**(12.8)**	5.3
Taxation received/(paid)		**0.3**	(0.2)
Cash (used)/generated in operating activities		**(15.4)**	3.5
Cash flows from investing activities			
Interest received	11	**–**	0.2
Proceeds from sale of property, plant and equipment		**0.1**	0.9
Acquisition of property, plant and equipment		**(4.8)**	(5.7)
Acquisition of intangible assets		**(0.5)**	(0.3)
Cash used in investing activities		**(5.2)**	(4.9)
Cash flows from financing activities			
Movement in bank overdraft		**3.1**	–
Proceeds from new borrowings		**1.1**	2.1
Interest paid	12	**(1.0)**	(1.1)
Repayments of borrowings		**(0.9)**	(0.4)
Payment of finance lease liabilities		**(3.2)**	(3.4)
Proceeds from share issue		**50.0**	–
Costs in relation to share issue		**(1.9)**	–
Net cash from/(used in) financing activities		**47.2**	(2.8)
Net increase/(decrease) in cash		**26.6**	(4.2)
Cash & cash equivalents at beginning of year		**29.4**	33.4
Exchange gains on cash & cash equivalents		**–**	0.2
Cash and cash equivalents at end of year	23	**56.0**	29.4

1. Authorisation of financial statements and statement of compliance with IFRSs

AO World Plc is a public limited company and is incorporated in the United Kingdom under the Companies Act. The Company's ordinary shares are traded on the London Stock Exchange. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 March 2018, and as such comply with Article 4 of the EU IAS regulation.

The address of the registered office is given on page 131. The nature of the Group's operations and its principal activities are set out in note 19 and in the Strategic Report on pages 16 to 55.

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

2. Adoption of new and revised standards

The accounting policies set out in note 3 have been applied in preparing these financial statements.

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

Amendments to IAS 12	*Recognition of deferred tax assets for unrealised losses*
Amendments to IAS 7	*Disclosure initiative*
Annual improvements to IFRSs	*2014 to 2016 cycle*

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

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue From Customers With Contracts*
IFRS 16	*Leases*
Amendments to IFRS 2	*Classification and Measurement of Share Based Payment Transactions*
IFRIC Interpretation 22	*Foreign currency transactions and Advanced Consideration*
IFRIC 23	*Uncertainty over income tax treatments*

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

IFRS 9

IFRS 9, 'Financial Instruments' is effective for periods commencing on or after 1 January 2018. The revised standard replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new guidance for classification and measurement, impairment of financial instruments and hedge accounting. There will be no financial impact from adopting this standard and any additional disclosures will be included in the financial statements for the year ended 31 March 2019.

IFRS 15

IFRS 15, 'Revenue from Contracts with Customers' is effective for periods commencing 1 January 2018. IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. An assessment of the potential impact of the standard has been undertaken in the year, and management have concluded that revenue recognition under IFRS 15 is expected to be broadly consistent with our current practice and that there would be no material changes to the reported numbers for the year ended 31 March 2018. This is particularly the case with accounting for commission receivable on product protection plans where a significant amount of historical data is being applied to the estimate of variable consideration. Historically, there have been no significant reversals of revenue, hence, as at 31 March 2018, management have concluded that, in relation to variable consideration, it is not highly probable that there would be a significant reversal of revenue and hence no restrictions are required in the amount of revenue recognised nor would there be any impact on timing of recognition. This has been considered using the expected value method.

IFRS 16

IFRS 16, "Leases" provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. The main aim of this standard is to ensure material leases will be reflected on the balance sheet. The new standard will replace IAS 17 "Leases" and is effective for annual periods beginning on or after 1 January 2019 unless adopted early. We anticipate the changes will have a significant impact on the financial statements and are currently carrying out a review to quantify this.

3. Significant accounting policies

Basis of consolidation

The Group's financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group").

Subsidiary undertakings are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases.

Subsidiary undertakings acquired during the period are recorded under the acquisition method of accounting. The cost of the acquisition is measured at the aggregate fair value of the consideration given. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair value at the date the Group assumes control of the acquiree. Acquisition related costs are recognised in the consolidated income statement as incurred.

All intercompany balances and transactions have been eliminated in full.

3. Significant accounting policies (continued)

The present-access method is used to value AO Recycling non-controlling interest. Under this method the non-controlling interest continues to be recognised because the non-controlling shareholders still have present access to the returns associated with the underlying ownership interests, with the debit entry to 'other' equity. Any non-controlling interest acquired on acquisition of a subsidiary is recognised at the proportionate share of the acquired net assets. Subsequent to acquisition, the carrying amount of non-controlling interest equals the amount of those interests at initial recognition plus the non-controlling share of changes in equity since acquisition. Total comprehensive income is attributed to a non-controlling interest even if this results in the non-controlling interest having a deficit balance.

A list of all the subsidiaries of the Group is included in note 19 of the Group financial statements. All apply accounting policies which are consistent with those of the rest of the Group.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a period of not less than 12 months from the date of this Report. This takes into consideration the forecasted cash flow of the Group and the availability of a £60m Revolving Credit Facility. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail on this and the viability statement is contained in the Directors' Report on page 91.

Revenue recognition

Revenue represents the value of goods and ancillary services delivered to the customers during the year, net of value added tax. Revenue is recognised on orders received when the goods and related services have been delivered to customers. The exception to this is revenue in respect of product protection plans and commercial income which is dealt with in the section below.

Commission receivable

Commission receivable for sales of product protection plans for which the Group acts as an agent (on the basis that the plan is a contract between the customer and Domestic and General and the Group has no ongoing obligations following the sale of such plans) are included within revenue based on the estimated fair value of future commissions receivable over the life of the product protection plan. Revenue is recognised on the basis that the Group has fulfilled its obligations to the customer. The fair value calculation takes into consideration the length of the plan, the historical rate of customer attrition and anticipated margin (including an estimate of future profitability of the scheme) and is discounted (see note 22).

Commercial income

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

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

Finance income and costs

Finance income is recognised in the consolidated income statement in the period to which it relates using the effective interest rate method.

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

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

Finance costs comprise of:
— Movement in the valuation of the put and call options.
— Finance costs incurred on finance leases are recognised in profit or loss using the effective interest method.
— Financing costs of raising debt.

Interest-bearing borrowings

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

Impairment of tangible and intangible assets

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

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

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

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

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

Goodwill impairment review

Goodwill is required to be tested for impairment annually. Impairment testing on goodwill is carried out in accordance with the methodology described in note 16. Such calculations require judgement relating to the appropriate discount factors and long-term growth prevalent in a particular market as well as short and medium-term business plans. The Directors draw upon experience as well as external resources in making these judgements.

Intangible assets

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

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

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

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

Property, plant and equipment

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

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

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

Freehold land is not depreciated.

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

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

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

Inventories

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

Financial instruments

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

Financial assets and liabilities

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

Trade and other receivables

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

For other receivables arising from commission for sales of product protection plans, measurement is at fair value. This is based on the Group having a contractual right to receive cash (in the form of commission following the sale of a plan) and a financial asset is recognised in accordance with IAS32 Financial Instruments Presentation. Any gain or loss on re-measurement of fair value is recognised immediately in the consolidated income statement within revenue.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand.

Trade and other payables

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

3. Significant accounting policies (continued)

Financial liabilities and equity components

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

(a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Call and put option

The fair value of the call and put options (arising on the acquisition of AO Recycling Limited) are based upon an independent valuation at the year-end using the Monte Carlo model. These are applied to the Company only accounts and, for the call option only, in the consolidated accounts.

For consolidation purposes, the Group uses the gross liability method as per IAS 32 for valuing the put option which equates to an estimate of the amount payable over the life of the option based on discounted future cash flows.

Provisions

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

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

Leases

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

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

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

Taxation

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

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

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

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

Employee benefits

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

Share-based payments

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

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

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

If a service period is reduced, the modified vesting period is used when applying the requirements of the modified grant-date method. In the period of change, the cumulative amount to be recognised at the reporting date is calculated on the new vesting conditions.

At each statement of financial position date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of service and non-market vesting conditions and of the number of equity instruments that will ultimately vest or, in the case of cancelled options in the AO Sharesave scheme, be treated as vesting as described above.

The movement in cumulative expense since the previous statement of financial position date is recognised in the consolidated income statement with a corresponding entry in equity.

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

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

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

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

Non statutory measures
One of the Group's key performance indicators is Adjusted EBITDA and each segment is measured by the Chief Operating Decision maker on this basis. When reviewing profitability, the Directors use an adjusted measure of EBITDA in order to give a meaningful year-on-year comparison and it is a performance criteria for the purposes of both the Executive management's annual bonus and certain LTIP awards (along with other measures including revenue). Whilst we recognise that the measure is an alternative (non-Generally Accepted Accounting Principles ("non-GAAP")) performance measure which is also not defined within IFRS, this measure is important and should be considered alongside the IFRS measures.

Adjusted EBITDA is calculated by adding back those material items of income and expenditure where because of the nature and expected infrequency of events giving rise them, merit seperate presentation to allow shareholders a better understanding of the financial performance in the period.

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

- LTIP awards were made to a number of senior staff under the Performance Share Plan at the time of the Company's IPO in 2014 and also under the Employee Reward Plan (ERP) in July 2016. The Board considers that the magnitude and timing of these awards are exceptional in nature and so add-back any charge in arriving at Adjusted EBITDA. AO Sharesave scheme charges and LTIP charges relating to the LTIP awards which are not considered to be exceptional in nature are not adjusted for.
- Europe set-up costs are costs incurred in connection with our European expansion strategy and our continuing research into other countries along with strategic post "go-live" activity in AO.de and AO.nl.
- During the year and following the appointment of Steve Caunce as Group CEO, the Group has undertaken a restructure of its executive team. The cost of this restructure, including the impact of the acceleration of certain share option charges, is considered to be one-off in nature due to its size and timing, and has therefore been added back in arriving at Adjusted EBITDA.

4. Critical accounting judgements and key sources of estimation uncertainty

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

The most critical accounting policies in determining the financial condition and results of the Group are those requiring the greatest degree of subjective or complex judgements and estimation. These relate to the revenue recognition and recoverability of product protection plan income and commercial income receivable, both of which contain estimates, as set out below.

Estimates

Revenue recognition & recoverability of income from product protection plans

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

For plans sold prior to 1 December 2016, the commission rates receivable are assumed at 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.

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 provision is made for the risk of potential changes in customer behaviour, but they are nonetheless inherently uncertain. Changes in estimates recognised as an increase or decrease to revenue may be made, where for example more reliable information is available, and any such changes are required to be recognised in the income statement. The commission receivable balance as at 31 March 2018 was £61.6m (2017: £50.9m). The discount rate used to unwind the commission receivable is 4.6% (2017: 4.6%).

Commercial income receivable

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

Volume rebates are deducted from cost of sales in line with the sale of the product to which the rebate is attributable. Calculation of the volume rebate for the final month of the financial year includes judgements for expected rebates receivable. Volume rebates receivable at 31 March 2018 are £14.5m (2017: £9.6m). At 31 May 2018, the balance outstanding was £4.6m.

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

Calculation of the revenue recognised requires judgements to be made which include forecasting expected total marketing funding and third-party expected marketing spend. At 31 March 2018, £1.1m remains as an outstanding receivable (2017: £1.4m). At 31 May 2018, the outstanding balance was £nil.

5. Revenue

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

Year ended 31 March	2018 £m	2017 £m
AO website sales	**722.3**	629.4
Third-party website sales and trade sales	**46.7**	46.0
Other sales*	**27.8**	25.8
	796.8	701.2

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

Revenue split between sale of goods and services:

Year ended (£m)	31 March 2018			31 March 2017		
	UK	Europe	Total	UK	Europe	Total
Product sales	**593.9**	**114.3**	**708.2**	552.5	67.7	620.2
Service sales	**86.9**	**1.7**	**88.6**	77.2	3.8	81.0
	680.8	**116.0**	**796.8**	629.7	71.5	701.2

Product sales relate to the sale of electrical products through our own website and for third parties. Service sales relate to ancillary services, including delivery, connection and disconnections, product protection plan commission, recycling services, strategic marketing income and third-party logistics.

6. Segmental analysis

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

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

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

a. Income statement

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

Year ended (£m)	31 March 2018			31 March 2017		
	UK	Europe	Total	UK	Europe	Total
AO website sales	606.6	115.7	722.3	557.9	71.5	629.4
Third-party website sales	46.5	0.2	46.7	46.0	–	46.0
Other sales	27.7	0.1	27.8	25.8	–	25.8
Total revenue	**680.8**	**116.0**	**796.8**	629.7	71.5	701.2
Cost of sales	(536.2)	(118.8)	(655.0)	(496.5)	(75.5)	(572.0)
Gross profit/(loss)	**144.6**	**(2.8)**	**141.8**	133.2	(4.0)	129.2
Administrative expenses	(134.3)	(25.5)	(159.8)	(118.6)	(23.8)	(142.4)
Other operating income	1.3	0.5	1.8	1.1	0.1	1.2
Operating profit/(loss)	**11.6**	**(27.8)**	**(16.2)**	15.6	(27.6)	(12.0)
Finance income	4.0	0.8	4.8	3.3	3.5	6.8
Finance costs	(2.0)	(0.1)	(2.1)	(1.7)	(0.1)	(1.8)
Profit/(loss) before tax	**13.6**	**(27.1)**	**(13.5)**	17.2	(24.2)	(7.0)
Tax credit/(charge)	0.4	(0.2)	0.2	(0.5)	0.1	(0.4)
Profit/(loss) after tax	**14.0**	**(27.3)**	**(13.3)**	16.7	(24.1)	(7.4)

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

One of these key measures is Adjusted EBITDA which is defined in note 3.

The reconcilliation of statutory operating profit/(loss) to adjusted EBITDA is as follows.

£m	31 March 2018			31 March 2017		
	UK	Europe	Total	UK	Europe	Total
Operating profit/(loss)	**11.6**	**(27.8)**	**(16.2)**	15.6	(27.6)	(12.0)
Depreciation	4.9	1.7	6.6	4.3	1.0	5.3
Amortisation	0.9	0.1	1.0	0.6	0.1	0.7
Profit on disposal of non-current assets	–	(0.1)	(0.1)	(0.3)	–	(0.3)
EBITDA	**17.4**	**(26.1)**	**(8.7)**	20.1	(26.5)	(6.4)
Share-based payments charge attributable to exceptional LTIP awards	3.5	–	3.5	3.6	–	3.6
Europe set-up costs	0.3	–	0.3	0.7	–	0.7
Executive restructuring costs	1.4	0.1	1.5	–	–	–
Adjusted EBITDA	**22.6**	**(26.0)**	**(3.4)**	24.4	(26.5)	(2.1)

6. Segmental analysis (continued)

b. Geographical analysis

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

c. Other information

2018 (£m)	**Additions: Intangible assets**	**PP&E**	**Depreciation**	**Amortisation**	**Profit on disposal**
UK	**0.5**	**4.2**	**4.9**	**0.9**	**–**
Europe	**–**	**0.8**	**1.7**	**0.1**	**(0.1)**
	0.5	**5.0**	**6.6**	**1.0**	**(0.1)**

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

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

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

7. Administrative expenses

	2018 £m	2017 £m
Marketing and advertising expenses	**33.2**	31.9
Warehousing expenses	**34.2**	31.3
Other administrative expenses	**92.4**	79.2
	159.8	142.4

8. Operating loss for the year

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

	2018 £m	2017 £m
Depreciation of:		
Owned assets	**3.9**	3.3
Assets held under finance leases	**2.7**	2.0
Amortisation	**1.0**	0.7
Operating lease expenses of:		
Motor vehicles	**6.4**	6.4
Other assets	**9.3**	6.9
Profit on disposal of property, plant and equipment	**(0.1)**	(0.3)
Cost of inventories	**566.6**	492.8
Staff costs (see note 10)	**97.2**	80.0
Other operating income from short-term sublets	**(1.8)**	(1.2)
Executive restructuring costs	**1.5**	–

9. Auditor's remuneration

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

	2018 £m	2017 £m
Fees payable to the Company's Auditor and their associates for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's Auditor and their associates for other services to the Group		
– the audit of the Company's subsidiaries	**0.2**	0.2
Total audit fees	**0.3**	0.3
Total Auditor's remuneration	**0.3**	0.3

Details of the Company's policy on the use of auditors for non-audit services, the reasons why the Auditor was used rather than another supplier and how the Auditor's independence and objectivity was safeguarded are set out in the Audit Committee Report on page 73. No services were provided on a contingent fee basis.

Included within the total auditors remuneration of £320,000 are non-audit fees of £30,000 in relation to the review of the interim financial statements (2017: £30,000).

10. Staff costs

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

	2018 Number	2017 Number
Sales, marketing and distribution	**2,764**	2,498
Directors (Executive and Non-Executive)	**7**	8
	2,771	2,506

Their aggregate remuneration comprised:

	2017 £m	2016 £m
Wages and salaries	**79.6**	66.3
Social security costs	**8.1**	6.5
Contributions to defined contribution plans (see note 33)	**3.7**	2.8
Share-based payment charge (see note 31)	**5.5**	4.0
Social security contributions related to share awards	**0.4**	0.4
	97.2	80.0

11. Finance income

	2018 £m	2017 £m
Bank interest	**–**	0.2
Foreign exchange gains on intra-Group loans	**1.1**	4.4
Movement in valuation of put and call option	**1.8**	0.5
Unwind of discounting on long-term receivables	**1.9**	1.7
	4.8	6.8

12. Finance costs

	2018 £m	2017 £m
Interest on obligations under finance leases	**0.5**	0.5
Finance cost in relation to debt	**0.4**	0.6
Movement in valuation of put and call option	**1.1**	0.7
Other interest	**0.1**	–
	2.1	1.8

13. Tax

	2018 £m	2017 £m
Corporation tax:		
Current year	**–**	0.6
Adjustments in respect of prior years	**(0.2)**	–
	(0.2)	0.6
Deferred tax (see note 20)		
Current year	**(0.3)**	(0.2)
Adjustments in relation to prior years	**0.3**	–
Total tax (credit)/charge	**(0.2)**	0.4

The expected corporation tax credit for the year is calculated at the UK corporation tax rate of 19% (2017: 20%) on the loss before tax for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions in which the Group operates.

The UK rate of corporation tax, currently 19%, will reduce to 17% on 1 April 2020 under provisions contained in Finance Act 2016. The Group has recognised deferred tax in relation to UK companies at either 19% or 17% depending on the period in which the deferred tax asset or liability is expected to reverse.

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

Year ended 31 March	2018 £m	2017 £m
Loss before tax on continuing operations	**(13.5)**	(7.0)
Tax at the UK corporation tax rate of 19% (2017: 20%)	**(2.6)**	(1.4)
Ineligible expenses	**0.3**	0.3
Difference in overseas and UK tax rates	**(0.3)**	(0.3)
Movement in unrecognised tax	**2.0**	1.7
Impact of difference in current and deferred tax rates	**–**	0.1
Income not taxable	**(0.5)**	(0.8)
Share-based payments	**0.8**	0.8
Prior period adjustments	**0.1**	–
Tax (credit)/charge for the year	**(0.2)**	0.4

14. Dividends

The Directors do not propose a dividend for the year ended 31 March 2018 (2017: £nil).

15. Loss per share

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

	2018 £m	2017 £m
Loss for the purposes of basic and diluted earnings per share being loss attributable to owners of the parent company	**(13.4)**	(6.6)
Number of shares		
Weighted average shares in issue for the purposes of basic loss per share	**458,788,480**	421,052,631
Potentially dilutive shares options	**1,885,206**	1,337,071
Weighted average number of diluted ordinary shares	**460,673,686**	422,389,702
Loss per share (pence per share)		
Basic loss per share	**(2.93)**	(1.56)
Diluted loss per share	**(2.92)**	(1.55)

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

Adjusted loss per share

Year ended 31 March	2018 £m	2017 £m
Loss		
Loss attributable to owners of the parent company	**(13.4)**	(6.6)
Foreign exchange gains on intra-Group loans	**(1.1)**	(4.4)
Adjusted loss attributable to owners of the parent company	**(14.5)**	(11.0)
Number of shares		
Basic and adjusted weighted average number of ordinary shares	**458,788,480**	421,052,631
Potentially dilutive shares options	**1,885,206**	1,337,071
Diluted weighted average number of shares	**460,673,686**	422,389,702
Loss per share (in pence)		
Basic loss per share	**(2.93)**	(1.56)
Diluted loss per share	**(2.92)**	(1.55)
Adjusted basic loss per share	**(3.16)**	(2.62)

16. Goodwill

	£m
Carrying value at 31 March 2016	**13.5**
Additions	–
Carrying value at 31 March 2017	**13.5**
Additions	–
Carrying value at 31 March 2018	**13.5**

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

Impairment of goodwill
At 31 March 2018, goodwill acquired through UK business combinations was allocated to the UK cash-generating unit "CGU" which is also the UK operating segment.

This represents the lowest level within the Group at which goodwill is monitored for internal management purposes.

The Group performed its annual impairment test as at 31 March 2018. The recoverable amount of the CGU has been determined based on the value in use calculations. The Group prepares cash flow forecasts derived from the most recent approved financial budget and financial plan, for three years and extrapolates cash flows for the following years, up until year five, based on an estimated growth rate of 1%. This rate does not exceed the average long-term growth rate for the market. The final year cash flow is used to calculate a terminal value.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to this CGU. In arriving at the appropriate discount rate to use, we adjust the CGU's post-tax weighted average cost of capital of 10% to reflect the impact of risks and tax effects specific to the cash flows. The weighted average pre-tax discount rate we used was approximately 10.8% (2017: 10.8%).

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

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

17. Other intangible assets

	Domain names £m	Software £m	Total £m
Cost			
At 1 April 2016	1.4	1.7	3.1
Additions	–	0.3	0.3
At 31 March 2017	1.4	2.0	3.4
Additions	–	0.4	0.4
At 31 March 2018	1.4	2.4	3.8
Amortisation			
At 1 April 2016	0.3	0.7	1.0
Charge for the year	0.2	0.5	0.7
At 31 March 2017	0.5	1.1	1.6
Charge for the year	0.5	0.5	1.0
At 31 March 2018	1.0	1.6	2.6
Carrying amount			
At 31 March 2018	**0.4**	**0.8**	**1.2**
At 31 March 2017	0.9	0.9	1.8
At 31 March 2016	1.1	1.0	2.1

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

18. Property, plant and equipment

	Land and buildings £m	Property alterations £m	Fixtures, fittings, plant and machinery £m	Motor vehicles £m	Computer and office equipment £m	Total £m
Cost						
At 1 April 2016	2.4	9.1	3.0	7.5	6.9	28.9
Additions	0.3	1.0	7.9	6.4	1.0	16.6
Disposals	–	–	–	(3.8)	(1.0)	(4.8)
Exchange differences	0.4	0.1	0.1	0.1	–	0.7
At 31 March 2017	3.1	10.2	11.0	10.2	6.9	41.4
Additions	0.1	2.4	0.9	1.1	0.6	5.1
Disposals	–	–	–	(0.3)	(0.1)	(0.4)
Exchange differences	0.1	–	–	–	–	0.1
At 31 March 2018	3.3	12.6	11.9	11.0	7.4	46.2
Accumulated depreciation						
At 1 April 2016	–	1.9	1.8	3.4	3.8	10.9
Charge for the year	0.2	0.9	0.8	1.8	1.5	5.2
Disposals	–	–	–	(3.2)	(0.9)	(4.1)
At 31 March 2017	0.2	2.8	2.6	2.0	4.4	12.0
Charge for the year	0.2	1.0	1.3	2.7	1.4	6.6
Disposals	–	–	–	(0.3)	–	(0.3)
Exchange differences	–	–	–	(0.1)	–	(0.1)
At 31 March 2018	0.4	3.8	3.9	4.3	5.8	18.2
Carrying amount						
At 31 March 2018	2.9	8.8	8.0	6.7	1.6	28.0
At 31 March 2017	2.9	7.4	8.4	8.2	2.4	29.3
At 31 March 2016	2.4	7.2	1.2	4.1	3.1	18.0

At 31 March 2018, the net carrying amount of finance leased plant and machinery was £10.9m (2017: £13.3m). The leased equipment secures lease obligations (see note 26).

19. Subsidiaries

The Group consists of the parent Company, AO World Plc, incorporated in the UK and a number of subsidiaries held directly/indirectly by AO World Plc.

The table below shows details of all subsidiaries of AO World Plc as at 31 March 2018.

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

All companies within the Group are registered at the same address disclosed on page 131 apart from BERE Ltd, AO.NL BV, AO Logistics (Netherlands) BV, AO.BE SA and Elekdirect Limited who are registered at the addresses listed below.

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

* 0.01% of the investment in AO.BE SA is owned by AO Deutschland Limited.
** Indirectly owned through AO Limited.

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

20. Deferred tax

The following is the asset recognised by the Group and movements thereon during the current and prior reporting year.

	Share options £m	Accelerated depreciation £m	Short-term timing difference £m	Total £m
At 1 April 2016	**0.5**	**0.8**	**0.2**	**1.5**
Credit to income statement	0.2	(0.1)	0.1	0.2
Credit to reserves	0.1	–	–	0.1
At 31 March 2017	**0.8**	**0.7**	**0.3**	**1.8**
Credit/(debit) to income statement	0.2	(0.1)	(0.1)	–
Debit to reserves	(0.1)	–	–	(0.1)
At 31 March 2018	**0.9**	**0.6**	**0.2**	**1.7**

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The Group has an unrecognised deferred tax asset of £5.1m (2017: £3.1m) in respect of unused losses carried forward.

21. Inventories

	2018 £m	2017 £m
Finished goods	**53.2**	44.8

Included within inventories are stock provisions of £0.8m (2017: £0.4m).

22. Trade and other receivables

	2018 £m	2017 £m
Trade receivables	**8.7**	6.3
Other receivables:		
– Accrued income	**61.9**	51.4
– Prepayments and other	**32.2**	23.2
	102.8	80.9

The trade and other receivables are classified as:

	2018 £m	2017 £m
Non-current assets – Accrued income	**47.9**	39.8
Current assets	**54.8**	41.1
	102.7	80.9

Accrued income

The reconciliation of opening and closing balances for accrued income is shown below:

	2018 £m	2017 £m
Balance brought forward	**51.4**	39.4
Commission earned, cash received and revisions to estimates	**8.8**	10.2
Unwind of discounting on long-term receivables	**1.9**	1.7
Other accrued income (see note below)	**(0.2)**	0.1
Balance carried forward	**61.9**	51.4

Accrued income principally represents the expected future commission receivable in respect of product protection plans. As set out in note 4, the Group recognises revenue in relation to these plans when it obtains the right to consideration as a result of performance of its contractual obligations (acting as an agent for a third party). Revenue in any one year therefore represents the fair value of the commission due on the plans sold. To calculate the fair value of the revenue and hence the accrued income the Group uses historical empirical data accumulated over 11 years based on under 1.5m plans sold to date of which 0.7m plans are active.

The fair value calculation takes into consideration the following level three unobservable data:
— length of individual plans with a range of c.7–16 years included in the calculation;
— historical rate of customer attrition; and
— contractually agreed margins based on actual historical margins earned and an estimate of the future profitability of the scheme.

Given the wide range of attrition rates and margins applicable to the plans, the data relating to these areas has not been quantified above.

Expected future commission payments in respect of product protection plans are discounted at 4.6% (2017: 4.6%).

There has been no change to the fair valuation methodology adopted in the year ended 31 March 2018.

Sensitivity analysis has been conducted to assess the effect on the accrued income balance:

Sensitivity	Impact on Accrued Income £m
Cancellation rate increases by 5%	(2.3)
Cancellation rate decreases by 5%	2.3
Margin decreases by 5%	(3.0)
Margin increases by 5%	3.0

A sensitivity on plan life has not been included as it is considered to be covered by the changes in cancellation rates above.

Other accrued income relates to Expert Logistics revenue from third parties not invoiced at 31 March 2018 of £0.3m (2017: £0.5m).

Prepayments and other

At 31 March 2018, there is £15.6m (2017: £11.0m) included in prepayments and other in relation to commercial income.

At 31 May 2018, the balance outstanding was £4.6m (2017: £1.1m).

23. Net funds

	2018 £m	2017 £m
Cash and cash equivalents	**56.0**	29.4
Bank overdraft	**(3.1)**	–
Borrowings – Repayable within one year	**(4.2)**	(3.7)
Borrowings – Repayable after one year	**(10.4)**	(13.7)
Net funds	**38.3**	12.0

Movement in financial liabilities in the year was as follows:

	Bank loans £m	Finance lease liabilities £m
Balance at 1 April 2017	4.3	13.1
Changes from financing cash flows		
Proceeds from loans	1.1	–
Repayment of borrowings	(0.9)	–
Repayment of finance lease liabilities	–	(3.2)
Total changes from financing cash flows	**0.2**	**(3.2)**
Other changes		
New finance leases	–	0.1
Exchange difference	0.1	–
Total other changes	0.1	0.1
Balance at 31 March 2018	**4.6**	**10.0**

At 31 March 2018, AO Limited, a direct subsidiary of AO World Plc, had undrawn amounts on its Revolving Credit Facility of £58.6m. The total facility is £60m (increase of £30m on the prior year following the addition of HSBC Bank plc to, and increases in Barclays Bank plc and Lloyds Bank plc holdings in, the facility in November 2017). The amount drawn at the year end was in relation to letters of credit. The Revolving Credit Facility expires in June 2021.

24. Trade and other payables

	2018 £m	2017 £m
Trade payables	**118.4**	105.9
Other payables:		
– Accruals	**20.7**	17.8
– Deferred income	**6.9**	7.8
– Other	**10.0**	8.7
	156.0	140.2

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 56 days (2017: 63 days).

All values are payable within 12 months.

25. Borrowings

	2018 £m	2017 £m
Secured borrowing at amortised cost		
Bank loans	**4.6**	4.3
Finance lease liabilities (see note 26)	**10.0**	13.1
Total borrowings	**14.6**	17.4
Amount due for settlement within 12 months	**4.2**	3.7
Amount due for settlement after 12 months	**10.4**	13.7
Total borrowings	**14.6**	17.4

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

The Group's bank loans mature between November 2019 and March 2021 and have interest rates ranging from 1.75% to 4.6%.

26. Obligations under finance leases

	Minimum lease payments	
	2018 £m	2017 £m
Amounts payable under finance leases:		
Within one year	**3.4**	3.7
In the second to fifth years inclusive	**7.3**	10.5
	10.7	14.2

	Present value of minimum lease payments	
	2018 £m	2017 £m
Amounts payable under finance leases:		
Within one year	**3.0**	3.3
In the second to fifth years inclusive	**7.0**	9.8
	10.0	13.1

27. Provisions

	2018 £m	2017 £m
Provisions	**1.8**	1.5

Provisions are classified as:

	2018 £m	2017 £m
Non-current liabilities	**1.8**	1.4
Current liabilities	**–**	0.1
	1.8	1.5

	Dilapidations provision £m	Total £m
At 1 April 2017	1.5	1.5
Utilised	(0.1)	(0.1)
Unwind of interest	0.1	0.1
Provisions created in the year	0.3	0.3
At 31 March 2018	**1.8**	**1.8**

The dilapidations provision is created for operating leases where the Group is liable to return the assets to their original state at the end of the lease. The provision will be utilised as leased assets expire.

28. Share capital and share premium

	Number of shares m	Share capital £m	Share premium £m
At 1 April 2017	421.1	1.1	55.7
Share Issue	37.7	–	48.0
At 31 March 2018	**458.8**	**1.1**	**103.7**

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

Costs of £1.9m in relation to share placing have been netted off the share premium account.

29. Non-controlling interest

	2018 £m	2017 £m
Balance at 31 March 2017	**1.7**	0.9
Share of (profit)/loss for the year	**(0.1)**	0.8
Balance at 31 March 2018	**1.6**	1.7

The non-controlling interest relates to 40% of the share capital of AO Recycling Limited (formerly known as The Recycling Group Limited) not currently owned by the AO Group.

At 31 March 2018, AO Recycling Limited had non-current assets of £6.8m (2017: £7.0m), net current liabilities of £7.7m (2017: £7.3m) and non-current liabilities of £3.3m (2017: £4.2m). During the year, AO Recycling Limited contributed £10.8m (2017: £4.0m) and £1.5m (2017: £0.7m loss) to the Group's revenue and Adjusted EBITDA respectively. Net cash inflow was £0.4m (2017: £0.1m outflow).

30. Reserves

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

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

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

The other reserve arose on the acquisition of AO Recycling Limited and relates to the difference between the gross and fair valuation of the put option.

31. Share-based payments

Performance Share Plan

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

	2018 £m	2017 £m
IPO LTIP	**–**	0.9
2015 LTIP	**–**	(0.1)
2016 LTIP	**0.4**	0.4
ERP	**4.1**	2.4
2017 LTIP	**0.4**	–
Sharesave scheme	**0.6**	0.4
Total share scheme charge	**5.5**	4.0
Employers NI on scheme charges	**0.5**	0.3
	6.0	4.3

The table below shows the share-based payment charge in relation to exceptional LTIP charges (included in charge above).

	2018 £m	2017 £m
IPO LTIP	**–**	0.9
ERP	**4.1**	2.4
Employers NI on exceptional ERP	**0.4**	0.3
Exceptional LTIP awards	**4.5**	3.6

The details regarding each of the schemes is detailed below.

2015 LTIP Awards

One-third of the 2015 LTIP Award is based on Total Shareholder Return (TSR) performance condition based on the growth in the company's net return index over the performance period.

	Absolute TSR performance against the comparator Group over the three-year performance period
Threshold (25% vesting)	33%
Threshold (50% vesting)	66%
Maximum (100% vesting)	100%

One-third of the awards are subject to an EPS performance condition over the performance period. As per IFRS 2, these grants have been valued using a Black-Scholes model.

	EPS growth required over the three-year performance period
Threshold (25% vesting)	50%
Threshold (62.5% vesting)	100%
Maximum (100% vesting)	120%

The final third of the awards are subject to a Sales performance condition which is linked to the growth in sales of the Group over the performance period.

	Sales growth over the three-year performance period
Threshold (25% vesting)	100%
Threshold (62.5% vesting)	120%
Maximum (100% vesting)	140%

The awards vest on a straight-line basis between each threshold in all cases.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options granted under the 2015 LTIP Awards.

	2017 No. of options	**2017 WAEP(£)***	2016 No. of options	2016 WAEP(£)*
Outstanding at the beginning of the year	**1,166,543**	**–**	1,224,239	–
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**(225,413)**	**–**	(57,696)	–
Lapsed during the year	**(941,130)**	**–**	–	–
Outstanding at the end of the year	**–**	**–**	1,166,543	–

* Weighted average exercise price.

The fair value of the share options granted under the 2015 LTIP Award which are dependent on TSR performance is estimated as at the date of grant using the Monte Carlo model. The following table gives the assumptions for the year ended 31 March 2016, 31 March 2017 and 31 March 2018.

Risk-free rate	0.80%
Expected volatility	50.00%
Expected dividend yield	N/A
Option life	3 years

The fair value of the share options granted under the 2015 LTIP Award which are dependent on EPS and Sales performance was estimated as at the date of grant using the Black-Scholes model. The following table gives the assumptions for the year ended 31 March 2016, 31 March 2017 and 31 March 2018.

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

At 31 March 2018, the vesting period ended. As no performance criteria were met no options were exercised and the awards in relation to TSR (£0.1m) were transferred from the share option reserve to the profit and loss reserve.

2016 LTIP Awards

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

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

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

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

The final third of the awards are subject to a Sales performance condition which is linked to the growth in sales of the Group over the performance period.

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

The awards vest on a straight-line basis between each threshold in all cases.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options granted under the 2016 LTIP Awards.

	2018 No. of options	**2018 WAEP(£)***	2017 No. of options	2017 WAEP(£)*
Outstanding at the beginning of the year	**3,009,888**	**–**	–	–
Granted during the year	**–**	**–**	3,047,820	–
Forfeited during the year	**(394,241)**	**–**	(37,932)	–
Outstanding at the end of the year	**2,615,647**	**–**	3,009,888	–

* Weighted average exercise price.

The fair value of the share options granted under the 2016 LTIP Award which are dependent on TSR performance is estimated as at the date of grant using the Monte Carlo model. The following table gives the assumptions for the year ended 31 March 2017 and 31 March 2018.

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

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

The weighted average fair value of options granted was £1.04. For the shares outstanding at 31 March 2018, the remaining average contractual life is 1.3 years.

There were no awards exercisable as at 31 March 2018.

31. Share-based payments (continued)

2017 LTIP Awards

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

One-third of the 2017 LTIP Award is based on Total Shareholder Return (TSR) performance condition based on ranking of the Company's TSR during the performance period in comparison to the TSR of companies in the FTSE All Share General Retailers Index (Comparator group or Peer group) over the performance period.

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

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

Percentage of shares subject to vesting (straight-line vesting between each point)	Group Adjusted EBITDA for the financial year ending 31 March 2020
0%	<£15.3m
25%	£15.3m
62.5%	£21.9m
100%	£28.5m+

The final third of the awards are subject to a Sales performance condition which is linked to the growth in sales of the Group over the performance period.

Percentage of shares subject to vesting (straight-line vesting between each point)	Sales growth over the three-year performance period
0%	<£921.3m
25%	£921.3
62.5%	969.8m
100%	£1081.3m+

The awards vest on a straight-line basis between each threshold in all cases.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options granted under the 2017 LTIP Awards.

	2018 No. of options	**2018 WAEP(£)***	2017 No. of options	2017 WAEP(£)*
Outstanding at the beginning of the year	**–**	**–**	–	–
Granted during the year	**3,699,450**	**–**	–	–
Forfeited during the year	**(579,458)**	**–**	–	–
Outstanding at the end of the year	**3,119,992**	**–**	–	–

* Weighted average exercise price.

The fair value of the share options granted under the 2017 LTIP Award which are dependent on TSR performance is estimated as at the date of grant using the Monte Carlo model. The following table gives the assumptions for the year ended 31 March 2018.

Risk-free rate	0.30%
Expected volatility	47.9%
Expected dividend yield	N/A
Option life	3 years

The share options granted under the 2017 LTIP Award which are dependent on Group Adjusted EBITDA and Sales performance have a fair value equal to the share price at grant date of £1.03.

The weighted average fair value of options granted was £0.96. For the shares outstanding at 31 March 2018, the remaining average contractual life is 2.3 years.

There were no awards exercisable as at 31 March 2018.

Employee Reward Plan (ERP)

In 2016 the Group made conditional awards of nil-cost options to certain members of senior management and Directors.

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

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

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

	2018 No. of options	**2018 WAEP(£)***	2017 No. of options	2017 WAEP(£)*
Outstanding at the beginning of the year	**6,344,445**	**–**	–	–
Granted during the year	**–**	**–**	6,466,667	–
Forfeited during the year	**(450,000)**	**–**	(122,222)	–
Outstanding at the end of the year	**5,984,445**	**–**	6,344,445	–

The weighted average fair value of options granted during the year was £1.48. For the shares outstanding at 31 March 2018, the remaining average contractual life is 1.3 years.

There were no awards exercisable as at 31 March 2018.

As part of the executive restructure in the year set out in note 3, a number of executives left the business. These employees had their service conditions waived in relation to the ERP scheme. The acceleration of the vesting period represents a modification that is beneficial to an employee and therefore the modified grant date method is applied. The fair value of the replacement award is equal to that of the original award due to the share price on cessation being used for both and therefore no incremental cost is required to be reported under IFRS 2. The acceleration of the service period however results in an additional charge of £1.4m in the year.

AO Sharesave scheme (referred to as SAYE scheme)
The Group has a savings-related share option plan under which employees save on a monthly basis, over a three year period, towards the purchase of shares at a fixed price determined when the option is granted. The price is set at a discount being 20% of the average share price during a specified averaging period prior to the grant date. The option must be exercised within six months of maturity of the SAYE contract, otherwise it lapses.

As per IFRS 2, these grants have been valued using a binomial (2015) and a Black-Scholes (2016, 2017 and 2018) model. The difference in valuations for the 2015 scheme between the binomial and Black-Scholes model is not significant.

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

	2018 No. of options	**2018 WAEP(£)***	2017 No. of options	2017 WAEP(£)*
Outstanding at the beginning of the year	**1,479,535**	**1.54**	1,388,617	1.56
Granted during the year	**1,946,887**	**0.89**	506,252	1.49
Forfeited during the year	**(935,453)**	**1.32**	(415,334)	(1.57)
Lapsed during the year	**(202,551)**	**0.26**	–	–
Outstanding at the end of the year	**2,288,418**	**1.01**	1,479,535	1.54

* Weighted average exercise price.

During the year ended 31 March 2018, options were granted on 1 February 2018. For the shares outstanding at 31 March 2018, the remaining weighted average contractual life is 2.49 years (2017: 1.95 years). The weighted average fair value of options granted during the year was £0.89 per share (2017: £1.49).

The following table gives the assumptions made during the year ended 31 March 2018:

For options granted on	30 January 2015	29 January 2016	1 March 2017	1 February 2018
Risk-free rate	0.64%	0.54%	0.41%	0.79%
Expected volatility	24.74%	43.53%	49.9%	46.5%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%
Option life	3 years	3 years	3 years	3 years

Expected volatility under both the LTIP and the SAYE schemes was calculated by using the historical daily share price data of the constituent companies of the FTSE 250 index over the previous three years.

32. Operating lease arrangements
Non-cancellable operating lease rentals are payable as follows:

	2018 £m	2017 £m
Within one year	**16.1**	15.0
In the second to fifth years inclusive	**48.8**	46.0
After five years	**31.2**	34.5
	96.1	95.5

During the year to 31 March 2018, £15.7m (2017: £13.3m) was recognised as an expense in the income statement in respect of operating leases.

Operating leases principally represent rentals in respect of motor vehicles, office buildings and warehouse properties.

33. Retirement benefit schemes
Defined contribution schemes
The pension cost charge for the year represents contributions payable by the Group and amounted to £3.7m (2017: £2.8m).

Contributions totalling £0.3m (2017: £0.3m) were payable at the end of the year and are included in accruals.

34. Financial instruments
a) Fair values of financial instruments
Receivables and payables
For receivables and payables classified as financial assets and liabilities in accordance with IAS 32, fair value is estimated to be equivalent to book value. These values are shown in notes 22 and 24, respectively. The categories of financial assets and liabilities and their related accounting policy are set out in note 3.

Cash and cash equivalents
The fair value of cash and cash equivalents is estimated as its carrying amount.

Call and put option
The fair value of the call and put options (arising on the acquisition of AO Recycling Limited in 2016) are based upon an independent valuation at the year-end using the Monte Carlo model.

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

Borrowings
The fair value of interest-bearing borrowings is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the date of inception.

34. Financial instruments (continued)

Fair values

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the statement of financial position are as follows:

	2018 Carrying amount £m	2018 Fair value £m	2017 Carrying amount £m	2017 Fair value £m
Financial assets designated as fair value through profit or loss				
Accrued income (see note 22)	**61.9**	**61.9**	51.4	51.4
Call option	**2.4**	**2.4**	1.3	1.3
Loans and receivables				
Cash and cash equivalents	**56.0**	**56.0**	29.4	29.4
Trade receivables (see note 22)	**8.7**	**8.7**	6.3	6.3
Prepayments and other receivables (see note 22)	**32.2**	**32.2**	23.2	23.2
Total financial assets	**161.2**	**161.2**	111.6	111.6
Financial liabilities measured at amortised cost				
Bank overdraft	**(3.1)**	**(3.1)**	–	–
Trade payables (see note 24)	**(118.4)**	**(118.4)**	(105.9)	(105.9)
Other payables (see note 24)	**(37.6)**	**(37.6)**	(34.3)	(34.3)
Borrowings (see note 25)	**(14.6)**	**(14.6)**	(17.4)	(17.4)
Financial liabilities at fair value through profit and loss				
Put option to acquire non-controlling interest	**(3.8)**	**–**	(3.4)	(0.5)
Total financial liabilities	**(177.5)**	**(173.7)**	(161.0)	(158.1)
Total financial instruments	**(16.3)**	**(12.5)**	(49.4)	(46.5)

The table below shows the movement in valuation for both the call and put option during the year.

Call option	£m
At 1 April 2016	0.8
Change in valuation	0.5
At 31 March 2017	1.3
Change in valuation	1.1
At 31 March 2018	**2.4**

Put option	£m
At 1 April 2016	2.7
Change in valuation	0.7
At 31 March 2017	3.4
Unwind of discount	0.3
Change in valuation	0.1
At 31 March 2018	**3.8**

AO World Plc subscribed for 300 shares (60%) of AO Recycling Limited in November 2015 for £3 with the remaining 200 shares (40%) being retained by the founders of AO Recycling Limited. AO World Plc also entered into a put and call option agreement in relation to the remaining shares held by the founders, which provides for their shares to be bought/sold in five seperate tranches under five put and call options to be exercised following the approval of the AO Recycling Limited accounts for the financial years ending 31 March 2018 to 31 March 2022 inclusive. This is subject to certain performance conditions, mainly EBITDA performance.

Fair value hierarchy

Financial instruments are measured at fair value and are split into a fair value hierarchy based on the valuation technique used to determine fair value. The hierarchies are;

— Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
— Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
— Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
At 31 March 2018				
Accrued income (see note 22)	–	–	61.9	61.9
Call option	–	–	2.4	2.4
At 31 March 2018	**–**	**–**	**64.3**	**64.3**
At 31 March 2017				
Accrued income (see note 22)	–	–	51.4	51.4
Call option			1.3	1.3
At 31 March 2017	–	–	52.7	52.7

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities				
At 31 March 2018				
Put option to acquire non-controlling interest	–	–	3.8	3.8
At 31 March 2018	**–**	**–**	**3.8**	**3.8**
At 31 March 2017				
Put option to acquire non-controlling interest			3.4	3.4
At 31 March 2017	–	–	3.4	3.4

The fair value hierarchy for the call and put options is consistent for both the Group and parent Company.

b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, with a maximum exposure equal to the book value of these assets.

The Group's receivable balance primarily comprises accrued income representing the expected future commission payments in relation to the product protection plans sold by the Group on behalf of one customer. The Directors have assessed and considered the credit risk in respect of this amount and do not consider it to be significant. The Group's trade receivable balances comprise a number of individually small amounts from unrelated customers, operating within the same industry but over a number of geographical areas. Concentration of risk is therefore limited. Sales to retail customers are made predominantly in cash or via major credit cards. It is Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. New credit customers are assessed using an external rating report which is used to establish a credit limit. Such limits are reviewed periodically on both a proactive and reactive basis, for example, when a customer wishes to place an order in excess of their existing credit limit. Receivable balances are monitored regularly with the result that the Group's exposure to bad debts is not significant. Management therefore believe that there is no further credit risk provision required in excess of the normal provision for doubtful receivables.

Exposure to credit risk

The maximum exposure to credit risk at the statement of financial position date by class of financial instrument was:

	2018 £m	2017 £m
Accrued income	**61.9**	51.4
Trade receivables	**8.7**	6.3
	70.6	57.7

Credit quality of financial assets and impairment losses

The ageing of trade receivables at the statement of financial position date was:

	Gross £m	Net £m
Not past due	8.5	8.5
Past due 0–30 days	0.2	0.2
Past due 31–120 days	–	–
More than 120 days	–	–
At 31 March 2018	**8.7**	**8.7**
Not past due	6.0	6.0
Past due 0–30 days	0.2	0.2
Past due 31–120 days	0.1	0.1
More than 120 days	–	–
At 31 March 2017	6.3	6.3

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

34. Financial instruments (continued)

c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

It is Group policy to maintain a balance of funds, borrowings, committed bank and other facilities sufficient to meet anticipated short-term and long-term financial requirements. In applying this policy the Group continuously monitors forecast and actual cash flows against the maturity profiles of financial assets and liabilities. Uncommitted facilities are used if available on advantageous terms. It is Group treasury policy to ensure that a specific level of committed facilities is always available based on forecast working capital requirements. Cash forecasts identifying the Group's liquidity requirements are produced and are stress tested for different scenarios including, but not limited to, reasonably possible decreases in profit margins and increases in interest rates on the Group's borrowing facilities and the weakening of sterling against other functional currencies within the Group.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	Carrying amount £m	Contractual cash flows £m	Within 1 year £m	Between 1 and 5 years £m	In more than 5 years £m
Non-derivative financial liabilities					
Finance lease liabilities	10.0	10.7	3.4	7.3	–
Trade and other payables	149.1	149.1	149.1	–	–
Bank loans	4.6	1.6	1.0	0.6	–
At 31 March 2018	**163.7**	**161.4**	**153.5**	**7.9**	**–**

	Carrying amount £m	Contractual cash flows £m	Within 1 year £m	Between 1 and 5 years £m	In more than 5 years £m
Non-derivative financial liabilities					
Finance lease liabilities	13.1	14.2	3.7	10.5	–
Trade and other payables	132.4	132.4	132.4	–	–
Bank loans	4.3	4.5	0.8	3.7	–
At 31 March 2017	149.8	151.1	136.9	14.2	–

d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments (and hence no sensitivity analysis is performed).

Foreign currency risk

Refer to note 34f.

Interest rate risk

The principal interest rate risks of the Group arise in respect of borrowings. As the interest expense on variable rate financial instruments is immaterial, the Group does not actively manage the exposure to this risk.

At the statement of financial position date the interest rate profile of the Group's interest-bearing financial instruments was:

	2018 £m	2017 £m
Fixed and variable rate instruments		
Fixed rate	**13.8**	13.1
Variable rate	**0.8**	4.3
	14.6	17.4

e) Capital management

It is the Group's policy to maintain an appropriate equity capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The capital structure of the Group consists of net cash, borrowings (disclosed in note 23) and equity of the Group. The Group is not subject to any externally imposed capital requirements. In addition, as set out in note 23, AO Limited a direct subsidiary of AO World Plc and the holding company of AO Retail Limited and Expert logistics Limited, has access to a £60m Revolving Credit Facility which expires in June 2021.

The Board has delegated responsibility for routine capital expenditure to the management of the business. All significant expenditure is approved by the Board.

f) Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies, consequently exposure to exchange rate fluctuations arise.

The Group's presentational currency is sterling; as a result the Group is exposed to foreign currency translation risk due to movements in foreign exchange rates on the translation of non-sterling assets and liabilities.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Euros	**103.5**	68.6	**11.6**	11.5

The balances shown above include intercompany loan balances held between Group companies which create a foreign currency exposure to the income statement. These differences are recognised in finance income or costs.

The following table details the Group's sensitivity to a 10% increase and decrease in sterling against the relevant foreign currencies. The sensitivity rate of 10% represents the Director's assessment of a reasonably possible change. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below represents an increase in profit before tax.

	Euro currency impact	
	2018 £m	2017 £m
Sterling strengthens by 10%	**(8.4)**	(5.2)
Sterling weakens by 10%	**10.2**	6.3

The Group's sensitivity to foreign currency has increased during the current year due to increasing trade in Europe. The impact above is mainly as a result of intercompany loans held in a foreign currency.

In management opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year-end exposure does not reflect the exposure during the year.

35. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its related parties are disclosed below.

Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	Sale of goods and services		Purchase of goods and services	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Booker Limited	**–**	–	**–**	0.1

There were no outstanding amounts at the statement of financial position date (2017: £nil).

Booker Limited is a Company which R Rose (a Director, resigned on 21 July 2016) has an interest in.

Transactions with Directors and key management personnel

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

	2018 £m	2017 £m
Key management emoluments including social security costs	**4.1**	4.2
Awards granted under a long-term incentive plan	**2.6**	3.1
Company contributions to money purchase plans	**0.3**	0.1
	7.0	7.4

Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 77 to 90.

On 3 April 2017, the Company completed a placing of new shares (37,735,849) to raise £50.0m to suitably capitalise the business to support continued growth. The table below shows the shares subscribed for by directors of the Company.

	Number	Value £
Steve Caunce	1,509,433	2,000,000
John Roberts	1,509,433	2,000,000
Mark Higgins	3,773	5,000
Chris Hopkinson	754,716	1,000,000

All are related as they are Directors of AO World plc.

Company statement of financial position
As at 31 March 2018

	Note	2018 £m	2017 £m
Non-current assets			
Intangible assets	4	**0.7**	1.2
Property, plant and equipment	5	**2.6**	0.5
Investment in subsidiaries	3	**63.1**	12.2
Deferred tax asset	7	**0.8**	0.8
Derivative financial asset	11	**2.2**	1.3
		69.4	16.0
Current assets			
Corporation tax receivable		**0.2**	0.3
Derivative financial asset	11	**0.2**	–
Trade and other receivables	8	**74.7**	58.2
Cash at bank and in hand		**8.6**	–
		83.7	58.5
Total assets		**153.1**	74.5
Current liabilities			
Bank overdraft		**–**	(0.1)
Trade and other payables	9	**(60.8)**	(11.0)
Borrowings	10	**(0.3)**	–
		(61.1)	(11.1)
Net current assets		**22.6**	47.4
Non-current liabilities			
Borrowings	10	**(0.6)**	–
Derivative financial liability	11	**–**	(0.5)
Total liabilities		**(61.7)**	(11.6)
Net assets		**91.4**	62.9
Equity			
Share capital	12	**1.1**	1.1
Share premium	12	**103.7**	55.7
Merger reserve		**4.4**	4.4
Capital redemption reserve		**0.5**	0.5
Share-based payments reserve		**9.1**	3.8
Retained losses		**(27.4)**	(2.6)
Total equity		**91.4**	62.9

The financial statements of AO World Plc, registered number 05525751, were approved by the Board of Directors and authorised for issue on 4 June 2018. They were signed on its behalf by:

Steve Caunce
CEO
AO World Plc

Mark Higgins
CFO
AO World Plc

Company statement of changes in equity
As at 31 March 2018

	Share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Share-based payments reserve £m	Retained losses £m	Total £m
At 1 April 2016	1.1	55.7	4.4	0.5	3.1	(20.6)	44.2
Profit for the year	–	–	–	–	–	14.7	14.7
Share-based payments charge net of tax	–	–	–	–	4.0	–	4.0
Transfer between reserves	–	–	–	–	(3.3)	3.3	–
Balance at 31 March 2017	1.1	55.7	4.4	0.5	3.8	(2.6)	62.9
Loss for the year	–	–	–	–	–	(24.9)	(24.9)
Issue of shares (net of expenses)	–	48.0	–	–	–	–	48.0
Share-based payments charge net of tax (see note 31 of consolidated accounts)	–	–	–	–	5.4	–	5.4
Transfer between reserves (see note 31 of consolidated accounts)	–	–	–	–	(0.1)	0.1	–
Balance at 31 March 2018	**1.1**	**103.7**	**4.4**	**0.5**	**9.1**	**(27.4)**	**91.4**

1. Basis of preparation and accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101 from Adopted IFRS, the Company has made no measurement and recognition adjustments.

Under section s408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:
- a Cash Flow Statement and related notes;
- comparative period reconciliations for share capital, tangible fixed assets, intangible assets;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of key management personnel; and
- disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:
- IFRS 2 Share Based Payments in respect of Group-settled share-based payments
- certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets; and
- certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

Investments

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Other accounting policies

For other accounting policies, please refer to the Group accounting policies on page 105.

2. Operating profit/(loss)

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

3. Investment in subsidiaries

	2018 £m	2017 £m
Cost at 31 March 2017	12.2	11.5
Additions	50.0	–
Group share-based payments	0.9	0.7
Cost at 31 March 2018	**63.1**	12.2

The addition in the year relates to BERE Limited which was incorporated to facilitate the placing of shares. At 31 March 2017, AO World Plc held 89% of the total issued share capital. Post 31 March 2017 and completion of the placing, AO World Plc acquired the remaining issued share capital (both ordinary and redeemable preference shares) and accordingly, BERE Limited is now a wholly owned subsidiary.

In addition, the Company has made capital contributions to its subsidiaries of £0.9m (2017: £0.7m) in relation to the allocation of share-based payment charges.

4. Intangible assets

	Domain names £m	Software £m	Total £m
Cost			
At 31 March 2017	1.1	0.7	1.8
Additions	0.1	0.1	0.2
At 31 March 2018	1.2	0.8	2.0
Amortisation			
At 31 March 2017	0.3	0.3	0.6
Charge for the year	0.5	0.2	0.7
At 31 March 2018	0.8	0.5	1.3
Carrying amount			
At 31 March 2018	**0.4**	**0.3**	**0.7**
At 31 March 2017	0.8	0.4	1.2

Amortisation is charged to administrative costs in the income statement.

5. Property, plant and equipment

	Computer and office equipment £m	Leasehold improvements £m	Total £m
Cost			
At 31 March 2017	0.9	–	0.9
Additions	0.1	2.3	2.4
At 31 March 2018	1.0	2.3	3.3
Accumulated depreciation			
At 31 March 2017	0.4	–	0.4
Charge for the year	0.2	0.1	0.3
At 31 March 2018	0.6	0.1	0.7
Carrying amount			
At 31 March 2018	**0.4**	**2.2**	**2.6**
At 31 March 2017	0.5	–	0.5

6. Subsidiaries
Details of the Company's subsidiaries at 31 March 2018 are as follows:

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

* 0.01% of the investment in AO.BE SA was held in AO Deutschland.
** Indirectly owned by AO Limited.

All companies within the Group are registered at the same address disclosed on page 131 apart from BERE Ltd, AO.NL BV, AO Logistics (Netherlands) BV, AO.BE SA and Elekdirect Limited who are registered at the addresses listed below.

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

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

	Other timing difference £m	Share options £m	Total £m
Deferred tax asset at 1 April 2016	**–**	**0.7**	**0.7**
Credit to income statement	0.1	–	0.1
Deferred tax asset at 31 March 2017	**0.1**	**0.7**	**0.8**
(Debit)/credit to income statement	(0.1)	0.1	–
Deferred tax asset at 31 March 2018	**–**	**0.8**	**0.8**

A deferred income tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The Company has an unrecognised deferred tax asset of £0.1m (2017: £0.1m) in respect of share options.

8. Trade and other receivables

	2018 £m	2017 £m
Prepayments	**0.5**	2.2
Other receivables	**0.5**	0.2
Amounts owed by Group undertakings	**73.7**	55.8
	74.7	58.2

Amounts owed by Group undertakings are repayable on demand and carry no interest.

9. Trade and other payables

	2018 £m	2017 £m
Trade payables	**0.9**	0.3
Accruals	**4.9**	3.8
Other payables	**0.5**	0.4
Amounts owed to Group undertakings	**54.5**	6.5
	60.8	11.0

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

Amounts owed to Group undertakings are payable on demand and carry no interest

10. Borrowings

	2018 £m	2017 £m
Secured borrowing at amortised cost		
Bank loans	**0.9**	–
Total borrowings	**0.9**	–
Amount due for settlement within 12 months	**0.3**	–
Amount due for settlement after 12 months	**0.6**	–
Total borrowings	**0.9**	–

Bank loans interest rates range from 4.3%–4.6% with all loans maturing in the financial period ending 31 March 2021.

Movements in the year were as follows:

	Bank loans £m
Balance at 1 April 2017	–
Changes from financing cash flows	
Proceeds from loans and borrowings	1.0
Repayment of borrowings	(0.1)
Total changes from financing cash flows	0.9
Total other changes	–
Balance at 31 March 2018	**0.9**

11. Derivative financial assets and liabilities

The movement in the valuation of the call and put options issued on the acquisition of AO Recycling Limited is as follows.

Call option	£m
At 1 April 2016	0.8
Change in valuation	0.5
At 31 March 2017	1.3
Change in valuation	1.1
At 31 March 2018	**2.4**

Put option	£m
At 1 April 2016	0.7
Change in valuation	(0.2)
At 31 March 2017	0.5
Change in valuation	(0.5)
At 31 March 2018	**–**

12. Share capital and share premium

	Number of shares m	Share capital £m	Share premium £m
At 1 April 2017	421.1	1.1	55.7
Share Issue	37.7	–	48.0
At 31 March 2018	**458.8**	**1.1**	**103.7**

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

Costs of £1.9m in relation to share placing have been netted off the share premium account.

13. Operating lease arrangements

Non-cancellable operating lease rentals are payable as follows:

	2018 £m	2017 £m
Within one year	**0.8**	–
In the second to fifth years inclusive	**3.2**	–
After five years	**4.6**	–
	8.6	–

During the year, £0.4m was recognised as an expense in the income statement in respect of operating leases. The operating lease relates to land and buildings.

14. Share-based payments

The Company recognised total expenses of £4.6m (2017: £3.3m) in the year in relation to both the Performance Share Plan (referred to as LTIP) and the AO Sharesave scheme (referred to as SAYE). Details of both schemes are described in note 31 to the consolidated financial statements.

15. Related parties

During the year the Company entered into transactions with non wholly owned Group entities as follows:

	2018 £m	2017 £m
Administration cost recharged to AO Recycling Limited	**0.1**	0.4

Balance outstanding is £3.7m (2017: £5.9m).

Important information

Registered office and headquarters
AO Park
5A The Parklands
Lostock
Bolton BL6 4SD

Registered number: 5525751
Tel: 01204 672400
Web: ao-world.com

Company Secretary
Julie Finnemore
Email: cosec@ao.com

Joint Stockbrokers
J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP

Jefferies International Limited
Vintners Place
68 Upper Thames Street
London EC3V 3BJ

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Independent Auditor
KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

Bankers
Barclays Bank plc
51 Mosley Street
Manchester M60 2AU

Lloyds Bank Plc
25 Gresham Street
London EC2V 7HN

HSBC Bank Plc
4 Hardman Square
Spinningfields
Manchester M3 3EB

Registrar
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Tel UK: +44 (0) 871 664 0300
(calls cost 12p per minute plus phone company's access charge)

Tel INTL: +44 (0) 371 664 0300
(calls charged at the applicable international rate)

Lines are open 9.00 am to 5.30 pm Monday to Friday excluding public holidays in England and Wales.

Web: www.linkassetservices.com
Email: shareholder.services@link.co.uk

Enquiring about your shareholding
If you want to ask, or need any information, about your shareholding, please contact our registrar (see contact details in the opposite column). Alternatively, if you have internet access, you can access the Group's shareholder portal via www.aoshareportal.com where you can view and manage all aspects of your shareholding securely.

Investor relations website
The investor relations section of our website, www.ao-world.com, provides further information for anyone interested in AO. In addition to the Annual Report and share price, Company announcements, including the full year results announcements and associated presentations, are also published there.

Share dealing service
You can buy or sell the Company's shares in a simple and convenient way via the Link share dealing service either online (www.linksharedeal.com) or by telephone (0371 664 0445). Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK are charged at the applicable international rate. Lines are open between 8 am and 4.30 pm, Monday to Friday excluding public holidays in England and Wales.

Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or sell shares in the Company. Shareholders in any doubt about what action to take are recommended to seek financial advice from an independent financial adviser authorised by the Financial Services and Markets Act 2000.

Cautionary note regarding forward-looking statements
Certain statements made in this report are forward-looking statements. Such statements are based on current expectations and assumptions and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results expressed or implied in these forward-looking statements. They appear in a number of places throughout this Report and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, amongst other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the business. Persons receiving this Report should not place undue reliance on forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, AO does not undertake to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Glossary

4Cs strategy means how we will achieve our mission to become the best electrical retailer in Europe, through focusing on culture and brand, customers, competencies and countries

Adjusted EBITDA means Profit/(loss) before tax, depreciation, amortisation, net finance costs, "adjustments" and exceptional items

Adjustments means set-up costs relating to overseas expansion, share-based payment charges/(credits) attributable to exceptional LTIP awards and exceptional restructuring costs which the Board considers one-off in nature.

AGM means the Group's Annual General Meeting

An AOer means a member of our amazing employees

AO World, AO or the Group means AO World Plc and its subsidiary undertakings

AV means audio visual products

Best electrical retailer in Europe means having a market-leading proposition and a brand that customers love

BGT means Britain's Got Talent

Board means the Board of Directors of the Company or its subsidiaries from time to time as the context may require.

Code means the UK Corporate Governance code published by the FRC in 2016

Companies Act means the Companies Act 2006

Company means AO World Plc, a company incorporated in England and Wales with registered number 05525751 whose registered office is at 5A The Parklands, Lostock BL6 4SD

CRM means customer relationship management

CRR mean Corporate Risk Register

D&G means Domestic and General

DofE means Duke of Edinburgh scheme

EPS means earnings per share

ERP means Employee Reward Plan

Europe means the Group's entities operating within the European Union, but outside the UK

GAAP means Generally Accepted Accounting Practice

GHG means greenhouse gas

IAS means International Accounting Standards

IFRS means International Financial Reporting Standards

IPO means the Group's Initial Public Offering in March 2014

KPMG means KPMG LLP

LSE means London Stock Exchange

LTIP means Long-term Incentive Plan

MDA means major domestic appliances

MyAO means AO's app

NPS means Net Promoter Score which is an industry measure of customer loyalty and satisfaction

PSP means the AO Performance Share Plan, a form of LTIP

RDC means regional distribution centre

RMC means our Risk Management Committee

SDA means small domestic appliances

SEO means Search Engine Optimisation

SG&A means Selling, General & Administrative Expenses

SID means Senior Independent Director

SKUs means stock keeping units

UK means the Group's entities operating within the United Kingdom

WEEE means Waste Electrical and Electronic Equipment

There's lots more online:

UK sites:
Customer
www.ao.com

Corporate
www.ao-world.com

German site:
Customer
www.ao.de

The Netherlands site:
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