One AO

AO World Plc
Annual Report and Accounts 2020

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Our Results

Shareholder Information

How we performed in FY20*

£1,046.2m
Group revenue
up 15.9%

£(3.8)m
Operating loss
reduced by 70.8%

£40.8m
UK Adjusted EBITDA
up 7.0%

£19.6m
Group Adjusted EBITDA
increased by 53.6%

* FY20 is defined as the 12 months ended 31 March 2020.

FY20 Operational highlights

- Commenced roll-out of One AO model across the Group to scale the businesses in our eco-system
- Achieved UK MDA growth of 9.1% year-on-year
- Renewed focus on evolving the customer proposition
- Maintained exceptional Net Promoter Score results across all territories
- Operational changes made in German business provide confidence in journey to profitability
- Closure of operations in the Netherlands
- New plastics plant built, and operational in its final phase of testing and commissioning

Our investment case

The key ingredients and what makes us stand out from the rest

1.

Our compelling customer proposition

- Our eco-system of expertise and services
- Our customer relationships

See pages 4 and 8

2.

Our scalable business model and growth opportunities

- One AO approach and our business model
- Our strategy

See pages 22-23 and 30-35

3.

Our amazing culture

- The AO Way

See pages 6-7

4.

Our resources and relationships

- Our key inputs and partnerships with our suppliers

See page 9

5.

Our leading position in the online electrical market

- Market share
- Future outlook

See pages 24-29

AO
Let's go!

We are a leading online retailer, selling electricals in the UK and Germany, and delivering them with amazing service via our in-house logistics network.

In 2000 we started by selling white goods, big items like fridge freezers, cookers and washing machines. We now sell all kinds of electronics across the following categories: major domestic appliances, small domestic appliances, audio visual equipment, computing, mobile, gaming and smart home technology; we now sell over 8,500 different products on ao.com to millions of happy customers. We also install and offer financial services on these products, insure them and even recycle old ones.

Our mission

To be the global destination for electricals

Our strategy

Our strategy is to focus on being brilliant for our customers to make us the destination for everything they need, in the simplest and easiest way, when buying electricals.

Read more about our strategy on pages 32 - 35

Our values

We are bold, smart, driven, fun and caring

Read more about our values on page 7

Our culture

We keep it simple, we treat every customer like they're our gran and make decisions our mum would be proud of. Our team care passionately about doing the right thing and so we empower them to make great decisions.

Read more about the AO Way on page 6

Our eco-system of expertise and services

Our eco-system is a range of our expertise and services – from across retail, recycling and logistics through to financial services, trade and new business streams. Our customers are at the heart of everything we do and that's why we are constantly evolving our eco-system to meet market demand and ensure we achieve our mission. It's not about what we do though, it's how we do it.

See pages 30–31 to see how we do it

Retail

Our main capability: selling electricals, and selling them well.

From fridges and freezers, laundry products and dishwashers, to smart tech, computing and TV and entertainment. We sell over 8,500 products on our multiple e-commence platforms, all at a competitive price. Following the acquisition of mobilephonesdirect.co.uk in December 2018 and the launch of AO Mobile during FY20, our mobile offering now includes network contracts and SIMs.

Financial services

Product protection plans and customer credit products.

We work with Domestic & General (the UK's leading specialist warranty provider) to offer our customers a product protection plan to provide them with the peace of mind that their new product could be repaired or replaced if required. 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 ensure adherence to responsible lending practices and provide simple and clear finance options for our customers.

Rental

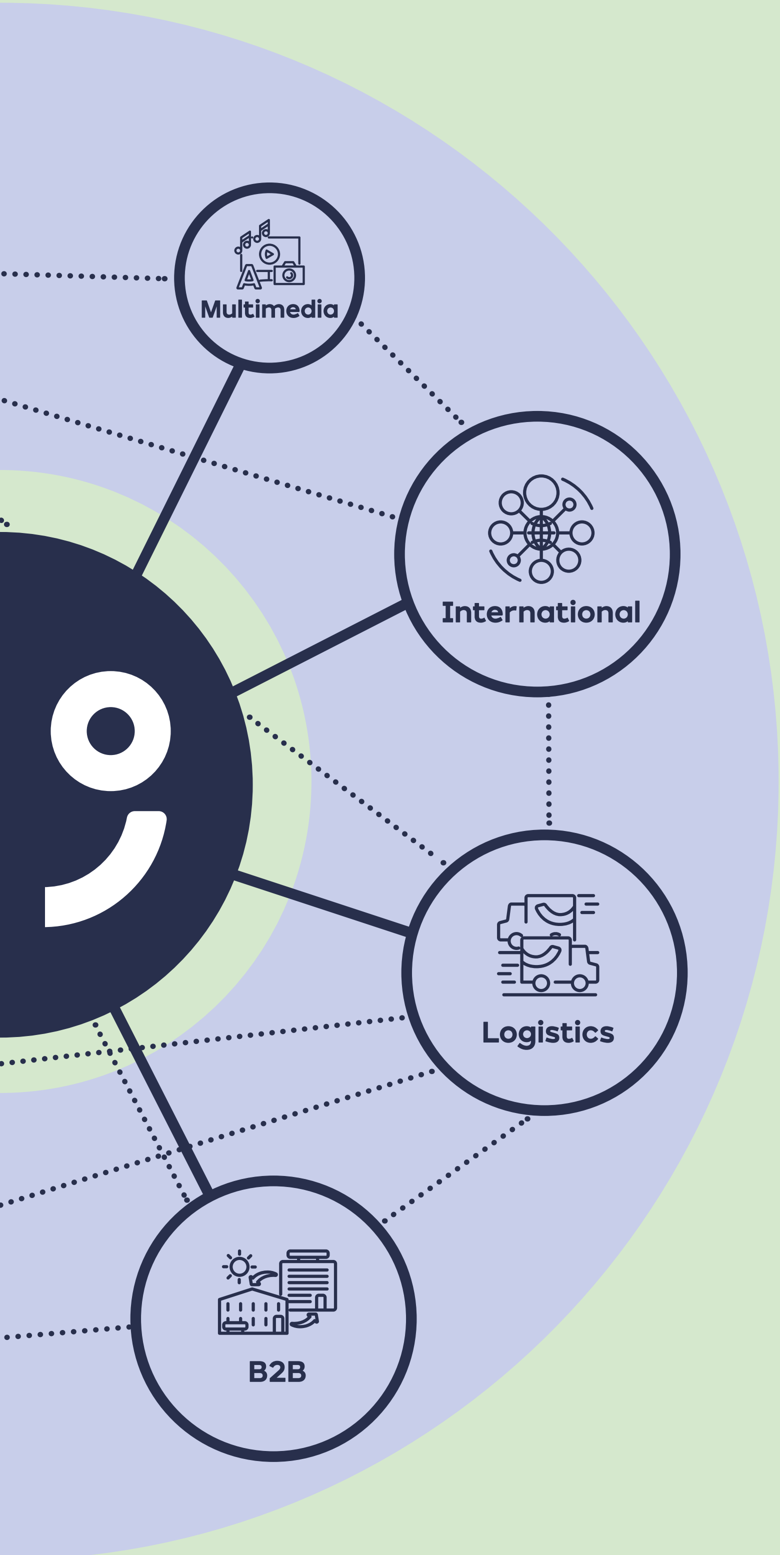
A rental proposition where customers can rent products for just £2 a week.

We believe that everybody should have access to reliable, quality electricals and we are on a mission to make it affordable. As part of our rental trial, a monthly payment of £8.67 includes delivery, installation and the recycling of an old appliance and on top of this, we'll always repair or replace the product if something goes wrong. It's also free and easy to cancel a contract at any given time.

Recycling

Our purpose-built, state-of-the-art WEEE (Waste Electrical and Electronic Equipment) and plastics recycling facilities in Telford.

Bertha (our WEEE recycling facility) is capable of processing fridges and other large domestic appliances responsibly and correctly. As the biggest WEEE recycling facility in the UK, we can recycle around 700,000 appliances every year; almost a quarter of the UK's total. Our new plastics facility will allow us to sort the output from Bertha for reuse or resale.



Multimedia

Our in-house multimedia team produce our diverse website content and other Company communications.

Our team are able to add value for both our customers and manufacturers by telling product stories brilliantly. An example of some of this content would be our fantastic how-to videos: a step-by-step guide on how to install and correctly and effectively use one of our products.

International

Our ability to scale our eco-system and operations.

We can do this because, for example, our products, the methods of online shopping, digital marketing and delivery processes and systems are fundamentally the same in all territories. Further, all customers desire a great digital journey and proposition. When the time is right, we will leverage our UK resource and expertise to grow into other European territories at a relatively low cost.

Logistics

Our in-house logistics network.

Comprising three distribution centres, with a total of over 800,000 square feet, 17 delivery depots and around 500 trucks and 200 trailers, we are able to offer nationwide delivery seven days a week with dynamic timeslots and next day options. Our delivery service doesn't stop there: from the basics of unpacking and inspecting customers' products, to complex gas cooking and integrated installations – we go the extra mile.

B2B

Our business-to-business offering.

We support large companies, schools, large landlords, housebuilders and charities. We have formalised our B2B offer with a dedicated website and specialist teams, built up of agents and account managers with a deep understanding of the markets they serve to support complex orders and offline queries.

Our resources and relationships that allow us to deliver our eco-system

The AO Way

Culture and talent

Our AO "Let's go" culture is how we deliver for customers.

Our excellent 4.7 star Trustpilot rating and NPS results don't just happen by accident, nor do our expanding eco-system and competencies. Behind every happy customer is around 3,000 AOers, across two countries. Together, we relentlessly strive for a better way.

Our ambition is to be a business that:

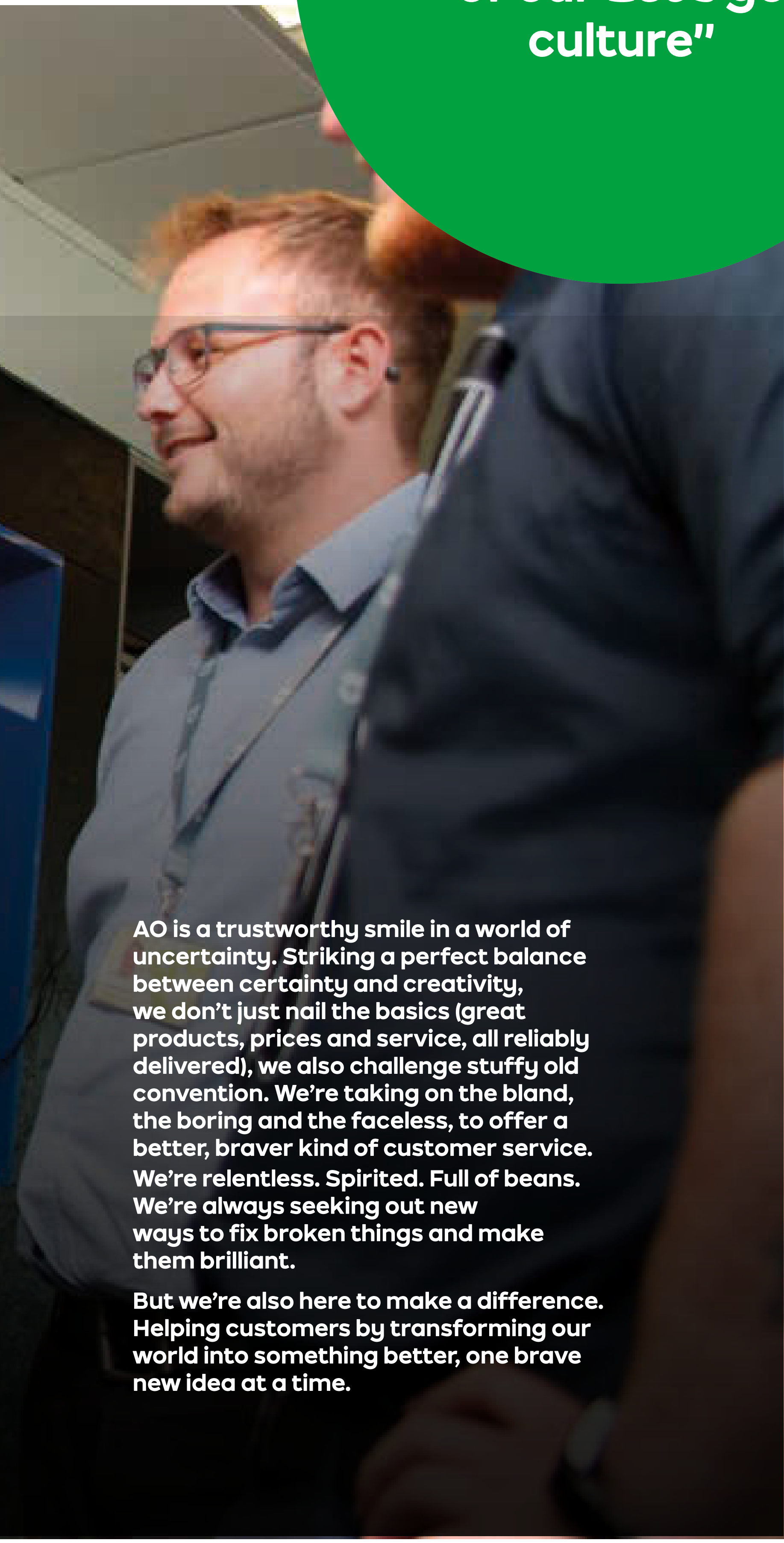
- inspires its people through great leadership, creating trust and accountability to deliver exceptional results as One AO;
- enables our people to collaborate and innovate, supported by the right information and tools to do their job; and
- empowers people to thrive by creating an inclusive environment where people feel they belong and can be their true selves.

We share clear line of sight on our ambitions and priorities. We empower people to make the right decisions that would make their mums proud.

We inspire our people to be bold and give things a go without being frightened of making a mistake. We believe we learn best through the experiences we have – if we don't try something different, we will never move forward. We believe in coming to work with an open mind, to create new opportunities. We provide the right environment for smart ideas, thinking in unconstrained ways. We motivate our people to be driven and to never give up. We see every obstacle as a chance to pursue a better way. We act with pace; we do today what can be done tomorrow. Winning as a team is what makes our business fun. We treat every customer like they're our gran, to ensure our customers are the happiest, and we take pride in our work to deliver it.

It is the combination of all these factors and the alignment of our people to our purpose, values, business strategy and priorities that creates our AO "Let's go" culture. This makes us stronger and more resilient as a business, supporting our continued growth and making us an unstoppable force.

"Our values are the foundation of our Let's go culture"



AO is a trustworthy smile in a world of uncertainty. Striking a perfect balance between certainty and creativity, we don't just nail the basics (great products, prices and service, all reliably delivered), we also challenge stuffy old convention. We're taking on the bland, the boring and the faceless, to offer a better, braver kind of customer service. We're relentless. Spirited. Full of beans. We're always seeking out new ways to fix broken things and make them brilliant.

But we're also here to make a difference. Helping customers by transforming our world into something better, one brave new idea at a time.

Values

Just like our purpose, our values are what makes us such a special business. They shape how we live by our purpose, and guide us to achieving our goals the right way. Our values don't exist in isolation: they are a collective. They form a very compelling story.

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. We admit our mistakes and learn.

Driven:
To turn impossible-sounding ideas into reality you have to be Driven. Things may get tough be 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.

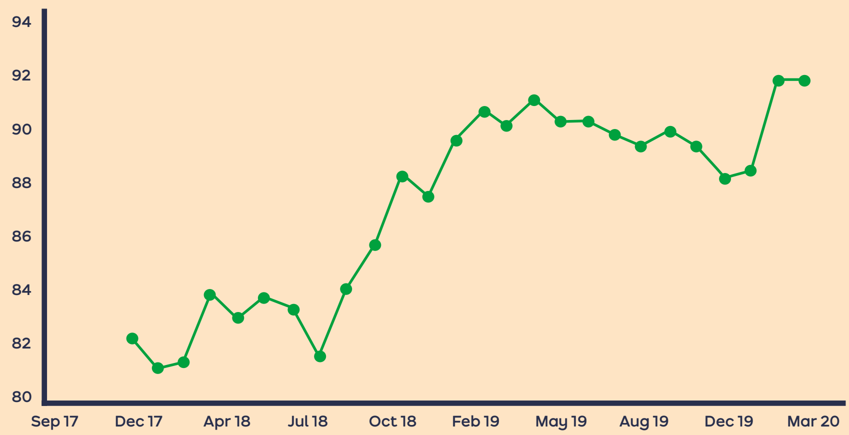
Care:
Underpinning everything is the way we Care. About people, about our work and about building something that really makes a difference.

Our resources and relationships that allow us to deliver our eco-system continued

Customer relationships

For 20 years we've been there when customers have needed us. Once they've shopped with AO, they come back again and again.

HAPPINESS SCORE†



† Our quality team ask our customers to describe in one word how they rate their experience on the phone with our people. These responses are then categorised into "Exceptional, Happy, Indifferent, Unhappy" and turned into a score so that we know where we're getting it right for customers and where we need to improve.

AO.COM ON SOCIAL MEDIA

TRUSTPILOT

+150k reviews

4.7/5 av. rating

FACEBOOK

+1.8m followers

+4.0m impressions*

TWITTER

+66k followers

+27k impressions*

INSTAGRAM

+31k followers

+34k impressions*

* Data during w/c 23 March 2020. Impressions are defined as the number of times a social media post is viewed in users' social media feeds.

NET PROMOTER SCORE^

FY20

83

UK average including MPD

(FY19: 85, UK average (excluding MPD))

89

Germany average

(FY19: 89)

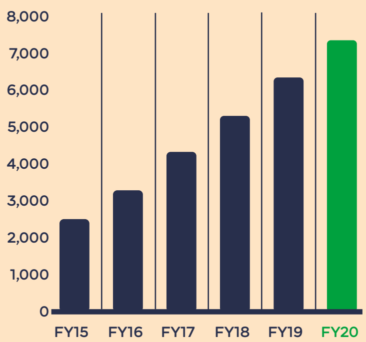
^ NPS is a industry measure of customer loyalty and satisfaction.

"I think our NPS scores and customer feedback speak for themselves. While retail stores have had to close, we have been able to continue providing vital products and services to all our customers. I'm sure we will emerge from this crisis as a stronger business with a powerful customer-focused and trusted brand."

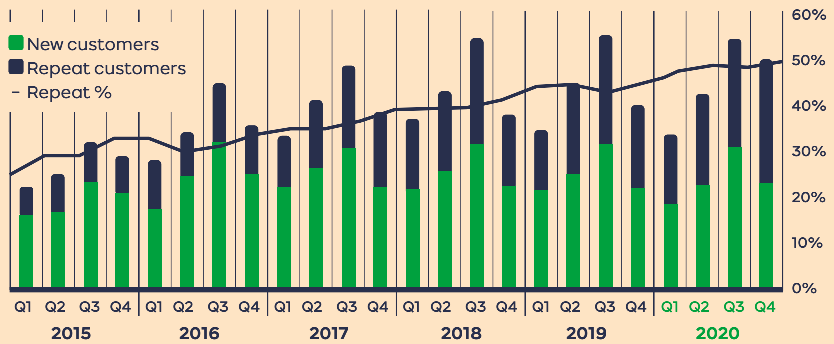
AO employee, Covid-19 survey

UK CUSTOMER‡ BASE

UK CUSTOMERS: (000s)



UK NEW CUSTOMERS VS REPEAT CUSTOMERS: (%)



‡ A customer is defined as an individual customer who has purchased through us via ao.com

Infrastructure and IT

In the UK, our market leading logistics-as-a-service solution delivers millions of products a year, nationwide, seven days a week, to customers on behalf of AO's retail business and a growing number of third-party retail clients.

Our scalable delivery network operates from our "hub" in Crewe, comprising three distribution centres with a total of over 800,000 square feet of space, and via our network of 17 delivery depots across the UK.

The services we offer to the end customer are broad; from the basics of unpacking and inspecting customers' products, to complex gas cookers, American side-by-side fridges, integrated appliance installations, hanging TV's on walls and the removal and recycling of old appliances.

A number of third-party retail clients are now choosing to use our market-leading two-man delivery service to offer a speedy and reliable service to their customers. We are able to provide them with control over when, how and where their products are delivered via our fully integrated end-to-end platform. Our modular service offering allows third-party clients to choose from a range of other services we provide, such as returns processing, storage and back haul services, to suit their needs.

We operate a similar model in Germany: we currently have a distribution centre in Bergheim and a number of outbases and customer service centres across Germany.

Our core technology systems are a mixture of best-of-breed commercial off-the-shelf and modern custom-built components. This affords us a loosely coupled, highly configurable enterprise technology estate that is resilient to changes in demand and easily adapted as business requirements change.

Systems are well integrated with our key suppliers, with a shared ownership model for integrations. We regularly work with suppliers to improve integrations at both sides, offering advice and support on best practice.

We utilise Cloud services in various forms, for speed of delivery, lean cost profile, enhanced security and outsourcing of specialist infrastructure maintenance and support.

Through our product team model we can quickly and safely evolve our front end platforms to be best in class.

Supplier relationships

As we continue to diversify and leverage our expertise in the UK, our supplier relationships have broadened and we have key relationships with:

- the manufacturers and distributors that supply products to us;
- our delivery providers ranging from national organisations, (e.g. DPD and Collect+) to whom we 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);
- third-party providers of significant plant and infrastructure (particularly in our recycling business and IT systems);
- Mobile Network Operators; and
- Domestic & General, for whom we provide product protection plans as agent, and our credit provider finance partner, NewDay, for whom we also act 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. We 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 and plastics plants. Our relationships with them are extremely important as we seek to develop new opportunities, driving value as part of a two-way relationship.

Customer testimonial

"The best ever!! I had my brand new washing machine perfectly delivered and installed only 18 hours after ordering it – I can't fault a thing!"

Barry
An AO customer

Strategic Report

Chairman's statement

FY20 has been a year of change and transition for AO. A fundamental review of the business, its objectives, business model and culture was conducted at the start of the year following John Roberts' reappointment as CEO. Although this confirmed no material change in AO's overall strategy, its execution has been pursued with greater clarity and renewed vigour. As a result, AO has had a successful year and has made strong progress against its four immediate strategic priorities as John sets out in his letter.

Group revenue increased by 15.9% to £1.05bn with UK revenue up 20.3% to £901.6m. UK performance was driven by a return to growth in the engine of our business, MDA, where we achieved our target of double-digit growth in the final quarter of reporting period at 19.9% year-on-year. We made significant progress in improving the breadth and usability of our retail experience, attracting and retaining more and more customers as they experience a better experience of shopping through the AO Way. Our performance is particularly pleasing as, prior to the impact of coronavirus towards the end of the reporting period, the MDA market was broadly flat year-on-year.

Following the appraisal of our European operation at the beginning of the reporting period, we began to reposition our German business and have made significant progress in our journey to profitability. However, to allow management to prioritise and focus on improvements to performance in Germany we took the tough decision in November 2019 to close our operations in the Netherlands. This was no reflection on our team in the Netherlands who remain a credit to AO and there is nothing to preclude us from returning to this territory if appropriate.

From this repositioning, Europe revenue reduced slightly by 4.6% year-on-year to €165.4m. However, we made substantial improvements in our gross margin in Germany which, in the second half of the reporting period, was 4.0% compared to a gross loss in the first half of 0.7%.

Cost ratios in Germany also improved following implementation of our One AO model which is focused on ensuring that all employees, across all parts of AO, behave as one and operate efficiently. This centralised approach only devolves functions to local operations where necessary, ensuring no duplication of costs. It also creates a scalable model for growth, providing consistency in operations and standards. Its benefits are already being exploited throughout the Group.

Group Adjusted EBITDA for the period improved by 53.6% to £19.6m (2019: £12.8m). In the UK, Adjusted EBITDA increased 7.0% to £40.8m, and our Europe business reduced losses by 13.2% to €24.2m.

The final few weeks of this financial year were extraordinary. The impact of the coronavirus pandemic posed significant operational challenges to the business. We experienced high levels of demand, akin to Black Friday, as the market for electrical items migrated almost completely online overnight. Our UK and German teams navigated these challenges well, ensuring at all times that the safety of our people and our customers remained our top priority. We adapted our services and invested to ensure social distancing, and enhanced safety measures to protect our people in front line operational roles, while prioritising services to the most vulnerable members of society. Despite the challenges we faced, we take confidence from our consistently high Net Promoter Scores, which illustrate the attractiveness of AO's proposition to customers, and will continue to drive our growth.

As covered in John's report on page 15, cash conservation was a key focus for us in the year under review and I'm pleased that we have reduced cash outflow and by year end were cash generative.[1] Shortly after the year end we refinanced our £60m Revolving Credit Facility and £20m Term Loan, which were due to run until June 2021, into a new £80m Revolving Credit Facility. With our current headroom on this new facility and Group cash resources, we are well-funded.

In this year of transition, the Board focused its attention on immediate business priorities. With the retirements from the Board of Brian McBride (in July 2020) and Jacqueline de Rojas (in September 2020), we expect in time to make further Non-Executive Director appointments.

We closed the year in a good position, as actions taken to strengthen the business flowed into our financial results. We thank our teams across the business for the culture they live and breathe every day; its value has shone through, particularly over the last few months as our people have shown their dedication to AO and worked tirelessly to overcome the challenges presented by coronavirus and to continue to deliver for all our customers. Although we now face uncertain macroeconomic conditions, AO's business model means that we are prepared and well placed to continue to serve our customers as the trend to digital accelerates.

You will see in our Directors' remuneration report that, subject to shareholder approval, we are seeking to implement a Value Creation Plan in which all employees of the Company will be rewarded for creating exceptional value. As Luisa D. Delgado (Chair of the Remuneration Committee) states, we believe that such an innovative all-employee model reflects the unique and collaborative culture at AO, and its core role at the heart of our business; it will help galvanise the team and drive the business further forward.

I look forward to the Group's progress over the coming year and believe we have some very exciting times ahead.

Geoff Cooper
Chairman
13 July 2020

15.9% increase in Group Revenue

UK revenue up **20.3%**

European Adjusted EBITDA losses (€) reduced by **13.2%**

[1] Cash generative on a Group Adjusted EBITDA less debt repayment, interest, taxes and monthly share of annualised capex on a run rate basis by the end of the March 2020 financial year

"A year of change and transition."

Geoff Cooper
Chairman

"The One AO model and eco-system is a structural advantage when we leverage it effectively. I'm delighted that the whole business is now more focused than ever on customers, innovation and growth."

John Roberts
Founder and Chief Executive Officer

Chief Executive Officer's strategic review

The AO of today is very different from the AO of my last report. FY20 was about getting fit for purpose and focused. I'm pleased to say that we have made substantial progress during the year against our four key objectives and continue to do so into FY21. In the last few weeks of FY20 the world changed.

When the Covid-19 pandemic hit, our mission was to protect our people, continue to deliver safely to customers and, in turn, protect the business. I'm grateful to everyone at AO for the incredible efforts they made to do that.

We played an active part in keeping families plugged in and powering on through lockdown. Online retail became a lifeline to get essential products to customers during a national crisis, which I believe has accelerated customer adoption of online over this relatively short period of time. It's a road we've been building for two decades as a business, and circumstances mean more customers have experienced our AO service.

We closed the financial year in good shape. On many levels, we went back to basics, bringing clarity and leadership to our business fundamentals across the Group. The One AO model (explained in more detail on pages 22 and 23) and eco-system is a structural advantage when we leverage it effectively. I'm delighted that the whole business is now more focused than ever on customers, innovation and growth.

We reorganised all of our core competencies, with the first principle being to build expertise at the centre and only devolve locally where necessary. We had to say goodbye to some AOers in the process including our team in the Netherlands. This was not easy and I thank them for their contribution.

The One AO approach will, at the right time, mean that we can enter new markets quickly and with a much lower barrier to profitability and success rather than rebuilding in each new market.

We have increased our tech investment by £2.4m during the year, restructuring it around product teams to create deep expertise on key elements of the customer journey. This reorganisation required leaps of faith and trust from our teams. I want to thank them for the way that they have responded.

There have also been leaps of faith required from our brand partners to fix some of the fundamentals as we centralised, particularly in our German operations. I would like to thank them all for their faith in us, which I'm confident will be repaid in spades.

The past few months have deepened these relationships and the trust that our brand partners, our customers – existing and new, and our people have in our business. They all know the AO smile is so much more than a logo. It's in the tough times, not the good, that trust is tested and strengthened.

While Covid-19 has undoubtedly accelerated sales through a forced migration to online, we came into March having already made significant progress on the four immediate strategic objectives for the year: double-digit UK MDA growth, accelerating the journey to profitability in Germany, being cash generative,[1] and leveraging our eco-system further through our One AO approach.

I am pleased to report that our goal of double-digit MDA growth was achieved during the final quarter of our financial year, a momentum which continues. Profitability in Germany is now a question of when not if, and by the year end we were a cash generative business[1] on a run rate basis. We delivered a strong peak trading period in Q3 in both the UK and Germany with that sales momentum continuing into Q4.

This was against a backdrop of the issue of Brexit, which up until the outbreak of Covid-19 had been the major source of uncertainty for business and the economy more widely.

AO Finance launched in August offering a market-leading rolling credit facility giving more customers access to essential products through affordable finance. Meanwhile, AO Business has been building and developing its pipeline and I am particularly pleased with its progress. AO Business is now a supplier to 19 Housing Associations, roughly 10% of the UK's social housing stock, and we are making significant inroads to the student accommodation and hospitality sector where we have been successful in winning a number of new tenders. Similarly, we have made real progress in the housebuilders sector, which despite Covid-related shutdowns, remains a key growth area over the medium to long term where there is pent up demand from time-pressed developers for a 21st century proposition. Strong deals in MobilePhonesDirect mean we're delivering on the promise of better value, choice and service to customers in the UK market.

As an industry, retail has had a significant impact on people's lives. When we're ambitious for our customers, we also make a positive contribution to our communities. We have to show initiative and do the right thing, and never more so than when it comes to the environment.

[1] Cash generative defined as on a Group Adjusted EBITDA less debt repayment, interest, taxes and monthly share of annualised capex on a run rate basis.

AO's new plastics recycling plant is operational, albeit in its final commissioning phase, while our existing facility processed its millionth fridge during the year. An independent report by Anthesis showed that our fridge recycling plant was the only one meeting UK standards for collecting harmful gases. We'll continue to invest in what's common sense as well as business sense. And we're looking forward to the day that we're selling a new appliance made from the raw material of old ones we've collected from AO customers.

The results of the rental trial have been promising. We started from the premise that if we make it fair and affordable then people would support our offering. That has broadly proven to be true. Over half of households who have joined the trial reduced their arrears to the housing association – and over half had happier households.

We remain ambitious about the rental opportunity albeit its current scale is small while we learn. We are working to expand our arrangements with housing associations to be able to deliver this at scale. It is frustratingly slow in truth but I'm hugely proud of the progress we have made when most would have given up. Another example of the AO Way in action.

Looking forward to the next financial year, predictions are dangerous but I believe the values and principles that guide our thinking will position us well for the opportunities and challenges that arise. It will be a year of uncertainty with seismic changes in customer behaviour, a record fall expected in GDP and a potential hard Brexit in December.

We have faced significant costs to reorganise our operations to make sure our people and customers remain safe. That said, constraints also drive creativity and innovation; we have been quick to adapt and reinvent to enable us to simultaneously incorporate less efficient methods and scale to meet increased customer demand.

I'm so proud of the teams' ability to do this without missing a single day of deliveries. They are certainly people that live the AO Way and make things happen. The business has a winning mindset focused on growth, and not standing still. We'll carry the momentum through too: treating every customer like our gran and, in turn, making our mums proud.

AO is a business built to deliver change and a better shopping experience. We've spent the past 20 years disrupting the retail sector in the passionate belief that what we do makes a difference to people's lives. More and more customers are putting their faith in us. And it has never been more important that we deliver, brilliantly, for them.

John Roberts
Founder and Chief Executive Officer
13 July 2020

Customer testimonial

"Just wanted to reach out and compliment a member of your team. Had occasion this morning to speak with Youseff a member of the Customer Service Team in connection with an issue relating to an appliance recently delivered (the details are irrelevant and it's being dealt with). Youseff was empathetic to my problem, gave advice and was a credit to the AO business.

Today people seem keen to criticise and more than a little reluctant to give credit when that is due. Often when things aren't quite what we expect the reaction is more important than ever and given my recent experience I wouldn't hesitate to recommend AO to others and will certainly be a returning customer.

Thanks to Youseff and the team as this would appear to have a very positive culture that is a credit to AO."

Alex
An AO customer

Q&A

with John Roberts, Founder and Chief Executive Officer

Q. How has the return to double-digit sales growth in MDA, the engine of your business, been achieved?

A. Essentially, it's due to our refound growth mindset and a reignited obsession on our customers. Throughout AO's history we have focused on doing the right thing for our customers: to make their journey brilliant and to be relentless in our obsession to constantly improve our services by driving innovation, change and disruption. We believe we can always be better.

It is this mindset that will attract the best talent and ensure our brand partners continue to support us. The output of it should encourage more customers to trust AO with their hard-earned cash. There's no single project or one silver bullet, rather a constant way of thinking and ideas that are "customers first" and a culmination of effort across the business.

We are starting to get real traction on the initiatives that we launched during the reporting period. We invested to remove friction in the customer journey and have driven the levels of repeat and recommendation sales using, for example, social media and allowing influencers to tell our story for us in an authentic manner. There will be more to come in FY21 as we continue to invest in our proposition.

Q. What actions have been taken to address the issues in your German operations and how much more is to come?

A. During the year we completed most of the heavy lifting needed to resolve the key issues in our German operations. During the first part of the year we amended our pricing policy so that we were no longer driving sales at the expense of margin. Critical to this was ensuring that we had the long-term support of our product manufacturers in the territory. We needed to inspire them to believe in our ability to replicate what we have achieved in the UK for our customers and to continue to support us. I'm pleased to say that our meetings with them were extremely positive and that we were able to restructure our buying terms with the majority of our manufacturer partners. Clearly this will be an iterative process, but the benefits started to impact in January this year and represent a step change in the contribution to our overheads in Germany.

We also centralised reporting lines and responsibilities as we rolled out our One AO approach, leveraging the skills, knowledge and expertise of our UK teams into Germany, particularly in our e-commerce, marketing and logistics disciplines. Under this approach we can mirror and build our business using our UK platform creating a scalable model for growth.

The impact of these actions means that we are confident that it is now a case of when Germany will be profitable, not if. As we continue our road to profitability, we are working to ensure that our German customers receive the same excellent proposition and journey as in the UK. This doesn't need to be reinvented, it can be repeated easily through leveraging the knowledge and system capabilities we have built in the UK over 20 years through our One AO approach.

Similarly, we do not need to rebuild the intelligence of our logistics infrastructure and disciplines. We need to ensure that we have the correct level of overhead in place to execute our strategy. We've made great progress already and as sales volumes increase and we hone our delivery proposition we will improve efficiencies in our German logistics network.

With these constituent parts in place we will then leverage our core e-commerce and digital marketing expertise to drive the right volume of customers to experience the AO Way in Germany. These customers will then repeat purchase and recommend our service just as they continue to do in the UK.

Q. What have you done to achieve underlying cash generation?

A. We have improved the growth of the UK business allowing us to leverage our cost base and so increase profits. In Germany we have reduced our run rate of losses through the actions described above and we would expect these to help stabilise working capital outflow as our trade creditors move towards industry norms.

Q. Following the decision to close the Netherlands operation, how can you be confident that AO will be able to scale internationally?

A. Our decision to close the Netherlands operation was taken not because we didn't think the proposition could work, but because we simply did not have the management bandwidth to fix the issues at the same time as focusing our efforts in our German operations. So, we took the decision not to continue to incur additional losses in this territory at the price of fixing our German operations and embedding our One AO approach. During the closure of our Netherlands operations our team continued to live our values and represent the AO Way; there is nothing which precludes us from returning to this territory when the time is right.

One of AO's key advantages is its ability to scale because the products we sell are fundamentally the same in all territories, the global manufacturers are the same in all territories and the methods of shopping online are the same as are the digital marketing methods for reaching customers. Equally, warehousing and delivery processes and systems are the same. I have yet to meet a customer who doesn't love a brilliant friction free customer journey, who wants to pay more than they have to or wait longer than they need to for a brilliant delivery experience.

We chose Germany as our first step into Europe because its location is a springboard into future territories, and we are now starting to model what this may look like. For example, we won't need to create vast additional marketing, e-commerce or IT teams locally; we will use our central UK resource and a large part of our logistics operations can leverage UK capabilities and systems with only physical infrastructure and a limited number of people required locally.

Q. What is One AO and how does this impact your operations?

A. A vertically integrated business is only of any value if all its parts are stitched together beautifully with a culture of working together. This means that it is able to adapt and scale at pace very efficiently.

This is One AO. It is about all employees, across all parts of AO behaving as one business. It's about all AOers making decisions which will serve our customers brilliantly and benefit the whole Group while at the same time thinking about the long term and finding the most efficient way.

One AO provides a centralised model that only devolves locally where necessary, therefore ensuring that we do not duplicate costs unnecessarily. We invest centrally in technology to create platforms that local markets and categories can leverage at very low incremental cost and the customer journey should be broadly consistent in all markets as are the products.

Q. Are you pleased with the integration of MobilePhonesDirect and how large is the Mobile opportunity for AO?

A. We remain hugely excited by the opportunity that Mobile presents, especially given the recent and significant changes in the market. We believe that the closure of a large bricks and mortar retailer illustrates that customers need less and less support as they become more and more tech savvy and this, coupled with the increasingly homogenised nature of the product, means that the value that a store could add to some customers should, we believe, continue to diminish. Indeed, during Covid-19, we have seen rapid adoption of online mobile purchases in older demographics which have previously been fulfilled via store-based retailers.

Culturally, we are very pleased with the integration of MobilePhonesDirect into the AO business. However, other aspects have been frustratingly slow. Although mobilephonesdirect.co.uk will remain as a price-fighting brand with the Group, we plan to interlink/interconnect it with ao.com and leverage AO's online finance package across the brands. However, this has been a bigger task than envisaged and so we anticipate that the benefits of this will only begin to materialise during the 2021 calendar year.

It's still relatively early days for the mobilephonesdirect.co.uk business within the AO family but we are very pleased with its performance and the opportunity it presents. During the year we have cemented strategic partnerships with the networks, choosing to work with fewer so that we can offer our customers the right proposition in a sustainable way. Going forward we will look to drive value for our customers through speed of delivery and handset affordability.

Q. Following the measures introduced to contain the Covid-19 pandemic, the market for electrical products migrated to online almost overnight. How much of this migration do you think is a permanent shift?

A. When bricks and mortar retailers were forced to close their doors, the only option for customers to buy electrical products was online. We experienced a material increase in demand across our major MDA, SDA, AV, Computing and Mobile categories, attracting new customer demographics who experienced AO's service for the first time – for example, new customers over the age of 65 have increased by over 100%.

As lockdown measures start to ease, the permanency of the shift to online is uncertain. Our view is that customers will be wary about visiting stores where a better solution is available online.

Instead they will take a risk-based approach, only visiting stores where necessary. We have had a fantastic opportunity over the last three months to impress new customers with AO's proposition and build lifetime value.

Q. Have you experienced any operational issues in your logistics business as a result of the increase in demand and implementation of lockdown and social distancing measures?

A. We have continued to build and deepen our relationships with our manufacturer suppliers during the pandemic, with both parties maintaining a flexible approach to ensure a good supply of products for our customers.

The safety of our people and our customers continues to be our top priority. We have invested to ensure that enhanced safety measures protect our people in front line operational roles, whether in our warehouse or making deliveries. Social distancing measures brought necessary inefficiency for our logistics operations which our teams navigated quickly. Now more than ever, we are experiencing the benefits of our well-invested culture. We are hugely proud of our front line employees and the drivers for their continuing efforts. Our distribution network has remained open throughout the crisis allowing us to continue to deliver essential products to our customers. We paused some of our services, for example installation of certain products to minimise the amount of time drivers spent in customers' homes, moving to door-step delivery of products, but we empowered our people and drivers to safely help the vulnerable or those for whom door-step delivery isn't an option. The new, necessary measures are being implemented into "business as usual" for AO as we start to offer services again and we will continue to adapt to the changing situation and follow Government advice for the safety of our employees, drivers and our customers.

Q. Does the business have the capacity to deal with any longer-term increases in demand as a result of the migration to online?

A. We don't foresee any future capacity issues in either our UK or European business. Prior to the outbreak of Covid-19 we had recently agreed the terms of a lease for a third warehouse in the UK giving us additional capacity in our logistics infrastructure. Equally, in Germany, we are not constrained; we estimate that our existing distribution centre in Bergheim would allow us to deliver up to €750m of revenue. The flexibility of our Group logistics model means that we are able to add additional infrastructure simply and at a relatively low cost, so that we are able to grow easily in the territories in which we operate.

Q. How has the AO eco-system been affected by the outbreak of Covid-19?

A. We have seen some impact to the businesses in our eco-system. For example, prior to Covid-19 our B2B business had been successful in winning several new contracts with housebuilders. Following the outbreak, most clients including housebuilders were forced to close but as they begin to think about reopening, a large challenge for them will be their supply chains. Our B2B team is now experiencing a substantial increase in the level of enquires from housebuilders as they prepare to reopen sites and are realising the benefits of working with AO: a large, integrated business with scale to provide next day delivery. This has created a substantial opportunity for this part of our business, albeit due to the housebuilding business model, this will take time to flow through into our financial results.

Similarly, over the last few years, our logistics business has been successful in winning a number of contracts with new third-party clients such as Aldi, Simba and Cotswold Furniture, delivering a range of big and bulky items to customers on their behalf which are unable to go through a parcel carrier network. This has provided us with a fantastic opportunity to provide a transformational service to customers of these businesses and we have made good progress. Following the outbreak of Covid-19, we agreed to temporarily reduce our services to some products from our third-party clients.

At the start of the outbreak, we significantly reduced our recycling business because fewer products for recycling were received into the plant, due to local authority sites closing and a reduction in our own collections with limited in-home services being performed. We have also experienced a challenging market for the prices of recyclate outputs. However, as I write I am pleased to report that this market is showing early signs of recovery and both of our facilities are building towards operating at full capacity within the boundaries of social distancing guidelines.

I am pleased with how the remainder of our eco-system is operating: our financial services and insurance products business has performed well during the Covid-19 pandemic so far, and we have been particularly impressed with how this division has adapted in moving from a sales environment to home working with no noticeable impact on performance.

Employee testimonial

"The speed with which we were able to mobilise the effort to get as many AOers as possible up and running from home was truly remarkable. It clearly took a lot of effort on the parts of many colleagues and for that they should be applauded. Even where we have had to maintain a workplace presence, such as in Logistics, AO has been sensitive and pragmatic to enable colleagues to work effectively but, and perhaps most importantly, in as safe an environment as possible."

Comment from Covid-19 People Survey

One AO

scaling the business from centres of expertise.

What is One AO?

Today, AO is made up of a diverse range of disciplines, skills and experiences across multiple locations. We are a business that's motoring again. We've returned to a growth mindset. We can only realise our full potential by working, behaving and thinking as One AO team.

One AO is a journey, organising ourselves under three distinct pillars with a structure of defined Centres of Expertise, Operations and Enabling Functions.

In FY20, we changed the way we operate our German business and have integrated Mobile into the Group.

This is designed to prepare for scalable and successful growth.

1.

Culture

We are one united team, working together towards shared goals with shared values. This means we are more than the sum of our parts, able to achieve the impossible with pace and focus.

2.

Customers

We are organised as One AO team with all the different parts of our business stitched together so that our decisions mean we serve our customers brilliantly and benefit the Group as a whole.

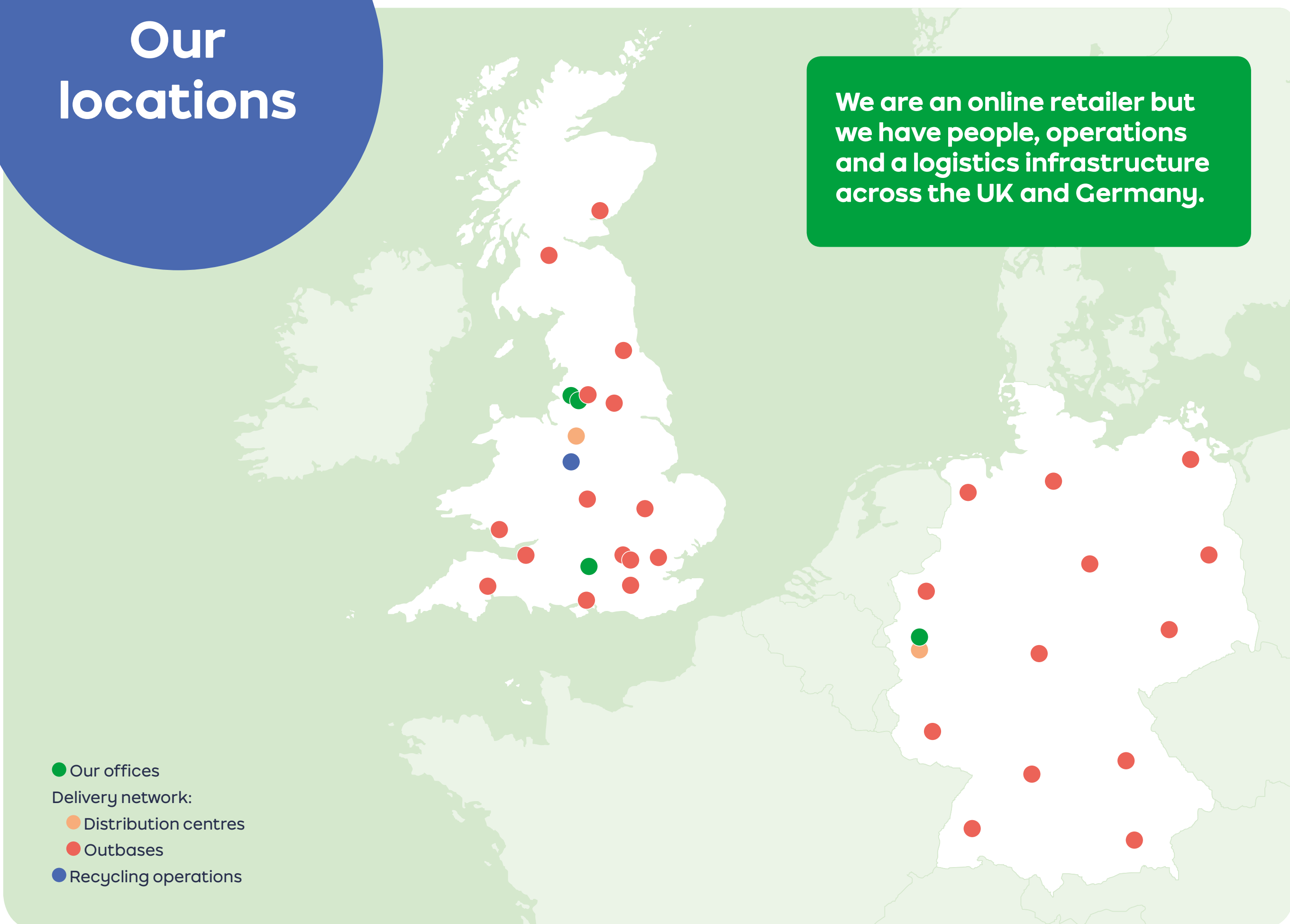
3.

Scaleability

We operate a centralised model where global experts in our disciplines create best practice and drive innovation only deploying what's necessary locally. We create platforms and playbooks to give consistency in our operations and standards. This low cost operating model enables cost efficient scale to be built at pace as we grow.

Our locations

We are an online retailer but we have people, operations and a logistics infrastructure across the UK and Germany.



Marketplace

Our operations are about scalability, and disrupting markets. Through agility and closely listening to our customers and market trends, we are constantly expanding into new markets, leveraging expertise and creating new verticals.

This ability helps us build our eco-system of interconnected services and ensures we continue to grow and address opportunities. It's not when or why we grow though: it's how. We have centres of expertise and a fantastic team of AOers who are able to drive operations across multiple countries. We call this One AO.

Read more about our eco-system on page 4

AO's eco-system of complementary products and services has strengthened throughout the year demonstrating that we can successfully leverage our assets and capabilities to underpin future growth and profitability. In terms of our categories, our single largest category continues to be the retail of Major Domestic Appliances ("MDA"). The combined population across our current territories (UK and Germany) is over 155 million[1] living in over 41 million households.[2] The total population in the UK is forecast to grow 2% by 2023[3] and grow 1% in Germany by 2022[4] which provides a large and relatively stable future market volume.

Demographic trends – References:

[1] Population and growth rates taken from World Population Review 2020 (https://worldpopulationreview.com/)

[2] Euromonitor 2019 (https://www.euromonitor.com/germany/country-factfile)

[3] Population projections, UK (https://stats.oecd.org/Index.aspx?DataSetCode=POPPROJ)

[4] German population growth rates (https://tradingeconomics.com/germany/population

[5] GfK to 31 March 2020

Read more about One AO on page 22

£47.7bn
Current addressable markets in UK and Germany

34.8%
UK MDA online market share

9.8%
German MDA online market share

Our markets: UK

The outlook and our response

Housing market in the UK

MDA purchases are correlated with housing transactions[1,2] mortgage[3] (and re-mortgage)[4] approvals and planning permissions. A total of 789,778 mortgages were approved during 2019, a 1% increase YoY[5] and for the year to 28 March 2020, MDA volumes in the overall UK market increased by 4%[6] YoY.

MDA are significant household purchases and during the year to 28 March 2020 total market sales of major appliances have seen a marginal decline of -0.1% YoY.[6] Consumers' appetite to spend on big ticket items dropped during most of 2019 (when compared to 2018) as consumers held off making purchases on big ticket items.[7] This is thought to be due to Brexit uncertainty, fears of a possible recession and consumers having an increasingly pessimistic view on job security.[8] Through the period we have supported customers through price-match commitments and trade up options to support transaction volumes and we also introduced AO Finance.

For 2020, the UK housing market faces high levels of uncertainty due to the Covid-19 pandemic, at least in the short term.[9] Research suggests housing transactions will decrease during the first half of 2020[10] but the low interest rate of 0.1% is an incentive for potential buyers going forward meaning that once the period of lockdown and self-isolation ends the housing market should rebound relatively quickly. MDA sales will likely be negatively impacted by this short-term stagnation of the housing market, although from our own internal research we know that in a normal market around 65% of our customers' MDA purchases are distressed and this is expected to increase further during Covid-19 lockdown as consumers are using their appliances more than ever.

Housing market in the UK – References:

[1] Bank of England

[2] HM Revenue & Customs

[3] Ministry of Housing, Communities & Local Government

[4] The Building Societies Association (BSA)

[5] Bank Of England

[6] GfK

[7] https://www.theguardian.com/business/2019/aug/19/uk-households-cut-big-ticket-spending-on-recession-brexit-fears

[8] https://www.home.barclaycard/media-centre/press-releases/Consumer-spending-sees-muted-growth-of-1-point-7-per-cent-in-July.html

[9] Savills (https://www.savills.co.uk/blog/article/297216/residential-property/what-might-covid-19-mean-for-the-housing-market.aspx)

[10] Knightfrank (https://www.landlordtoday.co.uk/breaking-news/2020/4/knight-frank-predicts-38-drop-in-residential-property-sales-this-year?source=related_articles)

Risk, economic and political environment

As previously mentioned, the freeze in the property market due to lockdown negatively impacted MDA sales in the short term but the reopening of the housing market in May saw an unprecedented surge in property sales as the English market reopened and housing sales reached pre-lockdown levels.[1] Redundancies and employees on reduced wages will reduce disposable incomes and appetite to spend and increasing levels of consumer debt may see many consumers (throughout both the lower and middle classes) being stretched in their finances. During April 2020 there has been a record numbers of applications for universal credit suggesting that disposable incomes in the short term will have been squeezed.

Although the above risks could reduce future MDA sales, the fact that consumers are spending more time at home during lockdown means appliances are being used and stressed more than ever before.[2] The increase in remote and home working is expected to lead to higher failure rates and therefore an increase in future distressed electrical purchases.

UK GDP grew by 1.4% in 2019, marginally higher than the 1.3% rate in 2018.[3] The slow GDP growth was due to weaker global growth and Brexit-related uncertainties weighed on consumer spending.[4] UK GDP is forecast to go backwards during 2020 (-7.2%) due to lingering Brexit uncertainty and Covid-19, followed by growth of 2.8% in 2021.[5]

Risk, economic and political environment UK – References:

[1] https://uk.finance.yahoo.com/news/coronavirus-uk-property-market-house-prices-lockdown-rules-moves-good-bad-time-sell-buy-093014501.html

[2] https://www.thisismoney.co.uk/money/bills/article-8284439/Household-energy-usage-surges-37-lockdown.html

[3] ONS (https://www.bbc.co.uk/news/business-51459257)

[4] Bank of England (https://www.bankofengland.co.uk/monetary-policy-report/2019/november-2019/the-economic-outlook)

[5] https://home.kpmg/uk/en/home/insights/2018/09/uk-economic-outlook.html

Read more about our risks on page 36

Our markets: UK continued

The outlook and our response

£32.1bn
UK current addressable markets

15.2%
Total UK MDA market share

34.8%
Online UK MDA market share

Consumer behaviour

Uncertainty created by Brexit and the general election significantly impacted consumer confidence in the UK and for the 12 months to 31 March 2020 the consumer confidence indicator averaged around -11.4. 2020 started with a healthy uptick in consumer confidence with January recording -9 (from -14 in December), followed by -7 in February.[1] Despite the uncertainty in 2019, consumer spending remained strong helped by high levels of employment and real growth in wages. Real regular weekly pay, excluding bonuses and adjusted for inflation, increased by 1.8%[2] and real household disposable income increased by 1.3% YoY.[3] The household saving ratio stood at 5.7% in 2019 (declined by 0.1% YoY). [4]

The impact of Covid-19 started to unsettle UK consumer confidence in March as seen by the consumer confidence indicator dropping two points to -9.[1] Covid-19 is having major worldwide economic consequences with unemployment rates rapidly rising with many businesses issuing profit warnings. This is expected to adversely impact consumer income and disposable incomes throughout 2020. According to a survey conducted by Kantar, 70% of people in the UK stated that Covid-19 has or will negatively impact their household income.[5]

Consumer behaviour UK – References:

[1] GfK https://www.gfk.com/en-gb/insights/press-release/uk-consumer-confidence-decreases-by-two-points-to-9-for-march-2020/

[2] ONS (https://employeebenefits.co.uk/weekly-pay-1-8-2019/)

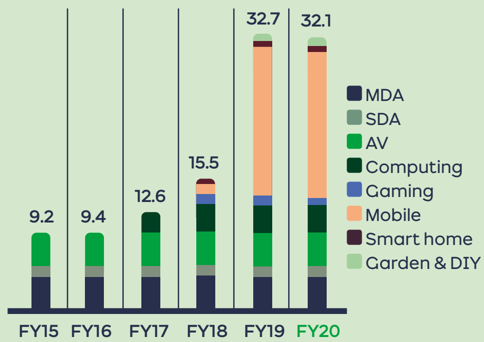
[3] ONS

[4] ONS (https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/dgd8/ukea)

[5] Kantar (https://www.kantar.com/Inspiration/Coronavirus/Seven-in-ten-in-G7-say-personal-income-has-or-will-be-affected-by-coronavirus)

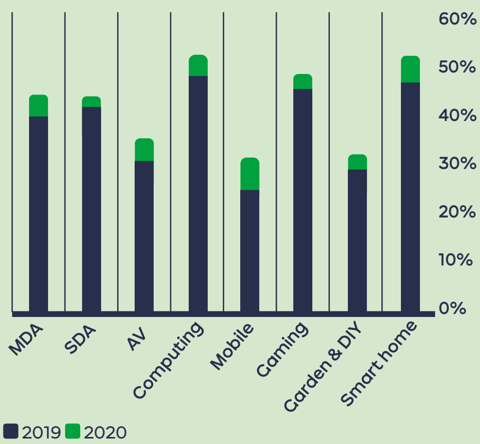
UK addressable markets

AO addressable markets – UK[1]



During the year we have continued to expand our offering (in particular through our B2B and mobile businesses) and our addressable market for retail products across all categories in which we now operate stood at £32.1bn,[1] up from £5.3bn at IPO.

Online penetration UK[1]

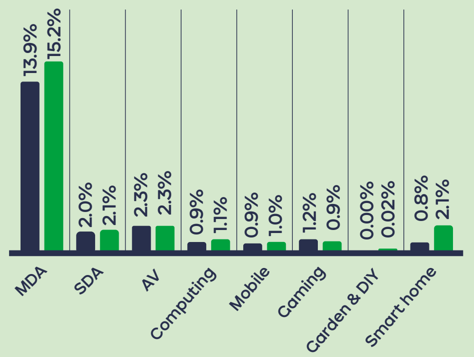


Online shopping continues to be a main channel for consumers, especially in AO's main markets, and 87% of British consumers shop online vs 79% in Germany.[2] We expect online penetration to continue to grow in our territories and Covid-19 trends suggest that this shift to online has accelerated..

Market overview – References:
[1] GfK
[2] Eurostat E-commerce statistics for individuals report

Total market share

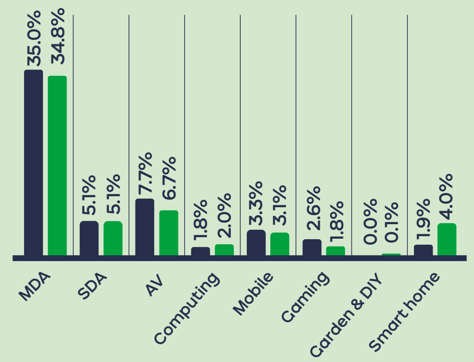
AO market share – Total UK market[1]



In the UK, AO's share in the total MDA market increased significantly by 1.3% from FY19 to FY20.[1] As can be seen from the charts, total share in our other categories has mainly grown during the reporting period, especially in the Smart home category, but maintaining our online market share has been challenging. Total share in Gaming decreased 0.3% year-on-year due to a lack of newness in the category and consumers reducing their spending during FY20 in anticipation of the next generation of consoles which are expected late 2020.

Online market share

AO market share – Online UK market[1]



Competition in the online electrical market remains fierce and scale and expertise are becoming ever more important for retailers. During the year we have maintained or grown our total market share on a product value basis across the majority of our categories.

Our markets: Germany

The outlook and our response

£15.3bn
German current addressable markets

1.9%
Total German MDA market share

9.8%
Online German MDA market share

Risk, economic and political environment

The Germany market is experiencing many of the same risks as the UK, in particular around the slowdown in the property market expecting to negatively impact MDA sales in the short term and an expected economic slowdown as a result of Covid-19. It is expected that the pandemic will have a big impact on Germany GDP growth, shrinking -2.8% in 2020, followed by a growth of 4.5% in 2021.[1]

Germany's GDP grew 0.6% in 2019, down from the 1.5% growth rate seen during 2018 and significantly lower than the 2.5% rate in 2017.[1] The slowdown in growth was due to the trade war between the United States and China, which has hit Germany's export-oriented economy hard. Political uncertainty with Brexit as well as the German car industry's transition to electric power have also taken their toll.[2]

Economic and political environment DE – References:

[1] https://www.dw.com/en/german-gdp-to-drop-by-65-in-2020/a-53910951

[2] https://www.dw.com/en/german-economic-growth-saw-major-drop-in-2019/a-52008522

Consumer behaviour

German consumers were relatively positive during 2019 with only a one point drop to 9.7 in consumer confidence during 2019.[1] Unemployment rates declined marginally (0.2%) to 5% by the end of the year.[2] The household saving rate increased marginally by 0.01% YoY to 10.96%.[3]

Consumer confidence in January and February 2020 stood at 9.7 and 9.9 respectively.[1] However, Covid-19 is having a big impact on consumer sentiment in Germany with March consumer confidence dropping to 8.3.[1]

Covid-19 is expected to have a negative impact on the German economy and GDP is predicted to shrink by over 3%[5] this year alongside rising unemployment.[6] A Kantar survey suggests that 58% of people in Germany believe that the coronavirus has or will negatively impact their household income.[7]

Consumer confidence and spending DE – References:

[1] GfK

[2] Statista (https://www.statista.com/statistics/227005/unemployment-rate-in-germany/)

[3] 2-OECD (https://data.oecd.org/hha/household-savings-forecast.htm#indicator-chart)

[4] Destatis(https://www.destatis.de/EN/Themes/Labour/Labour-Market/Unemployment/_node.html)

[5] The German Council of Economic Experts (GCEE) http://www.xinhuanet.com/english/2020-03/30/c_138931970.htm

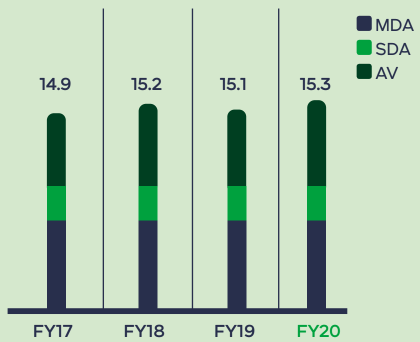
[6] DW (https://www.dw.com/en/economic-researchers-see-germany-head-toward-deep-recession/a-53057069)

[7] Kantar (https://www.kantar.com/Inspiration/Coronavirus/Seven-in-ten-in-G7-say-personal-income-has-or-will-be-affected-by-coronavirus)

Read more about our risks on page 36

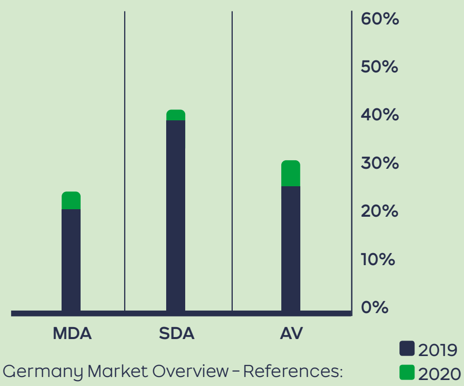
German addressable markets

AO addressable markets - Germany[1]



In Germany our total addressable market across the categories in which we operate is £15.3bn, an increase of 1% from FY19.[1] Online penetration in Germany is still significantly behind the UK and this provides significant opportunity for us to grow, particularly in MDA which currently only has a penetration of 20% (vs the UK's 43%).[1] Online penetration continues to grow in all our categories and as with the UK, we expect online penetration in Germany to be accelerated by Covid-19 dynamics which has encouraged consumers to buy online rather than from in store.[1] The compounding factors of an overall growing market and an increased online penetration mean we as a business are well positioned to service this shift to online.

Online penetration Germany[1]

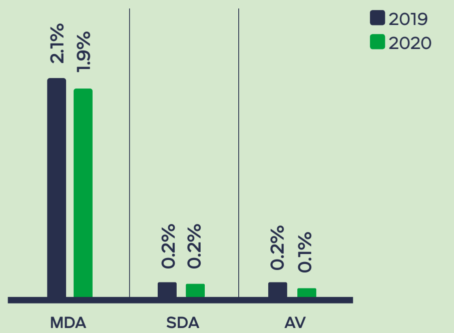


Germany Market Overview – References:

[1] GfK

Total market share

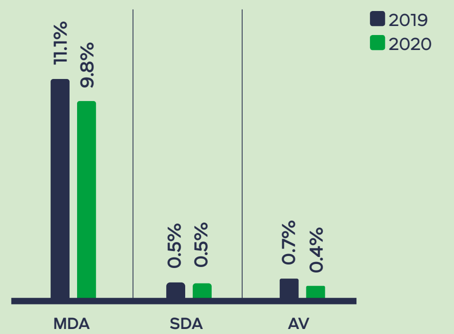
AO market share – Total Germany market[1]



Our market shares across our categories have decreased from FY19 to FY20 as a direct result of changing the revenue strategy of our German business as we stopped undercutting the price of our competitors and instead focused on differentiating with an improved range and product content to drive higher conversion rates in line with our UK approach.

Online market share

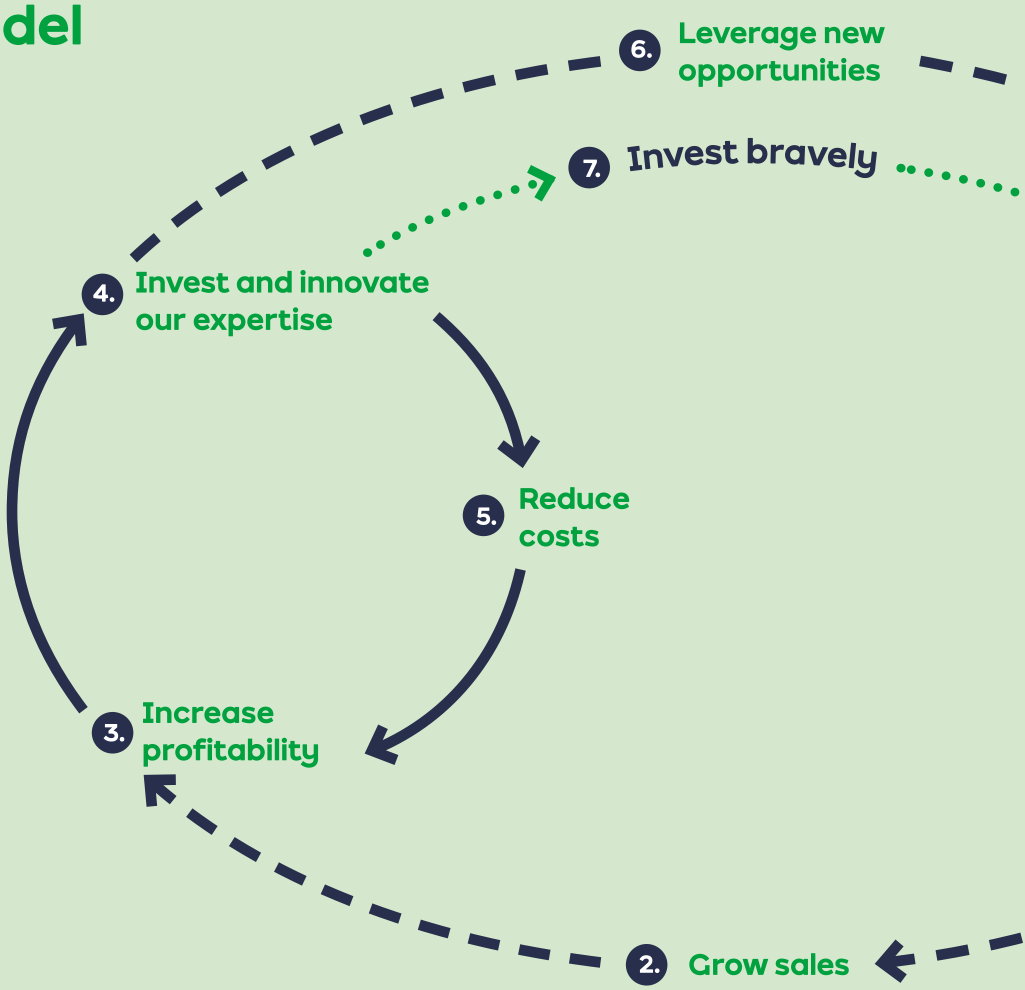
AO market share – Online Germany market[1]



In Germany our online MDA market share stood at 9.8% for FY20 and online market shares in SDA and AV were at 0.5% and 0.4% respectively.[1] As with the total market, the decrease in our online market share is a direct result of us changing our revenue strategy in our German business.

Our business model

What AO does, how we do it and how we create value is best illustrated through the AO Way Fly Wheel. This is how we will achieve our mission to be the global destination for electricals.



Key resources

Culture
We succeed when operating as One AO, united behind our mission to be the global destination for electricals. We treat customers as if they were our own grans and we make decisions to try and make our mums proud.

Talent
Our people create the magic of the AO Way whether that is in the technology they develop or the very human way we interact with our customers, suppliers and each other. We care deeply about what we do.

Supplier partnerships
Our mission is to be the global destination for all our trading partners. We want to tell their product stories brilliantly to help our customers get the best product for their needs. We always think long term and are passionate about building partnerships, not just buying products.

Customer relationships
We obsess about customers and want them to be fans of the AO Way.

Technology and infrastructure
We build platforms that are scalable and repeatable. We are innovative and willing to disrupt ourselves as well as the market. We embrace new technology and love learning.

Our competitive advantage

What we do is not our competitive advantage. How we do it is what differentiates us. There is no silver bullet or single project. It's the aggregation of 20 years of learning "what" to do and then living the "how" we do it.

- **Our amazing culture:** Our Trustpilot ratings (4.7 out of 5 on nearly 200,000 ratings) don't just happen by accident. We live the service pledge every day and truly care about being better.
- **Our One AO approach:** We are a vertically integrated business that is united behind one mission. This enables us to invest directly with a holistic group view of what is right for customers. We are also then able with a centralised model to invest for all areas of the Group and internationally for maximum operational gearing with the best technology and proposition at the lowest cost per sale.
- **Our compelling customer proposition:** We just keep investing in better, faster and more convenient. That is the same attitude for findability of products as it is for things like rolling out our premium installation services.
- **Our scalable business model, infrastructure and technology:** We invest in platforms that are scalable across categories and territories. In absolute terms we invest significantly and through growth we become a lowest cost operator to create structural advantage to bring customers the best for the least.

1.

Customers

1. We obsess about customers. How we make every element better for them centres on the simplicity of making it super easy to find the right product for them, then making sure it's the best price they can find and then get it delivered to them in the quickest, most convenient way delivered with an AO smile and all the services they might need.

2. When we truly obsess about customers our sales grow. Because the journey is so good our customers make us their destination for electricals and our share of their wallet grows. They are also proud to tell their friends and so recommendation business grows. Our expanding category authority and specialism also increases the number of touchpoints, reasons to shop and lifetime value of customers.

3. We have significant operational gearing with sales growth and so each sale becomes more profitable. Our influence on customer choice grows and so margin and supplier influence grows with it as our recommendations are more trusted.

4. We reinvest profit to fuel more growth through investments in technology, expertise and capabilities. We believe in using our scale to build an ever bigger proposition and barriers to entry for our competition to further fuel our ability to drive our obsession for customers.

5. Investing in technology and platforms in smart and scalable ways allows us to drive more automation and intelligence into our proposition which further drives scalability and profitability to enable us to invest further.

6. We may choose to make that investment into new opportunities to take advantage of our scale and capability in adjacent areas such as recycling or in rolling our model further internationally, or potentially both. We have also proven the capability to unlock our platform where sensible to others, for example in third-party logistics and in newer segments like housebuilders. This creates further profitability that give us more capability to invest and increases the barriers to entry for our competition.

7. We may also choose to bravely invest some of our profit straight into our proposition for customers through lower prices for the overall service and product proposition that they love.

How we create value

Our flywheel creates a virtuous model that serves all our key stakeholders. Our obsession that only customers pay the bills means we treasure them, always.

It is easy to get distracted from the fly wheel and this is a big lesson we have learned. It is one of the most valuable lessons we have learned. Obsessing about customers, behaving as one AO united behind the same mission are the foundations of value creation.

That creates the magic of the AO Way.

Who the AO Way benefits

Our customers
The products we sell are essential in their lives and are major purchases. Getting the perfect product in a friction free way with a little bit of fun is the best way to serve.

Our employees
Winning is fun. We spend the majority of our lives when we are awake at work and so it should be enjoyable. Our people are able to be the best versions of themselves at AO. We create the environment for them to grow and flourish. We win as a team together, and relish the sense of achievement that comes with success.

Our suppliers
We want to leverage the capability we have created for our suppliers to tell their own product stories brilliantly to our customers. We care about creating value from their products and long-term brand relationships for our mutual customers. We are also proud to disrupt thinking and help our trading partners be ever better for customers.

Our communities
We care about the communities in which we operate and the world more widely. We take our responsibilities seriously and make decisions that make our mums proud. Whether though the work of the AO Smile Foundation or simply paying fair taxes, we know it's often the spirit that matters.

Our shareholders
By building a brilliant business loved by customers that has care and excellence at its core with its people creating and driving technology platforms that are scalable, repeatable and friction free for customers while driving operational gearing we will create significant long-term shareholder value.

Our strategy

From betting a single pound in the pub that our Founder and CEO, John Roberts, could change the way white goods are purchased via the Internet to a European electrical retailer with millions of happy customers: we have come a long way, and we are not stopping yet. We are focused on being brilliant for our customers to make us the destination for everything they need, in the simplest and easiest way, when buying electricals.

Our strategy is to leverage and support the scalability of our business model and customer proposition, helping to provide us with the ability to continue our progression and develop our core competencies.

We do this by implementing three strategic pillars, which focus on three key areas of the business: our customers, expertise and culture. Together, these pillars present us with a clear direction across our business to guide us in achieving our purpose. During the year, we addressed four immediate strategic priorities that stem from our strategic pillars, and which are discussed in the CEO review on page 15.

Our mission

To be the global destination for electricals.

Strategic priorities

- **Sustain** and **enhance**
- **Build** and **leverage**
- **Inspire** and **develop**

Three key focuses

- **Customer proposition**
- **Expertise**
- **Culture**

Discover the relationship with our customers on page 8

Discover our expertise on pages 4 and 5

Discover our culture on page 6

1 **Sustain** and **enhance** what we do best

making our customers happy through a customer-first proposition focused on excellence

The foundation of our business is providing a combination of leading customer service, with best-in-class propositional execution. Our customer base not only includes our core retail customers who shop via ao.com, ao.de, mobilephonesdirect.co.uk and our marketplaces, but customers from our white label sites, our B2B customers, other retailers (for our logistics services) and clients of our recycling business. Our customers are at the core of what we do and drive our thinking and innovation. During the period, we have continued to develop our proposition, launching a number of new initiatives.

Progress over the year

- Launched AO Finance, a market-leading rolling credit facility operated in partnership with NewDay, offering our customers additional purchasing flexibility, providing them with access to essential products and us a large share of their wallet, though affordable finance.
- Expanded our accepted payment methods, making checkout easier.
- Invested further in our customer proposition including the development of personalisation functionality and a chatbot sales assistant, to improve customer service and efficiencies.
- Jointly invested with our brand partners in more initiatives to improve the online journey increasingly with our content as the destination of choice for the best product information.
- Improved the ao.de customer proposition as we build towards an offer comparable to the UK, for example, through the introduction of dynamic timeslots and installation services.
- Made significant improvements in our German e-commerce abilities and execution through the One AO approach, allowing us to better engage with our customers.
- Built on the foundations of our MobilePhonesDirect business by launching ao-mobile.com in August 2019, our AO-branded mobile online retail platform.
- Improved our customer proposition by directly integrating with some of our key network partners.
- Continued to grow our B2B division making deliveries to tenants and beneficiaries, on behalf of our larger business clients, who are supported by a dedicated account management team, providing specialist support and advice.
- Leveraged our logistics and recycling infrastructure into B2B to improve customer proposition, for example, launch of next day and nationwide seven-day delivery for housebuilders.
- As part of our AO Innovation Labs initiative we trialled two new innovative solutions as we look to further advance our proposition for customers.

Future plans

- Continue to focus on our brand and proposition enhancements for both our retail and B2B customers to drive conversion and efficiencies.
- Review our third-party logistics offering to ensure it is aligned with not only the needs of our retail customers but those of our third-party logistics clients to attract additional volumes.
- Expand our recycling services through our new plastics recycling facility, allowing us to process the plastics from around 2.5million fridges per annum.
- Explore the possibility of refining the processed material from our new plastics recycling facilities for use directly in the production of new appliances.

Link to risks

The risks affecting the priorities in our Customers pillar are set out on pages 43 to 47 of our risk review.

Remuneration

One of the performance conditions for our AOIP incentive awards is the customer Net Promoter Score, to which 10% of the maximum award is attributed. For the year under review, we maintained outstanding scores in all of our territories (see page 100) and therefore this element vested in full.

Both these metrics will apply to our AOIP FY21 award.

2 Build and leverage our expertise

enabling us to further cement our brand and explore new markets

In the UK we have built assets, systems and processes that we can leverage with third parties to address additional revenue and profit opportunities outside of our core retail business. We are also able to link up these capabilities within the Group, for example, using our logistics operations to collect old appliances for our recycling business. Over the period, we have continued to develop these competencies and leverage our assets to drive opportunities.

Progress over the year

- As part of our One AO approach we have integrated AO Mobile and AO.de into the wider Retail business unit driving performance and operational synergies across the Group.
- Continued transformation of German business, through more efficient customer traffic acquisition and centralisation into the UK of core disciplines through One AO approach.
- Deepened relationships with suppliers gaining renewed commitment to AO as a leading pureplay retailer.
- Commitment to focus resources and energy on German business results in closure of operations in the Netherlands.
- Continued to expand our B2B client base, partnering with a number of charities, not for profit organisations and housing associations.
- Our B2B team has developed strong partnerships with 19 housing associations providing them with both replacement products and new build projects.
- Added a new Distribution Centre to our Logistics infrastructure hub in Crewe, taking the total to three with over 800,000 square foot of capacity.
- Developed and implemented a new voice picking solution to increase our efficiency in our logistics business unit.
- Collaborated with innovative third parties to develop carbon fibre parts for our vans to significantly increase payloads and the efficiency of our deliveries.
- Utilised our web design knowledge, UK-wide logistics network and routing capabilities to develop and launch "AO Collects" and "Collect & Recycle" propositions allowing businesses and retail customers to arrange collection and recycling of old products.
- Continued to grow our third-party client base in our Logistics business, as we leverage our market-leading two-man delivery proposition and excellent customer service into new areas.
- Completed the build of our new plastics recycling and refining facility, providing us with the capability to sort the waste plastic output from our WEEE recycling plant, for reuse or resale to create an additional sustainable revenue stream.

Future plans

- Capitalise on the integration of AO Mobile and AO.de into the wider Retail business unit through a broadening of services and channel offerings and building stronger relationships with suppliers.
- Continue to collaborate with third parties and invest in new vehicles with increased payloads to reduce our environmental impact while driving efficiencies.
- Leverage our Group capabilities into Germany in line with our One AO approach.
- Continue to build our UK third-party client base as we leverage our logistics capabilities into new markets and expand our service offering.
- Extend our service-oriented delivery approach in Germany through offering delivery services to third parties, as in the UK.
- Grow our "AO Collects" and "Collect and Recycling" propositions to increase processing at our WEEE and Plastics facilities.

Link to risks

The risks affecting the priorities in our Expertise pillar are set out on pages 43 to 47 of our risk review.

Remuneration

For FY20, one of the performance conditions was to successfully leverage our skills in one area of the business across our eco-system, ultimately to drive the most value through the profit and loss account. Given progress in this area, particularly around One AO, the eco-system performance metric of the AOIP FY20 award has vested in full.

Further, all financial performance conditions align to this strategy generally.

3 **Inspire** and **develop** our people

to be the best versions of themselves to maximise their performance potential and enable our success though a "can-do" attitude

AO employs around 3,000 people across two countries. We believe that happy people care more and do the right thing. 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 care not only about our customers but other AOers too, our suppliers and, of course, do it all with a sense of fun.

Progress over the year

- Commenced the roll out of our One AO approach across the Group as we look to scale the businesses in our eco-system through creating centres of expertise within each of our business units, supported by enabling functions (see our case study on page 22-23).
- To nurture our culture, we have continued to raise the bar on talent by recruiting amazing people aligned to our values who extend our capability and ability to deliver.
- Looked more flexibly at how and where we seek out talent allowing us to be agile and adaptive to meet the needs of individuals and the business.
- As part of One AO, our IT and development teams have moved from a project to product team approach to allow our people to evolve, develop and innovate key parts of our e-commerce platform at pace.
- Recruited a dedicated Diversity and Inclusion manager as part of our continued focus in this area. We aim to be a welcoming place where everyone can be their true self, feel they are included, celebrated and that they belong.
- To support our drive to create a more inclusive workplace we have continued to run "AO Inspire" talks, learning events and awareness days. We have also introduced new policies and made changes to processes, technology and physical environments.
- Evolved our overall people listening strategy, creating a smarter way to capture what AOers want, think and have to say. Employee forums combined with the right survey tool allow us to measure our engagement, perform culture health checks and be proactive in developing future people initiatives.
- Appointed a designated Non-Executive Director as a mechanism for workforce engagement that will strengthen the link between employees and our Board and will help to build an open and transparent culture, helping to ensure that all employees have a voice in the Company's future success.
- To deliver on our business priorities, we have refreshed our Learning and Development strategy.
- Designed a new Leadership Development Programme to focus on self-leadership, innovation, high performance teams and empowerment. We have also introduced several in-house designed management development modules to create confidence in leading.

Future plans

- Introduce an agile and adaptive Performance Management framework to give AOers clear goals and priorities, and to help develop a high-performance mindset across all parts of the Group.
- Implement a new, modern and sustainable reward strategy designed to recognise high performance to enable sustainable growth.
- Continue the One AO journey to realise our full potential by thinking and behaving as one AO team to simultaneously drive growth and efficiency at AO pace.
- Develop a clear strategy to improve the overall well-being of AOers by focusing on four key aspects: mind, body, financial and social, and seek to normalise the conversation on mental health and break down the stigma. This will be underpinned by face-to-face well-being activities and digital learning materials.
- Leverage technology to enable better collaboration, building both face-to-face and digital learning content to continue to support more agile and remote working.

Link to risks

The risks affecting the priorities in our Culture pillar are set out on pages 43 to 47 of our risk review.

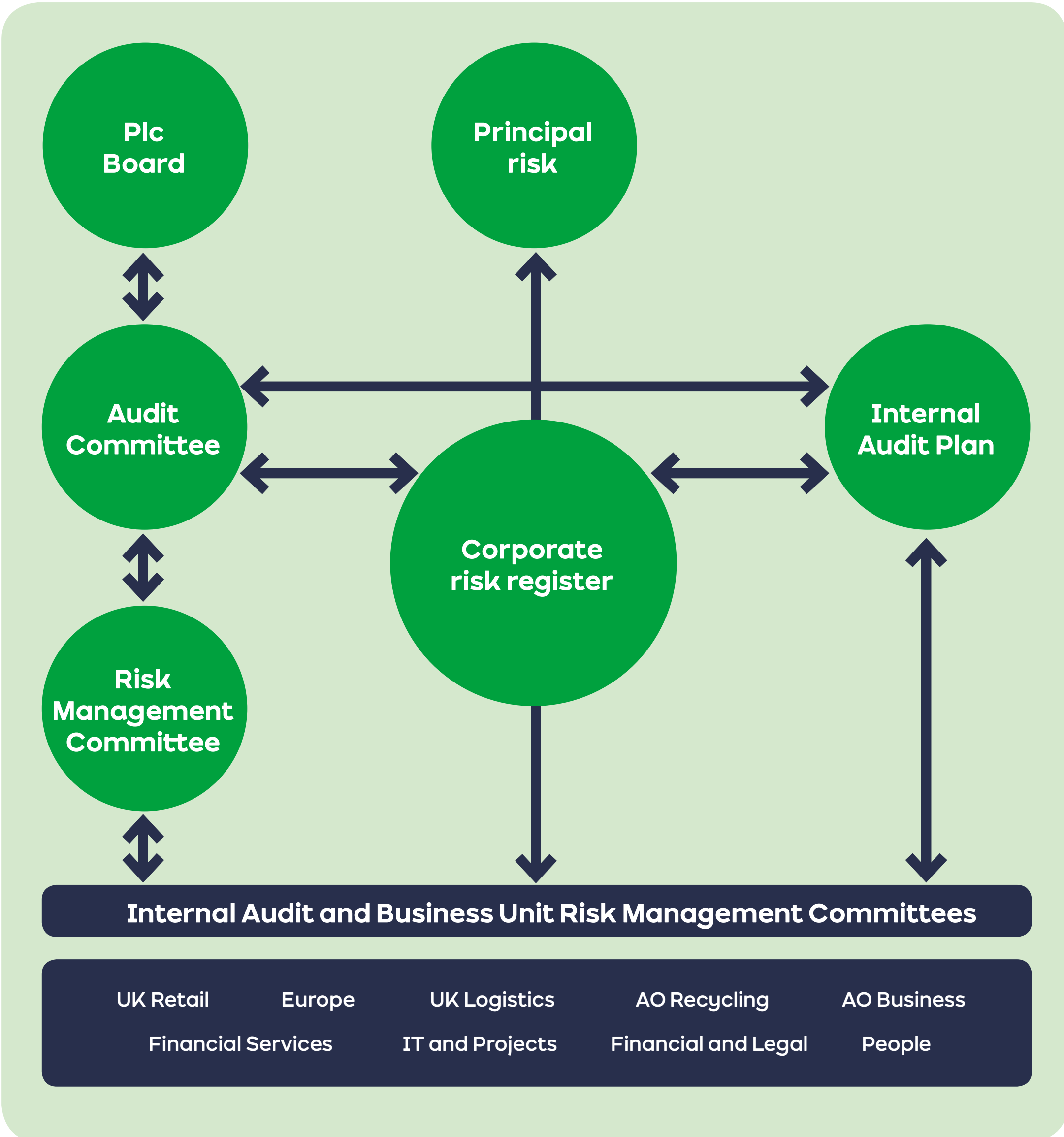
Remuneration

Happy and inspired AOers drive customer satisfaction and also good financial performance. We have therefore indirectly linked this strategic objective to the remuneration of our senior team. For the forthcoming FY21 award, however, the Remuneration Committee has agreed a specific performance condition related to employee satisfaction, Employee Net Promoter Score – ENPS, for further details see page 119.

Our risks

In common with many businesses, AO faces a broad range of risks due to the scale and nature of operations. In order to manage our 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. 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.

For the Audit Committee's statement on their review of the effectiveness of the Company's risk management and internal control systems, please see page 94.



Internal Audit

- Shares risk management information and best practice across the AO Group.
- Provides independent assurance on key projects and controls.
- Monitors compliance; identifies gaps and improvements; recommends corrective action.

Business Unit Risk Management

Our Head of Internal Audit and Risk meets with the senior team of each of our business units on a quarterly basis to assess emerging and existing risks, how these are being mitigated and how changes from within that business unit, or the wider Group, or even at a macro level, may impact them. Each business unit has its own risk register, assessing the likelihood and impact of the relevant risks, which together combine to form our Corporate Risk Register.

Risk Management Committee ("RMC")

Our RMC, in which our Executives participate, meets regularly to review the Business Unit Risks, the status of the existing Corporate Risk Register (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 that ranges from minimal to aggressive. This is then balanced with an "intuitive" assessment: Do these scores look right both from an individual perspective and comparatively? Are we missing anything? This process allows us to regularly understand the strength and performance of the controls in place and to address any potential gaps and weaknesses.

Audit Committee

The Corporate Risk Register is reviewed by the Audit Committee at least annually and it is notified of any significant changes in perceived risk as appropriate. Individual risks that 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.

Plc 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.

Principal risks

These are the most significant risks faced by the business, based on a likelihood and impact assessment.

These can be categorised as follows: Culture and People; Brand Recognition and Damage; Future of Germany Operations; IT Systems Resilience and Agility; Business Interruption; Compliance with Laws and Regulation; the UK Electricals Market; Key Commercial Relationships; and Funding and Liquidity.

In addition to the above, we have:

- A Personal Data Steering Committee and Data Protection team that supports privacy and data protection governance;
- SM&CR steering and oversight committee – introduced this year – to ensure we are treating customers fairly and supporting financial services governance;
- A senior Health and Safety Committee that brings together the various health and safety teams within the business to share knowledge and ensure the right culture is promoted right across the Group; and
- Other control measures outlined elsewhere in this Annual Report, including legal and regulatory compliance and environmental compliance.

Our 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.

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

Listed in the tables on the following pages are the most significant risks that may affect our future.

This year's achievement and future actions

The risk maturity of the Group has increased following the creation of business unit risk registers, replicating the Board's risk management processes. This approach combines the benefits of top down and bottom up risk identification and ensures consistent methodology in assessing gross and residual risk. While the business unit risk registers were introduced in the previous year, they have been fully embedded in FY20, and have helped to ensure that the content of the corporate risk register remains up to date and the scope of the Internal Audit plan is risk focused. The frequent review of risk with the business units has enhanced the scope and relevancy of the content of Internal Audit engagements with the introduction of new test areas.

Replicating risk management processes in the business units has also increased the risk maturity of the management teams responsible for day-to-day ownership of risk. They have gained more of an oversight and a deeper understanding of the recognised risk processes, and the expectations of risk management from a Board and wider stakeholder perspective, to assist compliance with corporate governance and provide better visibility of the key risks in each area. Ownership of the business unit risk registers has been aligned with the updated organisational structure, standardisation of processes and One AO approach. Increased centralisation is expected to further enhance the risk and control framework by standardising key controls across the Group.

The RMC, attended by the Executive Directors and the Head of Internal Audit and Risk and Legal Director, has continued to meet on a quarterly basis to discuss current and emerging risk. These sessions have been enhanced through the attendance, on a rotational basis, of the business unit managing directors, who present a summary of their risk register and mitigation strategies to the RMC, which enables two-way risk discussion and strengthening of the consistency of risk management processes. Additionally, the RMC has been a forum for Internal Audit to present high level findings and themes from audit engagements to support regular reporting to the Board and Audit Committee. During the year we have also considered how to increase risk consideration and mitigation into strategic decision making and ensure that this is ingrained in our culture.

The risk register framework, which facilitates risk identification and assessment, has been further developed to include the lines of defence in place to mitigate risk with increased detail, understanding and scrutiny around the first and second-line controls. The first line has been subdivided into control categories to identify any obvious gaps in control or inefficiency through duplication. This is in the process of being developed further in order to increase the accuracy of the residual risk rating on the risk registers and will be used to further enhance mitigation. It is also planned for FY21 that the risk of brand or reputational damage forms part of the impact factor or a weighting of all recorded risks, rather than remaining as standalone on the risk register, as there is a likelihood that crystallisation of any significant risk would result in reputational damage to some degree.

Following the closure of our Dutch operations we have revisited our "Europe Expansion" principal risk and renamed it "Failure of Germany Operations", recalibrating the risks relating to it accordingly.

We have continued operating our Brexit Committee and are planning, wherever possible, to mitigate the impact of foreseeable risks (see Brexit focus below).

Additional risk registers to identify and aid mitigation against the Covid-19 pandemic have been implemented. The registers focus on the short, medium and longer-term impacts of the crisis, and have been used as an additional tool to ensure that the Group and individual business units are aware of the challenges faced in order to apply appropriate mitigation and improve decision making (see Covid-19 focus on page 41). These risks are under constant review as are the actions we are able to undertake to mitigate them, given the ever-changing nature of the situation.

Emerging risks

As part of the RMC work, we have also been contemplating some emerging risks:

- We have discussed the Government's Resources and Waste Strategy, which includes the design and development of more sustainable products in its desire to move to a more circular economy. Should the average life of products be increased, this could affect the market dynamics of sales of electricals.
- Linked to this is the risk of climate change, and as we seek to move towards reducing our carbon footprint and operating in a more environmentally friendly way, we could face increased operating costs and inefficiencies.
- Our online model has enabled us to continue trading during the Covid-19 outbreak. Indeed, it is possible that the pandemic has accelerated the migration of shoppers online. In the short term, we have benefited but longer-term existing competitors (or new market entrants) are likely to invest sooner and deeper into their online propositions, and competition could intensify.

Brexit focus

In 2018, we created a specific Brexit Risk Committee ("BRC"), focusing on the risks and challenges AO may face following a disorderly exit from membership of the European Union. This is still in place monitoring and planning mitigation for risks that may arise at the end of the transition period scheduled for 31 December 2020.

Area of risk	Mitigants
Supply chain friction The absence of an agreed and binding post-Brexit trade arrangement poses significant risk to our UK businesses in terms of supply chain friction and costs.	Consideration to stock levels leading up to the end of the transition period and to whether stock procurement could be brought forward to alleviate short-term supply issues in the event of goods delayed at the border. While manufacturing goods is completed outside of the UK, trading relationships are conducted with manufacturer's UK subsidiaries, therefore mitigating the direct impact of direct supply chain friction.
People The proposed immigration policy/points system could affect labour availability particularly within our logistics and recycling businesses.	Initiatives to attract additional labour into areas including logistics and recycling have been developed. Additionally, because of the economic impact of Covid-19 on the labour market, it is expected that there will be additional existing UK-based labour availability.
Currency exposure Should Brexit further weaken the pound against the euro, investment in growing our Germany Operations would become more expensive to fund.	The journey to profitability and overall increased "self-sufficiency" of the German operation are expected to mitigate the effect of unfavourable foreign exchange rates in funding requirements from the UK.
UK electrical market/consumer demand Continued uncertainty around Brexit could have a further impact on consumer confidence and affect demand, particularly for the more "considered" (as opposed to "distressed") purchase, and may also have an effect on the housing market, to which our MDA sales bear some correlation.	It is expected that with AO's resilience as shown during the Covid-19 pandemic, brand growth and with increased online penetration, even with a potential shrinking of the UK electricals market, there is confidence regarding AO's positioning within the market to be somewhat insulated against wider market trends.
Uncertainty could also lead to an increase in the rates of cancellation of product protection plans, or the initial sale of product protection plans as consumers look to preserve disposable income.	Our customer insight suggests that being in a position of unemployment makes consumers risk averse and they may not be able to afford to replace essential high value electrical products if these break and therefore we believe that this mitigates the risk of cancellations increasing.
A decrease in consumer confidence could also lead to an increased rate of cancellations of mobile phone contracts (impacting the Group's commissions received from those) and/or reduce the propensity for customers to upgrade at the end of their contract, instead preferring to enter into a rolling period rather than being tied in long term.	In reference to contract mobiles, we see that people view mobile phones as an essential. In the present circumstances, we believe being "connected" is more essential than ever and customers will shop around to ensure they are on competitive tariffs.

Covid-19 focus

The global pandemic of Covid-19 is presenting us, as with many businesses, with operational challenges and significant market uncertainties. Sales have performed well since March, as we saw nearly 100% of the purchases for electricals migrate online with the implementation of the lockdown measures. We continue to see a large percentage of sales of electricals being made online even now that bricks and mortar stores have reopened.

We have also been well placed to move a large part of our workforce to work from home. However, we have seen inefficiencies increase in our logistics business as we have ensured social distancing measures can apply wherever possible and protected the health and safety of operatives in our warehouses and other physical locations. We have also experienced challenges with supply of WEEE to our recycling business, which materially reduced operations during a six week period of lockdown while local recycling centres were closed and we reduced the collections from consumer houses.

We see that our key risks fall into two categories: General Disruption to Operations and Macroeconomic risk:

Area of risk	Mitigants
General Disruption to Operations including Government restrictions	
Government restrictions: • Should the Government require more stringent social distancing in all circumstances we would be required to cease or amend our two-man deliveries which could impact MDA sales. Differences of approach to easing lockdown measures or the implementation of further or different lockdown measures in the UK's devolved powers or specific regions may present additional operational difficulties.	We have investigated how MDA could be delivered utilising a single operative but this could lead to significant inefficiencies and would add other health and safety concerns. Partitioning of the cab within the delivery vehicle using screening could enhance segregation in the two-man fleet.
• Supply chain: The impact of recent temporary supplier factory closures could be felt in the coming months and reduced availability of goods could also see prices of product increase. Supply of MDA products and parts from Italy and China are currently likely to be most affected.	There has been additional and ongoing monitoring of stock levels from the first wave of the pandemic to ensure that AO are well placed to react swiftly in the event of potential supplier disruption in future. Contingent purchase orders have been raised with suppliers for key stock lines to mitigate the likelihood of manufacturer disruption increases. Warehouse capacity has also been increased to enable storage of additional stock to enable AO to maintain a reasonable level of availability during any temporary manufacturer factory shutdown.
• People availability: Either through illness, vulnerability or childcare issues or union pressure, we could see large parts of our workforce unable or unwilling to work.	• We have robust business continuity plans in place. • We have actively engaged with our people and trade unions in our physical operational environments. This has meant we have been able to successfully work though any challenges, where necessary amending working practices, and so far availability of labour continues to be good. We are working to create talent pools we can tap into should we need it. • As many employees continue to work from home we have continued to gather information regarding the suitability and sustainability of home working environments including physical conditions and general employee well-being. Mitigation at a general and individual level in this area is ongoing and business focus is expected to remain in place until the working environment settles into a longer-term pattern post Covid-19.

Our risks continued

Area of risk	Mitigants
Macroeconomic risks	
Consumer confidence/demand: Consumers could defer discretionary big-ticket purchases until there is more certainty that the economy is back on track. Consumers will begin to feel the impact of reduced wages (80% furlough capped at £2,500 per month). With the furlough scheme expected to end in October 2020 there are risks of redundancies and increased unemployment. which will impact disposable incomes. There is expected to be a significant fall in GDP with the Bank of England predicting a severe recession. In the medium term, trading could be affected by a fall in the housing market and a drop in mortgage approvals with banks have significantly reduced the number of mortgages in the market and banks are demanding lower loan to value ratios. There is a risk that less customers take out product protection plans on their electricals or that the rate of plan cancellations increases. There is also a risk customers cancel mobile phone contracts, or more likely, defer upgrades and enter into a rolling period on their contracts as they look to preserve disposable income and wait for more economic certainty.	The future economic effect of Covid-19 remains highly uncertain; however, with ongoing restrictions, social distancing measures and general consumer safety concerns, while the virus remains active, it is unlikely that consumer shopping trends, in regards to store-based retail, will return to pre Covid-19 patterns. The likelihood is that the pace of change towards online retail will increase; therefore, AO's market share would be expected to also increase albeit in a potentially decreasing overall market. Scenario planning has been conducted based on reasonable worst cases regarding a reduction in sales growth, a reduced margin from suppliers, a tightening of credit terms with suppliers due to a decrease in risk appetite of credit insurers, and further general Covid-19 operational restrictions. Potential actions to mitigate against these risks have been determined and AO are satisfied that we will have sufficient liquidity to meet liabilities if these risks crystallise. Our customer insight suggests that being in a position of unemployment makes consumers risk averse and they may not be able to afford to replace essential high value electrical products if these break. The rate of cancellation of product protection plans is not expected to increase significantly if a consumer becomes unemployed as the potential high cost of replacing broken products further enhances the reassurance provided by the monthly plan that consumers will be keen to maintain. A recent study shows that in lockdown consumers were using appliances more than ever. Such additional usage could reduce the useful economic life of such products – causing more replacement products to be purchased. During the year we improved our pay by finance facility giving customers an easier way to spread the cost of their purchases. The increased possibility of product breakdown by additional usage could increase the sale of product protection plans. In reference to contract mobiles, we see that people view mobile phones as an essential. In the present circumstances, we believe being "connected" is more essential than ever and customers will shop around to ensure they are on competitive tariffs.

Principal risks

Our principal risks are set out in the tables below. In the short to medium term we also see Brexit and Covid-19 having a potential impact on our business as has been covered in the preceding pages.

Details on our significant accounting risks, namely the accounting in relation to product protection plans, Network Commission receivables and AO Mobile carrying value of goodwill and intangible assets are set out on page 96.

A Culture and people Culture is the bedrock of our business and central to our success 1 2 3

Nature of risk

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 including 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.

We fail to keep or attract exceptional people – particularly developers in the tech sector, given the demand for such expertise, particularly in the North West.

Mitigating activities

AO culture is supported by a wide range of tools, workshops and events with a dedicated employee events team.

The Group management 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, while global ownership and engagement helps instil the culture and reduces reliance on individuals. Some succession planning is in place.

We benchmark our packages against the market to ensure they remain competitive, and attend recruitment fairs and advertise the benefits of being an AOer through a variety of recruitment channels with a particular focus of women in tech.

Overall change during the year

Embedding "One AO" across the Group has further cemented our culture and ensured that all the business units are fully aligned.

The people team has been largely centralised and additional talent and experience has been brought in to help us look after our people better, including enhancing the learning and development team and adding a diversity and inclusion manager.

The proposed immigration policy/points system could affect labour availability particularly within our logistics and recycling businesses, respectively. However, with Covid-19 having an impact on the labour market, there could be an opportunity to attract new workers.

B Failure of Germany operations 2

Nature of risk

Expanding into new territories is a key part of our strategy. Failure in Germany would limit our long-term growth prospects.

Mitigating activities

Investment requirements are managed in stages.

Specific targets and a clear road map are in place to enable focus on objectives and measurement of performance.

Germany operation leverages AO's existing online retailing expertise and experience that has been built up over many years.

Overall change during the year

The One AO approach is ensuring that we are using the best talent and experience in all areas of the Group. For example, the highly experienced UK e-commerce team now oversees e-commerce for the German business.

We have increased confidence in our journey to Germany profitability following progress made on margin and support with manufacturers and a road map to drive cost efficiencies.

With the Covid-19 lockdown measures, the level of online penetration has increased and we expect that level to remain higher than it was prior to Covid-19.

Link to strategy

1 Sustain and enhance customer proposition
2 Build and leverage our expertise
3 Inspire and develop our people

Risk trend

Increase
Decrease
No change

C Brand recognition and damage 1 2 3

Nature of risk

Damage to our brand or failing to achieve growing recognition would lead to a reduction in customer loyalty, a failure to attract new customers, suppliers or employees or affect existing relationships.

Mitigating activities

Ongoing marketing campaigns to raise brand awareness through different media.

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.

Overall change during the year

Continued high NPS and Trustpilot/ trusted-shop scores in the UK and in Germany show that our proposition resonates and customers continue to love our brand and we continue to enjoy strong repeat business in all our territories. This is especially so in the recent weeks following the implementation of lockdown measures.

D IT systems resilience and agility 1 2

Nature of risk

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.

Failure to develop our technological systems and stay abreast with a rapidly changing digital world could affect our ability to attract customers and cause us to rely on costly back-end processes.

Mitigating activities

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 a 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.

Product teams have been initiated to ensure we keep up with front-end development.

Programme of initiatives to improve back-end systems and leverage the ERP and other key systems rather than keep adding to the estate.

Overall change during the year

The cyber threat landscape continues to become more complex (and there has been an increase in cybercrime during the Covid-19 pandemic). Against this there has a been a programme of security improvements and developments over the year.

As we grow as a Group and become more complex, our back-end systems need to improve and there are lots of initiatives planned for the year ahead.

We have initiated a product team model to assist with development agility. We have also established an innovation lab, inviting external companies to pitch innovative technological solutions to improve our e-commerce offering.

Link to strategy

1 Sustain and enhance customer proposition
2 Build and leverage our expertise
3 Inspire and develop our people

Risk trend

Increase
Decrease
No change

E Compliance with laws and regulation 1 2 3

Nature of risk

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

Mitigating activities

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 is supported by a legal team who promote awareness and best practice and an internal audit team who provide assurance on compliance. These teams have been enhanced over the year to help assist the drive for fast-paced growth.

Third-party legal advice is sought where necessary and any recommendations are implemented and subject to ongoing monitoring.

AO's business is supported by a qualified health and safety team.

Changes to the macro environment and legislation are monitored and implemented promptly.

Overall change during the year

Following embedding of the One AO approach there are Group-wide co-ordinated teams advising on and monitoring compliance with laws and regulation.

The health and safety control framework has been improved across the Group. However, with Covid-19, working practices have needed to be adapted to ensure we keep our people as safe as possible. While we have put in place appropriate measures the gross risk of health and safety claims has increased.

SMCR compliance extends the regulatory risks we face.

F Business interruption 1 2 3

Nature of risk

A disastrous event occurring at or around one or more of the Group's sites, including our main distribution centre in each of the UK and Germany, may affect the ongoing performance of our operations and negatively impact the Group's finances and our customers.

Government restrictions impact the ability for people to travel or operate safely at work.

Mitigating activities

Two NDCs (and the recent additional storage facility acquired in Crewe) 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 and Head Office.

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.

Overall change during the year

On a gross level the risk of business interruption has increased with the impact of the Covid-19 pandemic and potential for a second peak or multiple peaks. However, in recent weeks we have gone through the biggest business interruption exercise we have ever had to face.

The plans and infrastructure we had in place to mitigate the impacts have been tested and we have continued to operate safely without affecting customers.

G UK electricals market 1 2

Nature of risk

Uncertainty in the UK economy following the Covid-19 pandemic and also following the end of the transition period resulting from Brexit, the risk of inflation and the dampening of consumer confidence, a drop in housing transactions, a fall in GDP or an increase in unemployment may affect the ability of the Group to maintain growth of sales of products may increase cancellations of product, protection plans (or initial sales of them) and may impact the upgrade sales we make on mobile phone contracts.

Controls on the freedom of movement of people could add friction in to 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.

Currency risk from profit and loss translation from Europe to the UK adds uncertainty.

Reduced consumer demand drives increased competitor promotional activity.

Mitigating activities

Customer proposition remains strong and continued migration to online shopping should soften macroeconomic impacts. Improved finance proposition enables more customers to easily spread the cost of their purchase.

Robust relationships with suppliers and improved stock holding could mitigate impacts on lead times affected either by Covid-19 or Brexit.

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.

Brexit Risk Committee ("BRC") created to understand the risks we may face and to plan mitigation strategy.

Covid-19 BCP team established in light of pandemic and UK lockdown restrictions and social distancing requirements.

Overall change during the year

Continued uncertainty in the economy surrounding Brexit and more recently Covid-19 has affected and is likely to continue to affect consumer confidence and therefore consumer demand for electricals, mobile phones and product protection plans. Demand, in turn, continues to drive competitive activity. Against this we have seen an increase in online penetration in the electricals market in recent weeks and our sales continue to be strong but there is no guarantee this will be maintained for the long term.

Link to strategy

1 Sustain and enhance customer proposition

2 Build and leverage our expertise

3 Inspire and develop our people

Risk trend

Increase

Decrease

No change

H Key commercial relationships 1 2

Nature of risk

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 partners 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
- Network operators

It also includes our relationship with D&G, whom we act for as agent in selling product protection plans.

The risk includes the ability to achieve favourable terms, competitive rebates being agreed and the ability to attract premium brand suppliers to work with AO.

Mitigating activities

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.

In terms of rebates, these are formally agreed with suppliers via annual trading terms. Rebates for stretch targets are not included in financial reporting until the targets are achieved.

Overall change during the year

We have strengthened our relationships over the period particularly with German manufacturers and certain of the mobile network operators.

With the impact of Covid-19, our manufacturer relationships have been further strengthened as we have worked together to ensure essential products can be delivered to customers.

I Funding and liquidity 1 2 3

Nature of risk

Our ambition is to have market leading and profitable businesses across our UK eco-system and roll out our UK model overseas. This requires continual substantial investment both in the UK and overseas.

Excess profits and cash generated in the UK fund such European expansion. If the losses/cash outflow in Europe exceed the profits/cash generated in the UK we will continue to make an overall loss and continue to consume cash. This then affects our ability to fund European expansion and drive innovation and improvements in the UK.

Further, we are reliant on suppliers, both in the UK and overseas, selling goods to us on credit and they often obtain credit insurance in respects of our debts. If such credit insurance is withdrawn this could cause liquidity problems for the Group.

Mitigating activities

Given the financial resources available to the Group and the Revolving Credit Facility that we have just renewed, we currently have sufficient funding and cash resources to continue to support UK growth and European expansion.

Our three-year plan models the impact of continued losses and cash outflow for the Europe businesses and in a number of different scenarios modelled we continue to be viable – please refer to page 48.

Overall change during the year

We have replaced our RCF facility which matures in April 2023 and have moved to being cash generative (on a Group Adjusted EBITDA less debt repayment, interest, taxes and monthly share of annualised capex basis). However, we recognise that we are still heavily reliant on suppliers extending credit.

Viability assessment

In accordance with Provision 31 of the UK Corporate Governance Code 2018 ("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 2023. 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 has 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 43 to 47 and in the Corporate Governance Statement on page 96. 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 working capital, debt funding availability, the implications of Covid-19 and the full or partial removal of suppliers' credit insurance), 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 risk management processes (see pages 36 to 47), and internal controls (see page 94), 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 pages15 to 73. The financial position of the Company and its cash flows are described in the Chief Financial Officer's review on pages 63 to 73. 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. Further information on our risks is on pages 38 to 47.

Notwithstanding net current liabilities of £53.8m as at 31 March 2020, and a cash outflow for the year of £22.1m, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

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

The Directors have prepared base and sensitised cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that the Group and Company will remain compliant with its covenants and will have sufficient funds through its existing cash balances and availability of funds from the new £80m Revolving Credit Facility (of which £56.7m is currently undrawn) to meet its liabilities as they fall due for that period. In assessing the going concern basis, the Directors have taken into account reasonably possible downsides including e.g., a reduction in sales growth, a reduction in margin, tightening of credit terms from suppliers due to pressure from credit insurers and the potential impact arising as a result of Covid-19, as well as considering potential controllable mitigating factors.

In relation to Covid-19, management have considered the impact of a short-term closure of part of its warehousing capacity in addition to the potential impact on customer behaviour in respect of product protection plans and mobile phone disconnections due to a decline in the macro-economic environment post lockdown.

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


ao

Corporate social responsibility

How we relentlessly strive for a better way with our stakeholders

Why we engage with our stakeholders

We depend on a range of different resources and relationships, and recognise that effective engagement with our key stakeholders is critical to achieving our purpose and strategic objectives in a sustainable way. Understanding the perspectives of our stakeholders, and building and maintaining good relationships enables their views to be taken into account in management, Board and Committee discussions and decision making.

s.172 statement

The Board, in using its good faith and judgement, acts in a way that would be most likely to promote the success of the Group for the benefit of its shareholders. When making decisions, the Board recognises the importance of our wider stakeholders to the sustainability of our business and has regard to a number of factors, including the impacts of its activities on its employees, the environment and society.

The Corporate Governance section (pages 84 and 85) sets out in more detail how the Board has approached its duty under section 172. Further information on how we engage with our stakeholders is set out in the diagram across.

Customers

Understanding our customers is critical to the success of our Group. This allows us to continually improve our customer proposition, thereby driving sales, increasing profitability and allowing us to invest and innovate our capabilities, and leverage new opportunities.

The ways we engage

- Dedicated, highly responsive customer service centre and variety of digital communication channels including social media platforms
- Dedicated account management for B2B clients
- Collection of customer satisfaction metrics and use of feedback and review platforms
- Extensive customer research including surveys, customer focus groups and forums to gather insight
- Customer lab sessions – we invite customers to feed back their thoughts on existing or proposed customer journey aspects

Stakeholders' key interests

- Proposition: customer service, product range, value, ease of journey and convenience
- Reputation
- Data protection and compliance
- Environmental impacts

People

Our AO Let's Go culture is the most important element in binding the competencies in our business model together.

The ways we engage

- Regular business updates, such as our "State of the Nation", monthly management meetings and dedicated intranet
- Use of Yammer, an internal social network, to enable a continued conversation with and between our people
- Feedback mechanisms including employee survey, engagement forums, suggestion boxes and confidential whistleblowing hotline
- Formal partnership with Unite (in Logistics business)
- Recruitment, retention and annual development plans
- Dedicated diversity, inclusion and well-being lead
- Designated Non-Executive Director as employee voice representative
- Policies, procedures, employee handbook and Code of Conduct

Stakeholders' key interests

- Culture
- Reputation
- Reward and benefits
- Career and development opportunities
- Well-being/health and safety

Suppliers and partners

Our relationships with suppliers and partners is critical to our performance. We believe that we and our suppliers benefit the most where we have long-term mutually supportive relationships, and work with them to ensure that our respective standards and expectations of business conduct are adhered too.

The ways we engage

- Annual supplier conference for product manufacturers
- "Top to top" (CEO) meetings
- Buying trips
- Steering and governance meetings with finance partners
- Client meetings for B2B, Logistics and Recycling

Stakeholders' key interests

- Long-term mutually supportive and collaborative relationships
- Customer proposition enhancements
- Growth opportunities
- Responsible retailing, trust and ethics
- Payment practices

Community

As a Group, we aim to build relationships and support the communities where we operate. We consider the social and environmental impacts of our operations and are fully committed to responsible retailing.

The ways we engage

- Liaison with charity partners
- Support to charities and fundraising initiatives
- Promotion of career opportunities with Universities
- Links with schools
- Employability forums
- Participation in recycling forums and events
- Good relations with the Environment Agency and bodies such as WEEELABEX

Stakeholders' key interests

- Environmental performance
- Health and safety record
- Procurement decisions
- Investment and community support
- Sustainability initiatives

Shareholders

Access to capital is vital to the long-term performance of our business. We aim to provide fair, balanced and understandable information to shareholders and analysts including our strategy, business model, culture, performance, governance.

The ways we engage

- Financial results presentations
- Institutional investor roadshow and investor conferences
- Engagement with Board committee chairs and SID
- Capital Markets Days
- View of investors a regular Board agenda item

Stakeholders' key interests

- Financial performance
- Opportunities and strategic ambition
- Operating and financial information
- Governance
- Confidence in Directors and management
- Returns

How we implement our culture and some of our values, like care, to be an ever improving responsible and sustainable business.

Employees

Engagement

The Group places considerable value on the involvement of its employees and uses a number of ways to engage with them on matters that impact them and the performance of the Group. As set out on page 50, this includes regular business updates to all employees, monthly meetings with senior management and more recently the use of corporate social media tools such as Yammer and YouTube. This allows all employees to be kept up to date with the latest news and developments across the Group, together with increasing the awareness of the financial and operational performance of AO. The Group's intranet also allows employees easy access to Group policies and procedures.

This year we have looked to enhance the ways in which we engage with employees and, in line with the 2018 Code, we appointed Chris Hopkinson, a Non-Executive Director as our People Champion. Chris will spend time carrying out a series of familiarisation visits across sites and business areas hearing first hand from our people. Our "Employee Voice group" will comprise the People Champion and employees from across the Group (Employee Voice Representatives) to allow a diverse and wide viewpoint from across AO to be represented. The Employee Voice group will meet frequently so that a regular dialogue can be established between AOers and the Board. Going forward, the Board may enlist the views of employees on a particular subject or they may also discuss themes that have been highlighted from recent employee surveys. Meetings will be held at different sites across the business and, if possible, face-to-face so the Employee Voice Representatives can engage with different business areas and in line with our One AO approach.

During the year, we also relaunched our employee engagement survey. We recognise that it is important that we do not rely on surveys as a single method of gathering feedback. However, when targeted, they are an important way of gathering views and provide a credible voice from employees that allows us to focus and make improvements across the Group, as well as signposting key themes or hotspots of potential concern that need to be addressed. Our questions will be aligned to current ambitions and our engagement groups will allow us to focus on the lowest trending areas. This information will then be shared with the Board to provide insight on key categories of performance and identify trends at team, business and organisational level. Our aim is to get real-time feedback in a focused approach that will enable our leaders to react to the results in a meaningful and responsive manner.

All employees are able to participate in the Company's annual Save As You Earn Scheme, which gives employees the opportunity to purchase ordinary shares in the Company. This helps to encourage employee interest in the performance of the Group.

We will continue to regularly review our methods of employee engagement and interaction with the Board and tailor our approach as required.

Inclusion and diversity

We are committed to creating an inclusive environment and attracting a more diverse team of AOers. We aim to be a welcoming place where everyone can be their true self, feel they are included, celebrated and that they belong. During the year we recruited a dedicated diversity and inclusion manager as part of our continued focus in this area. Over the coming year we will increase the integration of inclusion and diversity into our ways of working to ensure we remove barriers to inclusion and reflect this in the relevant policies and procedures across the business. Our approach focuses on all parts of someone's identity, including their physical ability, sexual orientation, ethnicity and much more.

We know that a key area of focus for us is to bring more diversity, in particular gender and ethnicity, into our leadership team. At the end of our reporting period our Executive management team was 20% female, our Group Management team (excluding Executive Directors, and which reports directly into our Executive management team) was 36% female, and the number of female employees across the whole business was 31%. We are collecting ethnicity diversity data this year along with a full range of diversity data within our people survey.

As well as striving for better representation, we are working relentlessly to make our culture even more inclusive. Raising awareness on inclusion through workshops and learning across the Group, on topics such as unconscious bias, stereotypes and microaggressions. We are engaging with our AOers through affinity groups, listening sessions and regular feedback loops – using their lived experience to help us build our inclusive culture. This has helped us support our AOers who have been affected recently by the Black Lives Matter movement. We are truly working with them to build a place where they can belong, feel safe and included.

31%
female employees across the business

Corporate social responsibility continued

Equal opportunities

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. This policy underpins our talent attraction and recruitment process.

Once people join AO, we aim to ensure that:

- 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.

In the opinion of the Directors, our equal opportunities policies are effective and adhered to.

Our latest Gender Pay Gap report can be found at ao-world.com.

Disabled people

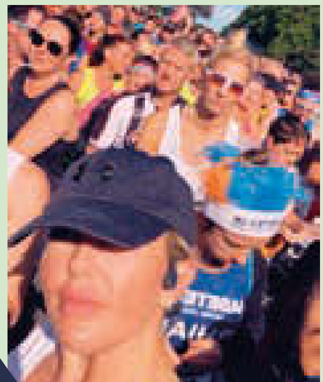
Disabled people have equal opportunities when applying for positions at AO, and we ensure they are treated fairly. Procedures are in place to ensure that disabled employees are also treated fairly in respect of career development. Should an employee become disabled during their course of employment with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

Responsible retailing

The Board considers that the development, well-being 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. We are fully committed to responsible retailing, which means meeting our environmental responsibilities and limiting the impact of our operations in a way that is both practical and economically feasible.

Putting customers at the centre of our business decision making means that our social value can be far greater than the sum of our parts. For example, leveraging our model to launch a market-leading rental proposition could mean that millions of families one day have access to affordable, essential appliances via AO. Equally, the standards

AO supporting communities



we have applied to our recycling business to create one of Europe's leading MDA recycling plants, means the quality of raw materials that are produced from waste MDA can be used to make new products and AO is able to extract value from this and contributes to the circular economy. We are pleased to have recycled our one millionth appliance this year, derived from AO and third-party customers. By leveraging our logistics infrastructure, we can bring goods to the recycling plant with a low carbon footprint, and this year we launched a standalone MDA recycle pick-up service, illustrating how we can leverage the eco-system to deliver social value. The sustainability trend is only just beginning, but the innovation and integration in our value chain will enable us to fulfil the demands from environmentally conscious consumers.

We are putting sustainable values at the centre of decision-making processes, including making sustainable procurement decisions such as:

- Aiming to source 100% renewable energy at AO properties; and
- We are committed to removing all single-use plastics from our facilities and plastic bottles, saving over 500,000 plastic bottles per annum.

Keeping people safe

At AO, we are committed to providing a safe and healthy work environment for our employees and our customers. As a business, we ensure that our operations are legally compliant with all existing and any new health and safety legislation. Our health and safety culture is very strong but we aim to continually improve and meet best practices across the whole Group.

To keep health and safety at the top our agenda we have recently created a new Senior Health and Safety Committee. The purpose of the Committee is to drive continual improvement throughout each area, focus on managing risk and use the working group to share knowledge across each sector.

As a business we aim to test our health and safety systems to ensure they are robust and meeting the highest standards. In order to achieve this, we are audited and reviewed by multiple industry recognised accredited bodies.

The knowledge and competency of our people is an area that is key to us maintaining our health and safety culture. As a Group we have invested in multiple internal and external training programmes to ensure our people can proactively manage health and safety in their areas of the business.

Corporate social responsibility continued

We are concentrating on the overall well-being of our employees by focusing on four key aspects: mind, body, financial and social. We have recently developed a mental health action plan by working with Time to Change, a programme led by Mind and funded by the Department of Health. We have already trained some mental health first aiders across the business but have now also committed to training managers on mental health issues, hosting some events and awareness days and undertaking several other actions to break down the stigma that surrounds mental health.

As key principles of our Group health and safety policy we continue to:

- Regularly update the Board of Directors on our performance;
- Provide all stakeholders with advice on the management of health and safety;
- Inspect each operational area of the business;
- Assess risks to the business and our people, providing measures to control these risks;
- Provide instruction, information and training on how to work safely and remain healthy;
- Investigate all workplace incidents with the aim of preventing a reoccurrence.

The safety of our people and our customers continued to be our top priority during the Covid-19 pandemic. As such, we adapted the services we offer, invested to ensure social distancing and enhanced safety measures to protect our people in front line operational roles, whether in our warehouses or making deliveries. We also equipped everyone who can work from home with what they need to do so and supported our people in front line operational roles.

Supporting 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 nearly £50,000 was raised through payroll giving, which makes the process of giving as easy, flexible and tax efficient as possible.

Delivering a better tomorrow is a huge part of our culture. With AO Smile, we're striving to provide practical and emotional support for those who are most vulnerable. To do this, we've identified local charities that reflect this mission and hundreds of our AOers kindly donate a portion of their salary to these incredible causes. 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 Diamond Payroll Giving Award from HM Government and Institute of Fundraising.

Over the year we have continued to encourage AOers to have a positive impact within their local communities, including the following.

The continuing support of four local charities through initiatives including:

- Funding the redevelopment of the Play Zone at Derian House in Chorley, which provides respite and end-of-life care to more than 400 children and young people across the North West.
- Yorkshire Three Peaks Challenge.
- Great Manchester Run.
- Manchester Sleep Out in aid of The Booth Centre, a homeless prevention and support charity based in Manchester.
- School Uniform Donation Campaign helping 500 low income families across Manchester.
- Funding two activity clubs in Crewe, giving disabled children and their carers amazing experiences along with donating laptops and social media support.
- Funding 267 calls to Childline over the 2019 Christmas period – Childline's busiest period.

- Raised over £20,000 for a new local community and homeless hub called the "Flag Lane Baths Project" in Crewe.
- Offer two volunteering (MAD) days a year to every AOer to make a difference to a charity of their choice, either as individuals or a team. We also offer fundraising boosts to AOers who are raising money for causes that are close to their heart. From shaving heads and selling cakes to running marathons and climbing mountains, we're always looking to support our incredible people to create better tomorrows.
- Outreach and employability training in local schools in Cheshire, including four special education needs settings. We are offering skills sharing and project-based workshops in everything from enterprise skills to resilience in order to equip them with the skills needed to gain successful employment when leaving education.
- We are an official employer partner of Crewe Engineering and Design UTC. We have branded and opened an AO Project room, supported their students to win first place at The Big Bang @ IMHX, offered work experience and one-to-one mentoring, as well as business projects to enable them to experience the world of work several times a year.
- We provided fridges and freezers for a local community supermarket set up specifically for the most vulnerable families in Crewe and Nantwich to access food for a nominal cost. We also provided small kitchen appliances to a local school so they could run a breakfast study club for their vulnerable students.

We also actively promote the graduate career opportunities available at AO to our local communities. For example, our logistics team is a supporter of the Career Ready programme in North Staffordshire, where six AOers have mentored 15 students who are at risk of leaving the education system prematurely, and partnered with Safe Opportunities and Cheshire East employment services to offer work experience for young people with additional needs, which has led to the appointment of a permanent staff member in the first six months of the trial. In our Financial Services operations based in Manchester, we engage with local universities, supporting and sponsoring awards designed to recognise high achievers, and contributing at panel events to inspire graduates to consider a career outside their degree subject. We also run a programme of employability initiatives designed to equip graduates with the skills needed to be successful in the workplace. We deliver resilience and goal setting workshops on campus, together with CV writing, interview tips and mock assessments on campus. Our work has been well received and some universities have adopted this into their professional development modules. In Germany, we engage with the European University of Applied Sciences (EU|FH) and we formed a partnership with a local comprehensive school to offer opportunities for sixth-formers and below to complete internships of two to three weeks in order to get a better understanding of the various roles and apprenticeships we offer.

We have also supported young leaders to attend the One Young World Summit and invested in young people to become OnSide Ambassadors for the new East Manchester Youth Zone.

Business ethics

Our Modern Slavery statement for the year ended 31 March 2019 was published during the year, and we have recently published our statement for the year ended 31 March 2020. 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

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. It consistently meets the highest European standards and retains the WEEELABEX accreditation. We have the only Dometic patented and European WEEELABEX awarded ammonia fridge processing solution in the UK and the site was awarded a Gold ROSPA for Health and Safety for the second year running.

This year we recycled the one millionth appliance through our facility, derived both from AO customers and third-party customers. Where possible we also refurbish and resell old appliances, therefore providing our customers with the confidence we dispose of their end-of-life electrical products in the most environmentally responsible way possible.

At a time when consumers have never been more environmentally aware, AO Recycling is proud to be the UK leader in blowing agent capture rates (from launch of the WEEE recycling facility in Telford in 2017 to latest figures available from the Environment Agency). These dangerous gases are collected and disposed of in an environmentally friendly way rather than being released into the atmosphere and damaging the ozone layer. We believe sustainability to be a critical part of our strategy going forward and that therefore needs to be a critical part of our overall proposition.

With our main recycling plant capable of processing up to 700,000 fridges per year, the natural next step was finding a way to get the most out of these old appliances and so we have built a plastics recycling and refining facility. The new plant is now operational in its final phase of

Largest WEEE recycling facility in the UK

Gold ROSPA for Health and Safety

1 millionth appliance recycled

testing and commissioning, providing us with the capability to clean and refine the plastic from discarded fridges, transforming it into high-quality reusable materials. As a retailer, we're taking responsibility for the entire process, and the new plant will hopefully mean we can create a closed loop recycling process in Telford.

As well as being environmentally compliant and doing what is right for the planet, AO Recycling also provides us with a number of potential business opportunities and is a great example of how we can vertically integrate our supply chain.

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 light and have a greater space and weight capacity;
- we also try to maximise our fuel efficiencies using vehicle telematics, and by employing double-decker trunking we can deliver more products per journey to our outbases;
- we are implementing technologies to reduce returns, such as voice picking in our warehouse and chatbots to help customers purchase the right goods for them by instantaneously giving them the information they need;
- we are collaborating with innovative third parties to develop carbon fibre parts for our vans to significantly increase payloads and the efficiency of our deliveries;
- our reverse supply chain facility allows us to repair and refurbish customers' old products for onward resale, maximising the life of products and linking in with our recycling division who have been working closely with Producer Compliance Scheme partners to create an AO van and backhaul model to collect a significant volume of fridges from local amenity sites across the UK; and
- we are working with the National Grid around smart electrification to explore building our own electric vehicle infrastructure for the future.

Greenhouse gas emissions

This section has been prepared in accordance with our regulatory obligation to report greenhouse gas ("GHG") emissions pursuant to The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which implement the Government's policy on Streamlined Energy and Carbon Reporting.

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 have operational control across the UK and Europe. We have applied the UK Government 2019 GHG Conversion Factors for Company Reporting (and have also applied these to our European operations) and the Streamlined Energy and Carbon Reporting guidance to quantify and report our greenhouse gas emissions. Any changes in factors between the current and prior year reporting periods are considered minimal.

Our emissions predominantly 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.

ENERGY USE TABLE	
Energy use kWh (Scope 1 and 2)	**FY20**
UK	**14,573,240**
Global (excluding UK)	**3,047,216**

CARBON EMISSIONS TABLE		
Carbon emissions (tonnes of CO_2e)[1]	**FY20**	**FY19**
Emissions from operations and combustion of fuel (Scope 1)	**26,587**	25,836
Emissions from energy usage (Scope 2)	**3,679**	3,887
Total	**30,266**	29,723
Intensity ratio: tonnes of CO_2e per £m of revenue	**28.55**	32.93
Emissions from energy usage (Scope 2 market-based)	**1,697**	–

[1] 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.

[2] Comprises electricity purchased from renewable sources.

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).

Non-financial information statement

The table below constitutes AO's non-financial information statement, produced to comply with Sections 414CA and 414BA of the Companies Act 2006, and also with the requirements of the Non-Financial Reporting Directive. The information set out below is incorporated by reference.

Reporting requirement	Policies and standards which govern our approach	Information necessary to understand our business and its impact, policy due diligence and outcomes
Environmental	• Environmental Policy	• CSR, pages 57 - 58 • SECR/GHG emissions, page
Employees	• Whistleblowing policy • Conflicts of interest • Group employee handbook • Health and safety policy • Code of conduct • Equal opportunities policy • Flexible working policy	• Our culture, pages 6 - 7 • CSR pages 50 - 59
Social		• CSR, supporting communities, pages 56 - 57
Human rights	• Modern Slavery policy • Code of Conduct	• CSR page 57
Anti-bribery and anti-corruption	• Anti-bribery policy • Conflicts of interest policy • Hospitality and gifts policy	See page 57
Principal risks and impact on the business		See pages 36 - 47
Description of business model		See pages 30 - 31

John Roberts

Chief Executive Officer

13 July 2020

Case study

“With our main recycling plant able to process up to 700,000 fridges per year, the natural next step was finding a way to get the most out of these old appliances. And that’s where our new WEEE plastics plant comes in. The four-acre site will clean and refine the plastic from discarded fridges, transforming it into high-quality reusable materials.

The plastic can now be reused in other products such as cars and electronics, and potentially even in future fridges! As a retailer, we’re taking responsibility for the entire process, and the new plant will hopefully mean we can create a closed-loop recycling process in Telford.”

Able to recycle
700,000
fridges a year

100%
of harmful gases from fridges are captured; we're the only plant in the UK to do this

c.100
jobs created at the new facility

“The strength of AO’s customer proposition, infrastructure and ecosystem, underpinned by our culture and strong balance sheet puts us in a good position to ensure we are prepared for the times ahead.”

Mark Higgins
Chief Financial Officer

Chief Financial Officer's review

During the year we adopted IFRS 16, the new financial reporting standard on accounting for leases. All comparative figures within this report have therefore been restated for IFRS16 and we have adopted the standard fully retrospectively. The main effect on the Group is that IFRS16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for almost all leases. The adoption of IFRS 16 has no impact on the operational performance of the business and has no impact on our cash and banking facilities. Further details can be found in Note 2 to the accounts on page 150.

Unless otherwise disclosed all figures stated throughout the strategic review (including the CFO Review) are on a post-IFRS 16 and pre-adjusting items basis and include the performance of our Netherlands operations. A full reconciliation between pre and post-IFRS16 and exceptional operating profit is shown on pages 158 to 159 and the associated Notes.

Certain financial data in this document 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.

References to FY20 and FY21 are defined as the twelve months to 31 March 2020 and the twelve months to 31 March 2021 respectively.

£1.05bn
Group revenue

£19.6m
Group Adjusted EBITDA

£1.5m
Profit before tax

I am pleased to report a strong financial performance over the reporting period as we experienced growth in Group revenue of 15.9% to £1,046.2m (2019: £902.5m) and an increase in Group Adjusted EBITDA of 53.6% to £19.6m (2019: £12.8m). Profit before tax increased to £1.5m (2019: £20.2m loss).

Excluding the impact of our Netherlands operations, which were closed during the year, Group revenue increased by 16.6% to £1.03bn and Group Adjusted EBITDA increased to £22.6m (2019: £17.4m).

UK

In the UK turnover increased by 20.3% to £901.6m (2019: £749.3m), up 8.2% on a like-for-like basis when excluding revenues from our mobile phones business ("MPD") which was acquired during the previous reporting period (Group revenue generated by MPD in FY20 was £123.5m versus £30.1m in the prior year).

UK product revenue increased by 10.3% over the period, largely driven by a return to growth in our core MDA product category in line with our strategic priority to return to double-digit growth rates. We achieved MDA sales growth of 9.1% during the twelve months to 31 March 2020 versus a market that remained broadly flat over the year; increasing to growth of 19.9% during the final quarter of the reporting period against a market that experienced an increase of 3.2%.[1]

Growth has been driven by improvements in the breadth and usability of our overall retail experience. For example during the period we:

- reviewed our customer acquisition techniques, investing in this area;
- launched "AO Finance", a market leading rolling credit facility operated in partnership with NewDay giving more customers access to essential products and us a larger share of wallet through appropriate and affordable finance;
- implemented a new CRM platform to more effectively engage with our customers;
- made improvements to remove friction in the customer journey;
- expanded our accepted payment methods making the checkout process even easier;
- invested jointly with our brand partners in more initiatives to improve the online journey increasingly with our content as the destination of choice for the best product information; and
- we moved to more tactical marketing with an emphasis towards social media, in-house content creation and the use of influencers instead of investing in traditional above-the-line marketing such as TV advertising.

In addition, we continue to focus on our AO Business offering and this has been a key driver of our growth in the MDA category.

The foundation of our UK business is providing a combination of world leading customer service with best-in-class execution. The AO cultural DNA of treating customers like our grans and making mums proud is deeply ingrained throughout the business and is demonstrated by our 4.7 Star Trustpilot rating and consistently high NPS scores during the period.

Although MDA growth is key to short term increases in UK profitability, the market opportunity in our newer categories remains huge and these performed well during the period, contributing to overall growth. These categories provide us with more brand touch points with our customers reinforcing the service and proposition that we have to offer.

1 Source: GfK 12 months to 28 March 2020

We are satisfied with the performance of our mobile business over the period. During the year whilst we developed an AO branded mobile proposition, our focus continued to be on maintaining the mobilephonesdirect brand. Over the next twelve months we will integrate this brand further with ao.com enabling us to utilise AO's market leading logistics, finance and recycling proposition and leverage our e-commerce competencies to grow the business further. During FY20 we commenced building the foundations for the next stage of our growth. Part of this was choosing to work strategically with fewer networks so that we can offer our customers the right proposition in a sustainable way. In discussing our longer-term relationships with our network partners, we entered into a new contract with Vodafone agreeing a new three-year partnership however we currently do not offer the EE network to our customers.

During the year we continued to grow our third-party client base in our Logistics business as we leverage our market leading delivery proposition into new categories. To support growth in our Logistics business from both AO's retail operations and third-party customers, towards the end of the reporting period we added a new Distribution Centre to our Logistics infrastructure hub in Crewe taking the total to three with over 800,000 sq ft of capacity.

We experienced some challenges in our recycling business during the reporting period as we began to feel the impacts of downward pressure on metal prices and as the processing of stock built up in the prior year was offset by a reduction in volumes from third-parties during the period.

Our new plastics plant is now operational in its final phase of testing and commissioning providing us with the capability to clean and refine the plastic from discarded fridges, transforming it into high-quality reusable materials.

Europe

During the year we undertook a full appraisal of our German and Netherlands operations concluding that we did not have the bandwidth to make the necessary profit improvements in both these territories at the same time. As the infrastructure of our European operation is built from Germany, we took the decision to close our operations in the Netherlands. In line with our expectations this business was fully closed by 31 March 2020 at a cost of £2.5m and has been excluded from underlying trading numbers to identify performance of the continuing business. During the reporting period revenue from our Netherlands operations was £19.3m and Adjusted EBITDA losses were £3.0m.

As outlined at the time of our half year statement our plan for the German business involved a number of actions. The effect of our actions were as planned with the changes in pricing delivering an immediate reduction in revenue and the results from other actions taken to improve gross margin beginning to materialise in the latter part of the reporting period. As a result, sales in our German business reduced by 3.4% year-on-year to €143.5m but we increased our gross margin by €3.6m representing an improvement 2.3ppts. In the second half of FY20, gross margin was 4.0% compared to a gross loss in the first half of 0.7%.

We significantly changed our pricing policy in Germany to align it with our UK model. Where we had previously deployed a strategy to drive sales by undercutting the prices of competitors, we focused on differentiating with an improved range and product content to drive higher conversion rates. In applying this strategy it was critical that we rebuilt the support of our suppliers and during the year we successfully restructured and improved our buying terms with the majority of them, the benefits of which, as anticipated, began to take effect during the final quarter of our reporting period where we saw significant improvements in our gross margins. Going forward we will continue to deepen our supplier relationships as we expand into new product ranges and categories.

We replicated our UK traffic conversion principles and algorithms in our German operations to drive customer traffic and ultimately revenue. Although there have been some short-term increases in acquisition costs as we pay for a larger volume of traffic, we anticipate that costs will reduce and revenue will increase as we build scale, brand awareness and leverage our UK expertise and systems further to improve conversion. We are now approaching a customer base of 0.9 million in Germany providing us with a fantastic asset to leverage for future growth. Our repeat business remains strong, we continue to attract new customers and our NPS score is exceptionally high in this territory averaging close to 90 over the reporting period.

Increased scale provides the key to drive down our unit cost to deliver in our German operation. We made solid preparations in this area particularly in the final months of our reporting period as the application of our lessons learned in the UK and improvements to systems and infrastructure began to gain traction. We anticipate we will make further progress as sale volumes continue to increased, we refine our delivery proposition and as we benefit from increase van fill rates and reduced mileage between deliveries.

The most significant restructuring required to move towards the One AO model was in our German overhead, also reflecting the closure of the Netherlands operation. This allows us to leverage our UK skills and expertise, particularly in eCommerce, marketing and logistics disciplines into our German operations. The cost of the restructure in Germany was £0.9m, which principally relates to a reduction in headcount, and the cost of the closure of the Netherlands operations was £2.5m which includes the write-off of unsold stock, redundancy payments for all staff and legal costs. Excluding these costs, other adjusting items and losses from our Netherlands operations, as a result of the actions undertaken outlined above, our Europe business reduced Adjusted EBITDA losses to a £18.2m loss (2019: £20.7m loss). We now have an increased level of confidence in our journey to profitability in Germany and expect to achieve positive EBITDA at a level of c.€250m sales, which equates to only a 4% share of MDA in this territory, compared to our 18% MDA share in the UK over the reporting period.

Cashflow and Revolving Credit Facility

Shortly following the year end we re-financed our £60m Revolving Credit Facility and £20m Term Loan which were due to run until June 2021. These facilities have been consolidated into a replacement £80m RCF which matures in April 2023 and we were delighted to add NatWest to our club of lenders.

Working capital has been carefully managed throughout the year with a focus on maximising availability, whilst improving the overall efficiency of our stockholding. We have also worked with our supplier base to maintain credit terms despite any issues they may face with credit insurers. Contract assets have continued to increase during the period relating to both warranties and network commissions. Both the creditor and inventory balances were flattered at year end by the sudden increase in demand caused by Covid-19.

The structural improvement in profit performance in Germany seen towards the end of the reporting period meant that on a monthly basis we became cash generative (on an Adjusted EBITDA less debt repayment, interest, taxes and monthly share of annualised capex on a run rate basis) , and expect to maintain that position on an ongoing basis.

Covid-19 and post-period end

During the final weeks of our reporting period the implications of Covid-19 became apparent and began to impact the business. The measures introduced by the Governments in both the UK and Germany to deal with the outbreak of Covid-19 led to an immediate change in shopping practices and habits. This significantly increased demand in our core retail business at the same time as presenting us with some challenges and increased costs particularly in recycling and our logistics operations. We also experienced some challenges in our supply chain which we worked through with our manufacturer partners. Our actions were taken swiftly and in line with Government guidance, which we continue to follow.

Safety of our people and our customers:

This remains our top priority. We are continually adapting the services we offer to comply with current guidance on social distancing and ensuring safety measures to protect our people in front line operational roles. At the start of lock down we prioritised services to the most vulnerable members of society and donated essential products to those in need. As a technology-led business we were able to quickly mobilise approximately 1,500 of our people to work from home with minimal impact on the operation of our business.

Impact on trading:

The measures implemented by Governments created a unique set of circumstances from the end of March through to the beginning of June. The products we sell are an essential part of people's lives and the electricals market migrated to nearly 100% online overnight.

We therefore experienced strong demand and made significant market share gains across many of our key categories from the start of lockdown on 23 March 2020, the impact of which saw sales above our expectations and an improvement to our working capital. We worked hard with our supply partners to maintain the availability of our products for our customers and we will continue to look for win-win collaborative solutions to meet demand.

While demand remains strong, the recent reopening of the high street means that customers now have more options to purchase their appliances offline from stores. Although customers are able to return to bricks and mortar stores, initial data shows that since stores have reopened the online market has in fact continued to grow year on year.[1]

Operational impact and business resilience:

Increased consumer demand and new Government guidelines have presented us with additional operational and ongoing challenges. The changes made in our logistics operations to accommodate new ways of working has led to some continued inefficiencies and cost increases, largely in increased staff costs. Our distribution network remained open during the full lockdown period. However, as we concentrated on the delivery of essential electrical products, we paused the majority of our installation services and the logistics services we provide to our third-party clients. The easing of social distancing measures in recent weeks means we are now offering most of these services again in line with guidelines.

We are pleased that despite these challenges we continued to maintain our high standards of customer service, achieving a record NPS high in the UK during the first quarter of our new financial year.

The decision by councils to close household waste and recycling centres together with a reduced collection from AO's customers, presented supply challenges in our recycling plants, materially reducing operations for a six week period. Our WEEE recycling facility is now open with increased costs from social distancing measures and resultant capacity constraints, whilst also suffering from a depressed market for output materials. Although we expect there to be some limited recovery, we expect to see volatility in the short term.

During FY20 our B2B business was successful in winning a number of commitments with housebuilders. The conversion of this pipeline has now been delayed as a result of sites closing during lockdown. We remain excited by the opportunity for this business unit to support this industry as it reopens and assesses its supply chain.

We are particularly pleased with how the financial services and insurance products business has operated during Covid-19, adapting from working in a sales environment to home working with no noticeable impact in performance.

During the first few weeks of lockdown measures we experienced a small spike in the cancellation rate of the AO Care product. However, we have since seen a lower level of cancellations as we believe our improved product offered through a structured regulated sales process provides customers with additional security in times of uncertainty. We are mindful of the potential increased risk in the rate of cancellations against a challenging economic backdrop.

Financial stability:

As reported above, we now have a new £80m RCF in place which matures in April 2023 and which replaces our previous £60m RCF and £20m term loan. As anticipated net debt (excluding right of use lease liabilities under IFRS 16) increased by £14.3m in the period to £23.4m as a result of investment in the Group's infrastructure and a relatively modest outflow of working capital. Including lease liabilities arising from the adoption of IFRS 16, new debt was £99.1m (2019: £83.5m).

Our strategy is to be cash generative (on a Group Adjusted EBITDA less debt repayment, interest, taxes and monthly share of annualised capex) on a run rate basis going forward. With our liquidity headroom of £63.6m as at 31 March 2020 including Revolving Credit Facility and Group cash resources, we are able to continue to grow but remain vigilant given economic uncertainty.

Outlook for 2020/21

With the closing of physical retail outlets as a result of the implementation of the Government's lockdown measures, the market for electrical products moved to nearly 100% online for that period. This resulted in an increase in our revenue above our expectations and has led to improvements in working capital. We continue to expect to achieve positive EBITDA in Germany on revenues of c.€250m; we are very encouraged by our current trajectory of revenue growth and profitability improvements and will update further at our half year results in November.

Although around 70% of electrical purchases are replacement in nature, a fall in consumer confidence may lead to a delay in the purchase of big-ticket items. There may also be a significant fall in GDP in both the UK and Germany and the level of UK housing transactions, to which our performance is in part linked, may also decline as a result of restrictions in the mortgage market. There is also an additional level of uncertainty over a hard Brexit in December.

YEAR ENDED 31 MARCH	2020	2019	Better/(worse)
Financial KPIs			
Group revenue (£m)	**1,046.2**	902.5	15.9%
UK revenue (£m)	**901.6**	749.3	20.3%
Europe revenue (£m)	**144.5**	153.2	(5.6%)
UK Adjusted EBITDA (£m)	**40.8**	38.1	7.0%
Europe Adjusted EBITDA losses (£m)	**(21.1)**	(25.3)	16.4%
Group Adjusted EBITDA	**19.6**	12.8	53.6%
Group Adjusted EBITDA excluding Netherlands (£m)	**22.6**	17.4	30.2%
Group operating loss (£m)	**(3.8)**	(13.0)	70.8%
Group retained profit / (loss) for the year	**1.4**	(18.1)	107.8%
On a constant currency basis:			
Europe revenue (€m)	**165.4**	173.3	(4.6%)
Europe Adjusted EBITDA losses (€m)	**(24.2)**	(27.9)	13.2%

Non-financial KPIs, such as customer numbers and NPS scores, are highlighted on page 8

Although it is difficult to predict with certainty, we believe this crisis has had a seismic impact on retail and that many shoppers will have been permanently converted to online shopping. The forced migration to online has presented AO with an opportunity to impress a new customer demographic and convert them to the AO Way as they experience a better way of shopping for electrical products which should continue to drive sales growth through repeat and recommendation purchases.

The strength of AO's customer proposition, infrastructure and ecosystem, underpinned by our culture and strong balance sheet puts us in a good position to ensure we are prepared for the times ahead.

Financial Review

Revenue (see Table 1)

For the year ended 31 March 2020, total Group revenue increased by 15.9%% to £1,046.2m (2019: £902.5m).

Overall revenue in the UK increased by 20.3% to £901.6m (2019: £749.3m), up 8.2%% on a like-for-like basis i.e. excluding the impact of the acquired MobilePhonesDirect Limited business which was acquired in December 2018 (since renamed "AO Mobile Limited"). As MPD generates the majority of its income from commission revenues, this has reduced the share of UK sales attributed to product revenue which now accounts for 76.8% of UK sales (2019: 83.9%). Product revenue growth from our retail website comprising ao.com, marketplaces and third-party websites, increased by 10.3% to £692.8m largely driven by a good performance in MDA product sales as a result of a number of initiatives launched during the period including: AO Finance; expanding the payment methods available; removing friction in parts of the customer journey; investment in customer acquisition and leveraging more tactical marketing channels such as social media. We have been successful in continuing to drive revenue from our marketplace channels including Amazon and eBay and we believe the significant majority of these customers are new to the Group and do not cannibalise traffic that would otherwise shop with ao.com. In addition, we continue to focus on our Business to Business (B2B) offering and this has been a key driver of our growth in the MDA category. Black Friday continues to be a major sales event in our retail calendar. This year our promotional period extended over three weeks, meaning our great deals were able to reach even more customers than ever before.

UK Service revenue increased by 16.0% compared to the previous year, slightly ahead of product revenue growth, reflecting improvements to the customer propositions which have resonated well for example service bundles, installing tv's on walls and delivery time slots.

Growth in UK Commission revenue is largely attributable to the acquisition of MPD in December 2018 which generates the majority of its revenue as commission from the Mobile Network Operators (MNOs) for the procurement of connections to the MNO's network and the delivery of the handset to the end customer. We continue to integrate this business into the wider AO Group and we see a number of opportunities for growth following the development of the ao-mobile.com platform in August and the signing of a new commercial agreement with Vodafone in October.

As previously reported, in the second half of the year to March 2019, service plan customers of ao.com migrated from a service-backed warranty product to AO Care insurance and hybrid insurance products offering greater regulatory protection. This migration and base contact exercise caused a small spike in plan cancellations during this time at a level we had anticipated. However, during the reporting period we have seen a lower level of cancellations on a monthly basis as we offer an improved regulated product through a structured regulated sales process.

The amended product form to insurance, together with introducing a regulated sales process, has run in parallel with the ongoing digitisation and development of the product itself. AO Care is now an in-life service product truly representing our values. Whilst there has been a small drop in the sales conversion through this transition, this has been offset by increased lifetime value.

We experienced growth of 8.6% to £16.6m in our third-party logistics revenue reflecting effect of new contracts won during the year including Aldi and Simba. We continue to target new growth in the current financial year.

1 REVENUE

	2020			2019			Better/(worse)		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Product revenue	**692.8**	**140.7**	**833.5**	628.4	151.1	779.5	10.3%	(6.9)%	6.9%
Service revenue	**35.0**	**3.4**	**38.4**	30.1	1.6	31.8	16.0%	106.6%	20.7%
Commission revenue	**143.8**	**0.2**	**144.0**	61.2	0.3	61.5	135.0%	(31.6)%	134.2%
Third-party logistics	**16.6**	**0.1**	**16.7**	15.3	–	15.3	8.6%	–	8.9%
Recycling	**13.5**	**0.2**	**13.6**	14.3	0.1	14.5	(6.2)%	31.4	(5.9)%
Total revenue	**901.6**	**144.5**	**1,046.2**	749.3	153.2	902.5	20.3%	(5.6)%	15.9%

Revenues in our UK Recycling business decreased slightly during the reporting period at £13.5m (2019: £14.3m) as we began to feel the impacts of downward pressure on metal prices and as the processing of stock built up in the prior year was offset by a short-term reduction in volumes from third-parties during the period. During the year we continued to invest in our new plastics plant. We expect the plant to be fully operational during the second quarter of the current financial year following completion of the final phase of testing and commissioning. The new plastics plant will provide us with the capability to sort waste plastics from our fridge plants allowing us to resell this plastic and to create an additional sustainable revenue stream on our journey for a circular economy.

In Europe sales generated from our German website AO.de (and our Netherlands website AO.nl until its closure in December 2019) generated revenues of €165.4m (2019: €173.3m) (which equates to £144.5m (2019: £153.2m) on a reported currency basis), a decrease of 4.6%. As previously reported, we did not see the improving trend of losses in the second half of FY19 that had been expected. We commenced an appraisal of our European business and business model to ensure that we are able to generate long-term sustainable and profitable growth (and minimise cash outflow in the process). This entailed a review of our pricing policy (where, instead of undercutting the prices of competitors, we focused on differentiating with an improved range and product content to drive higher conversion rates) and an evaluation of traffic channels (particularly marketplaces) where cost to acquire traffic is more expensive than our traditional website acquisition costs. The outcome of this appraisal resulted in a significant change to our European pricing policy which has now been brought in line with our UK model. As a consequence, although revenues have reduced year on year, these have been delivered at an improved margin compared to the prior year. Revenue growth in this segment is a fundamental component of the journey to profitability and we are now replicating the initiatives which have been successful in the UK to drive customer traffic and conversion rates, and to improve the customer experience for example expanding our payment options, increasing the number of customer reviews and making improvements to the overall journey and our content.

In line with the requirements of IFRS 15, the Group has disaggregated its revenue into the main business lines and these are shown in Table 1. See previous page.

Gross margin (see Table 2)

Gross margin for the Group, which includes product margin, delivery costs, commissions from selling insurance plans and network connections and other ancillaries (which generally attract a higher margin as a percentage of revenue than product sales), increased slightly to 17.0% (2019: 16.9%) for the reporting period with total gross profit increasing by 16.9% to £178.3m (2019: £152.5m).

Gross Margin in the UK business reduced to 19.7% (2019: 20.7%) which, as expected, was impacted by the full years' impact of MPD which has a lower gross margin but a corresponding lower cost to serve. Excluding the impact of MPD, UK gross margin was 21.2% (2019: 21.0%). As in previous periods, the increasing share of total revenue attributable to newer categories, as well as that of business to business sales, also had a dilutive effect on Gross Margin. However, individual product margins in our retail business have increased in all categories.

In Europe, including the Netherlands operations, gross margin improved during the reporting period increasing to 0.6% versus a 1.7% loss in the prior year period with gross profit improving to £0.9m

2 GROSS MARGIN

	2020			2019			% change		
Year ended 31 March (£m)	UK	Europe	Total	UK	Europe	Total	UK	Europe	Total
Gross profit/(loss)	**177.4**	**0.9**	**178.3**	155.1	(2.6)	152.5	14.3%	136.1%	16.9%
Gross margin %	**19.7%**	**0.6%**	**17.0%**	20.7%	-1.7%	16.9%	(1.0)ppts	2.3ppts	0.1ppts

(2019: £2.6m gross loss). This improvement is partly attributable to the change in our pricing strategy to bring it in line with the UK; reducing the level of price discounting, and improvements in supplier terms which began to impact towards the end of the reporting period and efficiencies made in the logistics operations.

Selling, General & Administrative Expenses (“SG&A”) (see Table 3)

Total SG&A costs across the Group as a percentage of revenue decreased during the period from 18.7% to 17.5%.

UK SG&A expenses for the year to 31 March 2020 increased by 10.2% to £153.2m (2019: £139.0m), representing 17.0% of sales (2019: 18.8%). Advertising and marketing costs as a percentage of revenue reduced by 0.6ppts as the comparable prior year period included the costs to the launch the "Delivering Tomorrow" creative. During the year, TV advertising costs were minimal as we focused on other advertising channels such as social media to promote the AO brand.

Warehousing costs have increased with continued investment in our outbase network driving overall efficiencies, benefiting gross margin and the leverage effect of increased sales resulted in a decreasing percentage of revenue of 4.2% compared to 4.3% in the prior year.

Research and development costs increased by £2.4m to £9.3m compared to the prior period, representing 1.0% of revenue, reflecting the investment in our technology teams as we develop initiatives to support future customer proposition and drive revenue.

UK other administration expenses increased by £12.5m to £84.1m (2019: £71.6m) and as a percentage of revenue decreased by 0.3ppts to 9.3%. Of the increase, £4.6m was attributable to a full year of costs in relation to MPD (2019: £2.0m). Excluding the impact of MPD, UK other admin expenses increased by 0.3ppts to 10.0% reflecting the investment made in our UK Retail expertise to support the One AO approach, inflationary costs, investment in people infrastructure and the annualisation of certain costs incurred in the prior year principally in relation to premises.

In Europe, including the impact of our Netherlands operations, our SG&A costs as a percentage of revenue increased by 2.5ppts to 20.8% and totalled £30.1m (2019: £27.6m). We would expect these costs to reduce in absolute terms as the full impact of our One AO approach is realised and as a percentage of sales as we drive revenue and leverage our scale and logistics infrastructure.

Advertising and marketing costs in Europe increased by 1.5ppts as a percentage of revenue with higher investment in acquisition costs to drive revenue following the change in pricing strategy in the period. Due to the predominantly fixed nature of the costs in warehousing, the reduction in revenue experienced during reporting period, together with additional outbase costs, led to a slight increase in costs as a percentage of revenue however the output of our actions to drive growth gained traction towards the end of the reporting period and costs were leveraged leading to only a marginal increase in warehousing costs a percentage of sales to 3.4% (2019: 3.1%). Other admin costs reduced to 10.5% as a percentage of revenue (2019: 11.0%) following the impact of the restructuring on headcount and as we leverage the skills and knowledge of our people from the UK as part of the One AO approach.

Alternative Performance Measures

The Group tracks a number of alternative performance measures in managing its business. These are not defined or specified under the requirements of IFRS because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in

3 SELLING, GENERAL & ADMINISTRATIVE EXPENSES (“SG&A”)

	2020			2019			% change		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Advertising and marketing	**21.9**	**7.8**	**29.7**	22.3	5.9	28.2	1.8%	(32.2)%	(5.3)%
% of revenue	**2.4%**	**5.4%**	**2.8%**	3.0%	3.9%	3.1%			
Warehousing	**37.6**	**4.9**	**42.5**	32.2	4.8	37.0	(16.7)%	(1.2)%	(14.7)%
% of revenue	**4.2%**	**3.4%**	**4.1%**	4.3%	3.1%	4.1%			
Research development	**9.3**	**–**	**9.3**	6.9	–	6.9	(34.8%)	–	(34.8%)
% of revenue	**1.0%**	**–**	**0.9%**	0.9%	–	0.8%			
Other administration	**84.1**	**15.2**	**99.2**	71.6	16.8	88.4	(17.4)%	9.9%	(12.2)%
% of revenue	**9.3%**	**10.5%**	**9.5%**	9.6%	11.0%	9.8%			
Adjusting items*	**0.3**	**2.3**	**2.5**	5.9	0.1	6.0	–	–	–
% of revenue	**0.0%**	**1.6%**	**0.2%**	0.8%	0.1%	0.7%			
Administrative expenses	**153.2**	**30.1**	**183.3**	139.0	27.6	166.6	(10.2)%	(8.9)%	(10.0)%
% of revenue	**17.0%**	**20.8%**	**17.5%**	18.8%	18.3%	18.7%			

* Adjusting items in the year to 31 March 2020 are detailed in the paragraph below entitled “Alternative Performance Measures – Operating loss and Adjusted EBITDA.

accordance with IFRS. The Group believes that these alternative performance measures, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These alternative performance measures are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these alternative performance measures are also used for the purpose of setting remuneration targets. These alternative performance measures should be viewed as supplemental to, but not as a substitute for, measures presented in the consolidated financial statements relating to the Group, which are prepared in accordance with IFRS. The Group believes that these alternative performance measures are useful indicators of its performance.

EBITDA

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

Adjusted EBITDA

Adjusted EBITDA is calculated by adding back or deducting Adjusting Items to EBITDA. Adjusting Items are those items which the Group excludes in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods.

Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Chief Operating Decision Maker.

The Adjusting Items for the current year are as follows:

- Closure costs of the Dutch operations: At the time of the publication of our interim results in November 2019, the Group announced the intention to close its operations in the Netherlands. On 9 December 2019, the website was closed and subsequent to that date management have worked with suppliers, staff and the authorities to ensure an orderly closure of the companies and this has been completed at 31 March 2020. Costs incurred between 9 December 2019 and the 31 March 2020 of £2.5m have been treated as the cost of closure of these operations and include the write off of unsold stock, redundancy payments for all staff and legal costs.
- In December 2017, the Group entered into a marketing contract in Germany which was anticipated to generate significant additional revenue. In the prior and current financial years, the performance of this contract has been re-assessed due to significant losses being incurred and the benefits expected from the contract not materialising. The Group

4 OPERATING LOSS AND ADJUSTED EBITDA

	2020			2019			Better/(worse)		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Operating profit excluding Netherlands	**25.0**	**(23.5)**	**1.4**	16.7	(25.0)	(8.3)	49.5%	6.0%	117.2%
Netherlands Operating loss	**–**	**(5.2)**	**(5.2)**	–	(4.7)	(4.7)	–	(11.7)%	(11.7)%
Operating profit/(loss)	**25.0**	**(28.8)**	**(3.8)**	16.7	(29.7)	(13.0)	49.5%	3.2%	70.8%
Depreciation	**15.8**	**3.1**	**18.9**	14.2	3.2	17.4	(10.7)%	(2.3%)	(8.3)%
Amortisation	**2.2**	**–**	**2.2**	1.1	–	1.1	(107.5)%	–	(107.5)%
(Loss)/ profit on disposal of non-current assets	**(0.1)**	**0.1**	**–**	–	–	–	100.0%	(100.0)%	–
EBITDA Excluding Netherlands	**42.8**	**(20.4)**	**22.4**	32.0	(21.9)	10.1	33.8%	7.0%	122.4%
Netherlands EBITDA	**–**	**(5.1)**	**(5.1)**	–	(4.6)	(4.6)	–	(11.8)%	(11.8)%
EBITDA	**42.8**	**(25.5)**	**17.3**	32.0	(26.5)	5.5	33.8%	3.6%	214.7%
Adjusting items									
Adjusting items excluding Netherlands	**(2.0)**	**2.2**	**0.2**	6.1	1.2	7.3	133.0%	(87.8)%	97.1%
Netherlands Adjusting Items	**-**	**2.2**	**2.2**	–	–	–	–	–	–
Total Adjusting Items	**(2.0)**	**4.4**	**2.4**	6.1	1.2	7.3	133.0%	(269.9%)	67.5%
Adjusted EBITDA excluding Netherlands	**40.8**	**(18.2)**	**22.6**	38.1	(20.7)	17.4	7.0%	12.4%	30.2%
Netherlands Adjusted EBITDA	**–**	**(3.0)**	**(3.0)**	–	(4.6)	(4.6)	–	35.2%	35.2%
Adjusted EBITDA	**40.8**	**(21.1)**	**19.6**	38.1	(25.3)	12.8	7.0%	16.4%	53.6%

To assist users of these financial statements in reconciling the above numbers to those reported in the 2019 Annual Report, the table 5 opposite removes the impact of IFRS 16 on Adjusted EBITDA to enable a like for like comparison. The result for the Netherlands excludes amounts of £0.7m (2019: £0.6m) which relate to ongoing costs of the Group. These costs are therefore adjusted in arriving at the Excluding Netherlands Adjusted EBITDA.

is however committed to the contract until December 2020 and whilst management are continuing to explore routes to re-negotiate the contract, it is clear that the cost of fulfilling the contract over its life will significantly exceed any benefit gained from it. In line with the treatment in FY19, management have added back the full cost in the current period of £1.3m (2019: £1.3m).

- Further to the actions disclosed in the 2019 financial statements regarding a full review of the European business following its unsatisfactory performance in the second half of FY19, the Group has undertaken a restructure of its European business. In addition to the closure of the Netherlands costs of £0.9m were incurred, which principally relates to a reduction in headcount in Germany.
- Following the signing of a new longer term contract with Vodafone in October 2019, certain historic claims against AO Mobile Limited (previously MobilePhonesDirect Limited) were discharged and as a consequence provisions of £2.3m were released into the income statement. As the provisions had been created as part of the purchase price allocation exercise on the acquisition of AO Mobile Limited, the charge for these claims has never been recognised in the Group income statement.

In the previous year, the Adjusting Items were:

- 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. These were outside of the normal share schemes operated by the Group and due to their magnitude and nature have been treated as an adjusting item. The options vested in June 2019.
- Following the changes in Chief Executive Officer, the Group undertook a restructure of its senior leadership team. The cost of this restructure was £1.2m.
- The Company acquired AO Mobile Limited (previously MobilePhonesDirect Limited) on 17 December 2018. Fees in relation to the transaction were £1.6m.

5 REMOVAL OF THE IMPACT OF IFRS 16 ON ADJUSTED EBITDA

Year ended 31 March (£m) On Pre-IFRS 16 Basis	2020 UK	2020 Europe	2020 Total	2019 UK	2019 Europe	2019 Total	Better/(worse) UK	Better/(worse) Europe	Better/(worse) Total
Adjusted EBITDA as above	**40.8**	**(21.1)**	**19.6**	38.1	(25.3)	12.8	7.0%	16.4%	53.6%
Less impact of IFRS 16	**(11.9)**	**(2.6)**	**(14.5)**	(10.7)	(2.5)	(13.2)	(10.7%)	(6.2)%	(9.9)%
Adjusted EBITDA Pre-IFRS 16	**28.9**	**(23.8)**	**5.2**	27.4	(27.8)	(0.4)	5.6%	14.4%	1422.8%
Excluding Netherlands	**28.9**	**(20.1)**	**8.8**	27.4	(22.6)	4.8	5.6%	11.0%	83.8%
Allocation of costs	**-**	**(0.7)**	**(0.7)**	–	(0.6)	(0.6)	–	(16.7)%	(16.7)%
Excluding Netherlands adjusted	**28.9**	**(20.8)**	**8.1**	27.4	(23.2)	4.2			
Netherlands	**–**	**(3.7)**	**(3.7)**	–	(5.2)	(5.2)	–	29.2%	29.2%
Allocation of costs	**–**	**0.7**	**0.7**	–	0.6	0.6	–	(16.7)%	(16.7)%
Netherlands adjusted		**(3.0)**	**(3.0)**	–	(4.6)	(4.6)	–	35.2%	35.2%
Adjusted EBITDA Pre-IFRS 16	**28.9**	**(23.8)**	**5.2**	27.4	(27.8)	(0.4)	5.6%	14.4%	1422.8%

6 BASIC LOSS PER SHARE

Year ended 31 March (£m)	2020	2019
Earnings/(loss)		
Profit/(Loss) attributable to owners of the parent company	**1.7**	(18.6)
Foreign exchange (gains)/losses on intra-Group loans	**(6.0)**	3.0
Adjusted loss attributable to owners of the parent company	**(4.3)**	(15.5)
Number of shares		
Basic and adjusted weighted average number of ordinary shares	**472,462,309**	463,153,515
Potentially dilutive share options	**4,857,812**	6,447,240
Diluted weighted average number of shares	**477,320,121**	469,600,755
Earnings/Loss per share (in pence)		
Basic profit/(loss) per share	**0.38**	(4.00)
Diluted profit/(loss) per share	**0.37**	(4.00)
Adjusted basic loss per share	**(0.91)**	(3.36)

Adjusted EBITDA (excluding Netherlands)

Pre IFRS-16 EBITDA

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

As a consequence of the adoption of IFRS16 during the year, the Group has shown an alternative measure of Adjusted EBITDA (including and excluding the Netherlands) which removes the impact of IFRS 16 to allow the reader to compare against the prior year.

Operating loss and Adjusted EBITDA

The operating loss for the year was £3.8m (2019: £13.0m). As highlighted on page 70 the Group tracks a number of alternative performance measures including Adjusted EBITDA. The reconciliation of statutory operating profit/(loss) to Adjusted EBITDA is as in Table 4 on page 70.

Taxation

The tax charge for the year was £0.1m (2019: £2.1m credit). The effective rate of tax for the year was 5.8% (2019: 10.4%) which is lower than the UK corporation tax rate for the period of 19%.

The Group is subject to taxes in the UK, Germany, Belgium and, for the year under review, in 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. No overseas tax is attributable to Germany due to its current trading results. In addition, no overseas tax is attributable in the Netherlands as operations ceased in the period. Tax losses arising in the period in the Netherlands and Belgium have been carried forward but no deferred tax asset has been recognised.

In addition to the movement in the unrecognised deferred tax on losses the lower effective tax rate is also due to the Group having permanent adjustments when calculating taxable profits in the UK, including non-taxable foreign exchange gains arising on intercompany balances, the share-based payment charges and associated tax relief.

A prior period adjustment to deferred tax of £1.0m credit has also been recognised in the period due to an increase in the deferred tax asset arising on share-based payments and the preservation of capital allowances and carried forward losses for future periods.

Tax losses from prior years in Germany remain as carried forward losses and continue to be as not recognised for the purposes of deferred tax on the basis that they arose before April 2017, when the change in the loss relief rules occurred. In AO Recycling tax losses continue to be carried forward and the Group expects to use these losses in the future. On this basis tax losses carried forward at the end of the year have been treated as a recognised deferred tax asset.

Our tax strategy can be found at www.ao.com/corporate.

Retained loss for the year and loss per share (see Table 6)

Retained profit for the year was £1.4m (2019: £18.1m loss). In addition to the improvement in operating profit noted above, the retained profit for the year has also benefitted from movements in non-cash financing items with the exchange movement on intra-group loans moving from a £3.0m loss in the prior year to a £6.0m gain in the current year (driven by the movement in the GBP/EUR exchange rate) and the movement in the fair value of the put and call options which the Company holds in relation to the non-controlling stake in AO Recycling Limited.

Basic loss per share was 0.38p (2019: 4.00p loss) and diluted earnings/(loss) per share was 0.37p (2019: 4.00p loss). Basic earnings per share is

7 WORKING CAPITAL

	2020			2019		
Year ended 31 March (£m)	UK	Europe	Total	UK	Europe	Total
Inventories	**61.7**	**10.9**	**72.7**	60.7	15.6	76.3
As % of COGS	**8.5%**	**7.6%**	**8.4%**	10.2%	10.0%	10.2%
Trade and other receivables	**216.3**	**9.1**	**225.3**	184.4	9.5	193.9
As a % of revenue	**24.0%**	**6.3%**	**21.5%**	24.6%	6.2%	21.5%
Trade and other payables	**(246.7)**	**(10.3)**	**(257.1)**	(224.2)	(13.0)	(237.2)
As a % of COGS	**34.0%**	**7.2%**	**29.6%**	37.7%	8.3%	31.6%
Net working capital	**31.2**	**9.7**	**41.0**	20.9	12.1	33.0
Change in net working capital	**10.3**	**(2.3)**	**8.0**	25.4	3.9	29.3

reconciled to adjusted basic loss per share (after excluding the impact of foreign exchange differences – see above) of (0.91)p (2019: (3.36)p) as set out in Table 6 on page 71.

The foreign exchange gain has arisen as a result of the significant movement in the exchange rate between Sterling and the Euro in the period and prior period. This has impacted the value of intra-group loans held in GBP in the European entities giving rise to the £6.0m gain (2019: £3.0m loss). referenced in Table 6.

Cash resources and cash flow

Cash balances at 31 March 2020 were £6.9m (2019: £28.9m). The reduction in cash is largely driven by the repayment of borrowings and lease liabilities of £22.6m and capital expenditure of £6.9m offset by the cash generated from operating activities of £14.1m.

Borrowings, which comprises bank borrowings, reduced to £21.9m (2019: £30.4m) and lease liabilities increased to £84.1m (2019: £82.0m) resulting in net debt at 31 March 2020 of £99.1m (2019: net debt £83.5m). Net debt, when excluding lease liabilities recognised on the adoption of IFRS 16 was £23.4m (2019: £9.0m). The decrease in borrowings in the year was mainly due to the repayment of quarterly instalments on the term loan of £24m used to partly fund the acquisition of MobilePhonesDirect Limited and the maturity of a 5 year term loan originally used to help finance the start-up of the German business in October 2014.

During the year, the Group continued to benefit from the availability of its £60m revolving credit facility with HSBC Bank plc, Lloyds Bank Plc and Barclays Bank Plc in the banking syndicate. On 6 April 2020 the Group refinanced its debt facilities by consolidating the existing £60m Revolving Credit Facility and the £20m outstanding on the Term Loan into a new £80m RCF which matures in April 2023. The new facility resulted in Natwest Bank plc joining the existing banking syndicate as an additional lender. The facility is available for general corporate purposes, including UK working capital movements. The undrawn amount at 31 March 2020 under the previous facility was £56.7m. The amount utilised relates to letters of credit and payment guarantees.

Working capital (see Table 7)

At 31 March 2020, the Group had net current liabilities of £53.8m (31 March 2019: net current liabilities of £33.9m) principally as a result of the reduction in cash noted above.

Movements in working capital are set out in Table 7.

As at 31 March 2020 UK inventories were £61.7m and therefore at a similar level to the prior year (2019: £60.7m). Ordinarily we would expect to see levels of inventories adjust in line with our sales growth. However, during the last week of March the business experienced a particular increase in demand for products following the introduction of lockdown measures in response to Covid-19 without an immediate corresponding increase in inventories received from product manufacturers.

UK average stock days remained broadly consistent against the prior year at 27 days (2019: 29 days).

UK trade and other receivables (both non-current and current) were £216.3m as at 31 March 2020 (2019: £184.4m) principally reflecting an increase in contract assets in respect of commissions due on product protection plans sold in the year and the contract asset relating to the commissions from the Mobile Network Operators.

UK trade and other payables increased to £246.7m (2019: £224.2m) primarily reflecting an increase in deferred income as result of the high sales volumes between the introduction of lockdown measures on 23 March 2020 and the financial year end and an increase in contract liabilities in relation to the Mobile business.

At 31 March 2020, European inventories were £10.9m (2019: £15.6m) with the reduction against the prior year a result of the closure of the Netherlands business, improved stock management and increased sales as result of the migration to online due to measures introduced in relation to Covid-19. Trade and other receivables decreased to £9.1m (2019: £9.5m) mainly reflecting the closure of our Dutch operations.

Trade and other payables decreased to £10.3m (2019: £13.0m), impacted by the closure of the Netherlands operations, timing of supplier payments around year end and the lower stock levels.

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

Capital expenditure

Total cash capital expenditure in the year was £6.9m (2019: £4.2m). The expenditure in 2020 principally comprised costs in relation to the construction of the new plastics plant in our Recycling business, continued investment in our existing WEEE recycling plant, investment in restructuring our outbase network and investment in technology and software particularly in our logistics operations but also across the Group. Capital expenditure in the prior year included costs in relation to the commencement of the construction of the new plastics plant, investment in recycling and fit-out costs in relation to additional corporate office space.

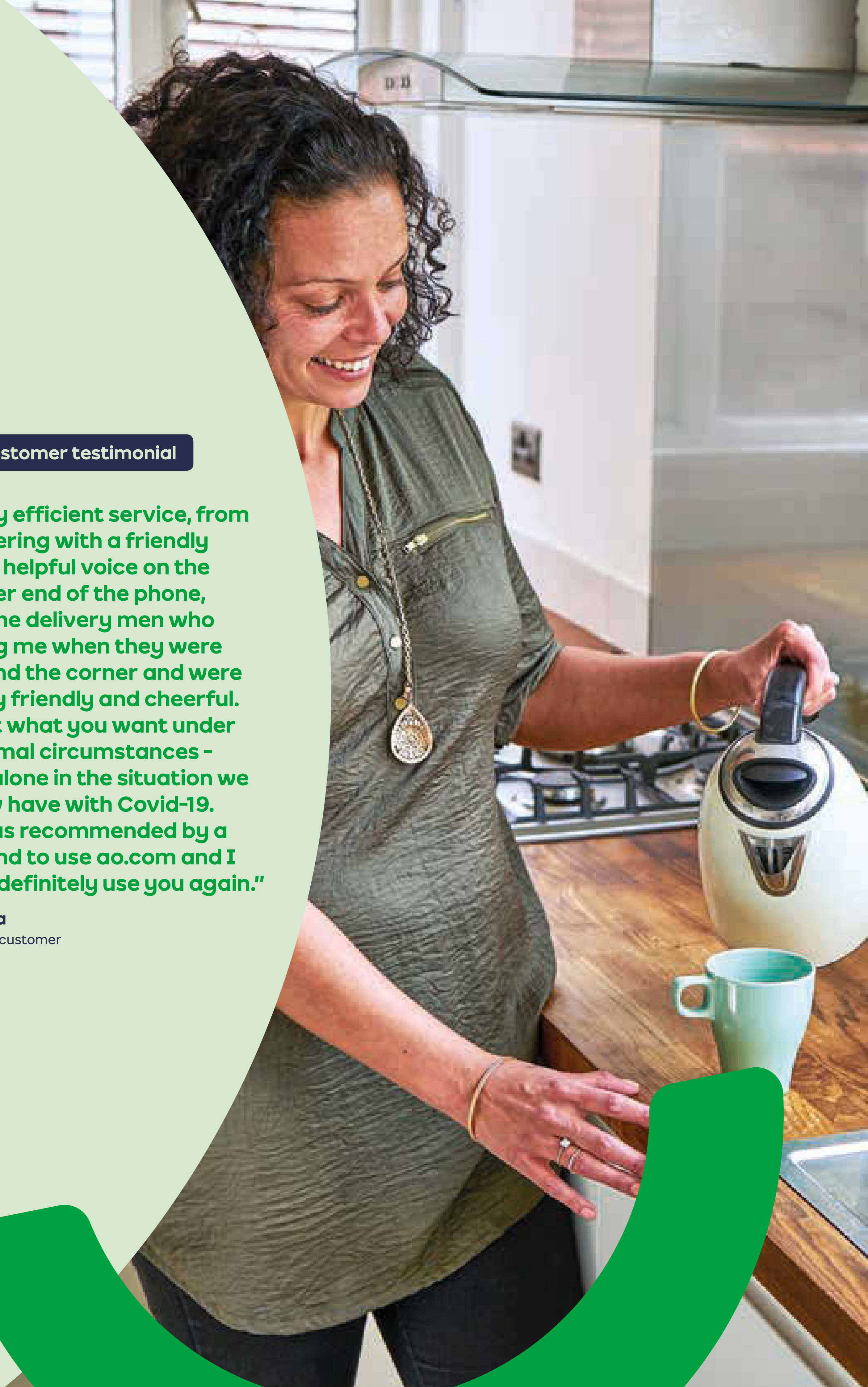
Mark Higgins
Group Chief Financial Officer

13 July 2020

Customer testimonial

"Very efficient service, from ordering with a friendly and helpful voice on the other end of the phone, to the delivery men who rang me when they were round the corner and were very friendly and cheerful. Just what you want under normal circumstances - let alone in the situation we now have with Covid-19. I was recommended by a friend to use ao.com and I will definitely use you again."

Nadia
An AO customer



Governance

Chairman's letter and introduction

"We recognise the importance of, and are committed to, high standards of Corporate Governance, aligned with the needs of the Company and the interests of all our stakeholders."

Geoff Cooper
Chairman

Dear shareholder

I am pleased to present our Corporate Governance report for the year ended 31 March 2020. This year's report describes our approach to governance and sets out how the principles of the 2018 UK Corporate Governance Code have been applied during the year. Information about the operation of the Board and its Committees, and an overview of the Company's system of internal controls are also included.

During the year Jaqueline de Rojas, Non-Executive Director, resigned from the Board with effect from 24 September 2019 as she refocused her portfolio. After six years on the Board, Brian McBride also stepped down as a Non-Executive Director with effect from the AGM held in July 2019, and Marisa Cassoni succeeded him as Senior Independent Non-Executive Director. No new appointments were made to the Board during the year and there were no other changes to its composition. The composition of the Board and its Committees is discussed more fully in the Nomination Committee report on pages 88. All Directors in office will seek re-election at the AGM.

Subject to shareholder approval, we are seeking to implement a Value Creation Plan in which all employees of the Company will be rewarded for creating exceptional value. We believe that such an innovative all employee model reflects the unique and collaborative culture at AO.

In accordance with section 172 of the Companies Act 2006, the Board recognises the importance of our wider stakeholders to the sustainability of our business. The CSR report (pages 50 to 51) and the Governance section (pages 84 to 85) set out in more detail how the Board has approached this duty.

Our AGM will be held on 20 August 2020, but due to the unprecedented situation bestowed on us by Covid-19, we have taken the decision to hold a closed meeting. If any shareholders wish to discuss any governance matters I am more than happy to do so and would ask that contact is made initially through the Company Secretarial team at cosec@ao.com.

Geoff Cooper
Chair

13 July 2020

AO's Compliance with the Code

This Corporate Governance Statement ("Statement"), together with the rest of the Corporate Governance report, explains key features of the Company's governance structure and how it has applied the provisions set out in the 2018 UK Corporate Governance Code, which is the version that applies to its 2019/20 financial year (the "Period"). The Code and associated guidance are available on the Financial Reporting Council website at frc.org.uk.

This Statement also includes items required by the Listing Rules and the Disclosure Guidance and Transparency Rules save that the disclosures required by the Disclosure Guidance and Transparency Rules DTR 7.2.6, with regard to share capital, are set out in the Directors' report on page. Disclosures required by DTR 7.2.8 relating to the Group's diversity policy are detailed in the CSR report on page 52 and the Corporate Governance report on pages 79 and 89. Directors' biographies and membership of Board Committees are set out on pages 78 and 79.

The 2018 UK Corporate Governance Code (the "Code") sets out a new approach to governance. The table below summarises how the Directors have applied the key principles of the Code during the Period. More detailed information on our approach to governance and how the provisions of the Code have been applied is disclosed further in the Governance report and the reports of the Committees set out on pages 78 to 123. This information is also set out in detail on our website at ao-world.com. The Directors consider that the Company has, throughout the Period, complied with the provisions of the Code. The Directors further confirm that through the activities of the Audit Committee described on page 93, it has reviewed the effectiveness of the Company's system of risk management and internal controls.

Section of the Code	How AO have applied the Code	Further information
Board leadership and company purpose	The Board's role is to provide leadership to the Company to promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. The Board sets the Company's values and standards, making sure that they align with its strategic aims and purpose.	See page 82
Division of responsibilities	There exists a clear division of responsibilities between the Chair and the Chief Executive Officer. The Chair's primary role includes ensuring the Board functions properly, that it meets its obligations and responsibilities, and that its organisation and mechanisms are in place and are working effectively.	See page 80
Composition, succession and evaluation	The Nomination Committee is responsible for regularly reviewing the composition of the Board. It appraises the Directors and evaluates the skills and characteristics required on the Board.	See pages 88 to 90
Audit, risk and internal control	The Audit Committee plays a key role in monitoring and evaluating our compliance and risk management processes, providing independent oversight of our external audit and internal control programmes, accounting policies and ensures the Board reports are fair, balanced and understandable.	See pages 92 to 97
Remuneration	The Remuneration Committee sets levels of remuneration which are designed to promote the long-term success of the Group and structures remuneration so as to link it to both corporate and individual performance, thereby aligning management's interests with those of shareholders.	See pages 98 to 123

Board of Directors

Geoff Cooper
Non-Executive Chairman

Committee membership
N

Appointment to the Board
1 July 2016

Relevant skills and 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 Bourne Leisure Holdings, former Non-Executive Chairman of Dunelm Group plc and Card Factory 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 at Bourne Leisure Holdings Limited

Independent
Yes

John Roberts
Founder and Chief Executive Officer

Committee membership
–

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

Relevant skills and experience
- Co-founded the business over 20 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

Mark Higgins
Chief Financial Officer

Committee membership
–

Appointment to the Board
1 August 2015

Relevant skills and 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

Marisa Cassoni
Non-Executive Director

Committee membership
A R

Appointment to the Board
5 February 2014

Relevant skills and experience
- Wealth of Board experience as an executive and non-executive director
- Previously finance director of John Lewis Partnership Ltd, Royal Mail Group and the UK division of Prudential Group
- Recent former Non-Executive Director at Ei Group Plc and Skipton Group Holdings Limited
- Panel member of the Competition and Markets Authority
- Trustee and member of FRC
- ICAEW chartered accountant with extensive financial and governance experience in both private and public companies with strong technology and multi-channel customer offerings, particularly in the financial services, logistics and retail sectors

Significant current external appointments
Non-Executive Director at Galliford Try plc

Independent
Yes

Chris Hopkinson
Non-Executive Director

Committee membership
N P

Appointment to the Board
12 December 2005

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

Significant current external appointments
Executive Director of Clifton Trade Bathrooms Ltd

Independent
No, due to length of tenure only

Shaun McCabe
Non-Executive Director

Committee membership
A R

Appointment to the Board
24 July 2018

Relevant skills and experience
- ICAEW chartered accountant with a strong mix of knowledge of consumer-focused businesses and digital expertise
- Significant international, finance and general management experience
- Previous senior positions held at a number of online market leaders including International Director at ASOS plc and Vice President, Chief Financial Officer for Amazon Europe

Significant current external appointments
Chief Financial Officer for Trainline

Independent
Yes

Luisa D. Delgado
Non-Executive Director

Committee membership
A N R

Appointment to the Board
1 January 2019

Relevant skills and experience
- Extensive experience in consumer goods, retail, international markets, and Public Company governance. Functional expertise in general management and operations, human resources, branding and selling
- Previously held roles include:
  - Chief Executive Officer of Safilo Group, Milan, listed worldwide eyewear company and member of its Board of Directors;
  - Vice President at Procter & Gamble as local CEO Nordic, WE Human Resources VP, with roles in UK, Portugal and Belgium; and
  - Executive Board member and CHRO at SAP SE.
- Holds a LLM of King's College, University of London, and the FT Non-Exec Director Diploma
- An investor and entrepreneur and Lead Operating Director for a portfolio company of Partners Group

Significant current external appointments
Non-Executive Director at INGKA Holding B.V. (IKEA), Aryzta AG and Barclays Bank (Suisse) SA

Independent
Yes

Key
- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- P People Champion
- Chair of Committee

Corporate governance report

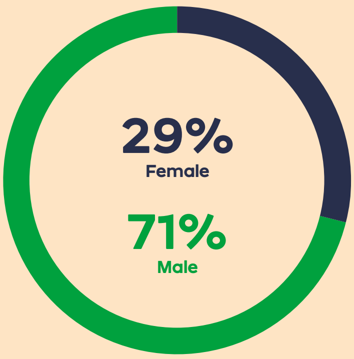
The positions of our Chairman and Chief Executive Officer are not exercised by the same person, ensuring a clear division of responsibility at the head of the Company. The roles and responsibilities of our Board members are clearly defined and are summarised below. For a more detailed description of the roles of the Chair, Chief Executive Officer and Senior Independent Director, please review the Terms of Reference on our website ao-world.com.

Role	Key responsibilities
Chairman Geoff Cooper	• Provide leadership of the Board • Setting the Board's agenda to emphasise strategy, performance and value creation • Monitoring the effectiveness of the Board • Ensuring good governance • Facilitating both the contribution of the Non-Executive Directors and constructive relations between the Executive and Non-Executive Directors
Founder and Chief Executive Officer John Roberts	• Day-to-day running of the Group and effectively implementing the Board's decisions • Leading the performance and management of the Group • Proposing strategies and business plans to the Board • Provide entrepreneurial leadership of the Company to ensure the delivery of the strategy agreed by the Board
Chief Financial Officer Mark Higgins	• Provide strategic financial leadership of the Company and day-to-day management of the finance function • Day-to-day running of the Group and implementing the Board's decisions
Senior Independent Director Marisa Cassoni	• Act as an internal sounding board for the Chairman and serve as an intermediary for the other Directors, with the Chairman, when necessary • Be available to shareholders if they require contact both generally and when the normal channels of Chair, CEO or CFO are inappropriate
Non-Executive Directors Chris Hopkinson Shaun McCabe Luisa D. Delgado	• Bring independence, impartiality, experience, special expertise to the Board • Constructively challenge the Executive Directors and Group management team, and help to develop proposals on strategy and ensure good governance, to scrutinise and hold to account the performance of management and Executive Directors against performance objectives
Designated Non-Executive Director – People Champion Chris Hopkinson	• Provide an appropriate avenue for AOers to raise any areas of concern • Ensure a regular dialogue between employees and the Board to aid information flow and to communicate the views and concerns of the workforce • Work with the Board to take appropriate steps to evaluate the impact of Board proposals on the workforce • To assess and monitor the Group's culture • To ensure workforce policies and practices are consistent with the Company's values

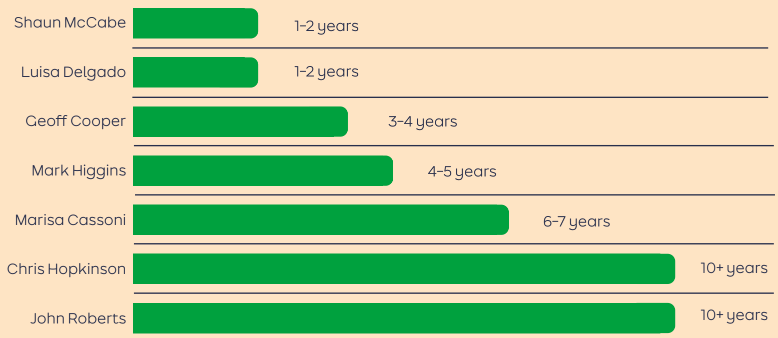
The Board believes that building a diverse and inclusive culture is integral to the success of the Company and that diversity in Board composition is an important part of overall Board effectiveness. Diversity includes aspects such as diversity of skills, perspectives, industry experience, educational and professional background, gender, ethnicity and age. All of these aspects are to be considered in determining the optimum composition of the Board and the Executive Committee to ensure an appropriate balance. We will continue to make appointments based on merit, against objective criteria with due regard for the benefits of diversity and delivery of our strategy. Therefore, while the Board supports the principles of gender diversity, no formal prescriptive or quantitative targets have been set. The Nomination Committee is responsible for overseeing the implementation of the diversity policy.

Our Board currently includes two women, representing 29% of its membership (2019: 33%). The disclosure relating to gender diversity within the Company and further information on the work being undertaken across the Group to further diversify our workforce is included in the CSR report on page 52.

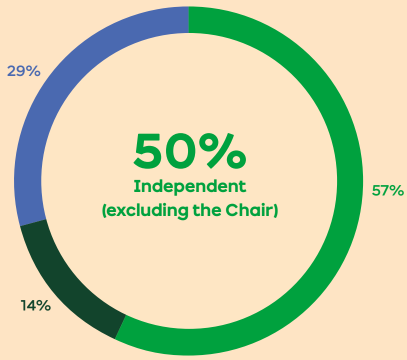
BOARD GENDER



BOARD TENURE AT 31 MARCH 2020



BOARD ROLE AND INDEPENDENCE

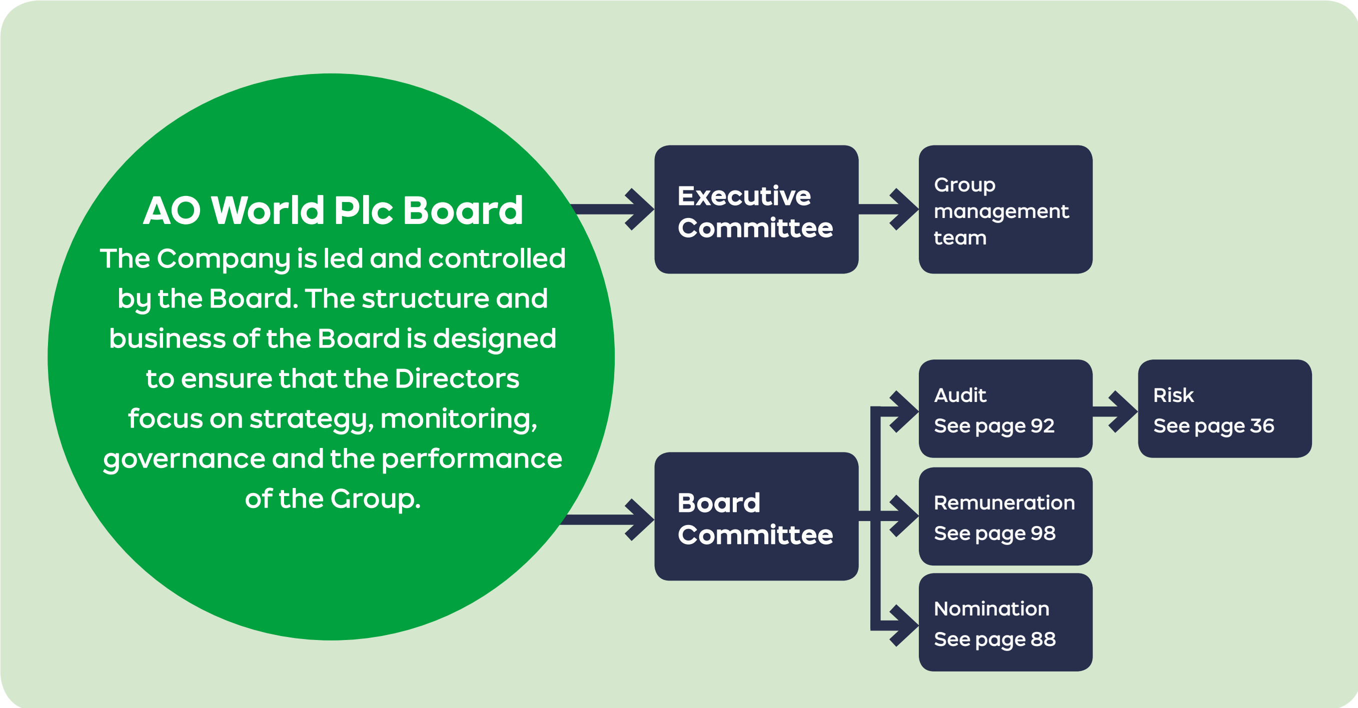


- Independent including the Chair*
- Non-Independent NED
- Executive Director

*Chris Hopkinson in respect of his Board tenure only

BOARD SKILLS

	Geoff Cooper	John Roberts	Mark Higgins	Marisa Cassoni	Chris Hopkinson	Luisa D. Delgado	Shaun McCabe
Retail/customer-focused business experience	●	●	●	●	●	●	●
Digital experience		●	●		●	●	●
Finance and accounting	●		●	●	●		●
International experience	●	●	●			●	●
Functional experience in management and operations	●	●	●	●	●	●	●
Marketing		●				●	
Strategy	●	●	●	●	●	●	●
Public Company governance	●			●		●	●



Role of the Board

Our Board is collectively responsible for the Group's performance and to shareholders for the long-term success of the Company, 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. 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 amongst the Executive Committee and through to the Group management team. The reports of the Committees can be found on pages 88 to 123.

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 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. While not a formal member of the Board, the Group's COO attends Board meetings to update on operational performance. 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 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; and
- Major capital projects and transactions.

In setting and monitoring strategy, the Board is mindful of the impact that its decisions will have on the Group's stakeholders. Examples of how the Board has considered stakeholders in its decision-making process is set out on page 85. Further information on how the Group engages with its stakeholders can be found in the CSR report on pages 50 to 51.

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

Composition of the Board

As at the date of this Annual Report, the Board comprises seven members: the Chairman, two Executive Directors and four Non-Executive Directors, which includes the Senior Independent Director. Excluding the Chairman, three Board members are considered independent, in line with the 2018 Code. All current Directors served throughout the year.

At our AGM held on 17 July 2019, Brian McBride stepped down from the Board as a Non-Executive Director, and Marisa Cassoni replaced him as Senior Independent Director. Jacqueline de Rojas resigned from the Board as a Non-Executive Director on 24 September 2019, and Luisa D. Delgado was subsequently appointed as a member of the Nomination Committee in her place. Jacqueline was also a member of the Remuneration Committee. No additional appointment was made to the Remuneration Committee at that time and so the Remuneration Committee, for the remainder of the Period, comprised of Luisa D. Delgado as Chair and Marisa Cassoni, both of whom are Independent Non-Executive Directors; such composition being in accordance with the Code requirements for smaller companies. However, with the Company re-entering the FTSE 250 on 19 June 2020, Shaun McCabe was appointed to the Remuneration Committee (on an interim basis until a new Non-Executive is appointed). Accordingly, the Board considers that the composition of the Remuneration Committee complies with Code requirements.

No new appointments were made to the Board during the Period.

As part of the Board's work to prepare and apply the new provisions set out in the 2018 Code to assess and monitor culture and to ensure that workforce policies and practices are consistent with the Company's values and support its long-term sustainable success, in the prior year Jacqueline de Rojas was appointed as AO's "People Champion". Following the resignation of Jacqueline de Rojas part way through the year, Chris Hopkinson was subsequently appointed to this role. The key responsibilities of this role are described in the table on page 80.

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. Further details of the relevant skills and experience of the Board are set out in their biographical details set out on pages 78 and 79.

Further details about the changes to the composition of the Board and its Committees during the Period and the work of the Nomination Committee are disclosed on pages 88 to 90.

For information on our procedures concerning the appointment and replacement of Directors, please see the Directors' report on page 124.

Board meetings and attendance

Nine statutory Board meetings (eight scheduled in the ordinary course of business, with one called at short notice to formally approve the Company's renewed Revolving Credit Facility) were held during the year ended 31 March 2020, and there are currently eight meetings scheduled for the year ending 31 March 2021. 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	9
Mark Higgins	9	9
Chris Hopkinson	9	9
Marisa Cassoni	9	9
Shaun McCabe	9	8
Luisa D. Delgado	9	9
Brian McBride[1]	2	2
Jacqueline de Rojas[2]	3	3

[1] Brian McBride resigned from the Board on 17 July 2019

[2] Jacqueline de Rojas resigned from the Board on 24 September 2019

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.

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 Independent Non-Executive Directors members	Three	92 to 97
Remuneration	Responsible for all elements of the remuneration of the Executive Directors and the Chairman, the Company Secretary and the Executive Committee	At least two Independent Non-Executive Directors members (or such number as is required from time to time by the UK Corporate Governance Code)	Three	98 to 123
Nomination	Reviews the structure, size and composition of the Board and its Committees and makes appropriate recommendations to the Board	At least two members (or such number as is required from time to time by the UK Corporate Governance Code) and a majority shall be independent Non-Executive Directors	Two	88 to 90

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

Stakeholder voice into the Boardroom

Section 172 of the Companies Act 2006 (Section 172) requires a Director of a Company to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. A statement on how the Company has engaged with key stakeholders, including suppliers, employees and the community is set out in the CSR report on pages 50 and 51.

The Board's aim is to make sure that its decision-making follows a consistent process, by considering the Company' s strategic priorities while working within a governance framework for key decision making that takes into account all relevant stakeholders and balances their various interests. The Board considers the need to act fairly between stakeholders and continues to maintain high standards of business conduct. Nevertheless, the Board acknowledges that stakeholder interest may conflict with each other and that not every decision can result in a positive outcome for all stakeholders.

During the Period the Board has sought to strengthen its practices to consider the voice of stakeholders in its decision-making process:

- The Board received refresher training on its section 172 obligation and the new reporting requirements
- The list of key stakeholders is reviewed on a regular basis
- Board papers include consideration of section 172 factors to ensure that decision making is fully informed and to enable discussion
- Regular updates are received from the Chief People Officer on people, culture, diversity, talent and engagement
- Going forward the Non-Executive Director People Champion, Chris Hopkinson, will provide regular feedback and updates from the Employee Voice Group
- The Board's strategy sessions will include the potential impact to stakeholders when deciding and agreeing on strategic priorities
- The CEO and CFO meet with major shareholders and feedback is provided to the Board
- The Board receives regular presentations from the Group management team, Legal Director and external advisers

Evaluation and effectiveness

An external evaluation of the Board is carried out every three years. The last external evaluation was carried out in the year ending 31 March 2018; the next external evaluation will be conducted during the year ending 31 March 2021.

An internal evaluation led by the Chair was conducted during the period. Further details are set out in the Nomination Committee report on page 90. 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, Shaun McCabe and Luisa D. Delgado 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. Chris Hopkinson is not considered to be independent for the purposes of the Code given his long-term involvement with the business, but otherwise exercises independent judgement.

Having regard to the character, judgement, commitment and performance of the Board and Committees to date, and following the internal Board evaluation conducted during the year, the Board is satisfied that no one individual will dominate the Board's decision making 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 78 and 79, and the skills matrix on page 81, 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 re-election at the Company's AGM.

Examples of how the Board considered the interests of its key stakeholders when making decisions:

Closure of the Group's operations in the Netherlands:

During the year the Board approved the closure of the Group's operations in the Netherlands. In reaching its decision, the Board balanced the risks of continuing with the operations against the benefits of focusing management energy on achieving success in its German operations. It considered the impact on a number of its stakeholders including its suppliers, employees, shareholders also having regard to the Company's overall reputation. The Board reached the decision that it was in the Company's best interests to close the operations and in doing so ensured that in particular, employees and suppliers were treated fairly and that customers could have recourse to the German business for a period following the Dutch business closure.

Entry into a new lease:

During the year the Board approved the entry into a new lease to provide extra warehousing capacity for its UK logistics operations. The Board took account of a number of stakeholder factors in reaching this decision including that the increased demand for labour and the payment of local taxes and rates would provide a positive impact to the community. Given the proximity of the new site to the existing warehouse space, environmental impacts were considered minimal with trunking and personnel movements being of short distance. The additional space would also provide positive benefits to suppliers and customers.

Annual General Meeting – Covid-19 implications

The Board is cognisant of the public health risk associated with the Covid-19 outbreak arising from public gatherings, and at the time of writing notes the Government's measures restricting such gatherings, travel and attendance at workplaces. At the same time, the Board is conscious of the legal requirement for the Company to hold its AGM before the end of October. Given the current uncertainty around when public health concerns will have abated, the Board has, for the time being, decided to aim to follow the Company's customary corporate timetable of scheduling its AGM within two months of the release of the Company's final results and accordingly, the Company's AGM is being convened to take place at 8.00 am on Thursday 20 August 2020 at the Company's head office at 5A The Parklands, Lostock, Bolton BL6 4SD, but without access for shareholders. The Board will, however, continue to monitor developments and any changes will be advised to shareholders by through though Company's website and, where appropriate, by RNS announcement. In the meantime, the Board encourages all shareholders to take advantage of our registrar's secure online voting service, which is available at aoshareportal.com or submit proxy voting forms as soon as possible and, in any event, by no later than 8.00 am on 18 August 2020.

Shareholders have the opportunity to submit questions on the AGM resolutions electronically before the meeting and such questions, limited to matters relating to the business of the AGM itself, should be sent to 2020AGM@ao.com and these will be responded to on an individual basis.

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 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.

Information, support and development opportunities available to Directors

All Board Directors have access to the Company Secretary, who advises them on governance matters. The Chairman and the Company Secretary work together to ensure that Board papers are clear, accurate, delivered in a timely manner to Directors and of sufficient quality to enable the Board to discharge its duties. Specific business-related presentations are given by members of the Group management 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 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 their 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 78 and 79.

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.

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.

Nomination Committee report

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

Geoff Cooper
Chair

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 2020 and their attendance at Committee meetings is as follows:

1 NOMINATION COMMITTEE ATTENDANCE

		Meetings eligible to attend	Meetings attended
Geoff Cooper	Chair and Chair of the Board	3	3
Chris Hopkinson	Non-Executive Director	3	3
Luisa D. Delgado	Independent Non-Executive Director	2	2
Jacqueline de Rojas	Independent Non-Executive Director	–	–

Following the resignation of Jacqueline de Rojas from the Board and the Nomination Committee in September 2019, Luisa D. Delgado, Independent Non-Executive Director, was subsequently appointed as a member of the Nomination Committee part way through the year. Luisa's significant experience in human resources and public company governance will allow her to make a significant contribution to the work of the Committee. Although Chris Hopkinson is not deemed an Independent Non-Executive Director due to his historic involvement with the Company, the Committee complies with the provisions of the Code as including myself as Chair, the Committee will comprise a majority of Independent Non-Executive Directors.

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 and the other Non-Executive Directors.

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. It also ensures that plans are in place for orderly succession for appointments to the Board. The Nomination Committee makes recommendations to the Board on its membership and the membership of its principle committees.

The Nomination Committee also makes recommendations to the Board concerning the reappointment of any Non-Executive Director as they reach 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 against the Company's strategy. 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

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.

Following the changes in the composition of our Board during the year, although the it remained technically compliant with the provisions of the Code as at least half the Board, excluding the Chair, are Independent Non-Executive Directors having reviewed its composition the Committee determined that an additional Independent Non-Executive Director should be appointed to further strengthen and diversify its work. However, having regard to the four strategic priorities being undertaken during the Period, including the work to improve the performance of the European operations and the adoption of the One AO approach, it was considered prudent to wait until the next financial year before formally conducting a search for appropriate candidates. This will ensure that the candidates with the most appropriate skill set based on the current position of the business are sought.

Following the resignation of Jacqueline de Rojas as a Non-Executive Director and a member of the Remuneration and Nomination Committee, Luisa D. Delgado was subsequently appointed as a member of the Nomination Committee. No additional appointment was made to the Remuneration Committee at that time and so the Remuneration Committee for the remainder of the Period comprised of Luisa D. Delgado as Chair and Marisa Cassoni, both of whom are Independent Non-Executive Directors, such composition being in accordance with the Code requirements for smaller companies. However, with the Company re-entering the FTSE 250 on 19 June 2020, Shaun McCabe was appointed to the Remuneration Committee (on an interim basis until a new Non-Executive is appointed). Accordingly, the Board considers that the composition of the Remuneration Committee complies with Code requirements and that all members have appropriate experience and skills required for the work of this Committee.

No new appointments were made to the Board during the Period. Following the retirement of Brian McBride at the Company's AGM in July 2019, Marisa Cassoni replaced him as Senior Independent Director.

The effectiveness and performance of the Board is vital to our success. An internal evaluation of the performance of the Board, its Committees and the Chairman was carried out towards the end of the Period. The process of evaluating the performance was undertaken by myself as Chairman. Having regard to the relatively small number of Board members and Board priorities for the Period, the Board's usual full internal evaluation questionnaire process was not considered appropriate and instead the evaluation process was adapted to comprise individual meetings between the Chair and Board members. Actions were reviewed from the previous Board review and specific areas of focus included:

- being more open to developments outside of the Company, facilitated through holding regular open sessions at Board meetings for Directors to bring matters to the Board;
- encouraging our Non-Executive Directors to spend more time in the business with our people outside of scheduled Board meetings;
- Executive Directors bringing an increased number of options on the key decisions required from the Board; and
- an enhanced and more regular discussion on the Group's risks (specifically emerging risks).

A number of highly productive and effective strategy days were held during the Period, which have also helped to foster relationships and encourage a more open culture of debate and challenge between Board members. Overall, the evaluation indicated that the Board is working well and that there are no significant concerns about its effectiveness.

During the year the Committee reviewed 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.

The Nomination Committee also approved the Board's mechanism for workforce engagement during the year.

Diversity

The Board believes that building a diverse and inclusive culture is integral to the success of the Company and that diversity in Board composition is an important part over overall Board effectiveness. Diversity includes aspects such as diversity of skills, perspectives, industry experience, educational and professional background, gender, ethnicity and age. All these aspects are considered in determining the optimum composition of the Board and the Executive Committee to ensure an appropriate balance. We will continue to make appointments based on merit, against objective criteria with due regard for the benefits of diversity and delivery of our strategy. Therefore, while the Board supports the principles of gender diversity no formal prescriptive or quantitative targets have been set. The Nomination Committee is responsible for overseeing the implementation of the diversity policy.

Our Board currently includes two women, representing 29% of its membership (2019: 33%). The disclosure relating to gender diversity within the Company is included in the CSR report on page 52 .

Reappointment of Directors

On the recommendation of the Nomination Committee and in line with the Code, all currently appointed Directors will retire at the 2020 AGM and offer themselves for reappointment. The biographical details of the current Directors can be found on pages 78 and 79. 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.

Geoff Cooper
Chair, Nomination Committee
AO World Plc

13 July 2020

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 communication 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 that 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 is available to shareholders if they have concerns that cannot be raised through the normal channels or if such concerns have not been resolved. Arrangements can be made to meet with her 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 (ao-world.com).

Audit Committee report

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

Marisa Cassoni
Chair, Audit Committee

On behalf of the Committee, I am pleased to present this year's Audit Committee report, which provides an overview of how we, as a Committee, have discharged our responsibilities, setting out the significant issues we have reviewed and concluded on during the year.

The report focuses mainly on the following areas:

- the role and responsibilities of the Committee;
- the main activities of the Committee during the year; and
- a review of the effectiveness of the Committee.

Composition and attendance of the Committee

Details of the members who served during the year ended 31 March 2020, together with their attendance at Committee meetings, is set out in the table opposite.

In addition to its members, the Chief Executive Officer, the Chief Financial Officer, the UK Finance Director, the Director of Financial Control and the Head of Group Audit and Risk attend meetings, by invitation. The Chairman of the Board and the other Non-Executive Directors also regularly attend. The external audit engagement partner and team are also invited to attend Committee meetings to ensure full communication of matters relating to the audit. The Group Legal Director and Company Secretary serves as Secretary to the Committee.

Private meetings, without Executive management being present, were also held during the year with the Head of Group Audit and Risk, the Chief Financial Officer and the external auditors KPMG LLP (KPMG) to provide an opportunity for any relevant issues to be raised directly with Committee members.

The Committee currently comprises three members, all of whom are Independent Non-Executive Directors. Both Shaun McCabe and I have a financial background and are Members of the Institute of Chartered Accountants in England and Wales, and so are able to provide appropriate challenge to management. The Board considers that this satisfies the 2018 Code requirement that the Committee's membership must have recent and relevant financial experience.

Consideration is also given towards ensuring that the Audit Committee as a whole has competence relevant to the sector in which it operates in line with the 2018 Code requirements. As Committee Chair, I have held senior finance appointments with a number of large organisations and in the retail sector, most recently as Group Finance Director at the John Lewis Group prior to retirement in 2012 and have chaired a number of audit committees in the quoted sector. Shaun McCabe is currently Chief Financial Officer of Trainline plc and has a strong mix of knowledge of consumer-focused businesses, as well as digital expertise gained from his time in senior positions including as International Director at ASOS plc and Vice President, Chief Financial Officer for Amazon Europe. Luisa D. Delgado has a wealth of international experience in consumer goods and IT, having previously been CEO at Safilo Group and Proctor & Gamble (Nordic Region) and an Executive Board member at SAP SE. The Board is therefore satisfied that, as a whole, the Committee has competence relevant to the online retail sector.

Role and responsibilities of the Committee

The Committee met six times during the year; this number being deemed appropriate to the Committee's role and responsibilities. The responsibilities of the Committee are delegated by the Board and are set out in its written Terms of Reference, which are available on our corporate website at ao-world.com/investor-centre/governance-and-leadership/board-committees/.

The key delegated responsibilities are to:

- monitor the integrity of the Group's financial statements and reporting process (including for its annual and half-yearly reports and any informal reports such as preliminary statements and analyst presentations) by reviewing and challenging in particular the significant accounting policies and practices and any changes to them and any significant estimates and judgments and reporting to the Board on how these were addressed;
- review the adequacy and effectiveness of the internal financial controls and the Company's other internal control and risk management systems;
- monitor and review the effectiveness and independence of the Company's internal audit functions, to review and assess its annual internal audit plan, quarterly audit reports and management's responsiveness to the findings and recommendations of the internal auditor;
- advise the Board whether 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, performance, business model and strategy;
- conduct the tender process and make recommendations to the Board on the appointment, reappointment and removal of the external auditor and agreeing their remuneration and terms of engagement;
- oversee the Company's relations with the external auditor, monitoring their performance, independence and objectivity and ensuring that the policy to provide non-audit services is appropriately applied;
- review and monitor the effectiveness of the external audit process;
- review the Company's risk management and viability disclosure for recommendation to the Board for approval;
- review instances of whistleblowing and the Group's procedures for detecting fraud; and
- to report to the Board on how we have discharged our responsibilities.

1 AUDIT COMMITTEE ATTENDANCE

		Meetings eligible to attend	Meetings attended
Marisa Cassoni	Senior Independent Non-Executive Director (Committee Chair)	6	6
Shaun McCabe	Independent Non-Executive Director	6	6
Luisa D. Delgado	Independent Non-Executive Director	6	6

Audit Committee report continued

Committee meetings are generally scheduled to take place in advance of a Company Board meeting with minutes distributed to the Board following each meeting. As Chair of the Committee, I provide an oral report to the next Board meeting after each meeting of the Committee to report on its activity and matters of particular relevance to the Board in the conduct of their work. 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 and the external audit plan, review of risk management reports, review of internal audit plans and findings and recommendations.

Activities of the Committee during the year

During the year to 31 March 2020, our work fell under three main areas, in line with our responsibilities, as follows:

a) Internal control and risk

The Board acknowledges its responsibility for establishing and maintaining the Group's system of internal controls in the achievement of its objectives. Good internal controls also facilitate the effectiveness and efficiency of operations, help to ensure the reliability of internal and external reporting and assist in compliance with applicable laws and regulations. However, 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. During the year, the Committee continued to oversee and review AO's internal financial controls and risk management processes.

Through the Committee, the Group's Internal Audit function provides independent assurance to the Board on the effectiveness of the internal control framework through an agreed calendar of reviews under its annual audit plan. This information, along with risk management updates, was received and considered by the Committee during the year along with management's actions to findings and recommendations. The information received provided assurance that there were no material breaches of control and that the Group maintained an adequate internal control framework that met the principles of the UK Corporate Governance Code.

The Head of Group Audit and Risk reports to me and, as a Committee, we are responsible for ensuring that the Internal Audit team has adequate skills and resource levels that are sufficient to provide the level of assurance required. The Committee is satisfied that, throughout the reporting period, this function had an appropriate level of resources in order to carry out its responsibilities effectively and that it continues to do so.

The Committee is also responsible for agreeing the annual budget of Internal Audit and for approving its annual plan of work. This is prepared on a risk base approach by Internal Audit, reflecting input from management and the Committee.

We monitor and assess the role and effectiveness of the Internal Audit function in the overall context of the Group's risk management systems. The Committee assesses the effectiveness and independence of the Internal Audit function annually.

Other key elements of the Group's risk management and internal controls systems, which have been reviewed by the Committee during the year 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 (including emerging 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 Business Unit Risk Registers and the most significant ones (after assessing likelihood and impact) are then included in the Group's Corporate Risk Register. 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. In line with the 2018 Code, this year the Risk Management Committee has reviewed procedures in place to identify emerging risks. Further details about the Group's risk management practices, its principal risks and its long-term viability can be found in the our risk section on pages 36 to 48.

Management structure: There is a clearly defined organisational structure throughout the Group with established lines of reporting and delegation of authority based on job responsibilities and experience. Within the businesses, Group management team meetings occur regularly to allow prompt discussion of relevant business issues and to ensure alignment on strategy. Please see page 82 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. Our financial reporting system, Microsoft Dynamics, is continually adapted to ensure that the requirements of the business are met. 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: In addition to the work of the Internal Audit function, 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 finance and other matters. Additionally, as part of the external audit process, KPMG also provides us with internal controls reports. During the year, they did not highlight any material control weaknesses.

We have carried out a review of these internal control systems and risk management procedures and processes during the year and are satisfied that these are working effectively.

b) Review of the 2020 Financial Statements

During the year to 31 March 2020, the Audit Committee reviewed and endorsed, prior to submission to the Board, the full-year and interim financial statements and has considered the accounting policies adopted by the Group, the presentation and disclosure of financial information, and in particular, the key estimates and judgements made by management in preparing the financial accounts.

The Directors are responsible for preparing the Annual Report and Accounts, and at the request of the Board, we have considered whether the Annual Report and Accounts for the year ending 31 March 2020 when taken as a whole, is fair, balanced and understandable and whether they provided the information necessary for members to assess the Group's position, performance, business model and strategy. The Committee assessed this in the following ways:

- reviewed early drafts of the Annual Report and Accounts, providing relevant feedback to help ensure that the final draft is fair, balance and understandable;
- had regard to best practice guidance and recommendations, including those published by the Financial Reporting Council;
- reviewed the alternative performance measures of operating loss (as defined on page 69 of the Strategic report), which are reported alongside the IFRS numbers and was satisfied that it provides a clearer view of the underlying performance and provides a meaningful year-on-year comparison;
- regularly reviewed and discussed financial results during the year; and
- reviewed reports from the external and internal Auditors.

The Committee is satisfied that taken as a whole, the Annual Report and Accounts for the year ending 31 March 2020 are fair, balanced and understandable and provides the necessary information set out above. This was confirmed to the Board, whose statement in this regard is set out on page 129 of the Directors' report.

In reviewing the financial statements with management and the Auditors, the Committee 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, we identified the following issues that require a high level of judgement or have significant impact on interpretation of this Annual Report.

Audit Committee report continued

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 & General, who administer the plans, collect money from the customers and pay a commission to the Company for each plan sold. Commission for sales of product protection plans for which the Group acts as an agent are included within revenue and as a contract asset based on the estimated 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 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. While 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.
Network commission receivable	The Group's subsidiary AO Mobile Ltd receives commission from the Mobile Network Operators. The network commissions revenue are based on the value of commissions due over the expected life of the network contract. As this requires subjective estimates the future outcomes of these estimates could be different which would affect the amount of revenue recognised. While 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.
AO Mobile – carrying value of goodwill and intangible assets	On the acquisition of MobilePhonesDirect Limited (since renamed AO Mobile Limited) in December 2018 the Group recognised goodwill and intangible assets which at 31 March 2020 had a carrying value of £28.4m. The carrying value is assessed by performing a value in use calculation based on a discounted cashflow using the Company's three year plan as a base. Sensitivity analysis is performed against the base case predominantly in relation to forecast EBITDA. Should performance and the assumptions made by management not be in line with expectations, there is a risk that the carrying value could be impaired. The management team has prepared detailed policies setting out the key assumptions, estimates and judgements in this area. The Committee has reviewed the estimates and judgements made in this area by management and, after due challenge and debate, was content with the assumptions made, the judgements applied and the sensitivity analysis undertaken.

The Group has adopted a new accounting standard, IFRS 16 "Leases", which was effective as of 1 January 2019 and therefore first applicable during the year to 31 March 2020. The Committee maintained oversight of the Group's preparation for this new standard and has considered the appropriateness of disclosures made in these Annual Accounts.

The Committee reviewed the going concern assumption and viability statement reported by the Group, as required by the UK Corporate Governance Code 2018 including the risks that could arise from a partial or full withdrawal of suppliers' credit insurance, Brexit and Covid-19 implications. Further information on risks relating to Brexit and Covid-19 can be found on pages 40 and 41 and further information on the going concern assumption can be found on page 48. The Committee was satisfied that the viability statement, noted on page 48 of the strategic report, presented a reasonable outlook for the Group to March 2023.

c) External Auditor

The Audit Committee has primary responsibility for leading the process for selecting the external Auditor. It is required to make appropriate recommendations on the external Auditor through the Board to the shareholders to consider at the Company's AGM. Following approval by shareholders at the AGM held on 17 July 2019, KPMG LLP was reappointed as AO's external Auditor for the financial year ending 31 March 2020.

A key responsibility of the Committee is to review and monitor the effectiveness of external audit process and independence of the external Auditor. This includes consideration of such matters as:

- openness of communication between the external Auditor and senior management;
- any risks to audit quality that the external Auditor identifies;
- the key controls that the external Auditor relied on to address any identified risk to audit quality such as appropriate audit methodologies;
- the findings from internal and external inspections of the external audit and audit firm;
- whether the original audit plan was met;
- the reports that are brought to the Committee by the lead audit engagement partner and other senior members of the audit team;
- the quality of the management responses to audit queries;
- the skills and experience of the audit team including whether, in the opinion of the Committee, the external Auditor demonstrated sound understanding of the business;
- whether an appropriate degree of challenge and professional scepticism was applied by the external Auditor; and
- 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 Head of Group Audit and Risk.

Based on the above, the Committee concluded that the relationship with the external Auditor continued to work well and we are satisfied with their effectiveness and independence.

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 of not more than 70% of total Group audit fees, and various services are wholly prohibited; including tax, legal, valuation and payroll services.

KPMG undertook non-audit related assignments for the Group during the year. These were conducted in accordance with the policy and are consistent with the professional and ethical standards expect of the external Auditor. Details of the fees paid to the external Auditor for audit and non-audit are set out in Note 10 to the consolidated financial statements and during the year non-audit fees represented 7.5% of the total Group audit fee (2019: 15%). Non-audit assignments undertaken during the year related to the half year review. The Audit Committee considered the level of these fees against the fees paid to KPMG for audit services. The Audit Committee were satisfied that the work performed and fees received did not conflict with KPMG's independence.

Regulatory oversight

During the year, the Company received an enquiry letter from the Conduct Committee of the Financial Reporting Council ("FRC") as part of its ongoing monitoring of UK corporate reporting. The letter requested certain information in respect of the Group's FY19 Annual Report, principally regarding acquisition accounting and revenue presentation. The Group responded in detail to these enquiries and incorporated a number of enhancements to its FY20 Annual Report. The review carried out by the FRC provides no assurance that the Annual Report was correct in all material respects. The FRC's role is not to verify information provided but to consider compliance with reporting requirements.

Effectiveness of the Audit Committee

The effectiveness of the Committee is assessed annually and as part of the annual Board and Committee effectiveness review, further details of which are set out in the report on Corporate Governance on page 85. The review for the year to 31 March 2020 concluded that we continued to operate effectively during the year.

During the year Committee members have undertaken relevant training as part of their ongoing development.

Marisa Cassoni
Chair, Audit Committee
AO World Plc

13 July 2020

Directors' remuneration report

"Ensuring a reward strategy that supports short and long term sustainable performance."

Luisa D. Delgado
Chair, Remuneration Committee

This report sets out the remuneration policy for the Directors of AO World Plc, what we paid our Directors in FY20 and how we propose to pay them in FY21. The report is structured as follows:

- The annual statement from the Chair of the Remuneration Committee
- The Directors' remuneration policy (which received shareholder approval at the 2018 AGM)
- The Annual Report on Remuneration (which will be subject to an advisory vote at the 2020 AGM)

Highlights of the work of the Remuneration Committee in FY20 and to the date of this report:

- Considered requirements of the new UK Corporate Governance Code, the revised Investment Association Principles of Remuneration and various investor guidance on remuneration and resolved to introduce a holding period to the AOIP and post-employment shareholding requirements.
- Determined the levels of vesting for the AO Incentive Plan FY20 Award and PSP 2017 Award, which are due to vest this summer, including how the closure of the Dutch business should be reflected.
- Determined the remuneration for FY21 for our Executive Directors, the Executive Committee and certain senior management.
- Assisted in the design of and approved settlement packages for various senior leaders.
- Held early discussions on a new policy for FY22.
- Considered VCP proposal including detailed design work, extensive shareholder consultation and impact of this incentive structure on broader remuneration arrangements.

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 2020.

Pay for sustainable performance; our remuneration policy

Our current policy received broad support from shareholders at the Company's AGM in 2018. No new changes were proposed last year but we agreed to keep it under review, mindful of the requirements of the new UK Corporate Governance Code ("the Code"), which applied to us for FY20 and the evolving investor and stakeholder remuneration principles.

Overall, the Policy remains aligned to our reward philosophy; 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 is an effective tool with which we can motivate and retain our Executives and senior management and provide long-term stewardship.

Accordingly, we are not proposing any material changes to the policy this year but we are making some changes within the scope of the existing policy to reflect Code requirements and best practice, including expanding malus and clawback provisions and introducing post-employment shareholding guidelines.

The existing policy will therefore remain in place until next year when it is due for renewal having been in force for three years. Over the year ahead we are committed to a further full review of all remuneration arrangements and operations of incentives and will engage with management, employees and shareholders as we look to refresh and evolve the policy.

Performance and reward for FY20

The Annual Report on Remuneration (set out on pages 105 to 107) describes how the policy approved at the 2018 AGM has been implemented in the year under review. It will be the subject of an advisory vote at the forthcoming AGM.

Full year performance for FY20 fell within the range of expectations with Group revenue increasing by 15.9% year-on-year to £1,046.2m and Group Adjusted EBITDA improved to £19.6m* against £12.8m the prior year.

The results were achieved in a challenging UK market against the backdrop of Brexit and we have made significant improvements in our German business. In November we made the decision to close down the Dutch business to enable us to focus more deeply on the German business – see page 19 for further detail. The results above include £19m revenue from that business and £3.0m of Adjusted EBITDA losses generated in the year, prior to its closure. Assisted by some increased demand for refrigeration and electricals from online retailers due to Covid-19 in the last few weeks of March, we exited the year with good momentum.

For the purposes of vesting of incentives targets were set on a pre-IFRS 16 basis and accordingly we have tested performance on that basis. The reconciliation of the amounts above to the statutory numbers is included in note 6 to the financial statements on pages 158 to 159. Further for the purposes of calculating scheme vesting, we are excluding £0.3m of revenue that was earned by the Dutch business after closure.

* The EBITDA noted here is on a post IFRS 16 basis.

AO Incentive Plan

The current variable remuneration for our Executives and senior management is structured around our AO Incentive Plan. It combines a cash bonus with a conditional deferred share award, with one set of targets which are measured over a one-year performance period.

The targets for the FY20 Award consisted mainly of financial targets, addressing both top-line growth and profit, but also cash flow and two strategic metrics centred on customer satisfaction (measured by NPS scores) and further leverage of our eco-system.

The chart below shows the threshold, target and stretch levels for the financial performance conditions and the results against these, with the vesting levels set out respectively.

We were pleased to see market-leading customer NPS scores across all our territories, showing that AO continues to delight our customers. With an NPS weighted average* of 83.4 across the three territories, the threshold, "on-target" and stretch targets for this performance condition (at NPS scores of 70, 75 and 80 respectively) were met.

* weighted by revenue

The final strategic target was centred around the leverage of our eco-system, in particular how AO leverages its skills in one area of the business ultimately to drive the most value through the profit and loss account. Some measurable aspects of this included growing the third party client base in logistics and B2B and building our plastics recycling plant – both things that were achieved in the year. However, the biggest example of this philosophy in action has been the adoption of "One AO", which is covered in John's strategic report in more detail on page 19. We are now starting to use the best resources, know-how, skills and talent right across the Group; we have established Group centres of excellence and enabling functions to support international operations teams to ensure we are best placed to pursue opportunities, serve the customer better and innovate in a way that is sustainable, agile and scalable. Accordingly, the Remuneration Committee has decided that this performance condition has been met.

In total we have in principle, as a consequence, awarded 47.8% of the maximum AO Incentive Plan Award, which will be settled in cash (one-third) and deferred shares (two-thirds).

Full details of the cash amount to be paid and share awards to be issued to our Executive Directors under the AO Incentive FY20 Award are disclosed on page 113.

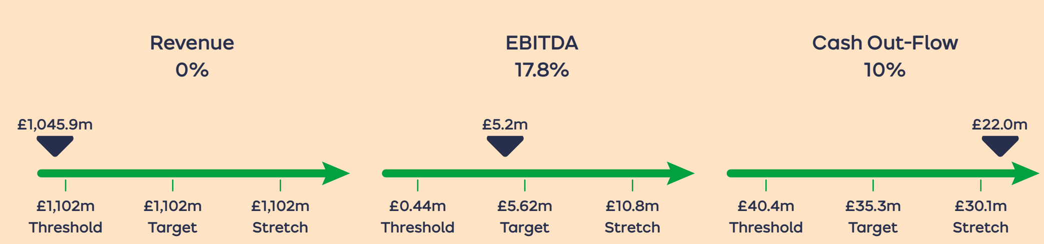
Performance Share Plan – 2017 Award

This is the final year in which we will complete a PSP award cycle, with the performance period of our 2017 PSP Award spanning the three financial years ended 31 March 2020. Of our Executive Directors in office during the year, only Mark Higgins, our CFO, received an award in this cycle.

The stretching targets set in 2017 were based one-third on relative TSR (measured against FTSE-listed retailers); one-third on Group Adjusted EBITDA and the final third on revenue growth (requiring revenue to increase from £701.2m in FY17 to £921m for a third to vest and to £1081m for full vesting). The threshold and target levels for the revenue performance condition have been met meaning that for the CFO 29.4% of the maximum award will vest.

Full details of the shares to be awarded under the 2017 Performance Share Plan Award are disclosed on page 114.

AO INCENTIVE PLAN FY20 AWARD – FINANCIAL PERFORMANCE CONDITIONS



Approach to Remuneration for FY21

Executives

For the year ahead base salaries for the Executive Directors were reviewed in March. Based on the strong performance of the Company over FY20 and following a benchmarking exercise, increases were awarded, in line with the average change in total workforce salary. Accordingly, the CEO salary was approved to be increased from £450,000 to £464,000, and the CFO from £340,000 to £350,000. Implementation of the increases was initially deferred to ensure we preserved cash in view of the Covid-19 uncertainty. However, given the trading performance of the business over the last three months, the increases have now been made, effective 1 April 2020.

On pension levels, we recognise that the Code calls for parity between the Executives and the wider workforce. Last year, the Committee agreed that any newly appointed Executives would receive the same level of pension contribution as the wider management level (i.e. 9% of salary). We have this year agreed with our Executive Directors that their pension contributions will be immediately reduced to the level of 9% upon adoption of the VCP, if approved.

In terms of variable pay, the Executives will be entitled to participate in the AO Incentive Plan ("the AOIP"), where performance conditions have been set in line with the Company's strategic and financial goals. Financial metrics – including Group revenue, Group Adjusted EBITDA and cash flow – represent the majority of targets, with the remainder based on achievement of key strategic objectives (see page 119 for further details). The maximum opportunity will be 300% of salary (unchanged from the prior year), with no more than one-third paying out in cash and the remaining portion being deferred into shares vesting subject to business performance after a further three-year period. We recognise that the Code calls for a total vesting and holding period of five years or more and therefore this year we are introducing a one-year holding period following the vesting of shares.

During the year we further considered the Code provisions relating to post-cessation of office shareholding requirements for Executive Directors and are pleased to confirm that, for the year ahead, we are introducing this. During office, the shareholding requirement for our Executives is 200% of salary. Post-termination we will adopt a tapering approach over two years, where up to 12 months post-termination, the requirement is maintained at 200% of salary and from 12 months up to 24 months, 100% is required.

Whilst the one-year holding period under the AOIP following vesting of shares and the post-termination shareholding requirements are yet to be formally incorporated into the Company's remuneration policy (which we will do next year when the full policy is reviewed), the Committee is keen to align with best practice now.

Value Creation Plan ("VCP")

Over recent months the Committee has spent substantial time in reviewing the remuneration structures in place at AO. The outcome of this review and following detailed consultation with our largest shareholders is that the Committee is proposing to introduce a new one-off all-employee incentive plan – the AO Value Creation Plan. This will run alongside our existing incentives for FY21. Any revisions to these existing arrangements will be incorporated into the renewal of our Directors' Remuneration Policy at the 2021 AGM.

The proposed VCP has been designed and developed to support AO's special business model. This relies on an unwavering focus on customer proposition and excellent execution. Both of these are underpinned by a unique culture of inclusion, individual accountability and a one team entrepreneurial spirit. On that basis, the VCP extends to all our current employees and subject to future performance, has the ability to deliver, what we believe to be, substantial rewards for those individuals. All employee participation is a key feature of this incentive plan.

Our proposal is aimed not only at incentivising exceptional performance but also to assist with the retention of our talented team. For our Executives, awards are phased over five, six and seven-year periods, with the maximum opportunity only achievable if our ambitious growth plans are sustained in the long term. This, therefore, represents exceptional value creation for our shareholders and long term investors and provides financial motivation for our entire workforce to accelerate profitable growth.

Over the last few years the foundations have been put in place, both in the UK and now Germany, to accelerate high growth and create significant shareholder returns. For any payments to be made under the plan, our share price will need to grow over three times (threshold is set at £5.23 – equivalent to market cap of £2.5bn with our current share capital), which equates to a c.30% compound annual growth rate.

In considering the design of a plan that is fairly unique in the market, the Remuneration Committee has been conscious of balancing the needs of all our stakeholders. It is designed to provide an effective motivational incentive plan to support extraordinary performance, with sufficient safeguards to underpin sustainable value creation. It is reflective of our unique culture and values that are at the heart of our competitive edge and believe that it will help galvanise the team and drive the business further forward.

On a personal note, I would like to once again thank all our shareholders and investors who have taken the time to provide their input into the development of this ambitious and transformational scheme. The vast majority of shareholders consulted indicated they would support the proposal at the forthcoming AGM. In forming the VCP proposal we have also engaged with some of our employee champions to ensure that it will be truly motivational.

Details of the proposed Value Creation Plan are set out on pages 120 to 121 .

Non-Executives

Fees for the Non-Executive Directors (including the Chairman) were reviewed during the year. Given the increases awarded last year (and fees being broadly in line with the market), no changes to Non-Executive Director fees are proposed.

Further details regarding the implementation of our policy in the year ahead are provided on pages 117 to 122.

Employees

As set out in the Corporate Governance report on page 60 we have appointed Chris Hopkinson, as designated NED, to drive engagement with the workforce generally and I expect to work with Chris – alongside our new Chief People Officer – in drawing up a programme of activities to ensure both transparency of remuneration and that employee views are taken into account when setting and determining Executive remuneration in the year ahead.

UK Corporate Governance Code

When making decisions relating to remuneration the Committee is mindful of the guidance in the UK Corporate Governance Code around clarity, simplicity, risk, predictability, proportionality, and alignment to culture. As detailed in this report, various steps have been taken to ensure that the approach to remuneration is consistent with these principles – indeed these have been key considerations when designing the Value Creation Plan. The Remuneration Committee will continue to take these factors into account when reviewing the Remuneration Policy ahead of the Annual General Meeting in 2021.

Reward levels are set to attract, retain and engage high-calibre talent to support the business strategy, taking into account the talent market in which we operate. The remuneration arrangements are intended to be simple and transparent, as demonstrated by the design of the AOIP and the VCP. Pay for senior executives includes elements of variable pay, partly delivered in shares, to ensure outcomes are reflective of performance, delivery of the strategy and the shareholder experience. Customer satisfaction is a key pillar of our strategy and culture and is measured using the NPS metric in the AOIP. All variable remuneration is subject to appropriately stretching performance targets, which are set to reflect the risk-appetite of the business, with a focus on delivery of long-term sustainable performance. Variable pay elements are also subject to: (i) recovery provisions to safeguard against payments for failure; (ii) performance underpins; and (iii) scope for the Remuneration Committee to exercise discretion where outcomes are deemed inappropriate in the context of wider business performance. As detailed in this report, the Remuneration Committee also spends considerable time understanding the pay trends throughout the Company as this provides important context when determining pay for our Executives. Our Remuneration Policy contains details of maximum opportunity levels for each component of pay, with actual incentive outcomes varying depending on performance against specific measures.

I hope this sets out clearly how the Committee has implemented the existing policy during FY20, and how we propose to move forward and implement the policy in FY21.

I look forward to engaging with shareholders in the year ahead on Executive remuneration. If shareholders wish to discuss any aspects of this report or, in particular, the VCP proposal, please contact me through the Company secretarial team at cosec@ao.com.

Luisa D. Delgado
Chair, Remuneration Committee
AO World Plc

13 July 2020

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 was put to a binding shareholder vote at the 2018 AGM and received support from in excess of 87% of the votes cast and has been reviewed annually since then.

FY21 will be the final year of application for the current policy and in the year ahead we will review the components against the Code and best practice and look to develop for future years taking into account the views of our shareholders and also our employees.

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 ao-world.com.

These were recently updated to reflect the principles set out in the new UK Corporate Governance Code.

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 put forward at the 2018 AGM, we 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 has not historically consulted 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. As part of our VCP proposal development we sought feedback from certain of our Employee Champions and going forward and, as we look to introduce a new policy for FY22, we recognise that consultation with employees is desired across the investor community. Chris Hopkinson has been appointed as our NED Engagement Champion and we are exploring ways to ensure there is an employee voice on the Board, particularly with regard to Executive remuneration. The Remuneration Committee is also mindful of the Code requirements to align Executive pension contributions with the wider workforce. We have worked with Executives this year to agree a reduction in their pension contributions to ensure these are aligned to the wider workforce rates subject to the VCP being adopted.

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.

Directors' remuneration report continued

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

Implementation of the policy for the FY20 can be found in the Annual Report on Remuneration.

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

Directors' remuneration report continued

Historic arrangements

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretion 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 the current policy being in force 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. As noted above, should the VCP be approved by shareholders, awards will be made to all employees at such time.

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.

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. Going forward the Remuneration Committee would expect to place newly appointed Executives on no more than six months' notice.

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

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.

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.

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 are 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	
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 FY20 was structured within the framework of the remuneration policy adopted by shareholders in 2018 and has been implemented accordingly. This will be put to an advisory vote at the Company's AGM on 20 August 2020.

Single figure of total remuneration for FY20 (Audited)

The audited table below shows the aggregate emoluments earned by the Directors of the Company during the period 1 April 2019 to 31 March 2020 (or relating to that period in the case of Bonus, PSP and the AO Incentive Plan) and, for comparison, the amounts earned during the period 1 April 2018 to 31 March 2019 (or relating to that period in the case of variable remuneration).

		Salaries and fees £	Benefits/ taxable expenses £	Pension[4] £	Bonus[5] £	Value of PSP[6] £	AO Incentive Plan Award cash[7] £	Total £
Executive Directors								
John Roberts[1]	2019/20	450,000	16,727	44,640	200	–	215,100	**732,924**
	2018/19	400,000	15,560	51,000	200	42,463	–	**509,223**
Mark Higgins[2]	2019/20	340,000	16,516	39,081	200	170,100	162,520	**728,417**
	2018/19	340,000	17,812	43,350	200	56,671	171,700	**629,733**
Steve Caunce[3]	2019/20	–	–	–	–	–	–	
	2018/19	401,000	15,485	51,128	200	–	–	**467,813**
Chairman	2019/20	200,000	–	–	–	–	–	**200,000**
Geoff Cooper	2018/19	165,000	1,244	–	–	–	–	**166,244**
Non-Executive Directors[8]								
Christopher	2019/20	55,000	–	–	–	–	–	**55,000**
Hopkinson	2018/19	50,000	–	–	–	–	–	**50,000**
Marisa Cassoni[9]	2019/20	72,051	761	–	–	–	–	**72,812**
	2018/19	60,000	267	–	–	–	–	**60,267**
Shaun McCabe[10]	2019/20	55,000	–	–	–	–	–	**55,000**
	2018/19	34,295	–	–	–	–	–	**34,295**
Luisa D. Delgado[11]	2019/20	65,000	1,373	–	–	–	–	**66,373**
	2018/19	14,167	–	–	–	–	–	**14,167**
Jacqueline de	2019/20	27,500	–	–	–	–	–	**27,500**
Rojas[12]	2018/19	50,000	697	–	–	–	–	**50,697**
Brian McBride[13]	2019/20	19,220	889	–	–	–	–	**20,109**
	2018/19	63,333	1,581	–	–	–	–	**64,914**
Total	2019/20	1,291,634	42,523	83,721	400	170,100	377,620	**1,965,998**
Total	2018/19	1,577,795	52,647	145,478	600	56,671	171,7000	**2,047,353**

1. John Roberts reassumed the role of CEO in February 2019. Accordingly, the basic salary reported for John Roberts for FY19 is calculated at ten months' pay at the £390,000 Found rate of pay and two months' pay at the CEO/£450,000 rate of pay. For FY20, John earned a full year's salary at the £450,000 rate. Benefits include medical and life assurance and a car allowance of £12,000 paid in cash.
2. For Mark Higgins, benefits include gym membership, medical and life assurance, car allowance and private fuel.
3. The basic salary reported for Steve Caunce for FY19 is calculated at ten months' pay at the CEO/£450,000 rate and two months' pay at his revised salary of £156,000 per annum, which he earned as employee of the Company but not an Executive Director. Benefits for FY19 include medical and life assurance and a cash car allowance at a rate of £12,000 per annum for the period 1 March 2018 to 31 January 2019, and at a rate of £4,800 for the period 1 February 2019 to 31 March 2019.
4. Executive Directors are entitled to Company pension contributions of 12.75% of gross basic salary. £10,000 is paid into a pension and the balance is paid in cash (after deducting employer National Insurance contributions at 13.8%).
5. All Executive Directors received an attendance bonus of £200, which is paid Group-wide to employees with the relevant attendance. There was no other bonus scheme in place for FY20, rather the AO Incentive Scheme, which combines a cash award and share award and is reported on separately – see Note 7.
6. The threshold target for the revenue performance condition of 2017 PSP Award (covering a performance period 1 April 2017 to 31 March 2020) was met and accordingly 29.4% of the maximum award will vest in July. Mark Higgins is due to receive 252,000 shares (before tax). The value set out in the above table assumes a share price of 67.5p, the share price at 31 March 2020, but actual value will depend on the share price at the point of vesting. It is not ascertainable to disclose an estimate of the amount of the award, that is attributable to share price appreciation. No discretion where any discretion has been exercised in respect of the award.
7. Each of John Roberts and Mark Higgins were granted an award under the AO Incentive Plan of 300% of salary for the performance period of FY20. Following partial attainment of the performance conditions 47.8% of the award is due to vest in July, of which one-third will be paid in cash with the remaining two-thirds of value payable in the form of a deferred share award. The deferred share award will be released in July 2023 subject to continued employment and attainment of the performance underpin, following which Executives will be required to hold awarded shares for a further year. It is not ascertainable to disclose an estimate of the amount of the award, that is attributable to share price appreciation. No discretion where any discretion has been exercised in respect of the award.
8. Reasonable expenses incurred by any Non-Executive Director will be reimbursed by the Company but they have no other contractual entitlement to benefits. For Non-Executive Directors, certain expenses relating to the performance of a Non-Executive Director's duties in carrying out activities, such as accommodation, travel and subsistence relation to Company meetings, are classified as taxable benefits by HMRC and as such are reported here.
9. Marisa Cassoni was appointed Senior Independent Director on 17 July 2019, following the retirement of Brian McBride and the figure for FY20 includes the pro-rated SID fee (in addition to the basic fee and Audit Chair fee for the full year). Please refer to note 8 above for information regarding taxable expenses.
10. Shaun McCabe was appointed as a Non-Executive Director on 25 July 2018. The figure for FY19 reflects pro-rated basic salary for Non-Executive Directors of £50,000 from the date of appointment. For FY20, he received the full basic Non-Executive Director fee of £55,000.
11. Luisa D. Delgado was appointed as a Non-Executive Director on 1 January 2019. The figure for FY19 reflects pro-rated basic salary for Non-Executive Directors of £50,000 from the date of appointment, and two months' Remuneration Committee Chair fee at £10,000 per annum. For FY20 she received the full basic Non-Executive Director fee of £55,000 plus £10,000 as chair of the Remuneration Committee. Please refer to note 8 above for information regarding taxable expenses.
12. Jacqueline de Rojas resigned as a Non-Executive Director on 25 September 2019. The FY20 figure reflects pro-rated basic salary for Non-Executive Directors of £55,000 up the date of resignation. Please refer to note 8 above for information regarding taxable expenses.
13. Brian McBride resigned as a Non-Executive Director on 17 July 2019. Until that point he received a basic Non-Executive Director pay of £50,000 per annum plus £10,000 per annum as his Senior Independent Director fee. For part of FY19 (until February 2019) he also received an additional £10,000 fee for chairing the Remuneration Committee. Please refer to note 8 above for information regarding taxable expenses.

Details of variable pay earned in FY20 (Audited)

AO Incentive Plan Award

John Roberts and Mark Higgins were both granted awards under the AO Incentive Plan (which combines a cash award and conditional deferred share award) of up to 300% of salary, for the year ended 31 March 2020.

The targets for the AO Incentive Plan Award were weighted towards financial metrics, with 40% of maximum award subject to Group Revenue performance conditions, 30% of maximum award subject to Group Adjusted EBITDA performance conditions, 10% of maximum award subject to a cash flow target, with the remaining 20% subject to the achievement of strategic objectives, split equally against a customer service/satisfaction metric (NPS scores) and the successful leverage of our eco-system.

The strategic target of maintaining outstanding customer satisfaction, as the business grows is critical to our future success; indeed making our customers happy through a customer-first proposition, focused on excellence, is central to our sustain and enhance strategy as can be seen on pages 32 and 35. AO is renowned for good service and it is the way we execute our performance that stands us apart from our competitors. As volume grows and we make more deliveries (either through our own infrastructure or utilising third party logistics providers), or we acquire new businesses, it is vital that the customer satisfaction remains strong, to drive repeat business and as we heavily rely on customer recommendations to attract new customers.

The following table sets out the targets, actual performance against these targets and accordingly, the applicable payout for the FY20 AO Incentive Plan Award.

Measure (weighting)	Targets		% payout at threshold (for this element)	Performance achieved	Bonus[5]
Group Revenue (40%)	Threshold	£1102.2m	25%		
	On target	£1160.2m	62.5%	£1,045.9m*	0%
	Stretch	£1218.2m	100%		
Group Adjusted EBITDA (30%)	Threshold	£0.44m	25%		
	On target	£5.62m	62.5%	£5.2m	17.8%
	Stretch	£10.8m	100%		
Cash Outflow (10%)	Threshold	£40.4m	25%		
	On target	£35.3m	62.5%	£22m	10%
	Stretch	£30.1m	100%		
NPS (10%)	Threshold	70	25%		
	On target	75	62.5%	83.4**	10%
	Stretch	80	100%		
Successful leverage of eco-system (10%)	Remuneration Committee evaluation of performance during the year		0–100%	Achieved	10%
				Total	47.8%

* The revenue for the purposes of ascertaining scheme vesting excludes revenue and trading losses (on an Adjusted EBITDA basis) generated/incurred from the Dutch business after its closure.

** This is the average NPS figure across territories weighted by revenue.

Performance against financial targets

The performance achieved, as set out in the table opposite, includes revenue and Adjusted EBITDA losses of our Netherlands operations, which ceased in December 2019. Figures do not include the costs incurred to close the Dutch business (i.e. those incurred after 9 December 2019) – they are excluded from EBITDA as adjusted items, nor do they include £0.3m of revenue that was earned in the last three months of the year (after closure) to keep the treatment across the two performance conditions consistent. Targets were not adjusted.

Having regard to the impact of the different treatments and the feedback from shareholders on the treatment of the acquisition of MobilePhonesDirect on the performance conditions in the previous financial year, the Committee determined that including the impact of the business with the actual results and maintaining the target for the period was the most appropriate.

Our cash outflow for the year was £22.0m, below the stretch target of £30.1m and therefore the maximum attributable to this performance condition has been awarded.

When considering the targets for FY20, we considered the investment required in continued growth of our European business, capital expenditure, and investment in working capital for inventory, the impact of credit insurer action and the expected growth of mobile and warranty sales that drive accrued income. For those reasons cash out flow targets for FY20 when compared year-on-year were weaker than the prior year, however, set with an equivalent level of stretch relative to the expectation for the year. During the year management heavily focused on working with suppliers to mitigate any action from credit insurers and on the efficiency of capital expenditure to minimise outflow.

Performance against strategic targets

The Committee is delighted that customer satisfaction, measured via NPS, has remained strong over the year. For the UK, Germany and the Netherlands (during its operation) respectively we have achieved average NPS scores of 83, 89 and 74, which corresponds to a Group weighted average of 83.4, weighted by revenue. We believe this is market leading and an excellent achievement by the team as the business continues to grow, as we introduce more categories and as customer numbers increase and accordingly have determined that this performance condition has been met in full.

The Committee has also analysed whether the eco-system has been successfully leveraged during the year under review. As can be seen from pages 32 and 35, a further part of our strategy is to build and leverage our core expertise enabling us to further cement our brand and explore new markets driving the most value through the profit and loss account.

Some more tangible examples of this are the growth in our third party logistics operations and building our plastics recycling plant – both were achieved in the year. However, as the financial year has progressed, the biggest example of this philosophy in action has been the adoption of "One AO". The Group is now better applying its resources, know-how, skills and talent across the Group. For example integrating our mobile business capability to best utilise the e-commerce function within the retail business, or more significantly the evolutionary restructure of how we operate internationally in purchasing, e- commerce, logistics and HR, establishing Group centres of excellence and enabling functions to support international operations teams. This should ensure we are best placed to pursue our opportunities, serve the customer better and innovate in a way which is sustainable, agile and scalable.

Overall, the Committee is satisfied that the eco-system is being leveraged successfully and therefore has determined that this performance condition has been met. It also felt it was fair and proportionate when reflecting on the overall outcome of the particular incentive award.

In total, therefore, we have awarded 47.8% of the maximum award to our Executive Directors.

	Max opportunity (% salary)	Outcome % max	Cash award (1/3rd)[1]	Share award (2/3rd)[2]
CEO	300%	47.8%	£215,100	£430,200
CFO	300%	47.8%	£162,520	£325,040

1. The cash element will vest and will be paid in July following approval of the accounts by the Board.
2. The share award is deferred for a period of three years, and the vesting of these shares is subject to the performance of the business until the completion of our financial year ending 31 March 2023 as well as the Executive's continued employment. Following release of the award, Executives will be required to hold such shares for a further one-year period.

Vesting of long-term incentive awards

In July 2017 we granted a long-term incentive award under the AO Performance Share Plan to Mark Higgins, the CFO. (John Roberts, who at the time of grant did not occupy the CEO role, waived his entitlement to participate in that scheme).

The Award was subject to performance over the three-year period ended 31 March 2020. The stretching targets – set in 2017 – were based one-third on relative TSR (to a comparator group of listed retail businesses); one-third on Group Adjusted EBITDA growth and one-third on Group Revenue growth.

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

Measure (weighting)	Targets		% payout at threshold (for this element)	Performance achieved*	Payout
Group Revenue for final year of the performance period (33.3%)	Threshold	£921.3	25%		
	On target	£969.8m	62.5%	£1,045.9m	29.4%
	Stretch	£1081.3	100%		
Group Adjusted EBITDA for final year of the performance period (33.3%)	Threshold	£15.1m	25%	£5.2m	0%
Relative TSR (33.3%)	Threshold	Median	25%		
	Stretch	Upper quartile	100%	Below median	0%

As per the treatment of the closure of the Dutch business in assessing vesting of the FY20 AO Incentive Plan Award, the Committee included revenue and Adjusted EBTIDA losses up to the point of closure, for the reasons noted above.

The Committee recognises the Company's share price has performed below median relative to the comparator group and in absolute terms has dropped by over 50% over the three-year performance period. (The one month average share price at the start of the performance period was £1.44. At the end of the period it was 62 pence). However, the Committee has reflected on the overall performance of the Group and is satisfied that significant strides have been made; in particular over the last year with the turn-around of the German business, significant growth in the UK business and bringing the Group to profit (on an Adjusted EBITDA basis). In total therefore, 29.4% of the maximum award will be awarded to the CFO, which will result in him being able to exercise his nil cost option over 252,000 shares.

Percentage change in remuneration levels (Unaudited)

The table below shows the movement in the salary, benefits and bonus against the cash element of the AO Incentive Plan Award for the Chief Executive between the current and previous financial year compared to that for the average employee. For the benefits and bonus/Incentive Award (cash element) per employee, this is based on those employees eligible to participate in such schemes.

	Chief Executive	Average per employee
Salary	3.1%	3.0%[1]
Benefits[2]	0%	0%
AO Incentive Plan Award – cash element[3]	N/A	12.4%[3]

1. Reflects the average change in pay for employees, calculated by reference to the aggregate remuneration for all employees in each year divided by the average number of employees.
2. There are no changes to benefit entitlements for employees. However, for Executives we have agreed to bring their pension contributions in line with the wider management workforce rates – subject to the VCP being approved.
3. The percentage change in remuneration AO Incentive Plan Award cash element "average per employee" is calculated by looking at the average amount participants in the scheme for FY19 received in cash, compared to the cash element participants in the AO Incentive Plan are expected to receive relating to FY20, in each case excluding Executive Directors. The Chief Executive did not receive an AO Incentive Plan Award for FY19 and therefore there is no direct comparison. For the FY20 AO Incentive Plan, the Chief Executive is expected to receive £215,100.

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 2020. 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)

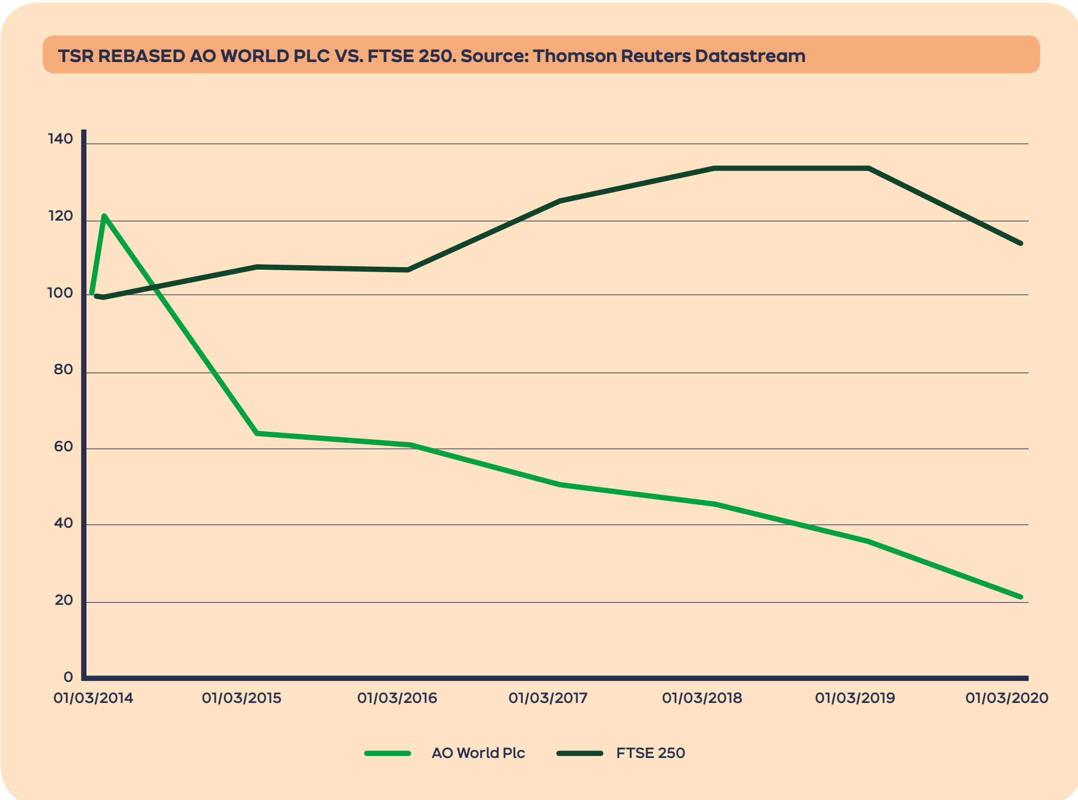


Table 2, below, shows the total remuneration figure for the Chief Executive during the financial years ending 31 March 2011 to 31 March 2020. The total remuneration figure includes the annual bonus payable for performance in each of those years. No long-term incentives were eligible for vesting based on performance ending in any of those years save for FY19. The annual bonus percentage shows the payout for each year as a percentage of the maximum (i.e. 150% of salary).

2 TOTAL REMUNERATION OF CEO

	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020
Total remuneration (£'000)[1]	292†	243†	227†	537†	537†	588†	575*‡	781*	551†‡	733†
Annual bonus (% of maximum)	18%	0%	0%	0%	0%	10%	10%	37.5%	–	–
AO Incentive Plan Award (% of maximum)	–	–	–	–	–	–	–	–	50.5%	47.8%
PSP vesting (% of maximum)	–	–	–	–	–	–	0%	0%	8.59%	–

† John Roberts * Steve Caunce

‡ Figures calculated for full year pro-rata

Directors' remuneration report continued

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.

	2018/2019	2019/2020	% change
Staff costs[1]	£103.3m	£112.3m	8.7%
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.

CEO pay ratio

The table below shows the ratio of the single total figure of remuneration of the CEO to the equivalent pay for the 25th, 50th and 75th percentile employees (on a full time equivalent basis) in FY20. The ratios have been calculated in accordance with The Companies (Miscellaneous Reporting) Regulations 2018 and therefore apply to AO's financial year ending 31 March 2020. These ratios form part of the information provided to the Committee on broader employee pay practices to inform remuneration decisions for Executive Directors and senior management.

Of the three calculation approaches available in the regulations, we have chosen Option A as we believe it to be the most appropriate and statistically accurate method for the Company to calculate the ratio.

Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
FY20	Option A	35:1	28:1	20:1

CEO SFTR	25th percentile pay	50th percentile pay	75th percentile pay
£732,924	£20,861	£25,755	£36,836
	25th percentile salary	**50th percentile salary**	**75th percentile salary**
	£19,271	£25,012	£33,600

1. The single total figure of remuneration of all AOers employed by the Group as of March 31 2020 was calculated and ranked using 2019/20 P60 and P11D data, employer pension contributions and payments under the Company share schemes, in line with the reporting regulations.
2. 2019/2020 payments to the wide employee base referred to in note 1 include the FY19 cash element of the FY19 AOIP payment which was paid in 2019/2020.
3. Part-time colleagues' earnings have been annualised on a full-time equivalent basis. In-year joiners' earnings were also annualised on the same full-time equivalent basis.

The Company's principles for making pay decisions and progression within our wider workforce are the same as for our executives. Base salaries are set, reflecting experience and expertise informed by the external market. Equally as important, salaries are reviewed annually on the same basis, the scope of the role, experience, personal and Company performance. Executive increases are then generally aligned to the average for the wider workforce.

The ratios reflect the different remuneration arrangements between our warehouse and call centre employees, and our senior executives whose roles require them to focus on long-term value and alignment with shareholder interest. Therefore, the Committee believes that the ratio is consistent with the Company's wider pay and reward strategy. All UK employees are eligible for pay increases, recognition awards, participation in SAYE as well as development opportunities.

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 2020.

External appointments

No fees were received by Executive Directors for external appointments during the year ended 31 March 2020.

Directors' shareholdings and share interests (Audited)

Directors' shareholdings as at 31 March 2020 are set out below in Table 1.

The following PSP options vested during the year (following partial vesting of the 2016 PSP Award):
John Roberts: 43,153
Mark Higgins: 57,537

As noted above, following vesting of the 2017 PSP in July, Mark Higgins will have additional vested share options.

There have been no changes to Directors' shareholdings during the period from 1 April 2020 to date.

1 DIRECTORS' SHAREHOLDINGS

	Shares held beneficially[1] at 31 March 2020	Target shareholding guidelines (% of salary)[2]	Target shareholding achieved	PSP options[3]	AOIP options[4]	SAYE Options[5]
Geoff Cooper	**128,573**	N/A	N/A	N/A	N/A	N/A
John Roberts	**107,906,960**	200%	Yes	43,093	N/A	20,224
Mark Higgins	**3,773**	200%	No	309,440	371,484	20,224
Christopher Hopkinson	**22,956,306**	N/A	N/A	N/A	N/A	N/A
Brian McBride	**52,628**	N/A	N/A	N/A	N/A	N/A
Marisa Cassoni	**52,628**	N/A	N/A	N/A	N/A	N/A
Jacqueline de Rojas	**NIL**	N/A	N/A	N/A	N/A	N/A
Shaun McCabe	**NIL**	N/A	N/A	N/A	N/A	N/A
Luisa D. Delgado	**NIL**	N/A	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. For John Roberts, these PSP options relate to the 2016 PSP award that has vested, but which options have yet to be exercised by Mr Roberts. The PSP Options of Mr Higgins include an option over 57,440 shares that relate to the 2016 PSP, which have vested but are yet to be exercised, and an option over 252,000 shares that relate to the 2017 PSP, which is due to vest in July (with the balance of 605,143 conditionally granted lapsing due to partial vesting of the 2017 PSP).
4. For Mark Higgins, the AO Incentive Plan options were awarded in July 2019 as part of the FY19 AO Incentive Plan Award, which will be released in July 2022 subject to the attainment of the performance underpin and continued employment. Further share awards are expected to be granted to John Roberts and Mark Higgins in July 2020 as part of the AO Incentive Plan Award FY20 grant – with a value of £430,200 and £325,040 at grant respectively, which will be released in July 2023 subject to the attainment of the performance underpin and continued employment.
5. None of these SAYE options (which have no performance conditions) have vested.

Implementation of remuneration policy for 2020/2021

The Policy can be found on pages 104 to 110 of this Annual Report.

Salary

The Committee reviewed the salaries of the Executive Directors in mid March. Based on externally sourced market comparisons and significant progress (both financial and operational) in FY20 the Committee agreed to award some modest increases.

Implementation of the increases was initially deferred to ensure we preserved cash in view of Covid-19 uncertainty. However, given the trading performance of the business over the last three months the increases have now been made, effective 1 April 2020.

For comparison, the average salary increase provided to UK employees in April 2020 was 3%.

The current salaries as at 1 April 2020 (on the basis that the increases had been effected) (and those as at 1 April 2018) are as follows:

Individual	Role	Base salary at 1 April 2020	Base salary at 1 April 2019	% increase
John Roberts	CEO	**£464,000**	£450,000	3.1%
Mark Higgins	CFO	**£350,000**	£340,000	2.9%

Directors' remuneration report continued

Pension and other benefits

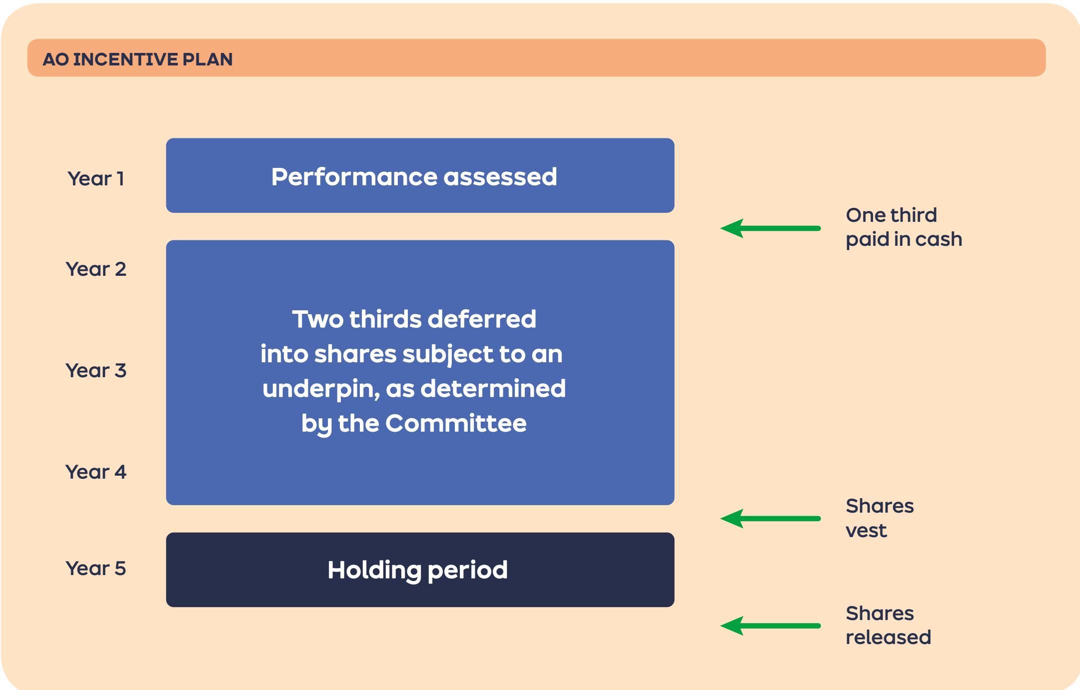
Executive Directors currently receive an employer's pension contribution (or a cash allowance in lieu of pension) at the rate of 12.75% of base salary. The pension entitlement for wider management within the business is 9%. The Committee recognises that the Code calls for parity on pension levels, and has agreed with Executives that their pension contributions will be reduced to the 9% level if and upon the VCP being adopted. The Committee will ensure that any new Executives are on a rate in line with the wider workforce.

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

In respect of FY21, the Executive Directors will have a maximum award opportunity of 300% of basic salary. Performance will be measured between 1 April 2020 and 31 March 2021 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 FY20. 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. For this year's grant the Committee have decided to include a one year post vesting holding period for any shares. This therefore means the total period is five years, in line with the revised requirements in the Code.



Performance conditions for the FY21 AO Incentive Plan Award

The performance conditions proposed for this year's award comprise Group Revenue and Group Adjusted EBITDA targets, a cash flow target and two strategic targets; customer NPS scores at high levels and employee NPS scores (both across the Group), 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 EBITDA and cash targets to ensure the team are driving profitable growth, whilst ensuring that the Group has sufficient cash resources and liquidity to fund its working capital requirements. The Committee agreed to adjust the Revenue weighting down from the 40% weighting given in prior years to 30% and increase the cash flow weighting from 10% to 20% to reflect the increased focus on cash flow over the medium term and its importance to credit insurers, the refinance process and as a measure of current performance.

For the Group 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 in next years' Annual Report on Remuneration.

As can be seen on pages 32 to 35, customer and employee satisfaction are central to our "sustain and enhance" and "inspire and develop our people" strategic pillars, respectively. Both are key drivers for creating long-term sustainable growth.

Our customer NPS results are already best-in-class and therefore the targets have been set with regard to the already strong performance in this area and the need to maintain great customer service as we continue to grow and expand. As with the prior year the customer NPS score will be calculated by taking a weighted average of customer NPS scores across our territories, weighted by revenue.

There is empirical evidence of high employee engagement with increased levels of customer satisfaction, whether expressed through NPS or other measures, and this in turn has positive impacts on financial performance.

Employee NPS (ENPS) will be derived from responses to a specific engagement survey question "How likely are you to recommend AO as a place to work?". This question can, via proven methodologies, be empirically translated into an externally benchmarked engagement score. AO's ENPS score will be calculated by taking a mean average from regular employee surveys across UK and Germany throughout the performance period. This approach supports the One AO mindset and culture we look to nurture rather than a weighted differential between countries.

Clearly Covid-19 will have an impact on the performance of the business over the current year. The magnitude of that impact is unknown, although sales at the present time are still performing strongly. We have therefore adopted these performance conditions and targets in principle, but will consider exercising our discretion to adjust the targets should this be appropriate due to macro-economic factors.

Metric	Weighting (% of award)
Group Revenue for FY21	30%
Group Adjusted EBITDA for FY21	30%
Cash flow	20%
Customer NPS Scores	10%
Employee NPS Scores	10%

Mindful of the Code requirements that remuneration schemes and policies should enable the use of discretion to override formulaic outcomes, we have formalised the additional discretion awarded to the Committee under last year's grant documentation and included this in revised AO Incentive Plan rules.

VCP

As noted in the annual statement from the Chair of the Remuneration Committee, we are seeking to introduce a value creation plan, subject to shareholder approval. The Executive Directors, along with all employees, will be eligible to participate in the plan. For Executives, there is a maximum award opportunity of £20m, vesting in three tranches in respect of the financial years ending 31 March 2025, 2026 and 2027, subject to the share price of the Company measured over the last three months of each financial year. Further details of the proposed plan are set out in on pages 120 and 121 .

AO All Employee Value Creation Plan

Subject to shareholder approval at the 2020 AGM and independent of the Directors' Remuneration Policy a new incentive plan for all AOers – the AO Value Creation Plan (VCP) – will be implemented during the 2020/21 financial year.

This plan directly aligns to the long-term vision and strategy of the Company, building on foundations laid in recent years. The VCP is aimed at incentivising and rewarding exceptional performance and retaining the talented team whilst driving exceptional value creation for shareholders and long-term investors.

A key feature of the proposed plan is that it includes the whole AOer population, each of whom will be able to share in any value created above a set share price hurdle of £5.23. This all employee participation reflects the unique, entrepreneurial culture that exists at AO.

In considering the design of such a new plan, the Remuneration Committee has been conscious to design an effective motivational incentive plan to support extraordinary performance, while ensuring that the plan includes safeguards that are aligned to sustainable value creation, and are reflective of our unique culture and values that are at the heart of our competitive edge. These features are set out below:

- **Eligibility** – all employees, including Executive Directors.
- **Form of Award** – a conditional share award over ordinary shares in the Company with a value equal to the units in the award. The value of the units will depend on the plan value on the relevant measurement dates.
- **Mechanics** – the plan will begin funding at a share price of £5.23 (equivalent to market cap of £2.5bn) with our current share capital. The plan will then fund at 10% of the value created above this threshold. 3% of this will be allocated to the two current Executive Directors and COO (1% each), with the remaining 7% allocated to current and future employees. The plan would cease funding on achievement of a £12.55 share price (equivalent to market cap of £6.0bn with our current share capital).
- **Dilution** – the level of funding is subject to a maximum dilution of 5% of the Company's issued share capital.
- **Individual cap** – there is a cap on the aggregate payments to any individual of £20m. This maximum payment is only achievable if the Company's share price reaches £9.41 by March 2025 and is at or above that same level in March 2026 and 2027. The maximum individual payment in any given year under the VCP is £6.67m.
- **Performance and vesting**
  - Executive Directors and COO – three-month average share price measured at:
    - 31 March 2025 (5 year performance period) – maximum 1/3rd vests
    - 31 March 2026 (6 year performance period) – maximum 1/3rd vests
    - 31 March 2027 (7 year performance period) – maximum 1/3rd vests
  - All other employees – three-month average market cap measured at:
    - 31 March 2025 (5 year performance period) – maximum 100% vests. Remuneration Committee retains discretion to the treatment of awards after year 5 including ability measures performance at a later date
- **Share-based payment** – awards will normally be a conditional share award over ordinary shares in the Company settled in AO shares therefore providing for all employee share ownership. The Company retains flexibility to settle in cash if required.
- **Leavers and joiners** – awards normally lapse on cessation of employment. The Committee will have discretion to allow awards to vest in exceptional circumstances. Awards may be pro-rated for the proportion of the performance period completed. Plan is funded to ensure sufficient headroom to fulfil hiring plan without diluting current employee population.
- **Recovery provisions** – awards for Executive Directors and certain other key employees are subject to extended malus and clawback terms. Clawback will apply for up to 3-years post vesting (i.e. up to 10 years in total).
- **Discretion** – the Committee will have absolute discretion on the vesting of the awards to override the formulaic outcomes. Framework of performance measures (revenue growth profitability, cash, customer satisfaction and employee engagement) for assessing holistic Company performance against macro-economic factors.

Illustrative pay-outs for the Executive Directors and plan funding under different share price scenarios are set out below:

Share price	£5.23[1]	£9.41	£12.55
Annualised growth from 1 June 2020 (£1.41)	31.8% p.a.	49.1% p.a.	58.5% p.a.
Annualised growth from IPO (£2.85)	5.7% p.a.	11.5% p.a.	14.4% p.a.
Additional value created for shareholders from 1 June	+£1.83bn	+£3.83bn	+£5.33bn
Executive Directors (each)	NIL	£20m	£20m
Total employee pool to be distributed among eligible employees	NIL	£140m	£240m

1. No vesting below this level. Straight-line vesting between points

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. As noted previously, all current employees will be eligible to participate in the VCP.

Share ownership requirements

As with prior years, the required share ownership level for the Executive Directors for FY21 will be 200% of salary.

Mindful of the Code requirements regarding post-termination shareholding requirements, the Committee has decided to adopt a tapering approach over two years, where up to 12 months post termination, the requirement is maintained at 200% and from 12 months up to 24 months, 100% is required.

Additionally, for good leavers, AO Incentive Plan awards deferred into shares will typically only be released at the end of the normal vesting period and subject to the attainment of performance underpin.

There are no share ownership requirements for the Non-Executive Directors.

Non-Executive Director fees

There are no changes to Non-Executive Director fees for FY21 against the prior year. Fees payable per annum are shown in the table below.

Non-Executive Director fees	2020/2021	2019/2020
Chairman fee covering all Board duties	£200,000	£200,000
Non-Executive Director basic fee	£55,000	£55,000
Supplementary fees to Non-Executive Directors covering additional Board duties		
Audit Committee Chairman fee	£10,000	£10,000
Remuneration Committee Chairman fee	£10,000	£10,000
Senior Independent Director fee	£10,000	£10,000

Details of Directors' service contracts and letters of appointment

Details of the service contracts and letters of appointment in place as at 31 March 2020 for Directors are shown in Table 3, below.

Marisa Cassoni and Chris Hopkinson agreed to an extension of the term of their appointments for one further year in February 2020, following expiry of the initial three-year terms that commenced around IPO and consecutive one-year extensions from such expiry. The extension of such appointment is subject to the terms of the letters of appointment in force.

3 DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

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
Geoff Cooper 01/07/2016	Initial term of three years from date of letter subject to notice - renewed for successive one-year periods subject to termination by either party	3	3	01/07/2016
Luisa D. Delgado 01/01/2019	Initial term of three years from date of appointment	3	3	01/01/2019
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
Shaun McCabe 25/07/2018	Initial term of three years from date of appointment	3	3	25/07/2018
John Roberts 14/02/2014	Continuous employment until terminated by either party	12	12	19/04/2000

Remuneration Committee membership

The members of the Committee were for the year in question Luisa D. Delgado (Chairperson), Marisa Cassoni, Brian McBride until his retirement in July 2019, and Jacqueline de Rojas until her resignation in September 2019. Until 19 June 2020 we were outside the FTSE 250 and accordingly the Committee's constitution complied with Code guidelines for smaller companies. Since re-joining the FTSE 250, Shaun McCabe has joined the Committee on an interim basis as we continue to search for a new Non-Executive Director who, once appointed to the Board, will join the Remuneration Committee.

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 FY20, there were six formal meetings of the Remuneration Committee, all of which achieved full attendance by the relevant committee members. Notwithstanding formal membership, all Non-Executive Directors of the Company attended Remuneration Committee meetings held in FY20.

The responsibilities of the Committee are set out in the Corporate Governance section of the Annual Report on page 84. The Executive Directors and the Chief People Officer 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

Deloitte LLP provided advice during the year to 31 March 2020 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. Deloitte is a signatory to the Remuneration Consultants Group Code of Conduct and any advice provided by them is governed by that code.

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 Deloitte's advice remains objective and independent and that the engagement partner and team, which provides advice to the Committee, do not have connections with the Company or any of its Directors, which may impair their independence.

For the year under review, Deloitte's total fees charged were £34,270 plus VAT.

Shareholder feedback (Unaudited)

At the 2018 AGM, the Policy Report and AO Incentive Plan were put to shareholders for a binding vote. At the 2019 AGM the Annual Remuneration Report for the year ended 31 March 2019 was put to shareholders by way of an advisory vote, with votes cast as follows:

	Votes in favour No. of shares	%	Votes against	%	Total number of votes cast	Votes Withheld No. of shares
To approve the Directors' Remuneration Report	250,486,042	88.94	31,162,187	11.06	281,548,885	109,998
To approve the Directors' Remuneration Policy	342,654,617	87.01	51,174,812	12.99	393,829,429	4,077,005

The Committee will continue to monitor developments in market trends and best practice together with the expectations of investors as part of considerations in the design of a new policy for FY22. As ever, the Committee welcomes any enquiries or feedback shareholders may have on the Policy or the work of the Committee.

Luisa D. Delgado
Chair, Remuneration Committee
AO World Plc

13 July 2020

Directors' report

The Directors have pleasure in submitting their report and the audited financial statements of AO World Plc (the "Company") and its subsidiaries (together the "Group") for the financial year to 31 March 2020.

No new appointments were made to the Board during the Period. Following the retirement of Brian McBride at the Company's AGM in July 2019, Marisa Cassoni replaced him as Senior Independent Director.

Director	Position as at 31 March 2020	Served in the year ended 31 March 2020
Geoff Cooper	Chair	Served throughout the year
Marisa Cassoni	Senior Independent Non-Executive Director	Served throughout the year
Luisa D. Delgado	Independent Non-Executive Director	Served throughout the year
Mark Higgins	Chief Financial Officer	Served throughout the year
Chris Hopkinson	Non-Executive Director	Served throughout the year
Shaun McCabe	Independent Non-Executive Director	Served throughout the year
John Roberts	Founder and Chief Executive Officer	Served throughout the year
Brian McBride	Senior Independent Non-Executive Director	Resigned 17 July 2019
Jacqueline de Rojas	Independent Non-Executive Director	Resigned 24 September 2019

Their biographical details are set out on pages 78 to 79. Further details relating to Board and Committee composition are disclosed in the Corporate Governance report and Committee reports on pages 80 to 123.

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: Under the Articles, 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 fewer 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, their appointment as such is terminated or expires and the Directors resolve that they 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 they should cease to be a Director; or

(vii) a notice in writing is served upon them personally, or at their 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 they shall cease to be a Director with immediate effect.

For further details of our Directors, please refer to pages 78 and 79.

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 2020, the issued share capital of the Company was £1,194,847.38, comprising 477,938,954 ordinary shares of 0.25p each.

During the year, the Company issued 6,055,370 ordinary shares of 0.25p each to satisfy the exercise of options under the AO 2016 Employee Reward Plan (2016 grant) and AO 2014 Performance Share Plan (2016 grant). 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 173. All the information detailed in Note 173 on page 28 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 174 to 176.

At the Annual General Meeting of the Company, to be held on 20 August 2020, the Directors will seek authority from shareholders to allot shares in the capital of the Company up to a maximum nominal amount of £796,564.92 (318,625,969 shares (representing approximately 66.6% of the Company's issued ordinary share capital)) of which 159,312,984 shares (representing approximately 33.3% 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 47,793,895 of its own ordinary shares, either to be cancelled or retained as treasury shares. The Directors will only use this power after careful consideration, taking into account the financial resources of the Company, the Company's share price and future funding opportunities. The Directors will also take into account the effects on earnings per share and the interests of shareholders generally.

Rights attaching to shares

All shares have the same rights (including voting and dividend rights and rights on a return of capital) and restrictions as set out in the Articles, described below. Except in relation to dividends that 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 that carry special rights with regard to control of the Company. There are no shares relating to an employee share scheme that 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 AO Single Incentive Plan ("AOIP"), where share interests of a participant in such scheme can be exercised by the personal representatives of a deceased participant in accordance with the Scheme rules.

Voting rights

Each ordinary share entitles the holder to vote at general meetings of the Company. Under the Articles, 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. In light of the current UK Government measures and the Company's desire to protect the health and safety of our shareholders and employees the AGM this year will be run as a closed meeting and shareholders will not be permitted to attend in person.

Shareholders are therefore strongly encouraged to vote by taking advantage of our registrar's secure online voting service (using the identification numbers stated on their Form of Proxy), which is available at aoshareportal.com or by completing their Form of Proxy and returning it by post to the Company's Registrars. 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 them unless all amounts presently payable by them 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, AOIP and the AO Sharesave Scheme, rights are not transferable (other than to a participant's personal representatives in the event of death).

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

Change of control

Save in respect of a provision of the Company's share schemes that 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, the revolving credit facility agreement entered into with Lloyds Bank Plc, Barclays Bank plc, HSBC Bank plc and Natwest Bank plc on 6 April 2020, there are no significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control.

2020 Annual General Meeting

The Annual General Meeting will be held at 8.00 am on 20 August 2020 at 5A The Parklands, Lostock, Bolton BL6 4SD. In light of the current UK Government measures and the Company's desire to protect the health and safety of our shareholders and employees, our AGM this year will be run as a closed meeting and shareholders will not be permitted to attend in person. The Notice of Meeting that sets out the resolutions to be proposed at the forthcoming AGM is enclosed with this Annual Report. The Notice specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes will be counted and the numbers for, against or withheld in relation to each resolution will be announced at the Annual General Meeting and published on the Company's website.

Interests in voting rights

At the date of this report, the Company had been notified in accordance with chapter 5 of the Financial Services Authority's Disclosure Guidance and Transparency Rules, or was aware of (to the best of its knowledge) 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*	107,900,612	22.58%
Camelot Capital Partners LLC	59,513,287	12.45%
Odey Asset Management LLP (including through financial instruments)	44,236,972	9.26%
Steve Caunce	32,806,342	6.86%
Conifer Capital Management LLC	31,075,092	6.50%
The London & Amsterdam Trust Company Ltd	22,921,251	4.79%
Chris Hopkinson	22,605,429	4.73%
Invesco Advisors Inc	20,000,000	4.18%
N K Stoller	17,629,098	3.69%
Julie Holroyd	14,568,397	3.05%

* Excludes 6,348 ordinary shares in the issued ordinary share capital of the Company held by Crystalcraft Limited, which is connected to John Roberts.

Results and dividends

The Group's and Company's audited financial statements for the year are set out on pages 144 to 192.

No dividend was paid by the Company during the year to 31 March 2020.

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.

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. Following the decision to close the Group's operations in the Netherlands as announced in November 2019, the Company has commenced a process to liquidate both of its subsidiaries registered in this territory. A Group Company has also been incorporated in Belgium.

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 they ought to have taken as a Director to make themself 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.

Reporting requirements

The following sets out the location of additional information forming part of the Directors' report:

Reporting requirement	Location
Strategic report – Companies Act 2006 s414A-D	Strategic report on pages 11 to 73
DTR4.1.8R – management report – the Directors' report and Strategic report comprise the 'management report'	Directors' report on pages 124 to 129 and the Strategic report on pages 11 to 73
Directors' remuneration including disclosures required by Schedule 5 and Schedule 8 of SI2008/410 – Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008	Directors' remuneration report on pages 98 to 123
Likely future developments of the business and Group	Strategic report on pages 11 to 73
Board's assessment of the Group's internal control systems	Corporate governance report on page 77 and the Audit Committee report on page 94
Board of Directors	Corporate Governance Statement on pages 78 to 79
Community	Strategic report; corporate social responsibility report on pages 56 and 57
Directors' interests	Directors' remuneration report on page 117
Diversity policy	Corporate social responsibility report on page 52 and the Corporate governance report on page 79 and the Nomination Committee report on page 88
Employee engagement	Corporate social responsibility report; how we engage with our stakeholders on pages 50 to 51 and page 52
Employee involvement	Strategic report; resources and relationships on page 6 and corporate social responsibility on page 52
Employees with disabilities	Strategic report; corporate social responsibility on page 54
Going concern	Strategic report page 48
Greenhouse gas emissions and streamlined energy and carbon reporting	Corporate social responsibility report; sustainability pages 59
Details of use of financial instruments and specific policies for managing financial risk	Note 33 to Group financial statements on pages 177 to 181
Significant related party agreements	Note 34 to the consolidated financial statements page 181
Company's business relationships with suppliers, customers and others	Corporate social responsibility report; how we engage with our stakeholders on pages 50 to 51
Statement on corporate governance	Corporate governance report, Audit Committee report, Nomination Committee report and Directors' Remuneration Report on pages 80 to 123

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

13 July 2020

Customer testimonial

"Joel made sure that our faulty products were put right. I don't think I've ever dealt with such an amazing customer service staff member before"

Sam,
An AO customer

Our Results

Independent Auditors' Report
to the members of AO World plc

1. Our opinion is unmodified

We have audited the financial statements of AO World plc ("the Company") for the year ended 31 March 2020 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 Position, 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 2020 and of the Group's profit 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 4 financial years ended 31 March 2020. 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 (2019:£2.0m) 0.2% (2019: 0.2%) of group total revenues	
Coverage	98%(2019: 99%) of group total revenues	
Key audit matters		**vs 2019**
Recurring risks	Product protection plans contract asset	◀▶
	Network commissions contract asset	◀▶
	Volume rebates receivable	◀▶
	Recoverability of Parent Company's investment in subsidiaries and debt due from group entities	▲
Event driven	The impact of uncertainties due to the UK exiting the European Union on our audit	◀▶
	Going concern including the impact of Covid 19	▲
	New: Recoverability of Goodwill MobilePhonesDirect	

2. Key audit matters: including 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 effort s of the engagement team.

We summarise below the key audit matters, 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
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 40 (Principal Risks),* *page 48 (Viability Statement); and* *page 97 (Audit Committee Report)*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in Product protection plans contract asset, Network commissions contract asset, Recoverability of MobilePhonesDirect Goodwill, Volume rebates receivable and Recoverability of Parent Company's investment in subsidiaries and debt due from group entities below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement 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. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	We developed a standardised firm wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge:** We considered the directors' assessment of Brexit related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis:** When addressing going concern and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty. • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on Going concern, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** • As reported under Product protection plans contract asset, Network commissions contract asset, Recoverability of MobilePhonesDirect Goodwill, Volume rebates receivable and Recoverability of Parent Company's investment and debt due from Group entities, we found the resulting estimates and related disclosures and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

	The risk	Our response
Going concern including the impact of Covid-19 *page 41 and 42 (Principal Risks),* *Refer to page 48 (Strategic Report)* *page 97 (Audit Committee report) and;* *page 150 (Accounting Policy)*	**Unprecedented levels of uncertainty** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and Company's available financial resources over this period were: • The uncertainty of the impact of Covid 19, with the future range of possible effects currently unknown to performance, given the rapidly evolving nature. • Revenue and margin growth. • A reduction in supplier days. There are also less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: • **Sensitivity analysis:** We considered sensitivities over the Group's level of available financial resources in the forecasts, including the Group's Covid 19 adjusted cash flow forecasts, taking account of reasonably possible (but not unrealistic) adverse effects that could arise individually and collectively including a reduction in post year end revenue growth or margin due to Covid 19 and a reduction to supplier days. • **Our sector experience:** We evaluated and challenged assumptions used in the forecasts, in particular those relating to revenue growth, margin and supplier days, through enquiry. • **Historical comparisons:** We evaluated the precision of previous financial period's forecasts against actual results to assess historical accuracy. • **Funding assessment:** We reviewed Board minutes for evidence of the parent's covenant compliance throughout the year ending 31 March 2020 and we reviewed the calculations submitted to the banks for covenant compliance. We also reviewed the calculations in the base and sensitised forecasts for evidence of covenant compliance. • **Assessing transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosure, including the impact of COVID 19 by verifying whether it is not contradictory to the findings of the procedures noted above. **Our results** • We found the going concern disclosure without any material uncertainty to be acceptable.

	The risk	Our response
Product protection plans contract asset £81.2 million contract asset (2019: £74.7 million) *Refer to page 96 (Audit Committee Report),* *page 151 (Accounting Policy),* *Page 156 and 157 (Other areas of estimation uncertainty); and* *page 168 and 169 (Financial Disclosures)*	Contract asset is recognised based on the 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 contract asset is misstated. The effect of these matters is that, as part of our risk assessment, we determined that the carrying value of £81.2 million has a degree of estimation uncertainty, with a potential range of reasonable outcomes. The financial statements note 22 disclose the sensitivity estimated by the Group. **Data capture** Completeness and accuracy of 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 and 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 contract asset 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 and the database system which stores this data and onwards into the model. 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:** We evaluated the historical accuracy of the model with reference to past data e.g. expected cash cumulative cash received. • **Benchmarking assumptions:** We assessed the directors' assumptions over the average life of the products against externally available market data. • **Our sector experience:** We challenged 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:** We performed sensitivity analysis on judgemental assumptions as described above. • **Assessing transparency:** We assessed 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 the contract asset. **Our results** • We found the carrying value of the contract asset for product protection plans to be acceptable (2019: acceptable).

	The risk	Our response
Network commission contract asset £90.9 million contract asset (2019: £76.3 million) *Refer to page 96* *(Audit Committee Report),* *page 151* *(Accounting Policy),* *Page 157* *(Other areas of estimation uncertainty); and* *page 167 to 170* *(Financial Disclosures)*	Network commissions contract asset is based on the value of commissions due over the expected life of mobile phone network contracts. As this requires subjective estimates to be made there is a risk that the accrued income is misstated. The effect of these matters is that, as part of our risk assessment, we determined that the carrying value of £90.9 million has a degree of estimation uncertainty, with a potential range of reasonable outcomes. The financial statements note 22 disclose the sensitivity estimated by the Group. **Data capture** Completeness and accuracy of data used in the models used to calculate the fair value could be incorrect because of the complexities and manual nature of the calculations. **Calculation error** The models used to calculate the fair value are complex and based on a variety of different tariffs with different networks and so open to the possibility of arithmetical error. **Subjective estimate** Subjective inputs into the network commissions contract asset calculation, such as future clawback of upfront revenue, stretch targets for bonuses, number of customer disconnections and monthly expected cash receipts are based on forecast performance expected and require judgement.	Our procedures included: • **Data comparisons:** We performed reconciliations of historic cash received to third party data. We agreed a sample of income from new connections, disconnections and renewals of plans to both bank statements and the database system. • **Methodology implementation:** We assessed the methodology behind the calculation to verify whether it does the intended calculation. • **Historical comparisons:** We evaluated the historical accuracy of the model with reference to past data e.g. monthly cash receipts received per network against expected cash receipts. • **Our sector experience:** We challenged the assumptions made such as future clawback of upfront revenue, stretch targets for bonuses, number of customer disconnections and monthly expected cash receipts based on our knowledge of the business and the group. • **Sensitivity analysis:** We performed sensitivity analysis on judgemental assumptions as described above • **Assessing transparency:** We assessed 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 the contract asset. **Our results:** • We found the carrying value of the network commission's contract asset to be acceptable (2019: acceptable).

	The risk	Our response
Recoverability of Goodwill MobilePhonesDirect £14.5m; (2019: £14.5m) *Refer to page 96 (Audit Committee Report),* *page 152 (Accounting Policy),* *Page 156 (Key sources of estimation uncertainty); and* *page 163 and 164 (Financial Disclosure)*	**Subjective estimate** MobilePhonesDirect Goodwill is significant and at risk of irrecoverability due to uncertainty of achieving future forecasts. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 16) disclose the sensitivity estimated by the Group.	Our procedures included: • **Historical comparison:** We assessed the reasonableness of the budget by considering the historical accuracy of previous forecasts; • **Benchmarking assumptions:** We compared the assumptions to externally derived data in relation to key inputs such as projected economic growth and discount rates; • **Our sector experience:** We assessed whether key assumptions reflect our knowledge of the business and industry, including known or probable changes in the business environment. • **Sensitivity analysis:** We performed sensitivity analysis on the key assumptions and considered whether the Directors have identified realistic worst case scenarios in their own sensitivity analysis; and • **Assessing transparency:** We assessed whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill. **Our results** • We found the carrying amount of MobilePhonesDirect Goodwill to be acceptable.

	The risk	Our response
Parent: Recoverability of Parent Company's investment in subsidiaries and debtors due from group entities Investment in subsidiaries £83.1m million; (2019: £82.3m) *Refer to page 187 (Accounting Policy and financial disclosures)* *Debtors due from Group entities £115.8m (2019: £103.8m)* *Refer to page 153 (Accounting Policy); and* *and page 185 (Company statement of financial position)*	**Low risk, high value** The carrying amount of the Parent Company's investment in subsidiaries and debtors due from group entities balance represents 39% (2019: 43%) and 53% (2019: 54%) respectively of the Company's total assets. The recoverability of investments 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, it is considered to be the area of greatest significance in relation to our audit of the parent Company. The recoverability of debtors due from group entities is at increased risk of recoverability due to the delayed profitability and cash generative position of AO Deutschland. The estimated recoverable amount of this balance is subjective due to the inherent uncertainty involved in forecasting future cash flows.	Our procedures included: • **Tests of detail:** We assessed 100% of debtors due from group entities 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. • **Assessing subsidiary audits:** We considered the results of the audit work on those subsidiaries' profits and net assets. • **Comparing valuations:** We compared the carrying amount to the Group's market capitalisation to assess whether there are any indicators of impairment. • **Test of detail:** For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on a suitable measure of the subsidiaries' profit. • **Historical comparisons:** We assessed the reasonableness of the budgets by considering the historical accuracy of the previous forecasts; and • **Our sector experience:** We evaluated the current level of trading, including identifying any indications of a downturn in activity, by examining the post year end management accounts and considering our knowledge of the Group and the market; **Our results** • We found the Group's assessment of the recoverability of the Parent Company's investment in subsidiaries and debtors due from group entities balance to be acceptable (2019: acceptable).

	The risk	Our response
Volume rebates receivable £11.6m volume rebates receivable ; (2019: £11.1m) *Refer to page 97 (Audit Committee Report),* *page 151 (Accounting Policy); and* *page 170 (Financial Disclosures).*	**Subjective estimate** Volume rebates 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. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of £11.6 million has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. **Data capture** The 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:** We tested the operating effectiveness of controls over supplier statement reconciliations including the controls over the monitoring and timely reconciliations of the supplier statements. • **Historical comparisons:** We evaluated the accuracy of the Group's product volume forecasting against actual out-turns. • **Reperformance:** We recalculated a sample of rebates based on agreed and forecast supplier turnover and the contractual percentages as stated in the contract. • **Tests of detail:** We agreed a sample of the year end receivable back to post year end confirmatory evidence, including credit notes and supplier email confirmation. • **Assessing transparency:** We assessed whether the group's disclosures about the amount of the estimate agreed post year end was accurate. **Our results** • We found the carrying value of the volume rebates receivable to be acceptable (2019: 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 £1060.1 million, of which it represents 0.2% (2019: 0.2% 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 in Europe.

Materiality for the parent company financial statements as a whole was set at £1.0 million (2019: £1.0 million), determined with reference to a benchmark of parent company total assets, of which it represents 0.5% (2019: 0.5% of parent company total assets).

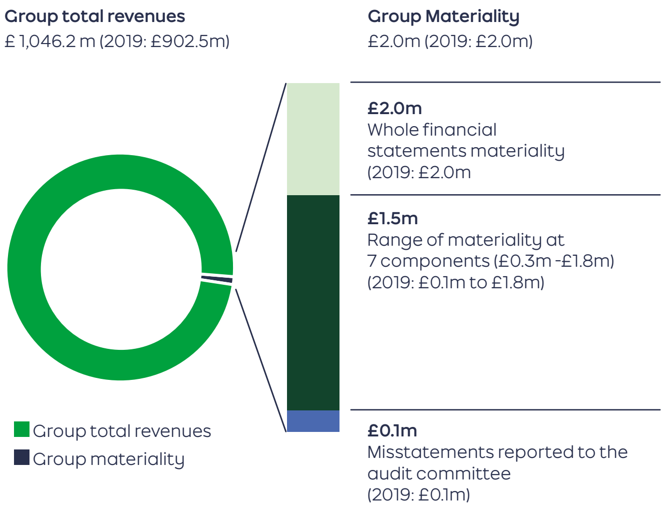
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.1 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

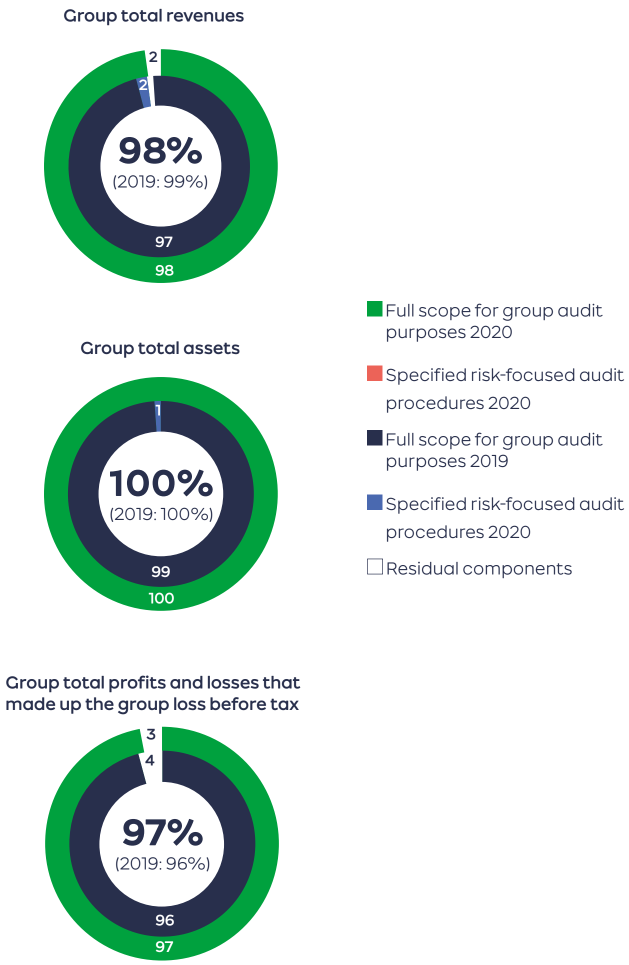
Of the group's 13 (2019: 11) reporting components , we subjected 7 (2019: 7) to full scope audits for group reporting purposes, all of which, including the audit of the parent company, were performed by the group audit team. We subjected 0 (2019: 1) reporting component to specific risk focused audit 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.

We conducted reviews of financial information (including enquiry) at a further 1 (2019: 0) non significant component. The components for which we performed work other than audits for group reporting purposes were not individually significant but were included in the scope of our group reporting work in order to provide further coverage over the group's results.

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 98% of group total revenues (2019: 99%), 100% of group total assets (2019: 100%) and 97% of group total profits and losses that made up the group loss before tax (2019: 96%).





4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, 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 1 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
- the related statement under the Listing Rules set out on page 48 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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 48 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

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

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

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 129, 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 general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: product protection plan legal status recognising the regulated nature of the plan and its legal form. Auditing standards limit the required audit procedures to identify non compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any.

Irregularities – ability to detect continued

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, 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. We are not responsible for preventing non compliance and cannot be expected to detect non compliance with all laws and regulations.

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

14 July 2020

Consolidated income statement

For the year ended 31 March 2020

	Note	2020 £m	2019 £m Restated (See note 36)
Continuing operations			
Revenue excluding Netherlands		**1,026.9**	880.6
Netherlands revenue		**19.3**	21.9
Total revenue	5,6	**1,046.2**	902.5
Cost of sales	6	**(867.9)**	(750.0)
Gross profit		**178.3**	152.5
Administrative expenses	6,7	**(183.3)**	(166.6)
Other operating income	8	**1.2**	1.1
Operating profit/(loss) excluding Netherlands		**1.4**	(8.4)
Netherlands operating loss		**(5.2)**	(4.6)
Total operating loss	6,8	**(3.8)**	(13.0)
Finance income	11	**10.9**	2.6
Finance costs	12	**(5.6)**	(9.7)
Profit/(loss) before tax		**1.5**	(20.2)
Tax (charge)/credit	13	**(0.1)**	2.1
Profit / (loss) after tax excluding Netherlands		**6.6**	(13.3)
Netherlands loss after tax		**(5.2)**	(4.8)
Profit/(loss) after tax for the year		**1.4**	(18.1)
Profit/(loss) for the year attributable to:			
Owners of the Company		**1.7**	(18.6)
Non-controlling interests	29	**(0.3)**	0.5
		1.4	(18.1)
Profit/(loss) per share			
Basic profit/(loss) per share	15	**0.38**	(4.00)
Diluted profit/(loss) per share	15	**0.37**	(4.00)

Consolidated statement of comprehensive income

For the year ended 31 March 2020

	2020 £m	2019 £m Restated (see note 36)
Profit/ (loss) for the year	**1.4**	(18.1)
Items that may subsequently be recycled to income statement		
Exchange differences on translation of foreign operations	**(5.5)**	2.4
Total comprehensive loss for the year	**(4.1)**	(15.7)
Total comprehensive loss for the year attributable to:		
Owners of the Company	**(3.8)**	(16.2)
Non-controlling interests	**(0.3)**	0.5
	(4.1)	(15.7)

Consolidated statement of financial position

As at 31 March 2020

	Note	2020 £m	2019 £m Restated (See note 36)	2018 £m Restated (See note 36)
Non-current assets				
Goodwill	16	**28.2**	28.2	13.5
Other intangible assets	17	**15.8**	16.9	1.2
Property, plant and equipment	18	**29.3**	26.5	28.0
Right of use assets	18	**64.7**	63.1	62.0
Trade and other receivables	22	**87.9**	79.4	47.9
Derivative financial asset	33	**0.6**	0.8	2.2
Deferred tax asset	20	**4.5**	4.6	2.5
		231.0	219.5	157.3
Current assets				
Inventories	21	**72.7**	76.3	53.2
Trade and other receivables	22	**137.4**	114.5	55.1
Derivative financial assets	33	**–**	–	0.2
Corporation tax receivable		**1.0**	0.6	0.2
Cash and bank equivalents	24	**6.9**	28.9	56.0
		218.0	220.3	164.7
Total assets		**449.0**	439.8	322.0
Current liabilities				
Bank overdraft		**–**	–	(3.1)
Trade and other payables	23	**(249.6)**	(229.8)	(149.9)
Borrowings	25	**(5.2)**	(9.5)	(1.2)
Lease liabilities	26	**(16.1)**	(14.3)	(12.7)
Derivative financial liability	33	**(0.2)**	(0.6)	(0.4)
Provisions	27	**(0.7)**	-	–
		(271.8)	(254.2)	(167.3)
Net current liabilities		**(53.8)**	(33.9)	(2.6)
Non-current liabilities				
Borrowings	25	**(16.7)**	(20.9)	(3.4)
Lease liabilities	26	**(68.0)**	(67.8)	(70.2)
Trade and other payables	23	**(7.5)**	(7.4)	–
Derivative financial liabilities	33	**(0.8)**	(2.9)	(3.4)
Deferred tax	20	**(2.6)**	(2.7)	–
Provisions	27	**(1.9)**	(2.2)	(1.8)
		(97.5)	(103.9)	(78.8)
Total liabilities		**(369.8)**	(358.1)	(246.1)
Net assets		**79.7**	81.8	75.9
Equity attributable to owners of the parent				
Share capital	28	**1.2**	1.2	1.1
Investment in own shares	28	**–**	–	–
Share premium account	28	**103.7**	103.7	103.7
Other reserves	30	**21.9**	29.0	5.3
Retained losses		**(46.1)**	(51.2)	(32.6)
Total		**80.7**	82.7	77.5
Non-controlling interest	29	**(1.0)**	(0.9)	(1.6)
Total equity		**79.7**	81.8	75.9

The financial statements of AO World Plc, registered number 05525751, on pages 144 to 195 were approved by the Board of Directors and authorised for issue on 13 July 2020. They were signed on its behalf by:

John Roberts
CEO
AO World Plc

Mark Higgins
CFO
AO World Plc

Consolidated statement of changes in equity

As at 31 March 2020

	Share capital £m	Investment in own shares £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
				Other reserves								
Reported Balance at 1 April 2018	1.1	–	103.7	4.4	0.5	9.1	(6.6)	(2.1)	(28.9)	**81.2**	(1.6)	**79.6**
Adjustment on initial application of IFRS 16 (net of tax)	–	–	–	–	–	–	–	–	(3.7)	**(3.7)**	**–**	**(3.7)**
Restated Balance at 1 April 2018	1.1	–	103.7	4.4	0.5	9.1	(6.6)	(2.1)	(32.6)	**77.5**	(1.6)	**75.9**
Loss for the period	–	–	–	–	–	–	–	–	(18.6)	**(18.6)**	0.5	**(18.1)**
Share-based payment charge net of tax	–	–	–	–	–	4.0	–	–	–	**4.0**	–	**4.0**
Issue of shares net of expenses	–	–	–	17.8	–	–	–	–	–	**17.8**	–	**17.8**
Foreign currency gains arising on consolidation	–	–	–	–	–	–	2.4	–	–	**2.4**	–	**2.4**
Acquisition of non-controlling entity	–	–	–	–	–	–	–	(0.4)	–	**(0.4)**	0.3	**(0.1)**
At 31 March 2019 as reported	1.2	–	103.7	22.2	0.5	13.1	(4.2)	(2.5)	(46.4)	**87.5**	(0.9)	**86.6**
Cumulative adjustment to opening balance from application of IFRS 16 (net of tax)	–	–	–	–	–	–	–	–	(4.8)	**(4.8)**	–	**(4.8)**
Restated balance at 31 March 2019	1.2	–	103.7	22.2	0.5	13.1	(4.2)	(2.5)	(51.2)	**82.7**	(0.9)	**81.8**
Profit for the period	–	–	–	–	–	–	–	–	1.7	**1.7**	(0.3)	**1.4**
Share-based payment charge net of tax	–	–	–	–	–	2.0	–	–	–	**2.0**	–	**2.0**
Issue of shares net of expenses	–	–	–	–	–	–	–	–	–	**–**	–	**–**
Foreign currency loss arising on consolidation	–	–	–	–	–	–	(5.5)	–	–	**(5.5)**	–	**(5.5)**
Acquisition of minority interest	–	–	–	–	–	–	–	(0.2)	–	**(0.2)**	0.2	**–**
Movement between reserves	–	–	–	–	–	(3.4)	–	–	3.4	**–**	–	–
Balance at 31 March 2020	**1.2**	**–**	**103.7**	**22.2**	**0.5**	**11.7**	**(9.7)**	**(2.7)**	**(46.1)**	**80.7**	**(1.0)**	**79.7**

Consolidated statement of cash flows

For the year ended 31 March 2020

	Note	2020 £m	2019 £m Restated (See note 36)
Cash flows from operating activities			
Profit/(loss) for the year		**1.4**	(18.1)
Adjustments for:			
Depreciation and amortisation		**21.1**	18.5
Finance income	11	**(10.9)**	(2.6)
Finance costs	12	**5.6**	9.7
Taxation charge/(credit)		**0.1**	(2.1)
Share-based payment charge	31	**2.0**	4.0
Increase in provisions	27	**0.4**	0.2
Operating cash flows before movement in working capital		**19.7**	9.6
Decrease/(increase) in inventories		**4.0**	(16.3)
Increase in trade and other receivables		**(29.5)**	(10.4)
Increase/(decrease) in trade and other payables		**19.7**	(4.5)
Total movement in working capital		**(5.8)**	(31.2)
Taxation refunded		**0.2**	0.8
Cash generated from/(used in) operating activities		**14.1**	(20.8)
Cash flows from investing activities			
Acquisition of subsidiary (net of cash acquired)		**–**	(5.9)
Interest received	11	**0.1**	0.1
Proceeds from sale of property, plant and equipment		**0.1**	–
Acquisition of property, plant and equipment		**(6.9)**	(4.2)
Acquisition of intangible assets		**(1.1)**	(0.5)
Cash used in investing activities		**(7.9)**	(10.5)
Cash flows from financing activities			
Acquisition of non-controlling interest		**(0.5)**	(0.4)
Movement in bank overdraft		**–**	(3.1)
Net proceeds from new borrowings		**–**	27.0
Interest paid on borrowings	12	**(1.5)**	(0.2)
Interest paid on lease liabilities	12	**(3.7)**	(4.2)
Repayments of borrowings		**(6.4)**	(1.2)
Repayment of lease liabilities		**(16.2)**	(13.7)
Net cash (used in)/generated from financing activities		**(28.2)**	4.2
Net decrease in cash		**(22.1)**	(27.0)
Cash and cash equivalents at beginning of year		**28.9**	56.0
Exchange losses on cash and cash equivalents		**0.1**	(0.1)
Cash and cash equivalents at end of year	24	**6.9**	28.9

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 2020, and as such comply with Article 4 of the EU IAS regulation.

The address of the registered office is given on page 196. The nature of the Group's operations and its principal activities are set out in Note 19 and in the Strategic report on pages 12 to 74.

These financial statements are presented in pounds sterling (£m) as 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.

During the year, the Group has adopted the following new accounting standards and interpretations for the first time.

- IFRS 16 Leases.
- IFRIC 23 Uncertainty over Income Tax Treatments.
- Annual Improvements to IFRS Standards 2015-2017 Cycle (Amendments to IFRS 3, IFRS 7, IFRS 9, IFRS 11, IAS 12, IAS 23 and IAS 39).

Other than for IFRS 16 Leases, there has been no impact on the financial statements as a result of the adoption of these new accounting standards or interpretations. The detailed impact of the adoption of IFRS 16 Leases is shown below.

Adoption of IFRS 16 Leases

The Group has applied IFRS 16 in these financial statements. The standard replaces IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard is mandatory for the accounting period beginning on 1 April 2019 and the Group has opted to apply the new standard using the full retrospective approach utilising the practical expedient to not reassess whether a contract contains a lease.

As such, the comparative figures in the financial statement for the financial year ended 31 March 2019 have been restated as if IFRS 16 had been applied at 1 April 2018.

The main effect on the Group is that IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for almost all leases.

In addition, the two capitalisation exemptions proposed by the standard – lease contracts with a lease term of less than 12 months and lease contracts for which the underlying asset has a low value (on acquisition) – have been taken by the Company. The payments for such leases will be recognized in the income statement on a straight-line basis over the lease term.

The adoption of IFRS 16 has no impact on the operational performance of the business and has no impact on the Group's cash and banking facilities (including any covenants attached to its revolving credit facility).

AO World plc as a lessee

At inception, the Group assesses whether a contract is or contains a lease. This assessment involves the exercise of judgement about whether it depends on a specified asset, whether the Group obtains substantially all the economic benefits from the use of that asset and whether the Group has the right to direct the use of the asset.

The Group recognises a Right of use (ROU) asset and a lease liability at the lease commencement date. The ROU asset is initially measured based on the present value of lease payments plus any initial direct costs incurred and the costs of obligations to refurbish the asset, less any incentives received. The ROU asset is subsequently depreciated using the straight-line method over the shorter of the lease term or the useful life of the underlying asset. In addition, the ROU asset is subject to testing for impairment if there is any indication of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the relevant Company's incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as the discount rate.

The lease liability generally includes fixed payments and variable payments that depend on an index (such as an inflation index). When the lease contains an extension or purchase option that the Group considers reasonably certain to be exercised, the cost of the extension or option is included in the lease payments.

ROU assets are separately disclosed as a line in the balance sheet. The corresponding lease liability is separately disclosed as "lease liabilities" in both Current and Non-current liabilities. The Group has classified the principal portion of lease payments, as well as the interest portion, within financing activities. Lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash flows from operating activities.

AO World plc as lessor

Where the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the Right of use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease, then it classifies the sublease as an operating lease. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as Other operating income. The Group has classified cash flows from operating leases as operating activities.

As a result of the adoption of IFRS 16 the comparative financial information has been restated. The effect of the restatement is set out in detail in Note 36.

2. Adoption of new and revised standards continued

New accounting standards in issue but not yet effective

New standards and interpretations that are in issue but not yet effective are listed below:

- Amendments to IAS 1 and IAS 8 Definition of Material.
- Amendments to IFRS 3 Definition of a Business.
- Amendments to References to the Conceptual Framework in IFRS Standards.

The adoption of the above standards and interpretations is not expected to lead to any changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.

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.

The present-access method is used to value the AO Recycling Limited 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 to the Group financial statements. All subsidiaries apply accounting policies which are consistent with those of the rest of the Group.

Going concern

Further information on our risks are shown pages 36 to 48.

Notwithstanding net current liabilities of £53.8m as at 31 March 2020, and a cash outflow for the year of £22.1m, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

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

The Directors have prepared base and sensitised cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that the Group will remain compliant with its covenants and will have sufficient funds through its existing cash balances and availability of funds from the new £80m Revolving Credit Facility (of which £56.7m is currently undrawn) to meet its liabilities as they fall due for that period. In assessing the going concern basis, the Directors have taken into account reasonably possible downsides including, e.g. a reduction in sales growth, a reduction in margin, tightening of credit terms from suppliers due to pressure from credit insurers and the potential impact arising as a result of Covid-19, as well as considering potential controllable mitigating factors.

In relation to Covid-19, management have considered the impact of a short term closure of part of its warehousing capacity in addition to the potential impact on customer behaviour in respect of product protection plans and mobile phone disconnections due to an increase in unemployment post lockdown.

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

Revenue recognition

IFRS 15 "Revenue from Contracts with Customers" is a principle-based model of recognising revenue from customer contracts. It has a five-step model that requires revenue to be recognised when control over goods and services are transferred to the customer. The following paragraphs (which align with the disaggregation of revenue shown in Note 5) describe the types of contracts, when performance obligations are satisfied, and the timing of revenue recognition.

Product revenue

The Group operates through two main websites – AO.com and AO.de – as well as operating sites for third parties. The AO.nl website ceased trading during the year. All websites are for the sale of electrical products. Revenue from the sale of goods is recognised when a Group entity sells a product to the customer. Payment of the transaction price is due immediately when the customer purchases the product and takes delivery or in the case of certain business to business transactions on credit terms. Revenue from products is recognised when the product is delivered.

It is the Group's policy to sell its products to the end customer with a right of return within 100 days. Therefore, a returns liability (included in accruals) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned.

Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

Service revenue

In addition to the sale of the product, the Group offers the delivery, collection, connection and disposal of new and old appliances. Revenue from these services is recognised in line with when the product is delivered.

Commission revenue

Commission revenue principally relates to revenue received by the Group in its role as agent/ broker for a third party. The two principal sources are:

a. Product protection plans

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 & General and the Group has no ongoing obligations following the sale of such plans) is included within revenue based on the estimated 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 at the point of sale. The amounts recognised take into consideration, amongst other things, the length of the plan and the historical rate of customer attrition and is discounted. Further details are included in Note 4 and Note 22.

b. Network commissions

The Group – through AO Mobile Limited – operates under contracts with a number of Mobile Network Operators ("MNO"). Over the life of these contracts the service provided by the Company is the procurement of connections to the MNO's network and the delivery of the handset to the end customer (of which the total cost of sale is £106.6m). The individual consumer enters into a contract with the MNO for the MNO to supply the ongoing airtime over that contract period and with AO Mobile Limited for the supply of the handset. The Group earns a commission for the service provided to each MNO ("network commission").

The method of estimating the revenue and the associated contract asset in the month of connection is to estimate all future cash flows that will be received from the network and discount these based on their timing of receipt. The determined commission is recognised in full in the month of connection of the consumer to the MNO as this is the point at which the Group has completed the service obligation relating to the consumer connection.

Commission revenue is only recognised to the extent it can be reliably measured for each consumer. The level of network commission earned is based on a share of the monthly payments made by the consumer to the MNO. The total consideration receivable is determined by both fixed (monthly line rental) and variable elements (being out of bundle and out of contract revenue share).

The Group recognises all of the fixed revenue share expected over a consumer's contract when a consumer is connected to the MNO. This gives rise to a contract asset being recognised, which is collected over the consumer's contract.

Estimating in advance variable elements of revenue is subject to significant judgements and is dependent on consumer behaviour after the point of recognition. The Group does consider that the amount of out of bundle and out of contract revenue can be measured reliably in advance for certain MNOs, and therefore these revenues are recognised when a consumer is connected to the MNO. For certain MNOs, where they are not considered reliably measurable they are recognised in the month received.

Logistics revenue

The Group provides third party logistics services to a number of customers. Revenue from logistics is recognised on completion of the delivery.

Recycling revenue

Revenue from the Recycling of used electrical products is recognised at the point of sale to the end user.

Volume and marketing related expenditure

At the year end the Group is required to estimate supplier income receivable due from annual agreements for volume rebates, some of 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 (in product 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:

- 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 contract asset in relation to product protection plans and network commissions in excess of their previously recognised 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.

3. Significant accounting policies continued

Finance costs comprise:

- Movement in the valuation of the put and call options.
- Finance costs incurred on finance leases and Right of use lease liabilities are recognised in the income statement using the effective interest method.
- Financing costs of raising debt.
- Foreign exchange losses arising on financing (principally intra-Group loans).

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method less any impairment losses.

Impairment of tangible and intangible assets

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

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

The recoverable amount of an asset or 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.

Goodwill and 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
Marketing related assets	10 years straight-line
Customer lists	5 years straight-line

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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

Freehold land and assets in the course of construction are 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.

Contract assets

Contract assets arising from sale of product protection plans and network contracts are recognised in line with the revenue recognition policies for commission revenue and are disclosed as a contract asset within trade and other receivables.

It represents the right to consideration in exchange for the service provided at the balance sheet date in relation to revenue recognised for the commissions. While the revenue is recognised at the point of sale, the cash receipts, which reduce the contract asset, are received over time.

As the consideration is receivable over time but is conditional on the behaviour of customers post provision of the service, it is classified as a contract asset under IFRS 15 rather than a receivable under IFRS 9.

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 (excluding contract assets), cash and cash equivalents, loans and borrowings, trade and other payables, and call and put options.

Trade and other receivables (excluding contract assets)

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any allowance for expected credit losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Contract liabilities

Contract liabilities are initially recognised within creditors as payments on account and cashback liabilities at fair value. Subsequent to initial recognition they are measured at amortised cost.

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.

Leases

IFRS 16 Leases was adopted by the Group during the period. Details of the group accounting policy on adoption can be found in note 2.

Call and put options

The fair value of the call and put options (arising on the acquisition of AO Recycling Limited) is 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.

3. Significant accounting policies continued

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.

Research and development credits are accounted for in accordance with IAS 12. The credit is recognised once a reasonable estimate of the amount can be made.

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 liability is recognised at the expected future tax rate on the value of intangible assets with finite lives which are acquired through business combinations representing the tax effect of the amortisation of these assets in the future. These liabilities will decrease in line with the amortisation of the related assets with the deferred tax credits recognised in the Statement of comprehensive income in accordance with IAS 12.

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 generally 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.

Alternative performance measures

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

EBITDA

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

Adjusted EBITDA

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

The Adjusting Items for the current year are as follows:

- Closure costs of the Dutch operations: At the time of the publication of our interim results in November 2019, the Group announced the intention to close its operations in the Netherlands. On 9 December 2019, the website was closed and subsequent to that date management have worked with suppliers, staff and the authorities to ensure an orderly closure of the companies and this has been completed at 31 March 2020. Costs incurred between 9 December 2019 and 31 March 2020 of £2.5m have been treated as the cost of closure of these operations and include the write-off of unsold stock, redundancy payments for all staff and legal costs.
- In December 2017, the Group entered into a marketing contract in Germany which was anticipated to generate significant additional revenue. In the prior and current financial years, the performance of this contract has been reassessed due to significant losses being incurred and the benefits expected from the contract not materialising. The Group is however committed to the contract until December 2020 and while management are continuing to explore routes to renegotiate the contract, it is clear that the cost of fulfilling the contract over its life will significantly exceed any benefit gained from it. In line with the treatment in FY19, management have added back the full cost in the current period of £1.3m (2019: £1.3m).
- Further to the actions disclosed in the 2019 financial statements regarding a full review of the European business following its unsatisfactory performance in the second half of FY19, the Group has undertaken a restructure of its European business. In addition to the closure of the Netherlands operation (see above), costs of £0.9m were incurred, which principally relates to a reduction in headcount in Germany.
- Following the signing of a new longer term contract with Vodafone in October 2019, certain historic claims against AO Mobile Limited (previously MobilePhonesDirect Limited) were discharged and as a consequence provisions of £2.3m were released into the income statement. As the provisions had been created as part of the purchase price allocation exercise on the acquisition of AO Mobile Limited, the charge for these claims has never been recognised in the Group income statement.

In the previous year, the Adjusting Items were:

- 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. These were outside of the normal share schemes operated by the Group and due to their magnitude and nature have been treated as an adjusting item. The options vested in June 2019.
- Following the changes in Chief Executive Officer, the Group undertook a restructure of its senior leadership team. The cost of this restructure was £1.2m.
- The Company acquired AO Mobile Limited (previously MobilePhonesDirect Limited) on 17 December 2018. Fees in relation to the transaction were £1.6m.

Adjusted EBITDA (excluding Netherlands)

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

Pre IFRS 16 Leases EBITDA

As a consequence of the adoption of IFRS16 during the year, the Group has shown an alternative measure of Adjusted EBITDA (including and excluding the Netherlands) which removes the impact of IFRS 16 to allow the reader to compare against the prior year.

4. 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.

Accounting standards require the Directors to disclosure those areas of critical accounting judgement and key sources of estimation uncertainty which carry a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next 12 months. These are discussed below.

Impairment of intangible assets and goodwill

As part of the acquisition of MobilePhonesDirect Limited in the prior year, the Group recognised amounts totalling £16.3m in relation to the valuation of the intangible assets and £14.7m in relation to residual goodwill.

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

While at 31 March 2020, the Directors have concluded that the carrying value of the intangibles and goodwill is appropriate (after considering certain sensitivities which are set out in Note 16), changes in any of these assumptions, which could be driven by the end customer behaviour with the Mobile Network Operators, could give rise to an impairment in the carrying value.

Other areas of estimation uncertainty

In addition to the specific areas noted above, while the Directors do not believe that there is a significant risk of a material adjustment to revenue in the next 12 months, they believe that disclosure of the assumptions made in relation to the recognition and assessment of the recoverability of commissions from both product protection plans and mobile network operator contracts is important for an understanding of the financial statements.

The historical information available to the Group, and the approach taken in calculating the revenue to recognise, provides us with a high degree of confidence that the initial revenue recognised would be consistent with the subsequent receipt of cash.

The nature of the estimates made based on the historical information available reflects a narrow range of reasonable outcomes based on the facts and circumstances present at the year end and so the revenue recognised is not based on a possible range of outcomes which is expected could either trigger a material downward future adjustment in that revenue initially recognised or leave it possible that there could be a material upward adjustment.

We do however continue to believe that the information provided is useful for a reader of the Annual Report as it gives some insight into factors behind the calculation of the relevant revenue.

Revenue recognition and recoverability of income from product protection plans

Revenue recognised in respect of commissions receivable over the lifetime of the plan for the sale of product protection plans is recognised in line with the principles of IFRS 15, when the Group obtains the right to consideration as a result of performance of its contractual obligations (acting as an agent for a third party).

Revenue in any one year therefore represents an estimate of the commission due on the plans sold, which management estimate reliably based upon a number of assumptions, including:

- the length of the policies;
- the commission rates receivable;
- the historical rate of customer attrition; and
- the 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 adjustment to the amount of revenue recognised is made for the risk of potential changes in customer behaviour, but they are nonetheless inherently uncertain, e.g. any change in behaviour as a result of Covid-19.

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

In assessing how consistent our observations have been, we compare cash received in a period versus the forecast expectation for that period as we believe this is the most appropriate check on revenue recognised. Small variations in this measure support the assumptions made.

For plans sold prior to 1 December 2016, the commission rates receivable are based on pre-determined rates. For plans sold post that date, base assumed commissions will continue to be earned on pre-determined rates but overall commissions now include a variable element based on the future overall performance of the scheme.

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 2020 was £81.2m (2019: £74.7m). The discount rate used to unwind the commission receivable is 4.6% (2019: 4.7%).

Revenue recognition and recoverability of income in relation to network commissions

Revenue in respect of commissions receivable from the Mobile Network Operators ("MNOs") for the brokerage of network contracts is recognised in line with the principles of IFRS 15, when the Group obtains the right to consideration as a result of performance of its contractual obligations (acting as an agent for a third party).

Revenue in any one year therefore represents an estimate of the commission due on the contracts sold, which management estimate reliably based upon a number of assumptions, including:

- Revenue share percentage – the percentage of the consumer's spend (to MNOs) to which MPD is entitled;
- Minimum contract period – the length of contract entered into by the consumer;
- Consumer default rate – rate at which the consumers disconnect from MNOs;
- Out of bundle spend – additional spend by the consumer measured as a percentage of total spend (which currently MPD considers can be measured reliably in advance for certain MNOs); and
- Spend beyond the initial contract period – period of time the consumer remains connected to the MNOs after the initial contract term (which currently MPD consider can be measured reliably in advance for certain MNOs).

The commission receivable on mobile phone connections can therefore depend on customer behaviour after the point of sale. The revenue recognised and associated receivable in the month of connection is estimated based on all future cash flows that will be received from the MNO and these are discounted based on the timing of receipt.

This also takes into account the potential clawback of commission by the MNOs for which a reduction is made in the amount of revenue recognised based on historical experience. The Directors consider that the quality and quantity of the data available from the MNOs is appropriate for making these estimates and, as the contracts are primarily for 24 months, the period over which the amounts are estimated is relatively short. As with commissions recognised on the sale of production protection plans, the Directors compare the cash received to the initial amount recognised in assessing the appropriateness of the assumptions used.

The commission receivable balance as at 31 March 2020 was £90.9m (2019: £76.3m). The discount rate used to unwind the commission receivable is 2.75% (2019: 2.75%).

5. Revenue

The table below shows the Group's revenue by main geographical area and major business area. All revenue is accounted for at a point in time as the Group has satisfied its performance obligations on the sale of its products/services.

Major product/services lines

(£m)	31 March 2020			31 March 2019		
	UK	Europe	Total	UK	Europe	Total
Product revenue	**692.8**	**140.7**	**833.5**	628.4	151.1	779.5
Service revenue	**35.0**	**3.4**	**38.3**	30.1	1.6	31.8
Commission revenue	**143.8**	**0.2**	**144.0**	61.2	0.3	61.5
Third party logistics revenue	**16.6**	**–**	**16.7**	15.3	–	15.3
Recycling revenue	**13.5**	**0.2**	**13.6**	14.3	0.1	14.5
Total revenue	**901.6**	**144.5**	**1,046.2**	749.3	153.2	902.5

Details of the revenue in each category are set out in the accounting policies note on page 150.

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 2020			31 March 2019 Restated (See note 36)		
	UK	Europe	Total	UK	Europe	Total
Total revenue	**901.6**	**144.5**	**1,046.2**	749.3	153.2	902.5
Cost of sales	**(724.3)**	**(143.6)**	**(867.9)**	(594.2)	(155.7)	(750.0)
Gross profit/(loss)	**177.4**	**0.9**	**178.3**	155.1	(2.6)	152.5
Administrative expenses	**(153.2)**	**(30.1)**	**(183.3)**	(139.0)	(27.6)	(166.6)
Other operating income	**0.8**	**0.4**	**1.2**	0.6	0.4	1.1
Operating profit/(loss)	**25.0**	**(28.8)**	**(3.8)**	16.7	(29.7)	(13.0)
Finance income	**6.4**	**4.5**	**10.9**	2.6	–	2.6
Finance costs	**(4.9)**	**(0.7)**	**(5.6)**	(6.2)	(3.5)	(9.7)
Profit/(loss) before tax	**26.5**	**(25.0)**	**1.5**	13.0	(33.2)	(20.2)
Tax credit/(charge)	**–**	**(0.1)**	**(0.1)**	1.6	0.4	2.1
Profit/(loss) after tax	**26.5**	**(25.1)**	**1.4**	14.7	(32.8)	(18.1)

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 reconciliation of statutory operating profit/(loss) to adjusted EBITDA is as follows.

Year ended (£m)	2020			2019		
	UK	Europe	Total	UK	Europe	Total
Operating profit excluding Netherlands	**25.0**	**(23.5)**	**1.4**	16.7	(25.0)	(8.3)
Netherlands Operating loss	**–**	**(5.2)**	**(5.2)**	–	(4.7)	(4.7)
Operating profit/(loss)	**25.0**	**(28.8)**	**(3.8)**	16.7	(29.7)	(13.0)
Depreciation	**15.8**	**3.1**	**18.9**	14.2	3.2	17.4
Amortisation	**2.2**	**–**	**2.2**	1.1	–	1.1
Loss/(profit) on disposal of non-current assets	**(0.1)**	**0.1**	**–**	–	–	–
EBITDA excluding Netherlands	**42.8**	**(20.4)**	**22.4**	32.0	(21.9)	10.1
Netherlands EBITDA	**–**	**(5.1)**	**(5.1)**	–	(4.6)	(4.6)
EBITDA	**42.8**	**(25.5)**	**17.3**	32.0	(26.5)	5.5
Adjusting items (see Note 3):						
Adjusting items excluding Netherlands	**(2.0)**	**2.2**	**0.2**	6.1	1.2	7.3
Netherlands Adjusting items	**–**	**2.2**	**2.2**	–	–	–
Total adjusting items	**(2.0)**	**4.4**	**2.4**	6.1	1.2	7.3
Adjusted EBITDA excluding Netherlands	**40.8**	**(18.2)**	**22.6**	38.1	(20.7)	17.4
Netherlands Adjusted EBITDA	**–**	**(3.0)**	**(3.0)**	–	(4.6)	(4.6)
Adjusted EBITDA	**40.8**	**(21.1)**	**19.6**	38.1	(25.3)	12.8

The table above separates the results of the ongoing Group from those of its Netherlands operation which closed during the year. The Netherlands operation does not meet the requirement to be disclosed as a discontinued operation. However, the Directors believe that the separate disclosure assists with the understanding of the overall Group performance in the year as well as providing a comparator for the ongoing business in FY21.

To assist users of these financial statements in reconciling the above numbers to those reported in the 2019 Annual Report, the table below removes the impact of IFRS 16 on Adjusted EBITDA to enable a like-for-like comparison. The result for the Netherlands excludes amounts of £0.7m (2019: £0.6m) which relate to ongoing costs of the Group. These costs are therefore adjusted in arriving at the Excluding Netherlands Adjusted EBITDA below.

Year ended (£m)	2020			2019		
On Pre IFRS 16 Basis	UK	Europe	Total	UK	Europe	Total
Adjusted EBITDA as above	**40.8**	**(21.1)**	**19.6**	38.1	(25.3)	12.8
Less impact of IFRS 16	**(11.9)**	**(2.6)**	**(14.5)**	(10.7)	(2.5)	(13.2)
Adjusted EBITDA pre IFRS 16	**28.9**	**(23.8)**	**5.2**	27.4	(27.8)	(0.4)
Excluding Netherlands	**28.9**	**(20.1)**	**8.8**	27.4	(22.6)	4.8
Allocation of costs	**–**	**(0.7)**	**(0.7)**	–	(0.6)	(0.6)
Excluding Netherlands adjusted	**28.9**	**(20.8)**	**8.1**	27.4	(23.2)	4.2
Netherlands	**–**	**(3.7)**	**(3.7)**	–	(5.2)	(5.2)
Allocation of costs	**–**	**0.7**	**0.7**	–	0.6	0.6
Netherlands adjusted	**–**	**(3.0)**	**(3.0)**	–	(4.6)	(4.6)
Adjusted EBITDA pre IFRS 16	**28.9**	**(23.8)**	**5.2**	27.4	(27.8)	(0.4)

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

	Additions					
2020 (£m)	Intangible assets	PP&E	Right of use assets	Depreciation	Amortisation	Profit on disposal
UK	**1.3**	**8.3**	**13.0**	**15.8**	**2.2**	**(0.1)**
Europe	–	**0.2**	**1.3**	**3.1**	–	**0.1**
	1.3	**8.5**	**14.3**	**18.9**	**2.2**	**-**

	Additions					
2019 (£m) (restated)	Intangible assets	PP&E	Right of use assets	Depreciation	Amortisation	Profit on disposal
UK	0.5	4.7	11.2	14.2	1.1	–
Europe	–	0.1	0.7	3.2	–	–
	0.5	4.8	11.9	17.4	1.1	–

In the previous year, intangible and tangible fixed assets (including Right of use assets) of £17.0m were acquired with AO Mobile Limited.

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

	2020 £m	2019 £m *
Marketing and advertising expenses	**29.8**	28.2
Warehousing expenses	**42.5**	37.0
Research and Development	**9.3**	6.9
Other administrative expenses	**101.7**	94.5
	183.3	166.6

* Restated (See note 36)

8. Operating loss for the year

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

	2020 £m	2019 £m*
Depreciation of:		
Owned assets	**4.0**	3.9
Right of use assets	**12.2**	11.0
Assets held under finance leases	**2.7**	2.5
Amortisation	**2.2**	1.1
Cost of inventory	**755.7**	665.6
Staff costs	**114.4**	105.1
Other operating income from short-term sublets	**(1.2)**	(1.1)
Adjusting items (see Note 3)		
Acquisition costs	**-**	2.6
Executive restructuring costs	**0.9**	1.2
Netherlands closure costs	**2.5**	-
Provision release	**(2.3)**	-
Share-based payments charge attributable to exceptional LTIP awards	**-**	2.3
Onerous contract costs	**1.3**	1.2

* Restated (See note 36)

Adjusting items are included in the income statement as follows:

	2020 £m	2019 £m
Revenue	(2.6)	–
Cost of sales	2.4	1.2
Gross profit	(0.2)	1.2
Administrative expenses	2.6	6.0
Operating profit	2.4	7.2

9. Auditor's remuneration

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

	2020 £m	2019 £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	0.5	0.3
Total Auditor's remuneration	0.6	0.4

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 were safeguarded are set out in the Audit Committee Report on page 97. No services were provided on a contingent fee basis.

Non-audit fees of £45,000 were also incurred in relation to the review of the interim financial statements (2019: £40,000) and, in the year ended 31 March 2019, £30,000 in relation to work performed on the acquisition of MobilePhonesDirect Limited.

10. Staff numbers and costs

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

	2020 Number	2019 Number
Sales, marketing and distribution	3,219	3,110
Directors (Executive and Non-Executive)	8	9
	3,227	3,119

Their aggregate remuneration comprised:

	2020 £m	2019 £m
Wages and salaries	97.6	89.5
Social security costs	9.4	9.1
Contributions to defined contribution plans (see Note 33)	5.0	4.9
Share-based payment charge (see Note 31)	2.0	4.0
	114.1	107.4

11. Finance income

	2020 £m	2019 £m
Foreign exchange gains on intra-Group loans	6.0	–
Movement in valuation of put and call option	1.9	0.2
Unwind of discounting on non-current contract assets	2.9	2.3
Other interest	0.1	0.1
	10.9	2.6

12. Finance costs

	2020 £m	2019 £m *
Interest on lease liabilities	3.7	4.2
Interest on bank loans	0.6	0.2
Foreign exchange losses on intra-Group loans	–	3.0
Unwind of discounting on long-term payables	0.3	0.2
Movement in valuation of put and call option	0.1	1.8
Other finance costs	0.9	0.3
	5.6	9.7

* Restated (See note 36)

13. Tax

	2020 £m	2019 £m *
Corporation tax:		
Current year	**0.1**	0.2
Adjustments in respect of prior years	**–**	–
	0.1	0.2
Deferred tax (see Note 20)		
Current year	**1.0**	(2.0)
Adjustments in relation to prior years	**(1.0)**	(0.3)
Total tax charge/(credit)	**0.1**	(2.1)

* Restated (See note 36)

The expected corporation tax charge for the year is calculated at the UK corporation tax rate of 19% (2019: 19%) on the profit 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 Group has recognised deferred tax in relation to UK companies at 19%. The charge for the year can be reconciled to the profit in the statement of comprehensive income as follows:

Year ended 31 March	2020 £m	2019 £m
Profit/(loss) before tax on continuing operations	**1.5**	(20.2)
Tax at the UK corporation tax rate of 19% (2019: 19%)	**0.3**	(3.8)
Ineligible expenses	**0.3**	1.6
R & D tax credit	**–**	0.2
Difference in overseas and UK tax rates	**(0.3)**	(0.3)
Movement in unrecognised tax	**1.5**	–
Impact of difference in current and deferred tax rates	**(0.2)**	0.1
Income not taxable	**(1.5)**	–
Share-based payments	**1.0**	0.4
Prior period adjustments	**(1.0)**	(0.3)
Tax credit/(charge) for the year	**0.1**	(2.1)

14. Dividends

The Directors do not propose a dividend for the year ended 31 March 2020 (2019: £nil).

15. Earnings/(loss) per share

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

	2020 £m	2019 £m *
Profit/(loss) for the purposes of basic and diluted earnings per share being loss attributable to owners of the parent Company	**1.7**	(18.6)
Number of shares		
Weighted average shares in issue for the purposes of basic loss per share	**472,462,309**	463,153,515
Potentially dilutive shares options	**4,857,812**	6,447,240
Weighted average number of diluted ordinary shares	**477,320,121**	469,600,755
Earnings/(loss) per share (pence per share)		
Basic earnings/(loss) per share	**0.38**	(4.00)
Diluted earnings/(loss) per share	**0.37**	(4.00)

* Restated (See note 36)

In the previous year, as the potentially dilutive shares do not result in a reduction a loss per share, the diluted loss per share has been restricted to the basic loss per share.

The basic earnings/(loss) per share is affected by significant foreign exchange movements arising from intra-Group funding arrangements therefore an adjusted basic earnings/(loss) per share has been calculated below excluding this impact as management believe it provides helpful additional information for stakeholders in assessing the performance of the business. The foreign exchange movement has arisen as a result of the change in the exchange rate between sterling and the euro in the period.

Management do not adjust for all the items included in the Adjusted EBITDA alternative performance measure as when considering these significant items impacting profit/ (loss) before tax from one period to the next, significant foreign exchange movements arising from intra-group funding has the largest impact.

Year ended 31 March	2020 £m	2019 £m *
Earnings/(loss)		
Profit/(loss) attributable to owners of the parent company	**1.7**	(18.6)
(Reduction)/add back of foreign exchange movements on intra-Group loans	**(6.0)**	3.0
Adjusted loss attributable to owners of the parent Company	**(4.3)**	(15.5)
Number of shares		
Basic and adjusted weighted average number of ordinary shares	**472,462,309**	463,153,515
Potentially dilutive shares options	**4,857,812**	6,447,240
Diluted weighted average number of shares	**477,320,121**	469,600,755
Earnings/(loss) per share (in pence)		
Basic earnings/(loss) per share	**0.38**	(4.00)
Diluted earnings/(loss) per share	**0.37**	(4.00)
Adjusted loss per share	**(0.91)**	(3.36)

16. Goodwill

	£m
Carrying value at 31 March 2018	13.5
Additions	14.1
Carrying value as reported at 31 March 2019	**27.6**
Adjustment in hindsight period	0.6
Carrying value as restated at 31 March 2019	**28.2**
Carrying value at 31 March 2020	**28.2**

Historical 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).

The movement in the previous year represented the residual goodwill on the acquisition of MobilePhonesDirect Limited (now AO Mobile Limited) by AO Limited.

As set out in Note 36 the balance sheet at 31 March 2019 has been restated to reflect the final changes to the assets, liabilities and subsequent goodwill arising from the acquisition of MobilePhonesDirect Ltd (now AO Mobile Limited) in December 2018. This has had the impact of increasing goodwill by £0.6m.

Impairment of goodwill

UK CGU - £13.5m

At 31 March 2020, goodwill acquired through UK business combinations (excluding MobilePhonesDirect Limited) was allocated to the UK cash-generating unit ("CGU") which is also the UK operating segment.

This represents the lowest level within the Group at which goodwill is monitored for internal management purposes.

The Group performed its annual impairment test as at 31 March 2020. 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 estimate 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 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 9.1% (2019: 9.1%).

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

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

MobilePhonesDirect Limited - £14.7m

The Group has assessed the goodwill arising on the acquisition of MobilePhonesDirect Limited in December 2018. This was performed based on a value in use calculation in the same way as for the UK business noted above but using a weighted average cost of capital appropriate for MPD as a standalone business of 11.7% (2019: 13.4%).

The total recoverable amount in respect of goodwill for this CGU group is greater than the carrying value by £24.4m. The main assumptions underlying the value in use calculation are revenue growth, gross margin and the discount rate. The Directors have performed sensitivity analysis on the numbers included in the three year strategic plan for the business in assessing the value in use. Revenue in FY21-FY23 is on average £169m and would need to reduce by c23% in each year, the gross margin percentage in FY21-FY23 is on average 6.6% and would need to reduce by 1.5% and the discount rate of 11.7% would need to increase in excess of 8% (with all other inputs remaining the same) for the recoverable amount to be equal to its carrying value. For this reason this area of estimation uncertainty set out in note 4.

17. Other intangible assets

	Domain names £m	Software £m	Marketing related assets £m	Customer lists £m	Total £m
Cost					
At 1 April 2018	1.4	2.4	–	–	3.8
Acquired with subsidiary	–	1.1	14.8	0.4	16.3
Additions	–	0.5	–	–	0.5
At 31 March 2019	1.4	4.0	14.8	0.4	20.6
Additions	0.1	1.2	–	–	1.3
Disposals	–	(0.3)	–	–	(0.3)
At 31 March 2020	**1.5**	**4.9**	**14.8**	**0.4**	**21.6**
Amortisation					
At 1 April 2018	1.0	1.6	–	–	2.6
Charge for the year	0.1	0.5	0.5	–	1.1
At 31 March 2019	1.1	2.1	0.5	–	3.7
Charge for the year	–	0.7	1.4	0.1	2.2
Disposals	–	(0.2)	–	–	(0.2)
At 31 March 2020	**1.1**	**2.7**	**1.9**	**0.1**	**5.7**
Carrying amount At 31 March 2020	**0.3**	**2.2**	**12.9**	**0.4**	**15.8**
At 31 March 2019	0.3	1.8	14.3	0.4	16.9

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

Intangible assets acquired with subsidiary in the prior year were based on an external valuation and represent marketing related, customer related and technology related assets recognised on the acquisition of MobilePhonesDirect Limited in December 2018.

18. Property, plant and equipment

Owned assets	Land and buildings £m	Assets in the course of construction £m	Property alterations £m	Fixtures, fittings, plant and machinery £m	Motor vehicles £m	Computer and office equipment £m	Assets held for rental purposes £m	Total £m
Cost								
At 1 April 2018	3.3	–	12.6	11.9	11.0	7.4	–	46.2
Additions	(0.1)	0.8	0.8	1.3	0.8	1.3	–	4.8
Acquired with subsidiary (see Note 35)	–	–	0.2	–	–	–	–	0.2
Disposals	–	–	–	–	(0.3)	(0.1)	–	(0.4)
Exchange differences	(0.1)	–	–	–	–	–	–	(0.1)
At 31 March 2019	3.1	0.8	13.5	13.2	11.5	8.7	–	50.8
Additions	0.2	3.6	0.9	1.5	0.9	1.1	0.3	8.5
Reclassification from Prepayments	–	0.8	–	–	–	–	–	0.8
Disposals	–	–	–	(0.2)	(0.3)	(0.2)	–	(0.7)
Exchange differences	0.1	–	–	–	–	–	–	0.1
At 31 March 2020	**3.3**	**5.2**	**14.4**	**14.5**	**12.1**	**9.6**	**0.3**	**59.4**
Accumulated depreciation								
At 1 April 2018	0.4	–	3.8	3.9	4.3	5.8	–	18.2
Charge for the year	0.1	–	1.4	0.6	2.6	1.6	–	6.4
Disposals	–	–	–	–	(0.3)	(0.1)	–	(0.4)
At 31 March 2019	0.5	–	5.2	4.5	6.6	7.3	–	24.2
Charge for the year	0.4	–	1.2	1.5	2.1	1.3	–	6.6
Disposals	–	–	–	(0.2)	(0.3)	(0.1)	–	(0.6)
At 31 March 2020	**0.9**	**–**	**6.4**	**5.9**	**8.4**	**8.4**	**–**	**30.1**
Carrying amount								
At 31 March 2020	**2.4**	**5.2**	**7.9**	**8.7**	**3.7**	**1.1**	**0.3**	**29.3**
At 31 March 2019 restated	2.4	0.8	8.6	8.5	4.9	1.4	–	26.5

At 31 March 2020, the net carrying amount of leased plant and machinery included above was £10.1m (2019: £8.7m). The leased equipment secures lease obligations (see Note 26).

From 31 March 2019, the Group has adopted IFRS 16 Leases (see Notes 2 and 36). Right of use assets recognised are reflected in the following asset classes:

Right of use assets	Land and buildings £m	Motor vehicles £m	Computer equipment £m	Total £m
Cost				
At 1 April 2018	69.4	11.6	–	81.0
Additions	7.7	3.3	1.0	11.9
Acquired with subsidiary (see Note 35)	0.5	–	–	0.5
Exchange differences	(0.2)	–	–	(0.2)
At 31 March 2019	77.4	14.8	1.0	93.2
Additions	9.1	5.2	–	14.3
Disposals	(1.0)	–	–	(1.0)
Exchange differences	0.4	–	–	0.4
At 31 March 2020	**85.8**	**20.0**	**1.0**	**106.8**
Accumulated depreciation				
At 1 April 2018	17.0	2.0	–	19.0
Charge for the year	6.6	4.2	0.1	11.0
At 31 March 2019	23.7	6.2	0.1	30.0
Charge for the year	7.1	4.9	0.2	12.2
Disposals	(0.2)	–	–	(0.2)
At 31 March 2020	**30.6**	**11.1**	**0.4**	**42.0**
Carrying amount				
At 31 March 2020	**55.3**	**8.9**	**0.6**	**64.7**
At 31 March 2019	53.7	8.6	0.9	63.1

The expense relating to short term leases and low value assets included within the Income Statement amounted to £0.1m (2019: £0.1m).

At 31 March 2020, the Group was not committed to any leases which had not yet commenced (2019: nil).

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 2020.

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%	Holding company
Elekdirect Limited	United Kingdom	Ordinary	100%	Retail
Appliances Online Limited	United Kingdom	Ordinary	100%	Holding company
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	74.4%	WEEE recycling
WEEE Collect It Limited	United Kingdom	Ordinary	100%	Dormant
WEEE Re-use It Limited	United Kingdom	Ordinary	100%	Dormant
Electrical Appliance Outlet Limited	United Kingdom	Ordinary	100%	Retail
MobilePhonesDirect Limited	United Kingdom	Ordinary	100%	Dormant
AO Mobile Limited	United Kingdom	Ordinary	100%†	Retail
BERE Limited	Jersey	Ordinary and redeemable preference	100%	Investment company
AO Business Limited	United Kingdom	Ordinary	100%	Dormant
AO B2B Limited	United Kingdom	Ordinary	100%	Dormant
AO Trade Limited	United Kingdom	Ordinary	100%	Dormant
AO Rental Limited	United Kingdom	Ordinary	100%	Dormant
AO Care Limited	United Kingdom	Ordinary	100%	Dormant
AO Premium Care Limited	United Kingdom	Ordinary	100%	Dormant
AO Club Limited	United Kingdom	Ordinary	100%	Dormant
AO Distribution Limited	United Kingdom	Ordinary	100%	Dormant
AO Logistics Limited	United Kingdom	Ordinary	100%	Dormant

All companies within the Group are registered at the same address disclosed on page 196 apart from BERE Ltd, AO.NL BV, AO Logistics (Netherlands) BV and AO.BE SA who are registered at the addresses listed below.

BERE Ltd	AO.NL BV	AO Logistics (Netherlands) BV	AO.BE SA
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 Brussels

* 0.01% of the investment in AO.BE SA is owned by AO Deutschland Limited.
† Indirectly owned through AO Limited.
‡ Indirectly owned through Worry Free Limited (50%) and Appliances Online Limited (50%).

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	Intangible fixed assets £m	Transitional relief on IFRS 16 adoption £m	Losses and unused tax relief £m	Total £m Restated
At 1 April 2018	0.9	0.6	0.2	–	0.8	–	2.5
Acquired with subsidiary (see Note 36)	–	–	–	(2.7)	–	–	(2.7)
Credit to income statement	0.4	0.2	0.1	–	0.2	1.4	2.3
(Debit)/credit to reserves	(0.1)	–	–	–	–	–	(0.1)
At 31 March 2019	1.2	0.8	0.3	(2.7)	1.0	1.4	2.0
(Debit)/credit to income statement	(0.4)	0.7	–	0.1	–	(0.4)	–
At 31 March 2020	**0.8**	**1.5**	**0.3**	**(2.6)**	**0.9**	**1.0**	**2.0**

The above are disclosed as follows in the statement of financial position:

Deferred tax asset	4.5
Deferred tax liabilities	(2.6)
Net deferred tax	2.0

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 £7.4m (2019: £5.4m) in respect of unused losses carried forward.

21. Inventories

	2020 £m	2019 £m
Finished goods	**72.7**	76.3

Included within inventories are stock provisions of £0.5m (2019: £1.1m).

22. Trade and other receivables

	2020 £m	2019 £m*
Trade receivables	**20.5**	12.9
Contract assets	**172.1**	151.1
Prepayments and accrued income	**29.7**	26.5
Other receivables	**3.0**	3.4
	225.3	193.9

* Restated (See note 36).

The trade and other receivables are classified as:

	2020 £m	2019 £m*
Non-current assets	**87.9**	79.4
Current assets	**137.4**	114.5
	225.3	193.9

All of the amounts classified as Non-current assets relate to contract assets.

22. Trade and other receivables continued

Contract assets

Contract assets principally represents the expected future commission receivable in respect of product protection plans and mobile phone connections. As set out in Note 4, the Group recognises revenue in relation to these plans and connections when it obtains the right to consideration as a result of performance of its contractual obligations (acting as an agent for a third party). Revenue in any one year therefore represents the estimate of the commission due on the plans sold or connections made.

The reconciliation of opening and closing balances for contract assets is shown below:

	2020 £m	2019 £m Restated
Balance brought forward	**151.1**	61.6
Acquisition of subsidiary	**–**	76.6
Revenue recognised *	**153.8**	54.6
Cash received	**(134.7)**	(48.0)
Revisions to estimates	**(0.7)**	3.9
Unwind of discounting	**2.6**	2.3
Balance carried forward	**172.1**	151.1

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

Product protection plans

Under our arrangement with Domestic & General ("D&G"), the Group receives commission in relation to its role as agent for introducing its customers to D&G and as set out in the accounting policies in Note 3 recognises revenue at the point of sale as it has no future obligations following this introduction.

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

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

- the contractually agreed margins which differ for each individual product covered by the plan as is included in the agreement with D&G;
- the number of plans based on information provided by D&G (See below);
- the discount rate using external market data - 4.6% (2019: 4.7%);
- historic rate of customer attrition which uses actual cancellation data for each month since the start of the plans in 2008 to form an estimate of the cancellation rates to use by month going forward (Range of 0% to 10.7% weighted average cancellation by month);
- the estimated length of the plan based on historical data plus external assessments of the potential life of products (5 to 16 years); and
- the estimate of profit share relating to the scheme as a whole based on information provided by D&G.

The last three inputs are estimated based on extensive historical evidence obtained from our own records and from D&G. The Group has accumulated historical empirical data over the last 13 years from *circa* 2.0 million plans which have been sold. Of these, 0.8 million are live.

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

As set out in Note 4, the Directors do not believe there is a significant risk of a material adjustment to the revenue recognised in relation to these plans over the next 12 months. The sensitivity analysis below is disclosed as we believe it provides useful insight to the users of the financial statements into the factors taken into account when calculating the revenue to be recognised. The table shows the sensitivity of the carrying value of the commission receivables and revenue to a reasonably possible change in inputs to the discounted cash flow model over the next 12 months.

Sensitivity	Impact on contract asset £m	Impact on revenue £m
25% reduction in terminal drop off rate after actual data available	1.1	1.1
10% increase in terminal drop off rate after actual data available	(0.4)	(0.4)
Cancellations increase by 1%	(0.8)	(0.8)
Cancellation rate reduces by 0.5%	0.6	0.6

Terminal drop off rate – cancellations

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

Cancellations

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

Other areas

Sensitivities related to changes in margins have not been included due to the extensive amount of historical data our valuation assumptions are based on and the fact that the data is based on actual prices changed by D&G. Any change in price of a plan would need to be agreed between D&G and AO and we consider therefore the likelihood of any significant impact related to changes in price and hence margin is remote; therefore, no sensitivity has been included.

Network commissions

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

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

The key inputs to management's base case model are:

- revenue share percentage, i.e. the percentage of the consumer's spend (to the MNO) to which the Group is entitled;
- the discount rate using external market data - 2.75% (2019: 2.75%);
- the length of contract entered into by the consumer (12 to 24 months);
- consumer default rate – rate at which consumers disconnect from the MNO (0% - 5%); and
- spend beyond the initial contract period – period of time the consumer remains connected to the MNO after the initial contract term.

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

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

As set out in Note 4, the Directors do not believe there is a significant risk of a material adjustment to the revenue recognised in relation to the networks over the next 12 months. The sensitivity analysis below is disclosed as we believe it provides useful insight to the users of the financial statements by giving insight into the factors taken into account when calculating the revenue to be recognised. The table shows the sensitivity of the carrying value of the commission receivables, revenue and finance income to a reasonably possible change in inputs to the discounted cash flow model over the next 12 months.

Sensitivity	Impact on contract asset £m	Impact on revenue £m
1.5% increase in contractual entitlements	0.7	0.7
1% increase in the default rate	(0.9)	(0.9)

Contract entitlement

Additional contract entitlement includes Out of bundle and Out of contract revenue together with annual increases for RPI. Out of bundle/ Out of contract revenue is recognised when the Group has sufficient historical data to estimate the behaviour of the end customer outside of the normal terms of the contract. In the majority of cases this revenue is recognised on the receipt of cash due to its variable nature. With certain MNO's as further information is considered there is a reasonable probability that this source of revenue may become more predictable. The sensitivity above is based on the amount of revenue being recognised at the point of sale rather than on receipt as the Group gains more information.

Default rate

The revenue recognised considers amongst other things the length of the contract, the revenue share agreed with the networks and the default/cancellation rates of the end customers. The majority of contracts are for upto 2 years and, dependent on the network, the Group estimates revenue share at between 21 and 24 months based on historical information. Whilst the above restriction on the months recognised, together with the estimated clawback provision for contracts cancelled in the early months gives management a reasonable basis on which to recognise revenue, the sensitivity above represents a reasonable possible adjustment should cancellations increase. However, with the restricted recognition of out of bundle and out of contract revenue, management believe that the total amount of revenue recognised remains appropriate.

Prepayments and accrued income

At 31 March 2020, there is £11.6m (2019: £11.1m) included in prepayments and accrued income in relation to volume rebates receivable. The amounts are largely coterminous and are mainly agreed in the month after recognition.

At 31 May 2020, the balance outstanding was £2.7m (2019: £3.0m).

23. Trade and other payables

	2020 £m	2019 £m*
Trade payables	**139.6**	140.9
Accruals	**23.1**	17.9
Contract liabilities	**61.5**	55.9
Deferred income	**15.2**	8.2
Other payables	**17.6**	14.3
	257.1	237.2

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 52 days (2019: 58 days).

Contract liabilities includes payments on account from Mobile Network Operators where there is no right of set off with the contract asset and cashback liabilities due to the end customer (see note 27).

The trade and other payables are classified as:

	2020 £m	2019 £m*
Current liabilities	**249.6**	229.8
Long-term liabilities	**7.5**	7.4
	257.1	237.2

* Restated (See note 36)

24. Net debt

	2020 £m	2019 £m*
Cash and cash equivalents at year end	**6.9**	28.9
Borrowings – Repayable within one year	**(5.2)**	(9.5)
Borrowings – Repayable after one year	**(16.7)**	(20.9)
Lease liabilities – Repayable within one year	**(16.1)**	(14.3)
Lease liabilities – Repayable after one year	**(68.1)**	(67.8)
Net debt	**(99.1)**	(83.5)

* Restated (See note 36)

24. Net debt continued

Movement in financial liabilities in the year was as follows:

	Borrowings £m	Lease liabilities £m
Balance at 1 April 2019	**30.4**	**82.0**
Changes from financing cash flows		
Repayment of borrowings	(6.4)	–
Payment of interest	(0.6)	(3.7)
Repayment of lease liabilities	–	(16.2)
Total changes from financing cash flows	**(7.0)**	**(19.9)**
Other changes		
New lease liabilities	–	16.8
Reclassification of debt	(2.0)	2.0
Reassessment of lease term	–	(1.0)
Interest expense	0.6	3.7
Exchange difference	–	0.4
Total other changes	**(1.4)**	**22.0**
Balance at 31 March 2020	**21.9**	**84.1**

	Borrowings £m	Lease liabilities £m
Balance at 1 April 2018	**4.6**	**82.9**
Changes from financing cash flows		
Proceeds from loans	27.0	–
Repayment of borrowings	(1.2)	–
Payment of interest	(0.2)	(4.2)
Repayment of lease liabilities	–	(13.6)
Total changes from financing cash flows	**25.6**	**(17.9)**
Other changes		
New lease liabilities	–	12.6
Leases acquired on acquisition of subsidiary	–	0.5
Interest expense	0.2	4.2
Exchange difference	–	(0.3)
Total other changes	**0.2**	**17.1**
Balance at 31 March 2019	**30.4**	**82.0**

25. Borrowings

	2020 £m	2019 £m
Secured borrowing at amortised cost		
Bank loans	**21.9**	30.4
Amount due for settlement within 12 months	**5.2**	9.5
Amount due for settlement after 12 months	**16.7**	20.9
	21.9	30.4

At 31 March 2020, AO Limited, a direct subsidiary of AO World Plc, had undrawn amounts on its Revolving Credit Facility of £56.7m (2019: £56.1m). The total facility is £60m. The amount drawn at the year end was in relation to letters of credit (£2.3m) and payment guarantees (£1.0m). The Revolving Credit Facility was due to expire in June 2021.

During the previous year, AO Limited entered into a term loan agreement under which it borrowed £24m to partly fund the acquisition of MobilePhonesDirect Limited. This is repayable in quarterly instalments starting on 1 April 2019 with a final repayment date in June 2021 in line with the Revolving Credit Facility noted above. At 31 March 2020, £20m was outstanding.

In addition, AO Recycling Limited entered into £3m term loan to part fund the capital expenditure required for the development of its new Plastics Plant. During the current year £2.0m of the loan has been converted into finance leases. Following the year end the remaining £1.0m was repaid in full.

On 6 April 2020, AO Limited entered into a new Revolving Credit Facility of £80m. This replaced the existing revolving credit facility and the term loan. At 6 April 2020 £56.7m was available under the facility with the drawn amounts relating to letters of credit and payment guarantees. The facility expires in April 2023 and is secured by a debenture over the assets of the relevant companies, a charge over the shares in the relevant companies and a charge over the AO.com domain name

26. Lease liabilities

	Minimum lease payments	
	2020 £m	2019 £m
Amounts payable under lease liabilities:		
Within one year	**19.8**	17.8
Greater than on year but less than five years	**53.2**	49.5
Greater than five years but less than ten years	**22.6**	26.8
Beyond ten years	**1.2**	2.8
	96.8	97.0

	Present value of minimum lease payments	
	2020 £m	2019 £m
Amounts payable under lease liabilities:		
Within one year	**16.1**	14.3
Greater than on year but less than five years	**45.7**	41.5
Greater than five years but less than ten years	**21.5**	25.0
Beyond ten years	**0.8**	1.2
	84.1	82.0

27. Provisions

	2020 £m	2019 £m*
Provisions	**2.6**	2.2

* Restated (See note 36).

Provisions are classified as:

	2020 £m	2019 £m
Current liabilities	**0.7**	-
Non-current liabilities	**1.9**	2.2
	2.6	2.2

	Dilapidations provision £m
At 31 March 2019	2.2
Utilised in the year	(0.6)
Provisions created in the year	1.0
At 31 March 2020	**2.6**

The dilapidations provision is created for 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, investment in own shares and share premium

	Number of shares m	Share capital £m	Share premium £m
At 1 April 2019	471.9	1.2	103.7
Share issue	6.1	–	–
At 31 March 2020	**477.9**	**1.2**	**103.7**

On 17 July 2019 the Company issued 6.1 million shares to satisfy awards under the vested ERP and 2016 LTIP share scheme (see Note 31). These shares were acquired, and are held in an Employee Benefit Trust (EBT), at nominal values, and the EBT transfers to the participants as they are exercised.

As the shares are held by the EBT they are treated as Treasury Shares on consolidation and are shown as a reduction in equity in the Statement of financial position.

29. Non-controlling interest

	2020 £m	2019 £m
Balance at 31 March 2019	**0.9**	1.6
Share of loss/(profit) for the year	**0.3**	(0.3)
Acquisition of minority interest	**(0.2)**	(0.5)
Balance at 31 March 2020	**1.0**	0.9

During the year, AO World Plc exercised its second option over the share capital of AO Recycling Limited and as a result acquired a further 7.2% of its share capital (See note 33).

The non-controlling interest now relates to 25.6% (2019: 32.8%) of the share capital of AO Recycling Limited (formerly known as The Recycling Group Limited) not currently owned by AO World Plc.

At 31 March 2020, AO Recycling Limited had non-current assets of £17.0m (2019: £13.1m), net current liabilities of £14.2m (2019: £9.0m) and non-current liabilities of £7.0m (2019: £7.4m). During the year, AO Recycling Limited contributed £12.6m (2019: £13.7m) and £0.8m (2019: £2.3m) to the Group's revenue and Adjusted EBITDA respectively. Its retained loss for the year was £1.5m (2019: £0.2 profit). Net cash outflow was £2.6m (2019: £2.7m inflow).

If the stake in AO Recycling Limited had remained at 67.2%, the share of losses attributable to the Group would have reduced by £0.1m.

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 at 1 April 2018 arose on the purchase of DRL Limited (now AO Retail Limited) in the year ended 31 March 2008. The movement in the prior year relates to the premium on shares issued by the Company in relation to the acquisition of the whole of the issued share capital of MobilePhonesDirect Limited.

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. The movement in the current year reflects the impact of the acquisition of the second tranche of options (see Note 29).

31. Share-based payments

Performance Share Plan

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

	2020 £m	2019 £m
2016 LTIP	**–**	0.2
ERP	**–**	2.1
2017 LTIP	**0.4**	0.5
2018 SIP	**0.1**	0.5
2019 SIP	**0.5**	–
Sharesave scheme	**1.0**	0.7
Total share scheme charge	**2.0**	4.0

The table below shows the share-based payment charge in relation to exceptional LTIP charges (included in the charge above).

	2020 £m	2019 £m
ERP	**-**	2.1
Employer's NI on exceptional ERP	**-**	0.2
Exceptional LTIP awards	**-**	2.3

The details regarding each of the schemes is as follows:

Schemes vesting in the current year

The performance periods for both the 2016 LTIP and the ERP concluded 31 March 2019 and, following approval at the Board meeting in July 2019 the share awards under these schemes vested. The number of shares vesting under the 2016 LTIP scheme was 172,036 and under the ERP was 5,883,334.

2017 LTIP Awards

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 ended 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.

	2020 No. of options	2020 WAEP (£)*	2019 No. of options	2019 WAEP (£)*
Outstanding at the beginning of the year	**2,200,899**	**–**	3,119,992	–
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**(884,716)**	**–**	(919,093)	–
Outstanding at the end of the year	**1,316,182**	**–**	2,200,899	–

* 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 and 31 March 2019.

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 2019, the remaining average contractual life is 1.3 years.

The performance period for measuring the potential award under the scheme ended on 31 March 2020 and, subject to approval of the financial statements by the Board, it is anticipated that 635,000 share options will vest in July 2020.

Single Incentive Plan 2018

On 19 July 2018, the Company adopted the AO 2018 Incentive Plan (the "Plan") in which the Directors and key members of staff participate. The Plan combines an annual bonus element (33.33%) and a conditional share award (66.67%) based on various financial and non-financial performance criteria (see below) as well as the continuing employment of the individuals. The bonus and number of conditional share awards was initially calculated based on the performance criteria for the year ended 31 March 2019. The vesting date for the conditional shares is July 2022.

The fair value was determined to be the share price at grant date of £1.01.

Based on the performance criteria achieved, and subject to continued employment, the number of conditional shares relating to the scheme is 1,983,322.

Single Incentive Plan 2019

On 19 July 2019, the Company adopted the AO 2019 Incentive Plan (the "Plan") in which the Directors and key members of staff participate. The Plan combines an annual bonus element (33.33%) and a conditional share award (66.67%) based on various financial and non-financial performance criteria (see below) as well as the continuing employment of the individuals. The bonus and number of conditional share awards was initially calculated based on the performance criteria for the year ended 31 March 2020. The vesting date for the conditional shares is July 2023.

The fair value was determined to be the share price at grant date of £0.767.

The awards are subject to the following performance criteria:

Forty per cent of the awards are subject to a Group Revenue performance condition for the year ended 31 March 2020 as shown below:

Group Revenue for the performance period	Extent to which performance condition satisfied
Below £1,102.2m	0%
£1,102.2m (Threshold)	25%
£1,160.2m (Target)	62.50%
£1,218.2m or higher (Stretch)	100%

Thirty per cent of the awards are subject to a Group EBITDA performance condition for the year ended 31 March 2020 as shown below:

Group Adjusted EBITDA for the performance period	Extent to which performance condition satisfied
Below £0.44m	0%
£0.44m (Threshold)	25%
£5.62m (Target)	62.50%
£10.80m or higher (Stretch)	100%

Ten per cent of the awards are subject to a Group cash outflow performance condition for the year ended 31 March 2020 as shown below:

Group cash flow for the performance period	Extent to which performance condition satisfied
Above £40.4m	0%
£40.4m (Threshold)	25%
£35.3m (Target)	62.50%
£30.1m or lower (Stretch)	100%

Ten per cent of the awards are subject to a Group weighted average NPS performance condition for the year ended 31 March 2020 as shown below:

Net promoter score for the performance period	Extent to which performance condition satisfied
Below +70	0%
+ 70 (Threshold)	25%
+ 75 (Target)	62.50%
+ 80 or higher (Stretch)	100%

The remaining 10% of awards are subject to the successful leverage of the AO Ecosystem which will be determined by the Remuneration Committee.

31. Share-based payments continued

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options granted under the SIP 2019 awards.

	2020 No. of options	2020 WAEP (£)*	2019 No. of options	2019 WAEP (£)*
Outstanding at the beginning of the year	**–**	**–**	–	–
Granted during the year	**8,155,410**	**–**	–	–
Forfeited during the year	**(1,189,168)**	**–**	–	–
Outstanding at the end of the year	**6,966,242**	**–**	–	–

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 Black-Scholes model.

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

	2020 No. of options	2020 WAEP (£)*	2019 No. of options	2019 WAEP (£)*
Outstanding at the beginning of the year	**2,920,071**	**0.97**	2,288,418	1.01
Granted during the year	**2,349,838**	**0.77**	885,016	0.98
Forfeited during the year	**(1,519,585)**	**0.87**	(159,383)	0.82
Lapsed in the year	**(312,909)**	**1.25**	(93,980)	2.27
Outstanding at the end of the year	**3,437,415**	**0.83**	2,920,071	0.97

* Weighted average exercise price.

During the year ended 31 March 2020 options were granted on 22 January 2020. For the shares outstanding at 31 March 2020, the remaining weighted average contractual life is 2.28 years (2019: 1.92 years). The weighted average fair value of options granted during the year was £0.77 per share.

The following table gives the assumptions made during the year ended 31 March 2020:

For options granted on	29 Jan 2016	1 Mar 2017	1 Feb 2019	22 Jan 2020
Risk-free rate	0.54%	0.41%	0.79%	0.79%
Expected volatility	43.53%	49.9%	46.5%	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. Retirement benefit schemes

Defined contribution schemes

The pension cost charge for the year represents contributions payable by the Group and amounted to £5.0m (2019: £4.9m). Contributions totalling £0.5m (2019: £0.5m) were payable at the end of the year and are included in accruals.

33. 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 23, 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 likely 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.

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. All prior year numbers have been restated following the adoption of IFRS 16.

	2020 Carrying amount £m	2020 Fair value £m	2019 Carrying amount £m *	2019 Fair value £m *
Financial assets designated as fair value through profit or loss				
Call option	**0.6**	**0.6**	0.8	0.8
Loans and receivables				
Cash and cash equivalents	**6.9**	**6.9**	28.9	28.9
Trade receivables (see Note 22)	**20.5**	**20.5**	12.9	12.9
Prepayments and other receivables (see Note 22)	**32.7**	**32.7**	30.0	30.0
Total financial assets	**60.8**	**60.8**	72.6	72.6
Financial liabilities measured at amortised cost				
Trade payables (see Note 23)	**(139.6)**	**(139.6)**	(140.9)	(140.9)
Other payables excluding deferred income (see Note 23)	**(102.3)**	**(102.3)**	(88.1)	(88.1)
Borrowings (see Note 25)	**(22.0)**	**(22.0)**	(30.4)	(30.4)
Lease liabilities (see Note 26)	**(84.1)**	**(84.1)**	(82.1)	(82.1)
Financial liabilities at fair value through profit and loss				
Put option to acquire non-controlling interest	**(1.0)**	**(0.3)**	(3.6)	(0.9)
Total financial liabilities	**(349.0)**	**(348.3)**	(345.1)	(342.4)
Total financial instruments	**(288.2)**	**(287.5)**	(272.5)	(269.8)

* Restated (see Note 36).

33. Financial instruments continued

The table below shows the movement in valuation for both the call and put option during the year.

Call option	£m
At 1 April 2018	2.4
Exercised in the year	(0.2)
Change in valuation	(1.4)
At 31 March 2019	0.8
Change in valuation	(0.1)
At 31 March 2020	**0.6**

Put option	£m
At 1 April 2018	3.8
Exercised in the year	(0.4)
Unwind of discount	0.3
Change in valuation	(0.1)
At 31 March 2019	3.6
Exercised in the year	(0.6)
Unwind of discount	0.3
Change in valuation	(2.2)
At 31 March 2020	**1.1**

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 separate 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.

As set out in Note 29, AO World Plc exercised its option over the second tranche of shares during the year and as a result acquired a further 7.2% of the issued share capital of AO Recycling Limited for consideration of £0.5m.

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				
Call option	–	–	0.6	0.6
At 31 March 2020	**–**	**–**	**0.6**	**0.6**
Call option	–	–	0.8	0.8
At 31 March 2019	–	–	0.8	0.8

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities				
At 31 March 2020				
Put option to acquire non-controlling interest	–	–	1.1	1.1
At 31 March 2019				
Put option to acquire non-controlling interest	–	–	3.6	3.6

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 trade receivable balances comprise a number of individually small amounts from unrelated customers 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:

	2020 £m	2019 £m
Trade receivables	**20.5**	12.9
	20.5	12.9

Credit quality of financial assets and impairment losses

The ageing of trade receivables at the statement of financial position date was:

	Gross £m	Impairment £m	Net £m
Not past due	12.5	–	12.5
Past due 0–30 days	3.4	–	3.4
Past due 31–120 days	3.2	(0.1)	3.1
More than 120 days	1.5	–	1.5
At 31 March 2020	**20.6**	**(0.1)**	**20.5**
Not past due	11.9	–	11.9
Past due 0–30 days	0.7	–	0.7
Past due 31–120 days	0.3	–	0.3
More than 120 days	–	–	–
At 31 March 2019	12.9	–	12.9

The current year includes an impairment charge of £0.1m (2019: £nil) to trade receivables.

Contract assets are also assessed for credit risk. Total contract assets at 31 March 2020 were £172.1m (2019: £151.1m).

Management assess the counter party risk relating to these assets which comprise commissions receivable from blue chip Mobile Network Operators or from the Groups protection plan partner. The level of counter party risk is considered low. Having applied IFRS 15 to the balances on initial recognition of revenue, restrictions on the amounts recognised based on assumptions from historical data provide further reassurance that the amount recognised is recoverable and hence no further expectated credit loss provision is required.

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.

33. Financial instruments continued

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	Between 5 and 10 years £m	In more than 10 years £m
Non-derivative financial liabilities						
Trade and other payables	241.9	241.9	234.4	7.5	–	–
Bank loans	22.0	22.6	5.7	16.9	–	–
Lease liabilities	84.1	96.8	19.8	53.2	22.6	1.2
At 31 March 2020	**348.0**	**361.3**	**259.9**	**77.6**	**22.6**	**1.2**

	Carrying amount £m	Contractual cash flows £m	Within 1 year £m	Between 1 and 5 years £m	Between 5 and 10 years £m	In more than 10 years £m
Non-derivative financial liabilities						
Trade and other payables	229.0	229.0	220.2	8.8	–	–
Bank loans	30.4	31.9	7.2	24.7	–	–
Lease liabilities	82.1	97.0	17.8	49.5	26.8	2.8
At 31 March 2019	341.5	357.9	245.3	83.0	26.8	2.8

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 33f.

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:

	2020 £m	2019 £m
Fixed and variable rate instruments		
Fixed rate	**9.4**	11.0
Variable rate	**21.0**	27.0
	30.4	38.0

If interest rates increased by 1%, there would be an impact on the finance cost of approximately £0.6m.

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 an £80m Revolving Credit Facility which expires in April 2023.

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	
	2020 £m	2019 £m	2020 £m	2019 £m
Euros	**142.9**	136.0	**42.3**	40.8

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 reason for the foreign exchange exposure is due to the loans being issued in GBP and the European business reflecting how much it will cost them to repay in Euros.

The following table details the Group's sensitivity to a 10% increase and decrease in sterling against the relevant foreign currencies. The sensitivity rate of 10% represents the Directors' assessment of a reasonably possible change. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below represents an increase in profit before tax.

	Euro currency impact	
	2020 £m	**2019 £m**
Sterling strengthens by 10%	**(10.1)**	(9.5)
Sterling weakens by 10%	**9.2**	8.7

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. The impact of foreign exchange movements in the current year is set out in Note 10.

34. 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 on the right.

Transactions with Directors and key management personnel

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

	2020 £m	**2019 £m**
Key management emoluments including social security costs	**3.5**	3.7
Awards granted under a long-term incentive plan	**3.0**	3.0
Company contributions to money purchase plans	**0.1**	0.1
	6.6	6.8

Further information about the remuneration of individual Directors is provided in the audited part of the Directors' remuneration report on pages 111 to 119.

35. Acquisition of subsidiaries

Acquisition of AO Mobile Limited (MobilePhonesDirect Limited)

In the prior year, the Group acquired the whole of the issued share capital of AO Mobile Limited (formerly MobilePhonesDirect Limited) for total consideration of £39.6m.

In the period from acquisition to 31 March 2019 the Company contributed £30.1m to consolidated revenue and £1.4m to the consolidated loss after tax. If the acquisition had occurred on the first day of the prior period Group revenues would have been £1bn and the loss before tax would have been £19.2m.

At 31 March 2019, the fair value adjustments had been determined on a provisional basis and in line with relevant accounting standards had to be finalised in the 12 month period following the acquisition. The Company has finalised the fair value adjustments in the period totalling £0.6m mainly in relation to provisions against the recoverability of network commissions. In line with IFRS 3, the comparative numbers at 31 March 2019 have been restated as if these final adjustments had been made on the date of acquisition.

The acquisition had the following effect on the Group's assets and liabilities (which have been subject to reclassification between contract assets, contract liabilities and provisions as set out in Note 36).

£m	Book value	Provisional fair value adjustments	Fair value of assets/ (liabilities) acquired	Final fair value adjustments	Fair value of assets/ (liabilities) acquired
Tangible fixed assets	0.2	–	0.2	–	0.2
Right of use assets	0.5	–	0.5	–	0.5
Intangible fixed assets	0.4	15.9	16.3	–	16.3
Inventory	6.6	(0.1)	6.5	–	6.5
Trade receivables	0.7	(0.1)	0.6	–	0.6
Prepayments and contract assets	81.1	(2.6)	78.5	(0.5)	78.0
Cash	15.8	–	15.8	–	15.8
Trade payables	(29.4)	–	(29.4)	–	(29.4)
Right of use lease liabilities	(0.5)	–	(0.5)	–	(0.5)
Corporation tax	(0.3)	0.5	0.2	–	0.2
Deferred tax	–	(2.7)	(2.7)	–	(2.7)
Other creditors and contract liabilities	(55.5)	(2.5)	(58.0)	–	(58.0)
Accruals and deferred income	(2.3)	(0.1)	(2.4)	(0.1)	(2.5)
Provisions	-	(0.1)	(0.1)	–	(0.1)
	17.3	**8.2**	**25.5**	**(0.6)**	**24.9**
Purchase consideration			**39.6**		**39.6**
Residual goodwill			**14.1**		**14.7**

35. Acquisition of subsidiaries continued

Purchase consideration comprised:

	£m
Cash	21.8
Fair value of shares issued	17.8
Total consideration	**39.6**

The Company issued 13,095,104 shares to the sellers of MobilePhonesDirect Limited as part of the consideration. The fair value of the shares was determined with reference to the average share price of AO World Plc shares over the five day period prior to the signing of the sale and purchase agreement. The fair value price was £1.3616.

The net cash flow from the acquisition is as follows:

	£m
Cash consideration	21.8
Less: cash acquired with the business	(15.8)
Net cash on acquisition of subsidiary	**5.9**

Goodwill has arisen on the acquisition primarily because of the value in relation to the relationships with the mobile networks, which, as they are relatively short-term and are not any more advantageous than another party in the market could achieve, do not qualify as acquired intangible assets. In addition, no value is attributable to future synergies in the identifiable assets acquired.

Acquisition related costs

The Group incurred acquisition related costs of £2.6m related to adviser fees in the prior year. These costs have been included in administrative expenses in the Group's consolidated statement of comprehensive income and due to their size have been added back as exceptional items in arriving at Adjusted EBITDA.

36. Restatement of comparatives

The 31 March 2019 comparatives for the primary statements have been restated following the adoption of IFRS 16 Leases, the completion of the purchase price allocation exercise on the acquisition of AO Mobile Limited and a number of presentational changes following further consideration of the definitions in IFRS 15 and its practical application. The 31 March 2018 statement of financial position has also been restated for IFRS 16 Leases only. The impact on the income statement, statement of financial position and statement of cash flows as a result of the reinstatements are presented below:

Income statement (including segmental analysis)

	31 March 2019 as reported			Effect of IFRS 16 adoption			31 March 2019 as restated		
£m	UK	Europe	Total	UK	Europe	Total	UK	Europe	Total
Revenue	749.3	153.2	902.5	–	–	–	749.3	153.2	902.5
Cost of sales	(594.5)	(155.7)	(750.2)	0.2	–	0.2	(594.3)	(155.7)	(750.0)
Gross profit	154.9	(2.6)	152.2	0.2	–	0.2	155.0	(2.6)	152.5
Administrative expenses	(141.0)	(27.9)	(168.9)	2.0	0.4	2.4	(139.0)	(27.5)	(166.6)
Other operating income	1.0	0.5	1.5	(0.4)	–	(0.4)	0.6	0.5	1.1
Operating loss	14.9	(30.1)	(15.2)	1.8	0.4	2.2	16.6	(29.6)	(13.0)
Finance income	2.5	-	2.5	0.1	–	0.1	2.6	-	2.6
Finance costs	(3.4)	(2.8)	(6.2)	(2.8)	(0.7)	(3.5)	(6.2)	(3.5)	(9.7)
Loss before tax	14.0	(32.9)	(18.9)	(1.0)	(0.3)	(1.3)	12.9	(33.1)	(20.2)
Tax credit	1.5	0.4	1.9	0.2	0.1	0.2	1.7	0.5	2.1
Loss for the year	15.5	(32.5)	(17.0)	(0.8)	(0.3)	(1.1)	14.6	(32.6)	(18.1)

The reconciliation of statutory operating profit to Adjusted EBITDA is as follows:

	31 March 2019 as reported			Effect of IFRS 16 adoption			31 March 2019 as restated		
£m	UK	Europe	Total	UK	Europe	Total	UK	Europe	Total
Operating loss	14.9	(30.1)	(15.2)	1.8	0.4	2.2	16.6	(29.6)	(13.0)
Depreciation	5.3	1.1	6.4	8.9	2.1	11.0	14.2	3.2	17.4
Amortisation	1.1	–	1.1	–	–	–	1.1	-	1.1
EBITDA	21.3	(29.0)	(7.7)	10.7	2.5	13.2	32.0	(26.5)	5.5
Share-based payment charges attributable to exceptional LTIP awards	2.3	–	2.3	–	–	–	2.3	–	2.3
Fees incurred on acquisition of subsidiary	2.6	–	2.6	–	–	–	2.6	–	2.6
Onerous contract costs	–	1.2	1.2	–	–	–	–	1.2	1.2
Restructuring costs	1.2	–	1.2	–	–	–	1.2	–	1.2
Adjusted EBITDA	27.4	(27.8)	(0.4)	10.7	2.5	13.2	38.1	(25.3)	12.8

36. Restatement of comparatives continued

The restatements principally relate to the removal of the rental charge from cost of sales and administrative expenses in relation to assets acquired previously under operating leases which are replaced with a depreciation charge on the new Right of Use asset (in cost of sales and administrative expenses) and an interest charge in relation to the related lease liability.

The restatement of the Income Statement has also resulted in Earnings per Share being restated. The loss attributable to shareholders in the prior year has increased from £17.5m to £18.6m as a consequence of the adoption of IFRS 16 which results in Basic loss per share 4.00p (2019 reported: 3.78p) and diluted loss per share being 4.00p (2019 reported: 3.78p).

Statement of financial position

£m	At 31 March 2019 reported	Effect of IFRS 3	IFRS 15 Reclassification	Effect of IFRS 16 adoption	At 31 March 2019 restated
Non current assets					
Goodwill	27.6	0.6	–	–	28.2
Other intangible assets	16.9	–	–	–	16.9
Property, plant and equipment	26.8	–	–	(0.3)	26.5
Right of use assets	–	–	–	63.1	63.1
Trade and other receivables	79.4	–	–	–	79.4
Deferred tax asset	3.6	–	–	1.0	4.6
Derivative financial asset	0.8	–	–	–	0.8
	155.0	0.6	–	63.8	219.5
Current assets					
Inventories	76.3	–	–	–	76.3
Trade and other receivables	118.0	(0.5)	(2.8)	(0.2)	114.5
Corporation tax receivable	0.6	–	–	–	0.6
Cash and cash equivalents	28.9	–	–	–	28.9
	223.8	(0.5)	(2.8)	(0.2)	220.3
Total assets	378.8	0.1	(2.8)	63.6	439.8
Current liabilities					
Trade and other payables	(230.1)	(0.1)	(5.6)	6.0	(229.8)
Borrowings	(9.5)	–	–	–	(9.5)
Lease liabilities	(2.8)	–	–	(11.5)	(14.3)
Derivative financial liability	(0.6)	–	–	–	(0.6)
Provisions	(8.3)	–	8.3	–	–
	(251.3)	(0.1)	2.7	(5.5)	(254.2)
Net current (liabilities)/assets	(27.5)	(0.5)	(0.1)	(5.7)	(33.9)
Non current liabilities					
Borrowings	(20.9)	–	–	–	(20.9)
Lease liabilities	(4.8)	–	–	(63.0)	(67.8)
Trade and other payables	(7.0)	–	(0.4)	–	(7.4)
Derivative financial liability	(2.9)	–	–	–	(2.9)
Deferred tax liability	(2.7)	–	–	–	(2.7)
Provisions	(2.6)	–	0.5	–	(2.2)
	(41.0)	–	0.1	(63.0)	(103.9)
Total liabilities	(292.2)	(0.1)	2.8	(68.5)	(358.1)
Net assets	86.6	–	–	(4.8)	81.8
Share capital	1.2	–	–	–	1.2
Share premium account	103.7	–	–	–	103.7
Other reserves	29.0	–	–	–	29.0
Retained losses	(46.4)	–	–	(4.8)	(51.2)
Total	87.5	–	–	(4.8)	82.7
Non controlling interest	(0.9)	–	–	–	(0.9)
Total equity	86.6	–	–	(4.8)	81.8

36. Restatement of comparatives continued

The restatement principally reflects the recognition of Right of Use assets in relation to assets previously financed through operating leases and the related lease liability. The difference is recognised as a movement in equity. The movement in payables relates to the reversal of rent free periods in relation to certain properties as these are now built into the value of the Right of Use asset and associated lease liability.

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

In the prior year, receivables in relation to commission from product protection plans and mobile network operators were classified as receivables at fair value through profit or loss on the basis that the Group has no further obligations to undertake after the point of sale when revenue is recognised and therefore commissions receivable were only dependent on the passage of time (albeit subject to the behaviour of the end customer). As a consequence, amounts recognised as accrued income in the 31 March 2019 statement of financial position of £151.1m have been presented as a contract asset under IFRS 15, reflecting the variable nature of the commission receivable based on future customer behaviour.

In the prior year, clawback provisions in relation to commission from mobile network operators were classified as provisions. As the clawback provision relates to commissions which could be returned to the mobile network operators should a customer cancel a contract, the amounts have now been included as a reduction in contract assets to more appropriately reflect the net amount of commission receivable. As a consequence, £2.8m has been reclassified against the contract asset and the comparatives changed accordingly. There is no impact on the income statement.

In the prior year, cashback provisions in respect of cashback schemes operated by MobilePhonesDirect, which were calculated based on historic redemption rates, were included with provisions. Payments are expected to be made up to 23 months from the year end. Having considered the requirements of IFRS 15, because the company does not receive any goods or services in relation to the cash paid to the end customer, management believe it is appropriate to treat these as a reduction in revenue and a contract liability. As a consequence £6.1m of provisions at 31 March 2019 have been reclassified as contract liabilities. As the impact on the income statement was immaterial in the prior year (£1.3m) the income statement has not been restated.

In addition, as set out in Note 35, the balance sheet at 31 March 2019 has been restated to reflect the final changes to the assets, liabilities and subsequent goodwill arising from the acquisition of AO Mobile Limited in December 2018. The has had the impact of reducing contract assets by £0.5m and increasing accruals by £0.1m and increasing goodwill by £0.6m.

£m	At 31 March 2018 reported	Effect of IFRS 16 adoption	At 31 March 2018 restated
Non current assets			
Goodwill	13.5	–	13.5
Other intangible assets	1.2	–	1.2
Property, plant and equipment	28.0	–	28.0
Right of use assets	–	62.0	62.0
Trade and other receivables	47.9	–	47.9
Derivative financial asset	2.2	–	2.2
Deferred tax asset	1.7	0.8	2.5
	94.5	62.8	157.3
Current assets			
Inventories	53.2	–	53.2
Trade and other receivables	54.8	0.3	55.1
Derivative financial assets	0.2	–	0.2
Corporation tax receivable	0.2	–	0.2
Cash and bank equivalents	56.0	–	56.0
	164.4	0.3	164.7
Total assets	258.9	63.0	322.0
Current liabilities			
Bank overdraft	(3.1)	–	(3.1)
Trade and other payables	(156.0)	6.1	(149.9)
Borrowings	(1.2)	–	(1.2)
Lease liabilities	(3.0)	(9.7)	(12.7)
Derivative financial liability	(0.4)	–	(0.4)
	(163.7)	(3.6)	(167.3)
Net current liabilities	0.7	(3.3)	(2.6)
Non-current liabilities			
Borrowings	(3.4)	–	(3.4)
Lease liabilities	(7.0)	(63.2)	(70.2)
Derivative financial liabilities	(3.4)	–	(3.4)
Provision	(1.8)	–	(1.8)
	(15.6)	(63.2)	(78.8)
Total liabilities	(179.3)	(66.7)	(246.1)
Net assets	79.6	(3.7)	75.9
Share Capital	1.2	–	1.2
Share premium account	103.7	–	103.7
Other reserves	5.3	–	5.3
Retained losses	(28.9)	(3.7)	(32.6)
Total	81.2	(3.7)	77.5
Non-controlling interest	(1.6)	–	(1.6)
Total equity	79.6	(3.7)	75.9

The restatement principally reflects the recognition of Right of Use assets in relation to assets previously financed through operating leases and the related lease liability. The difference is recognised as a movement in equity. The movement in payables relates to the reversal of rent free periods in relation to certain properties as these are now built into the value of the Right of Use asset and associated lease liability.

Statement of cash flows

£m	Year ended 31 March 2019 reported	Reclassification	IFRS 15 Reclassification	Effect of IFRS 16 adoption	Year ended 31 March 2019 restated
Cashflows from operating activities					
Loss for the period	(17.0)	–	–	(1.1)	(18.1)
Depreciation and amortisation	7.5	–	–	11.0	18.5
Finance income	(2.5)	–	–	(0.1)	(2.6)
Finance costs	6.2	–	–	3.5	9.7
Taxation credit	(1.9)	–	–	(0.2)	(2.1)
Share based payment charge	4.0	–	–	–	4.0
Increase in provisions	0.1	–	0.1	–	0.2
Net operating cashflows before movement in working capital	(3.6)	–	0.1	13.2	9.6
Increase in inventories	(16.3)	–	–	–	(16.3)
Increase in trade and other receivables	(10.2)	–	(0.2)	–	(10.4)
Increase in trade and other payables	(5.2)	–	0.1	0.5	(4.5)
Total movement in working capital	(31.7)	–	(0.1)	0.5	(31.2)
Taxation received	0.8	–	–	–	0.8
Net cash used in operating activities	(34.5)	–	–	13.8	(20.8)
Cashflows from investing activities					
Acquisition of subsidiary (net of cash acquired)	(5.9)	–	–	–	(5.9)
Acquisition of non-controlling interest	(0.4)	0.4	–	–	–
Interest received	–	–	–	0.1	0.1
Acquisition of property, plant and equipment	(4.5)	–	–	0.3	(4.2)
Acquisition of intangible assets	(0.5)	–	–	–	(0.5)
Net cash used in investing activities	(11.2)	0.4	–	0.3	(10.5)
Cashflows from financing activities					
Acquisition of non-controlling interest	–	(0.4)	–	–	(0.4)
Movement in bank overdraft	(3.1)	–	–	–	(3.1)
New borrowings	27.0	–	–	–	27.0
Interest paid on borrowings	(0.2)	–	–	–	(0.2)
Interest paid on lease liabilities	(0.7)	–	–	(3.5)	(4.2)
Repayment of borrowings	(1.2)	–	–	–	(1.2)
Repayment of lease liabilities	(3.1)	–	–	(10.5)	(13.7)
Net cash generated from investing activities	18.6	(0.4)	–	(14.1)	4.2
Net decrease in cash	(27.0)	–	–	–	(27.0)
Cash and cash equivalents at beginning of the period	56.0	–	–	–	56.0
Exchange gains and losses	(0.1)	–	–	–	(0.1)
Cash and cash equivalents at end of the period	28.9	–	–	–	28.9

The restatement principally relates to operating lease payments previously recognised under IAS 17 being removed from the loss for the period to be replaced by a depreciation charge and a repayment of lease liabilities, the latter shown within financing activities.

The Group has also reclassified the payments made to acquire non-controlling interest from investing activities to financing activities as required by IAS 7.

In addition, as a consequence of the reclassifications in the statement of financial position regarding IFRS 15, the movements in provisions and working capital have been restated to reflect the revised classification. There is no impact on cash from the restatement.

37. Post Balance Sheet events

As set out in note 8, on 6 April 2020, AO Limited entered into a new Revolving Credit Facility of £80m. This replaced the existing revolving credit facility and the term loan. At 6 April 2020 £56.7m was available under the facility with the drawn amounts relating to letters of credit and payment guarantees. The facility expires in April 2023 and is secured by a debenture over the assets of the relevant companies, a charge over the shares of the companies and a charge over the AO.com domain name.

Company statement of financial position

As at 31 March 2020

	Note	2020 £m	2019 Restated (see Note 13) £m	2018 Restated (see Noted 13) £m
Non-current assets				
Intangible assets	4	**1.0**	0.7	0.7
Property, plant and equipment	5	**2.6**	3.3	2.6
Right of use assets	5	**7.3**	7.9	6.8
Investment in subsidiaries	3	**83.1**	82.3	63.1
Amounts owed by Group undertakings		**115.8**	103.1	73.6
Deferred tax asset	7	**1.3**	1.5	0.8
Derivative financial asset	11	**0.6**	0.8	2.2
		211.7	199.6	149.8
Current assets				
Corporation tax receivable		**0.8**	0.3	0.2
Derivative financial asset	11	**–**	–	0.2
Trade and other receivables	8	**1.5**	0.8	1.0
Cash at bank and in hand		**2.6**	–	8.6
		4.9	1.1	10.0
Total assets		**216.6**	200.7	159.8
Current liabilities				
Bank overdraft		**–**	(2.9)	–
Derivative financial liability	11	**(0.3)**	(0.2)	–
Trade and other payables	9	**(89.9)**	(80.4)	(60.7)
Borrowings	10	**(0.2)**	(0.3)	(0.3)
Lease liability	10	**(1.1)**	(0.7)	(0.6)
		(91.5)	(84.5)	(61.6)
Net current liabilities		**(86.6)**	(83.4)	(51.6)
Non-current liabilities				
Borrowings	10	**–**	(0.2)	(0.6)
Lease liability	10	**(7.4)**	(7.7)	(6.3)
Derivative financial liability	11	**–**	(0.7)	–
		(7.4)	(8.5)	(6.9)
Total liabilities		**(98.9)**	(93.0)	(68.5)
Net assets		**117.8**	107.7	91.3
Equity				
Share capital	12	**1.2**	1.2	1.1
Share premium	12	**103.7**	103.7	103.7
Merger reserve		**22.2**	22.2	4.4
Capital redemption reserve		**0.5**	0.5	0.5
Share-based payments reserve		**11.7**	13.1	9.1
Other reserves		**0.1**	(0.2)	–
Retained losses		**(21.6)**	(32.8)	(27.5)
Total equity		**117.8**	107.7	91.3

The financial statements of AO World Plc, registered number 05525751, were approved by the Board of Directors and authorised for issue on 13 July 2020. They were signed on its behalf by:

John Roberts
CEO
AO World Plc

Mark Higgins
CFO
AO World Plc

Company statement of changes in equity

As at 31 March 2020

	Share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Share-based payments reserve £m	Other reserve £m	Retained losses £m	Total £m
At 1 April 2018	1.1	103.7	4.4	0.5	9.1	–	(27.4)	91.4
Adjustment on initial application of IFRS 16 (net of tax)	–	–	–	–	–	–	(0.1)	(0.1)
Restated at 1 April 2018	1.1	103.7	4.4	0.5	9.1	–	(27.5)	91.3
Loss for the year (as previously reported)	–	–	–	–	–	–	(5.4)	(5.4)
Share-based payments charge net of tax	–	–	–	–	4.0	–	–	4.0
Issue of shares (net of expenses)	–	–	17.8	–	–	–	–	17.8
Acquisition of non-controlling entity	–	–	–	–	–	(0.2)	–	(0.2)
At 31 March 2019 as reported	1.2	103.7	22.2	0.5	13.1	(0.2)	(32.0)	108.5
Cumulative adjustment to opening balance from application of IFRS 16 (net of tax)	–	–	–	–	–	–	(0.8)	(0.8)
Balance at 31 March 2019 restated	1.2	103.7	22.2	0.5	13.1	(0.2)	(32.8)	107.7
Profit for the year	–	–	–	–	–	–	7.8	7.8
Share-based payments charge net of tax	–	–	–	–	2.0	–	–	2.0
Issue of shares (net of expenses)	–	–	–	–	–	–	–	–
Acquisition of shares in non-controlling interest	–	–	–	–	–	0.3	–	0.3
Movement between reserves	–	–	–	–	(3.4)	–	3.4	–
Balance at 31 March 2020	**1.2**	**103.7**	**22.2**	**0.5**	**11.7**	**0.1**	**(21.6)**	**117.8**

Notes to the Company financial statements

For the year ended 31 March 2020

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.

Adoption of new and revised standards

During the year the Company adopted IFRS 16. The basis on which the AO World Plc Group has adopted IFRS 16 is set out in Note 2 to the Group financial statements. The impact on the Company following the adoption of IFRS 16 is set out in Note 13.

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 150.

2. Operating loss

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

3. Investment in subsidiaries

	2020 £m	2019 £m
Cost at 31 March 2019	**82.3**	63.1
Additions	**27.0**	18.2
Transfer to subsidiary undertakings	**(0.6)**	–
Amounts written off	**(26.5)**	–
Group share-based payments	**0.9**	1.0
Cost at 31 March 2020	**83.1**	82.3

The additions in the current year relate to:

i. The acquisition of further shares in AO Recycling Limited for £0.5m following the exercise of the second tranche of options put in place on the original acquisition in 2015.

ii. The capitalisation of certain intra-Group loans owed by AO.NL BV as part of the closure of the operations of AO World's Dutch business. As the business will no longer trade and is expected to enter liquidation the whole value of the investment has been written off.

The transfer to subsidiary undertakings in the current year relates to:

i. The cost of investment in AO Deutschland Limited was transferred to Appliances Online Limited and Worry Free Limited, with both companies acquiring 50% each.

In addition, the Company has made capital contributions to its subsidiaries of £0.9m (2019: £1.0m) in relation to the allocation of share-based payment charges.

4. Intangible assets

	Domain names £m	Software £m	Total £m
Cost			
At 31 March 2019	1.2	1.0	2.2
Additions	–	0.6	0.6
Disposals	–	(0.1)	(0.1)
At 31 March 2020	1.2	1.6	2.8
Amortisation			
At 31 March 2019	0.9	0.7	1.5
Charge for the year	–	0.2	0.3
Disposals	–	–	–
At 31 March 2020	0.9	0.9	1.8
Carrying amount			
At 31 March 2020	**0.3**	**0.7**	**1.0**
At 31 March 2019	0.3	0.4	0.7

Amortisation is charged to administrative costs in the income statement.

5. Property, plant and equipment and Right of use assets

	Computer and office equipment £m	Leasehold improvements £m	Total £m	Right of use assets £m
Cost				
At 31 March 2019	2.3	2.6	4.9	9.2
Additions	0.2	0.1	0.3	0.4
At 31 March 2020	2.4	2.7	5.1	9.6
Accumulated depreciation				
At 31 March 2019	0.9	0.6	1.5	1.3
Charge for the year	0.5	0.5	1.0	1.0
At 31 March 2020	1.4	1.1	2.5	2.3
Carrying amount				
At 31 March 2020	**1.0**	**1.6**	**2.6**	**7.3**
At 31 March 2019	1.4	2.0	3.3	7.9

The carrying value of Right of use assets is analysed as follows:

Right of use assets	2020 £m	2019 £m
Land and buildings	6.9	7.7
Motor vehicles	0.3	0.1
	7.3	**7.9**

6. Subsidiaries

Details of the Company's subsidiaries at 31 March 2019 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%	Holding company
Elekdirect Limited	United Kingdom	Ordinary	100%	Retail
Appliances Online Limited	United Kingdom	Ordinary	100%	Holding company
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	67.2%	WEEE recycling
WEEE Collect It Limited	United Kingdom	Ordinary	100%	Dormant
WEEE Re-use It Limited	United Kingdom	Ordinary	100%	Dormant
Electrical Appliance Outlet Limited	United Kingdom	Ordinary	100%	Retail
Mobile Phones Direct Limited	United Kingdom	Ordinary	100%	Dormant
AO Mobile Limited	United Kingdom	Ordinary	100%†	Retail
BERE Limited	Jersey	Ordinary and redeemable preference share	100%	Investment company
AO Business Limited	United Kingdom	Ordinary	100%	Dormant
AO B2B Limited	United Kingdom	Ordinary	100%	Dormant
AO Trade Limited	United Kingdom	Ordinary	100%	Dormant
AO Rental Limited	United Kingdom	Ordinary	100%	Dormant
AO Care Limited	United Kingdom	Ordinary	100%	Dormant
AO Premium Care Limited	United Kingdom	Ordinary	100%	Dormant
AO Club Limited	United Kingdom	Ordinary	100%	Dormant
AO Distribution Limited	United Kingdom	Ordinary	100%	Dormant
AO Logistics Limited	United Kingdom	Ordinary	100%	Dormant

* 0.01% of the investment in AO.BE SA was held in AO Deutschland.
† Indirectly owned by AO Limited.
‡ Indirectly owned through Worry Free Limited (50%) and Appliances Online Limited (50%).

All companies within the Group are registered at the same address disclosed on page 196 apart from BERE Ltd, AO.NL BV, AO Logistics (Netherlands) BV and AO.BE SA who are registered at the addresses listed below.

BERE Ltd	AO.NL BV	AO Logistics (Netherlands) BV	AO.BE SA
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 Brussels

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	Losses and unused tax £m	Transitional relief £m	Total £m
Deferred tax asset at 1 April 2018	**–**	**0.8**	**–**	**–**	**0.8**
Credit to income statement	0.2	0.2	0.2	0.2	0.7
Deferred tax asset at 31 March 2019	**0.2**	**1.0**	**0.2**	**0.2**	**1.5**
(Debit)/credit to income statement	(0.1)	(0.3)	0.1	–	(0.3)
Deferred tax asset at 31 March 2020	**0.1**	**0.7**	**0.3**	**0.2**	**1.3**

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 £nil (2019: £0.1m) in respect of share options.

8. Trade and other receivables

	2020 £m	2019 £m
Prepayments	**1.0**	0.6
Other receivables	**0.5**	0.2
	1.5	0.8

9. Trade and other payables

	2020 £m	2019 £m
Trade payables	**1.2**	1.3
Accruals	**5.0**	5.0
Other payables	**0.7**	0.9
Amounts owed to Group undertakings	**83.0**	73.2
	89.9	80.4

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 and Lease Liabilities

a. Borrowings

	2020 £m	2019 £m
Secured borrowing at amortised cost		
Bank loans	**0.2**	0.5
Amount due for settlement within 12 months	**0.2**	0.3
Amount due for settlement after 12 months	**–**	0.2
Total borrowings	**0.2**	0.5

Bank loans interest rates range from 4.3%–4.6% with all loans maturing in the financial period ending 31 March 2021.

b. Lease liabilities

	2020 £m	2019 £m
Secured borrowing at amortised cost		
Lease liabilities	**8.5**	8.4
Amount due for settlement within 12 months	**1.1**	0.7
Amount due for settlement after 12 months	**7.4**	7.7
Total borrowings	**8.5**	8.4

Bank loans interest rates range from 4.3% to 4.6% with all loans maturing in the financial period ending 31 March 2021.

Movements in the year were as follows:

	Borrowings £m	Lease leases £m
At 1 April 2019	0.6	8.4
Changes from financing cash flows		
Repayment of borrowings	(0.4)	–
Repayment of lease liabilities	–	(1.2)
Payment of interest	–	(0.5)
Total changes from financing cash flows	(0.4)	(1.7)
Other changes		
New lease liabilities	–	1.3
Interest charge	–	0.5
Total other changes	–	1.8
At 31 March 2020	**0.2**	**8.5**

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 2018	2.4
Change in valuation	(1.4)
Exercised in the year	(0.2)
At 31 March 2019	0.8
Change in valuation	(0.1)
At 31 March 2020	**0.6**

Put option	£m
At 1 April 2018	–
Change in valuation	(0.9)
At 31 March 2019	(0.9)
Change in valuation	0.3
Exercised in the year	0.2
At 31 March 2020	**(0.3)**

12. Share capital and share premium

	Number of shares m	Share capital £m	Share premium £m	Merger reserve £m
At 1 April 2019	471.9	1.2	103.7	22.2
Share issue	6.1	–	–	–
At 31 March 2020	**477.9**	**1.2**	**103.7**	**22.2**

On 17 July 2019 the Company issued 6.1 million shares to satisfy awards under the vested ERP and 2016 LTIP share scheme (see note 31). These shares were acquired, and are held in an Employee Benefit Trust (EBT), at nominal values, and the EBT transfers to the participants as they are exercised.

13. Restatement of comparatives

As described in Note 2 to the Group financial statements the Company has adopted IFRS 16 and as a consequence the 31 March 2019 and 31 March 2018 the comparatives have been restated.

The impact on the statement of financial positions as a result of the restatement is presented below:

£m	At 31 March 2019 as reported	Effect of IFRS 16 adoption	At 31 March 2018 as restated
Non-current assets			
Intangible assets	**0.7**	–	0.7
Property, plant and equipment	**3.5**	(0.2)	3.3
Investment in subsidiaries	**82.3**	–	82.3
Right of use asset	**–**	7.9	7.9
Amounts owed from group undertakings	**103.8**	(0.7)	103.1
Deferred tax asset	**1.4**	0.2	1.5
Derivative financial asset	**0.8**	–	0.8
	192.4	7.3	199.6
Current assets			
Corporation tax receivable	**0.3**	–	0.3
Trade and other receivables	**0.8**	–	0.8
	1.1	–	1.1
Total assets	**193.5**	7.3	200.7
Current liabilities			
Bank overdraft	**(2.9)**	–	(2.9)
Derivative financial liability	**(0.2)**	–	(0.2)
Trade and other payables	**(80.6)**	0.3	(80.4)
Borrowings	**(0.3)**	–	(0.3)
Lease liabilities	**–**	(0.7)	(0.7)
	(84.1)	(0.4)	(84.5)
Net current liabilities	**(83.0)**	(0.4)	(83.4)
Non-current liabilities			
Borrowings	**(0.2)**	–	(0.2)
Lease liabilities	**–**	(7.7)	(7.7)
Derivative financial liability	**(0.7)**	–	(0.7)
	(0.9)	(7.7)	(8.5)
Total liabilities	**(84.9)**	(8.1)	(93.0)
Net assets	**108.5**	(0.8)	107.7
Equity			
Share capital	**1.2**	–	1.2
Share premium account	**103.7**	–	103.7
Merger reserve	**22.2**	–	22.2
Capital redemption reserve	**0.5**	–	0.5
Share-based payments reserve	**13.1**	–	13.1
Other reserves	**(0.2)**	–	(0.2)
Retained losses	**(32.0)**	(0.8)	(32.8)
Total equity	**108.5**	(0.8)	107.7

	At 31 March 2018 as reported £m	The effect of IFRS 16 adoption £m	At 31 March 2018 as restated £m
Non-current assets			
Intangible assets	**0.7**	–	0.7
Property, plant and equipment	**2.6**	–	2.6
Right of Use assets		6.8	6.8
Investment in subsidiaries	**63.1**	–	63.1
Amounts owed by group undertakings	**73.7**	(0.1)	73.6
Deferred tax asset	**0.8**	–	0.8
Derivative financial asset	**2.2**	–	2.2
	143.1	6.7	149.8
Current assets			
Corporation tax receivable	**0.2**	–	0.2
Derivative financial asset	**0.2**	–	0.2
Cash and bank	**8.6**	–	8.6
Trade and other receivables	**1.0**	–	1.0
	10.0	–	10.0
Total assets	**153.1**	6.7	159.8
Current liabilities			
Trade and other payables	**(60.8)**	0.1	(60.7)
Borrowings	**(0.3)**	–	(0.3)
lease liabilities	**-**	(0.6)	(0.6)
	(61.1)	(0.5)	(61.6)
Net current liabilities	**(51.1)**	(0.5)	(51.6)
Non-current liabilities			
Borrowings	**(0.6)**	–	(0.6)
lease liabilities	**-**	(6.3)	(6.3)
	(0.6)	(6.3)	(6.9)
Total liabilities	**(61.7)**	(6.7)	(68.4)
Net assets	**91.4**	(0.1)	91.3
Equity			
Share Capital	**1.1**	–	1.1
Share premium account	**103.7**	–	103.7
Merger reserve	**4.4**	–	4.4
Capital redemption reserve	**0.5**	–	0.5
Share-based payments reserve	**9.1**	–	9.1
Retained losses	**(27.4)**	(0.1)	(27.5)
Total equity	**91.4**	(0.1)	91.3

The restatement principally relates to the removal of the rental charge from administrative expenses in relation to assets acquired previously under operating leases which are replaced with a depreciation charge on the new Right of use asset (in administrative expenses) and an interest charge in relation to the related lease liability.

The net impact of adopting IFRS 16 increased the loss in the year ended 31 March 2019 by £0.8m.

The adoption of IFRS 16 had no impact on the operations of the Company or its cash flow.

14. Share-based payments

The Company recognised total expenses of £1.0m (2019: £3.0m) in the year in relation to both the Performance Share Plan (referred to as LTIP or SIP) 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:

	2020 £m	2019 £m
Interest charged to AO Recycling Limited	**0.1**	–

At 31 March 2020, the balance outstanding with AO Recycling Limited was £2.3m (2019: £1.5m).

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 EC2V7HN

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: 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 aoshareportal.com where you can view and manage all aspects of your shareholding securely.

Investor relations website

The investor relations section of our website, 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 (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 8.00 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

Adjusted EBITDA means Profit/(loss) before tax, depreciation, amortisation, net finance costs, "adjustments" and exceptional items

Adjusting items means the items as set out on page 155

AGM means the Group's Annual General Meeting

An AOer means one of our amazing employees

AOIP means The AO 2018 Incentive Plan, a form of LTIP

AO World, AO or the Group means AO World Plc and its subsidiary undertakings

AV means audio visual products

B2B means business to business

B2C means business to consumer

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 2018

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 means Corporate Risk Register

DC means distribution centre

D&G means Domestic and General

EPS means earnings per share

ERP means the AO Employee Reward Plan

Europe means the Group's entities operating within the European Union, but outside the UK

FY19, FY20 and FY21 mean the financial year of the Company ended 31 March 2019, 31 March 2020 and 31 March 2021 respectively

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

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

RMC means our Risk Management Committee

SDA means small domestic appliances

SECR means Streamlined Energy and Carbon Reporting

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

VCP means the proposed value creation plan, a form of LTIP

WEEE means Waste Electrical and Electronic Equipment

There's lots more online:

UK sites:

Customer
ao.com
ao-delivery.com
ao-mobile.com
ao-recycling.com
ao-business.com
mobilephonesdirect.co.uk

Corporate
ao-world.com

German site:

Customer
ao.de

Consultancy, design and production by:
jonesandpalmer.co.uk

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Bolton BL6 4SD