The destination for electricals

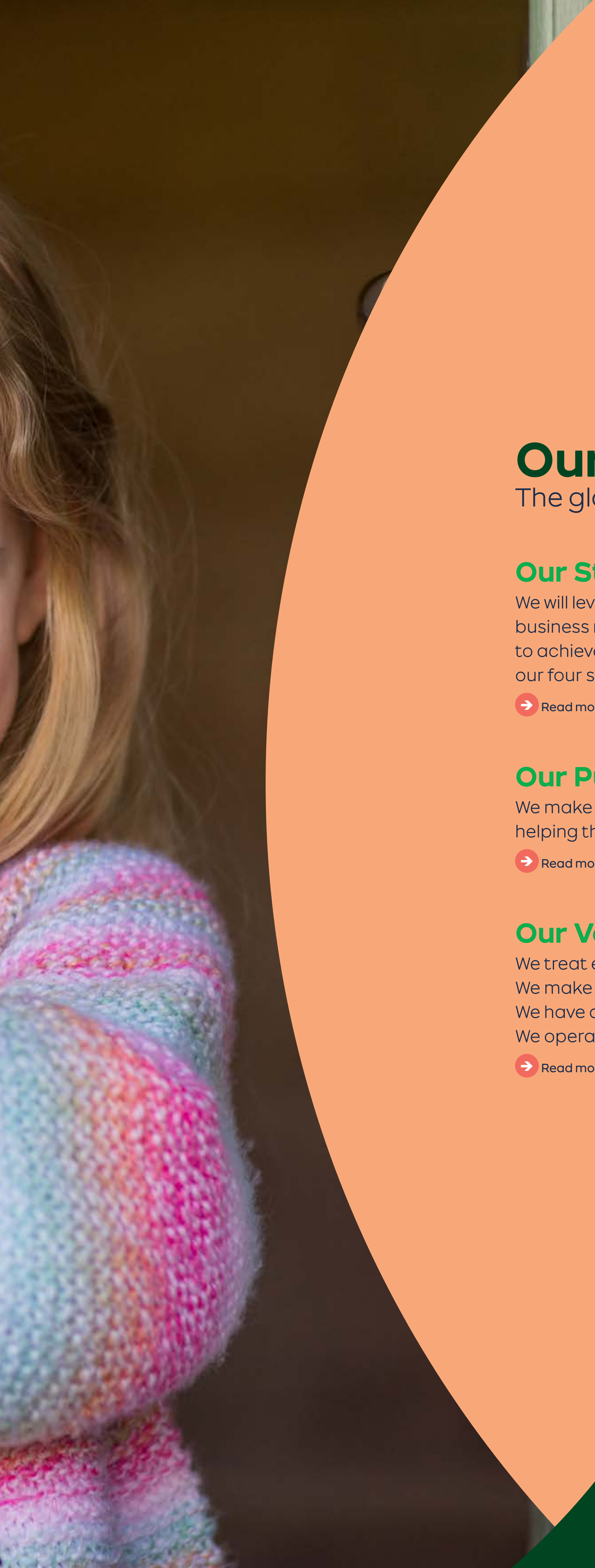
AO World Plc
Annual Report and Accounts 2021

We make customers' lives easier by helping them brilliantly

We are an online leading retailer, specialising in electronics.

In 2000, we started by selling white goods, big items like fridge freezers, cookers and washing machines. We now sell all kinds of electricals: major domestic appliances, small domestic appliances, audiovisual equipment, computing, mobile, gaming and smart home technology. We now sell over 8,500 different products on ao.com to millions of happy customers, and we are able to deliver these at speed with our tried-and-tested logistics network. It doesn't stop there: we install these products and recycle our customers' old ones and, finance and insurance are offered on them too.

Contents



Our Mission

The global destination for electricals

Our Strategy

We will leverage and support the scalability of our business model and market-leading customer proposition to achieve our mission and support our purpose through our four strategic objectives

Read more about our strategy on pages 42 to 43

Our Purpose

We make customers' lives easier by helping them brilliantly

Read more about our purpose on page 16

Our Values

We treat every customer like our gran
We make decisions that would make our mums proud
We have a growth mindset
We operate at AO speed

Read more about our values on pages 18 and 19

Financial and operational highlights

It has been a year of outstanding strategic, operational and financial progress for AO, resulting in a significant step change for our business...

See pages 42 and 43 for details on our strategy

Financial highlights

Group revenue increased 62% to
£1,661m (2020[1] :£1,026m[2])

Group Adjusted EBITDA[3] increased 191% to
£64m (2020[1]: £22m[2])

Group EBITDA margin doubled to
4%

Group Profit Before Tax increased to
£20m (2020[1]: £1m)

Cash generation of
£60m

and reduction of net debt to
£28m (2020: £99m)

Operational highlights

Over 2m new customers[4] welcomed to The AO Way during the year

Net Promoter Score[5] remains world class at 85 in the UK and 89 in Germany

Strategic investment in warehousing, vehicles and people to respond to the accelerated move to the digital environment

Ambitious Value Creation Plan launched to all employees, giving ever AOer the chance to share in exceptional growth

1. Prior year numbers have been restated as set out in Note 35 to the Financial statements on pages 194 and 195.
2. For the prior year comparative (i)) excludes revenue and losses generated by ao.nl, our Netherlands website, which was closed during the quarter ended 31 March 2020.
3. Adjusted EBITDA is defined by the Group as profit/(loss) before tax, depreciation, amortisation, net finance income, profit/loss on disposal of fixed assets and other adjusting items (e.g. non-cash one-off items).
4. A customer is defined as an individual customer who has purchased via ao.com in the UK and ao.de in Germany.
5. Net Promoter Score or "NPS" is an industry measure of customer loyalty and satisfaction. UK NPS comprises ao.com and mobilephonesdirect.com and is calculated on a revenue weighted average basis.

...but it's not what we've done, it's how we've done it; this is The AO Way.

See pages 16 and 17 for our culture and how we deliver success


Russell Hobbs
INSPIRE
BLACK 4 SLICE
TOASTER

Investment case

The electricals market has increasingly moved to a digital environment as customers gravitate to a richer, "cradle to cradle" customer experience. As one of the market leaders in digital retailing of electricals, we are focused on cementing this change in consumer habits to ensure that AO is the destination of choice in electrical retailing.

Through The AO Way, we leverage our centres of expertise in the UK across all our businesses to deliver a seamless and compelling customer offer. Our continuing investment in infrastructure, the knowledge of our teams and our strong supplier relationships mean that we have successfully managed to scale our model while maintaining exceptionally high customer satisfaction ratings.

We continue to drive growth through investment to enhance market share, expand our product range, develop new product offerings and grow in new territories. Our strong and sustainable cash flow and solid UK market positions underpin our investment case and high-growth model.

01

The destination of choice for digital electrical retailing

We are a digital retailer of electricals with a leading market share in major domestic appliances ("MDA") and a significantly growing market share in small domestic appliances ("SDA"), computing, consumer electronics and mobile. We are a natural market disrupter with an ambitious high-growth mindset, opening up new markets through an exceptional digital customer experience underpinned by strong partner relations and efficient logistics operations.

Read more about our markets on pages 38 to 41

02

A compelling customer offering that is at the heart of our strategy

We focus on being brilliant for our customers, and our teams care passionately about keeping our customers happy. We make it easy for customers to buy what they need, when they need it, with comprehensive product information, next day delivery and installation, competitive pricing and recycling. Our focus on creating an exceptional customer experience is the basis of our long-term market leadership strategy. We empower our people to make the right decisions, not necessarily the easy ones, to deliver for our customers and partners.

Read more about our customers on pages 20 and 21

03

The One AO platform that leverages our centres of expertise to create an efficient, scalable business model

We operate a centralised and vertically integrated model where global experts in our disciplines create best practice solutions and drive innovation efficiently and consistently across our businesses. This low-cost operating model enables us to scale our business quickly as we grow, without adding layers of management and operating costs, allowing us to gain maximum operational gearing at the lowest cost per sale. It also guarantees a consistently high-quality customer experience across our businesses.

Read more about how we create value on pages 14 and 15

04

Long-term partner relationships

Our relationships with manufacturers span the full range of internationally recognised household names who rely on us to create a quality digital experience for their products and our customers. We also collaborate with them to ensure that our customers have the widest choice of products to meet their specific needs at attractive pricing levels. Manufacturers also collaborate to help formulate our B2B offering and support our sustainability initiatives, working with us to research ways of reusing high engineered plastic parts in new build models.

We also work with a valued network of suppliers, from small local firms to large international businesses including mobile network providers, delivery firms and financial services providers that underwrite our product protection and consumer credit plans. These partners help ensure that our customers have the best possible experience from the start of their purchase journey to recycling of their old products at our own recycling site.

Read more about our relationships on pages 22 and 23

05

Financial strength to drive high-growth model

Through our leading market position in MDA, we generate strong, sustainable cash flows that underpin our high-growth model. We continually reinvest profits in new products and new territories to enhance our market share and drive further growth. Our strong balance sheet, net cash reserves and a supportive syndicate of banking partners, together provide a solid foundation to support our growth ambitions. As we are vertically integrated, we can manage our cost base more flexibly to meet changing market conditions, with careful management of working capital to maximise capital availability for peak demand periods and ensure efficient stock management.

Read more in the CFO review on pages 46 to 53

06

Supporting sustainability to create a better world

Changing regulation, government initiatives on reducing our carbon footprint and our customers' concerns about sustainability, as well as our own corporate culture to do the right thing at all times, means that sustainability is at the heart of our corporate culture and strategy. We manage our own high-quality recycling services for both our own operations as well as for third-party customers, handling packaging waste, WEEE-regulated products, plastics and metals. Last year, we signed up to the British Retail Consortium's Climate Action Roadmap goal of Net Zero 2040, and we are now working on our detailed strategy to achieve these goals.

Read more about our recycling services on pages 32 to 35

Read more about our ESG and sustainability initiatives on pages 68 to 85

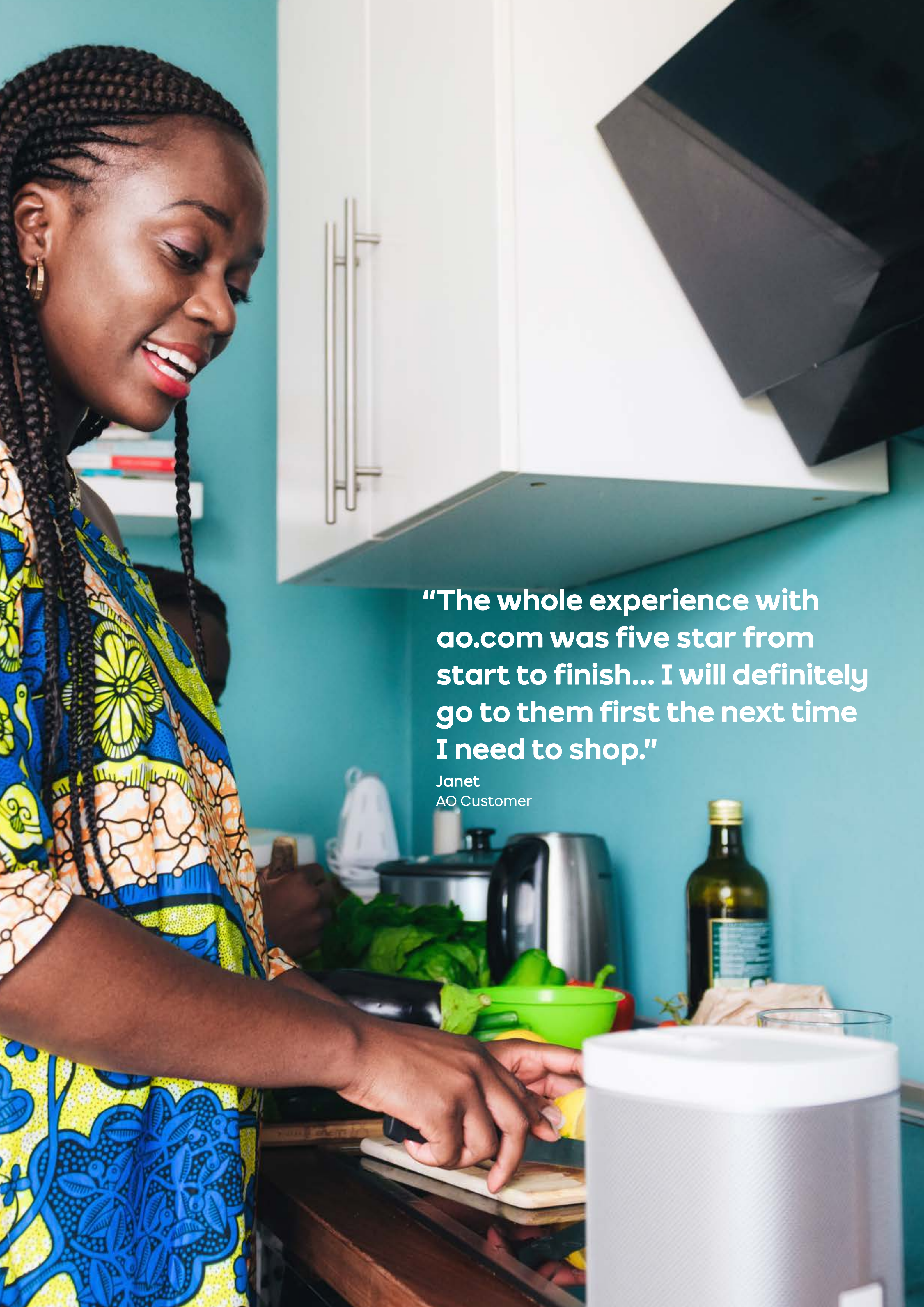
07

Our amazing culture

Our excellent 4.7 star Trustpilot rating and world class net promoter scores are the result of our enthusiastic and dedicated AOers. Our people are at the heart of our strategy, and we inspire them to be innovative and bold in delivering for our customers. We encourage collaboration and innovation across our businesses and motivate them to work at AO speed to deliver today rather than tomorrow. This entrepreneurial culture of seeking out and developing new opportunities keeps us growing and adapting to changes in our fast-moving markets and relentlessly striving to do better. Our focus on building a high-growth mindset underpins our strategic ambitions to be one the market leaders in the global electronics market. 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 supporting our continued growth.

Read more about our culture and values on pages 16 to 17

Strategic Report



"The whole experience with ao.com was five star from start to finish... I will definitely go to them first the next time I need to shop."

Janet
AO Customer

Chair's statement

"There is no doubt that Covid has changed the face of retailing for good, with the steady shift to the digital environment accelerated by events this year. We believe that much of this channel switch will be permanent, and we have therefore invested early in our people and infrastructure to support current and future growth."

Geoff Cooper
Chair

This has been an unprecedented year for our business, as well as for our employees, customers and business partners. The Covid-related restrictions presented both a challenge and an opportunity for all leading online retailers, and AO was no exception. Whilst we benefited from the shift to online shopping and the change in customer lifestyles, AOers have had to work hard under difficult conditions to satisfy a significant increase in demand and maintain our high levels of customer service. Through their dedication, agility and innovation, they demonstrated The AO Way with an ever-ready smile. We continued to deliver for all our customers, providing the essential electrical products that they needed throughout the pandemic. Our people worked swiftly to ensure that safety was never compromised for all colleagues, customers and partners. We thank them for their hard work, this year and every year, as we strive to deliver our brilliant customer experience.

The demand for AO's products increased significantly at the start of the first lockdown as bricks and mortar stores closed and nearly 100% of the market migrated online overnight. Under the direction of CEO and Founder John Roberts, and with the support of our strong Executive and Operational Committees, our business demonstrated its exceptional resilience as we navigated a 'new normal'. This produced an increase in Group revenue of 62[1]% and profit after tax of £17.1m (FY20: £0.7m), with Germany achieving the strategic milestone of breaking even (on an Adjusted EBTIDA basis) during the Q3 peak trading period. Much of that success is based on the ground work undertaken in 2019, establishing the 'One AO' platform to embed centres of expertise capable of being leveraged across our businesses and refocusing on our strong cash generation. When Covid struck, we were therefore already in a strong position to respond to customer demand with AO speed and operational flexibility.

Covid restrictions and social distancing requirements also caused disruption in our supply chains, with some reductions in product availability as manufacturers struggled to keep production lines operating in the face of component shortages and difficult working restrictions. We worked closely with our manufacturers and supplier partners to help mitigate the effect on our customers. As a vertically integrated company, we were also able to manage our Logistics and Recycling operations to cope with demand peaks. Strong partner relationships with all our stakeholders enabled us to work collaboratively to keep products flowing to our customers despite these challenges. We thank our partners for their support and are pleased that our relationships with all stakeholders have deepened during this time.

There is no doubt that Covid has changed the face of retailing for good, with an acceleration in the previously established shift to digital channels. We believe that much of this channel switch will be permanent, and have therefore invested early in our people and infrastructure to support current

Group turnover
+62%[1]

Group PBT
£20m

All employee
VCP
launched

and future growth. Over the year, the Executive team initiated an in-depth review of our Company purpose, mission and values to ensure that our 4,400 employees, including the many new employees we welcomed over the year, are united behind a common ambition. You can read more about our purpose and culture on pages 16 and 17. Whilst business media gives the impression that the corporate world has only recently discovered 'purpose', it has long been at the core of enduringly successful business, and AO is no exception.

The Board also worked with the Executive team on evolving our strategy, to ensure we are well placed to seize the developing opportunities from these long-term market shifts. The review produced no fundamental change in our strategy but, instead, a continuing evolution as the changes in our markets accelerate. To meet these emerging challenges, we foresee in the near term that "Fit for the Future" will be our catchphrase.

What does this mean? The next two to three years offer an exciting opportunity for AO, and we will be investing to cement our longer-term success. Investment into our technology platforms will be a priority. Our systems have served us well as they are highly customised and flexible. However, expanding into new products and territories will require a higher degree of consistency and standardisation in our support platforms. Similarly, as our brand recognition continues to grow, we will be investing in our brand, marketing, and social media to capitalise on the growth in our market profile. We aim to launch a creative hub in the second half of the year dedicated to creating a unique customer experience. Germany has also now reached a critical tipping point in its development – investment to increase market share will be a strategic priority to ensure that we capitalise on Germany's current success. You can read more about our vision for AO in the CEO's review on page 10 to 13.

Climate change, sustainable economics and greater inclusion have become increasingly important to our stakeholders and our customers. The Board engaged with our stakeholders over the year to ensure that their priorities are incorporated into our longer-term vision: details of our discussions can be found on pages 66 and 67. AO has always had a strong commitment to sustainability with our own state-of-the-art recycling plants. We have invested over £6m in a new plastics recycling operation to complement our established general appliance recycling plant that is now in operation. We passionately believe in the circular economy where waste products are recycled into new products, and we are collaborating with some suppliers with the aim of using our recycled and refined plastics for new appliances. Several of our suppliers are working with us on manufacturing high-quality components for new products from recycled ones. Creating efficient and high-quality recycling facilities will be a continued priority.

We equally believe that those who have contributed to our longer-term success should have a stake in it. This year, we launched our Value Creation Plan ("VCP"), which will allow ALL employees to share in the future value we create. The VCP was received with some excitement by our people and was approved by our shareholders, with over a 90% majority. The VCP is tied to share price targets, which will be the output of exceptional performance, further uniting everyone behind our common purpose.

With so many strategic initiatives and opportunities, I, as Chair, want to ensure that our Board is also Fit for the Future. We will be looking to broaden and strengthen the skill set of the Board through the recruitment of two additional Non-Executive Directors. We are currently in the process of defining the brief for these new Directors, whilst having regard to the diversity of our Board, and in line with wider workforce policy. We expect to commence this search in the coming months. With this in mind, we may have to look further than the traditional search advisers as, to date, they all seem to be chasing the same diminishing pool of people that meet this specification.

In conclusion, I am pleased to report that we closed the year in a strong position, strategically, financially and commercially. The coming year will bring new challenges as we all navigate the post-Covid world, but we are convinced of the permanency of the switch to online markets. We will build on our existing strengths and seize new opportunities, as we see them, with confidence and enthusiasm. This year has demonstrated the innate resilience of our operating model, and we will invest to ensure that we maintain our strategic advantages.

Geoff Cooper
Chair

30 June 2021

1. Excluding the impact of our Netherlands business, which ceased trading in the prior year.

Chief Executive Officer's strategic review

"It has been an incredible year and I am hugely grateful to our brilliant AOers, our leadership team, our supportive Board and all our trading partners, who have stood shoulder to shoulder with us as we have navigated the unknown together."

John Roberts
Founder and Chief Executive Officer

In a year like no other, it has been a privilege to see our people come together and truly deliver for those that matter most – our customers. I would like to thank all AOers for their efforts to deliver an outstanding year of financial, operational and strategic progress for the business.

We have relished the opportunity to impress over 2m new customers during the year, so that a total of over 10m customers have now discovered a better way to shop electricals.

Ten years of change accelerated into the last year on all levels. At times, the forced closure of stores moved near 100% of the electricals market online and the nation became ubiquitously connected as online became a lifeline. Some people got to experience online shopping for the very first time, and they were impressed. We know this because our customers tell us.

We believe that structural change will stick and a tipping point has been reached. Once people find a better way to do something, they rarely go back. Who would drive around trying to find a Blockbuster video store once they have discovered Netflix and Prime Video? My view is that the online retail market for electricals will settle this year at about 60–65% of the market and then start to grow again as it has every year for the last 20 years.

It's worth remembering that the store shopping experience is about as good as it's going to get, but the pace of change and innovation means the online experience will never be worse than it is today.

In the physical world, retailers may use technology to reduce cost but not, in our view, to transform the customer experience. Brands have realised this too and most are now viewing the world with a digital-first lens. Some are more advanced than others in their understanding – but our improving capabilities mean that AO can offer them the ability to tell their product stories brilliantly to customers after they have invested so much in their own R&D.

This is a significant opportunity for us to double down on our already market-leading content capability. We will be investing around £15m this year with a simple mandate to do to product content what Pixar so creatively and imaginatively did to animated films, with our investment including the opening of a new London creative hub. We will then repeat and leverage this capability, and the playbooks we create, into more categories and markets.

The attractive dynamics of our business model and flywheel have been clear through this period of growth. Our infrastructure was able to flex up quickly to realise our scale leverage and the sales opportunity creating a step change during the year on all metrics across sales, profit, cash generation and return on capital employed.

1.9m
new UK customers

0.3m
new German customers

1,200+
new roles created

AO has meaningful structural cost advantages to be able to drive investment in accelerating the experience for customers to make it better, easier, quicker, cheaper and more convenient than ever before, whilst always ensuring there is no price premium. Most companies see this as a choice but our operational gearing benefit from our central investments allows us to do both. I am super excited by our pipeline of innovation ahead to realise this.

This year has been one of uncertainty for all areas of life and business. We invested early and boldly in our capacity, capability and infrastructure to enable us to serve our customers through such unpredictable periods. We focused on the opportunity that the lockdowns drove to impress so many customers rather than on how to make as much money as possible.

Our culture is to serve customers as if they were our own gran and to make decisions that would make our mums proud. We lived this in spades and at times with meaningful costs attached that we view as great investments in customer life time value. It was certainly a time to have a well invested culture and not a time to start building one.

Since the onset of the pandemic, we have near doubled our UK warehousing footprint to create the capacity for both increased demand and the inevitable supply chain disruption. We have created over 1,200 new roles, and have navigated the welcome of our new AOers to the team while a lot of our office-based workforce were working from home.

We have also accelerated our growth in newer categories and have brought more of that capability in-house to further drive our frequency and share of wallet; therefore, driving our flywheel faster.

There have been meaningful headwinds for the team to cope with as well. Our first priority was, of course, to keep our customers and all our team safe. Covid working practices have been expensive, particularly in our logistics operations.

Manufacturers have faced unprecedented challenges from supply chain to after sales service. We have been there shoulder to shoulder to navigate together in the best way possible with a laser focus on our mutual customers rather than cost. This has also allowed us to continue to deepen these key strategic relationships.

For context, our commitment to this saw us invest another £60m of our cash generation into more stock holding that now requires 1.8m sq ft of warehousing in the UK and Germany to house it. It's easy to forget the size of the things we sell! That took our total stock holding to nearly £140m as a Group at 31 March 2021. We expect the supply chain challenges to continue through the next 12–18 months and so see this capability as a key structural advantage. This is already being meaningfully felt across our B2B business as these customers realise the benefits of working with AO as a large integrated business with scale to provide next day delivery.

The long and painfully drawn out process of Brexit was also navigated during the period. Although this had no significant impact on our business during the reporting period, as Covid restrictions continue to ease and sectors reopen, we have begun to experience some challenges in recruiting for certain roles. Tech developers, for example, was already a pool of talent in high demand and has been put under further pressure following the acceleration to a digital environment. We are also experiencing some uncertainty around the procurement of drivers following the sustained increase in home delivery demand as a large proportion of these drivers are EU workers who may have returned to their home country following Brexit and Covid.

Chief Executive Officer's strategic review continued

We entered FY21 having resolved the key fundamental issues in our German business so that growth was a good thing. Our achievement is not to be underestimated: had Covid happened a year earlier, it would have been challenging for this business to meet increased demand and deliver for our customers as we were not operating as efficiently as possible. The refocused team in Germany responded brilliantly to the same challenges as the UK, and grew sales by 81% achieving profitability at an Adjusted EBTIDA level during our third quarter.

Looking ahead our focus in Germany is now about growth with discipline. The market opportunity in Germany is twice that of the UK and we have now worked out how to realise it. We will, therefore, be investing all incremental profit in Germany to accelerate our growth and realise the opportunity. We are leveraging our 20 years of experience and our learnings during that journey through to operating as One AO and repeating proven playbooks on all core elements while respecting cultural differences where appropriate.

Over recent years, we have complicated our business significantly with new products, services, geographies, acquisitions and additions to our business model, so this year we have also spent a lot of time considering our bench strength, our structure and our ways of working, and have made investments accordingly. We have invested in our teams, processes and people development; we will continue to do so as we grow.

Our AO magic happens when informality meets discipline and when our intuition compounds the data. How we set ourselves up to be a repeatable model as we scale, delivering playbooks beyond our current categories and markets has taken a lot of commitment from our leadership team. Building our foundations to become a global electrical retailer has been a learning journey as we grow. I underestimated the scale of transition from theory to practice but am now delighted we stayed the course. It's a big part of the invisible value we've been creating in the background that will make growth a lot clearer in the future.

For those customers who don't shop online, we will find new and different ways to enable them to still benefit from the AO experience. An example is our trial of five "store within a store" in partnership with Tesco. Launched in November, these stores have largely been closed due to Covid but the trial is raring to give customers the convenience of browsing and ordering large appliances for delivery while taking away smaller appliances with their grocery shopping. They will be met by the same passionate AO customer service we're known for online, with the convenience of being located where they are already shopping, again with far superior cost dynamics than a standalone store.

Our recycling and plastics plants are now back to full capacity after some in-year Covid-related famine followed by feast and associated indigestion. We have been working for the last five years on the full cycle economy and hope in the year ahead to finally be selling cradle-to-cradle appliances manufactured in part from the output materials of products collected from our customers.

We believe that customers increasingly care about this area of business and the legislative direction of travel certainly now supports the investments we have been making for many years on the basis that it was the right thing to do and would make our mums proud. I believe, going forward, we will start to get the reputation we deserve in this area and it will be great fuel for our flywheel.

Our B2B business was in its infancy in the prior year and this year will record sales over £100m. It turns out that organisations like insurance companies, government, housebuilders, student accommodation, kitchen manufacturers and retailers, as well as the army of SMEs that power the UK economy, all like having a better range, delivery proposition and AO service for no price premium. This really is as simple as doing what we do for grans in retail, for business customers and so really drives our flywheel. We are carrying good momentum here into the new financial year with lots of interesting and exciting opportunities ahead.

We had challenges in the year in our mobile business and for all the tailwinds Covid delivered across the Group, our mobile business took some of the biggest headwinds in a perfect storm as customer behaviour changed. We have now fixed this by amending our proposition and introducing more sophisticated commercial controls and have learned a lot from the process. It has really crystallised our view of the mobile market and we remain totally committed to continuing to disrupt on behalf of customers in this area in the year ahead.

By far the weakest element of our business, in my view, is our brand awareness. I believe it represents our single biggest opportunity. Our brand investment strategy is to get customers to love AO. That is not a single bullet and will not be achieved by shouting at them via TV advertising. We will be investing with a long-term horizon in a spectrum of projects that differentiate AO and allow us to create activation and participation with customers.

Our commitment to the AO Arena in Manchester is one example, the AO Bear is another, and our partnerships with influencers to tell our recycling story another. We will back ideas that we can build on over time and we will be happy to push some boundaries to be different and reinforce what AO is about.

Our ultimate differentiator is our people and so I was very proud this year that our remuneration chair, Luisa Delgado, was brave enough to help us design and implement a unique value creation plan, which will allow all AOers to share the exceptional value that I believe we can create together.

We want our people to think like owners and understand how and why they are investing for the long term. To do that, it rather helps if they act as owners and so the Value Creation Plan will deliver for everyone in the business if we achieve the goals we have set out over the next five years as part of our strategic plan.

What is good for customers is good for our people and our shareholders, and so we will always put long-term revenue and reinvestment in the business ahead of short-term profits. This drives our flywheel harder and faster, while building huge customer loyalty towards our business over time.

I would like to end where I began. It has been an incredible year and I am hugely grateful to our brilliant AOers, our leadership team, our supportive Board and all our trading partners who have stood shoulder to shoulder with us as we have navigated the unknown together.

We will cement this step change in our business and focus on the growth opportunities ahead. I look forward to seeing what more we can all do together as we position ourselves to be The Global Destination for Electricals.

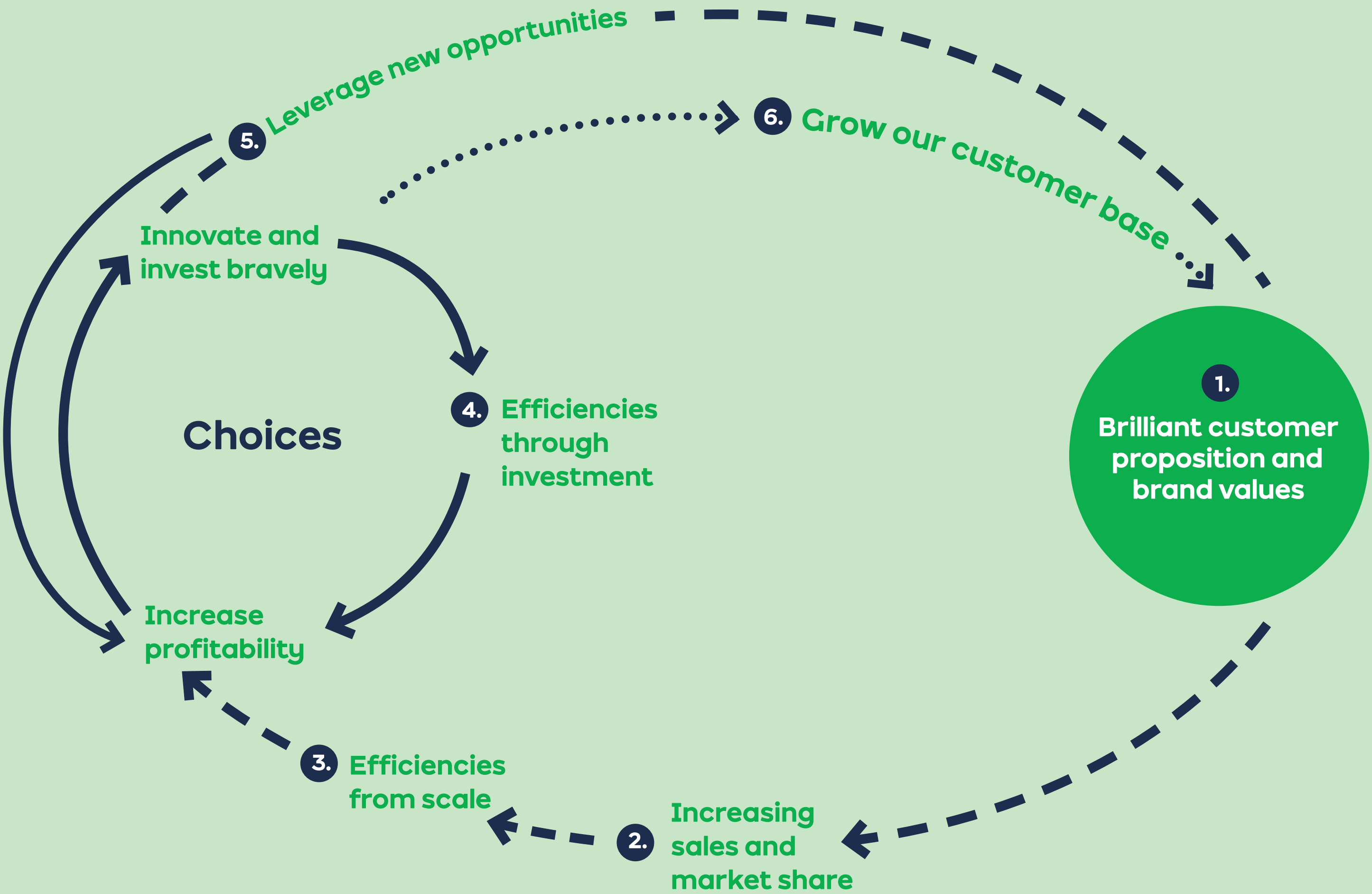
John Roberts
Founder and CEO

30 June 2021


ao
THE NORTH FACE

How we create value

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



1. Customers are at the heart of our strategy. Everyone at AO is dedicated to giving our customers the best possible experience, from finding the right product at the right price, to delivery, installation and recycling, all with an AO smile.

2. Once customers experience The AO Way and a better way to shop online for electricals, they return to us for other category purchases and additional services like installation and peace of mind warranties. They are proud to share their exceptional customer experience with family and friends, building our brand presence through personal recommendation and digital channels.

3. As we build scale, our operational gearing means that each sale becomes increasingly profitable. Our commercial partnerships deepen, resulting in further enhancement of our customer experience in choice, pricing and services. The marginal costs of delivery, installation and recycling all decrease, boosting profits for reinvestment.

4. Technology and innovation continually refresh and enhance our customer experience, operational efficiencies and competitive positioning. Rising profits give us choices and create a virtuous circle of investment, innovation and customer satisfaction.

5. We can then choose to fund further investment in our other businesses, including recycling, mobile, B2B, logistics, financial services and brand development. These feed back into enhancing our customer experience, as well as underpinning our reinvestment in technology.

6. The virtuous circle driven by customer focus, operational leverage, and profitability underpin longer-term growth ambitions through broadening our product offerings, expanding our customer experience into new territories and applying continuous innovation to our digital experience. This is what makes our flywheel fly.

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

For over 20 years, we have been developing and refining our business model with a laser focus on brilliant customer service that sets us apart from the competition. That focus on the customer feeds our flywheel and permeates everything we do and how we do it. Creating a unique customer experience supported by quality services and choice helps build a moat around our business and strengthens our competitive advantage.

- **Our amazing culture:** Our Trustpilot ratings (4.7 out of 5 on over 250,000 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.

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 flywheel 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 awake lives 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
We take a long-term view of how to build value in our business. We are entrepreneurial, looking for new ways to connect with our customers and drive growth by investing in new products, services and territories. For over 20 years, we have returned consistent double-digit growth for our share owners through our passion and dedication to our customers. Our business has the unique ability to scale quickly with strong operating leverage inherent in our vertically integrated model which allows us to control our cost base and create value.

Our culture

One AO – where brilliant people deliver incredible things

Our AO "let's go" culture is how we deliver for our customers and make AO a great place to work. Our exceptional 4.7 star Trustpilot rating and NPS results don't just happen by accident, nor do our expanding competencies. Behind every happy customer is around 4,400 AOers, across two countries, making our customers' lives easier by helping them brilliantly.

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 its people to collaborate and innovate, supported by the right information and tools to do their job; and
- empowers its people to thrive by creating an inclusive environment where people feel they belong and can be their true selves.

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 are at our best when our backs are against the wall. 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 and create magic in the moments that matter so that we constantly exceed our customers' expectations 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, mission, values and business strategy 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.

One AO

We can only realise our full potential by working and thinking as a One AO team; we are one united team, working together towards shared goals with shared values. This means we are more than the sum of our parts.

To operate as One AO, we organise ourselves under three distinct pillars: Centres of Expertise, Operations, and Enabling Functions. Our Centres of Expertise allow us to scale. They are global experts in their disciplines who create the playbook and drive innovation, only deploying what's necessary locally. Playbooks give consistency in our operations and standards.

Operations teams are responsible for the on-the-ground execution, tasked with delivering amazing efficient service and include business units that have not yet scaled internationally.

Enabling Functions are responsible for servicing the Group, setting and driving best practices and standardisation to create leverage.

Our low cost, One AO operating model enables cost efficient scale to be built at pace as we grow. Operating as One AO and stitching the different parts of our business, together results in decisions that mean we serve our customers brilliantly and benefit the Group as a whole.

Our purpose

"We make customers' lives easier by helping them brilliantly."

We are a One AO team where everyone contributes. Operational excellence is part of our DNA; our service is hassle free with total support and lifetime value for customers. We make the experience intuitive, simple, easy with amazing content and we're always convenient at every step of the journey. We offer a full range that's always available, with the best price, simple payments and a full service. We're always human, we care, we are fair and we're always there.

How we will drive our culture

To achieve our mission, purpose and strategy, we need a high-performing culture and the values that underpin this have to be real for all AOers.

This requires a cultural step change whilst retaining what's made AO successful for 21 years, and we will achieve this by:

- Bringing AO to life – we'll help all AOers connect with and understand our culture by sharing practical experiences of our culture and values in action in local workshops.
- Living our values – we will bring the values to life by using role models to show how are values are lived each day, helping AOers build trust in them, create shared understanding and provide guidance.
- Changing behaviours – our leaders will be empowered to manage our business and guide their teams by using the values in a practical way every day.
- We're always AO – our customers, suppliers and partners' experience of interacting with AO should be consistent with our culture and values.
- Measuring our progress – we'll use our people data on engagement, learning, turnover, inclusion and well-being, as well as feedback, to tell us whether our actions are driving change and understand whether what we say matches what we do.

"The people are what make AO - a never ending line of helpful AOers who want to share knowledge and help one another."

An AO Employee

Our values

We treat every customer like our gran

We focus on being brilliant for our customers and our teams care passionately about them.

The best service is no service - it should be personal and simple.

We make it easy for customers to buy what they need.

We do the right thing for our customers, always with an AO smile.

We have a growth mindset

Creativity and thinking big is what we do

We're a high performing team; always learning and stretching.

We challenge ourselves to seek better ways of doings things.

We see opportunities others don't, and thinking differently strengthens our future.

We make decisions that make our mums proud

We empower our people to make the right decisions, not necessarily the easy ones.

We inspire each other to be our true selves and the best that we can be.

We genuinely care, we listen to each other, and we do everything we can to make things better.

Having a positive impact on the world in which we live is the right thing to do.

We operate at AO speed

We have a bias for action and make things happen today, not tomorrow.

We prefer to rely on data, and we trust our intuition.

We don't think we're always right; we're happy to learn from our mistakes quickly and correct course.

We commit to decisions as One AO - whether we agree or not.

Our customers

Every AOer is committed to being magical in the moments that matter for our customers

"First class, really helpful and just brilliant all round. I've told a few people and at least one has jumped online to place an order."

Sean, an AO customer

AO.COM ON SOCIAL MEDIA

TRUSTPILOT

+260k reviews
FY20: 150k

4.7/5 average rating

FACEBOOK

+1.87m followers
FY20: 1.8m

+3m impressions

TWITTER

+76k followers
FY20: 66k

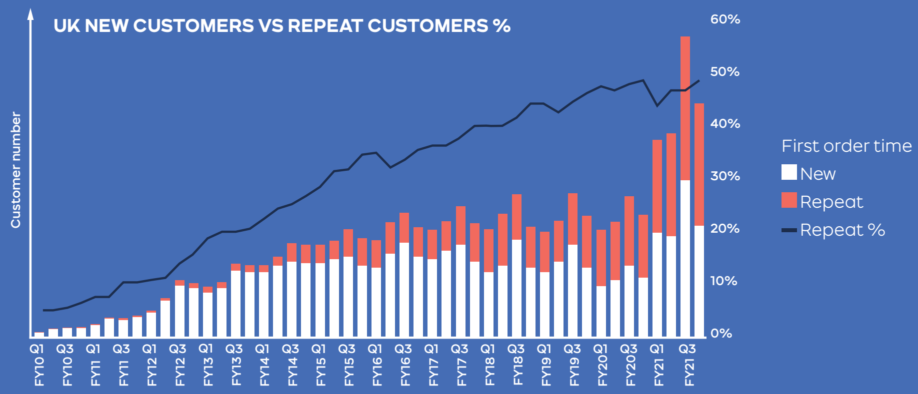
+210k impressions

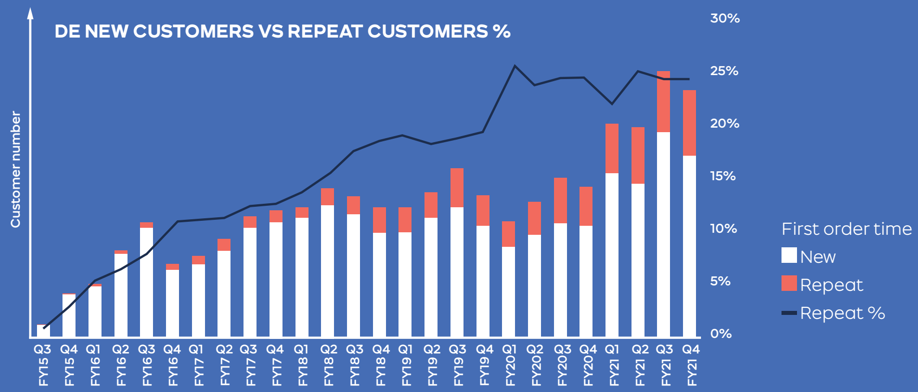
INSTAGRAM

+77k followers
FY20: 31k

+240k impressions

Data during w/c 22 March 2021. Impressions are defined as the number of times a social media post is viewed in users' social media feeds.





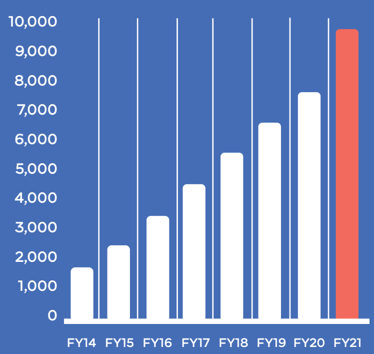
NET PROMOTER SCORE[1] FY21

85 UK[2] average
(FY20: 84)

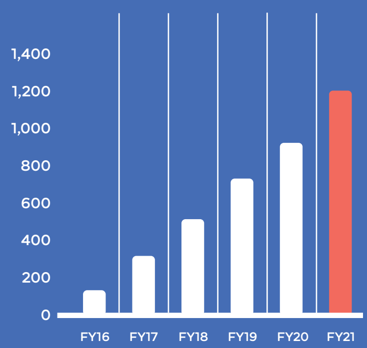
89 Germany average
(FY20: 89)

1. NPS is a industry measure of customer loyalty and satisfaction.
2. UK is based on a weighted average of ao.com and MPD.

UK CUSTOMERS[1] ('000S)



GERMANY CUSTOMERS[1] ('000S)



1. A customer is defined as an individual customer who has purchased through us via ao.com in the UK and ao.de in Germany.

Our suppliers

We work collaboratively with our suppliers building strong relationships...

Our suppliers

Our suppliers are key to ensuring that we consistently deliver a brilliant customer experience. We work with a range of suppliers, from global manufacturers with household names and international mobile network operators to national parcel delivery services, to individual contracted drivers and small local businesses who provide the two-man home delivery service for our products. We also work with DPD and Collect+, to whom we outsource smaller product deliveries, NewDay, our credit provider and finance partner, and Domestic and General, for whom we promote product protection plans as agent.

Our belief is that both we and our suppliers benefit the most where we have long-term mutually supportive relationships in place; we recognise that driving a fair bargain rather than a hard bargain will build long-lasting and fruitful relationships. We are careful to listen to the concerns of all suppliers and act accordingly. 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 can 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.

Manufacturer suppliers

Customers begin their journey with us when they start searching for a product. We have long-standing relationships with all the leading global manufacturers of MDA products, who help us provide customers with a wide range of products and price points so that they can choose the right product for their needs. Our partnerships with our manufacturer suppliers go deeper than just product distribution. We are working with several manufacturers on innovation in recycling, turning waste plastic into new high-quality product components such as base plates, ducts, grill covers and connectors as part of our cradle-to-cradle customer service philosophy. Other manufacturers are collaborating with us on enhancing the digital experience for customers in the post-Covid world.

Product delivery and installation

Contracted drivers and delivery crews are the face of AO when they visit our customers and, as with all our suppliers, we expect them to deliver great service. In return, they receive competitive market rates and have the opportunity to grow their own businesses.

Corporate partners

We partner with several corporate entities to supply ancillary services including product protection plans, services, customer financing and mobile network contracts.

Our Mobile Phones Direct business, acquired in December 2018, offers a range of mobile phone contracts with the network operators Vodafone, O2 and Three, and handsets from manufacturers such as Apple, Samsung, and Sony. Mobiles are an indispensable product for most of our customers and add an important customer touch point and entry into our wider product range.

NewDay has worked with AO Finance since 2019, offering customers the ability to spread the cost of purchases through easy and affordable payment options using a flexible finance account. Customers have access to a range of convenient finance options so they can repay their balance in ways that suit them. Customers want options whilst shopping, and AO Finance, in partnership with NewDay, gives them lots of choices.

Domestic and General have been a trusted provider of service plans and insurance for millions of domestic appliances for over 100 years and are the UK's leading provider of appliance breakdown protection for a broad range of domestic products and consumer electronics, ranging from televisions to washing machines. AO has been partnering with Domestic and General since 2004 to provide peace of mind for millions of our customers.

Our recycling facilities are amongst the most advanced in the UK, constantly innovating and improving our cradle-to-cradle customer experience. We constantly seek to improve our best-in-class recycling facilities through partnerships, third-party providers of significant plant and infrastructure to meet our exacting standards.

"...We continue to work with AO in developing content that supports the consumer's purchase journey, delivering information that allows the consumer to discover the best product for them and their family's needs."

Gunjan Srivastava,
BSH

"Our long-standing partnership with AO has always been focused on delivering an exceptional and innovative consumer experience ... Both our companies continue to invest in innovative shopping, supply chain and service solutions that always put the shopper first. Importantly, both AO and Whirlpool colleagues worked together throughout the whole lockdown period to continue to provide ways to serve and care whilst prioritising safety for our colleagues and consumers."

Andrzej Tuleja, Managing Director,
Whirlpool UK and Ireland

"We have been supporting and supplying the business for some time now and, with the help offered and provided by the depots, over the years, we have found it very beneficial to run a multi-crew.

It can be very challenging at times but through hard work and guidance from the business, the multi-crew scheme has allowed us to start and grow a business."

Barry and Simon,
Multi-crew

...with a laser focus on our mutual customers.

Our technology

Delivering a brilliant customer experience relies on brilliant underlying technology...

Our current core technology systems are a blend of commercial off-the-shelf and custom-built components. This affords us a loosely coupled, highly configurable enterprise technology estate that is also 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. Cloud services are employed 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.

The flexibility of our current systems served us well during a year of Covid-related challenges and unprecedented customer demand, allowing us to adapt quickly and agilely to the huge changes in our supply chain and the surge in demand as customers moved to full online shopping during lockdowns. As we added warehousing space and new outbases, our technology systems ensured that we were able to keep delivering for our customers.

Through technology, we're improving the customer proposition further with additional delivery capacity, quicker payment options and more services. Our technology systems allow us to "sweep" the market several times per day to ensure that our prices remain competitive and that our customers never miss the best price in their purchase.

Delivering a brilliant customer experience relies on brilliant underlying technology. Making our customer journey simple, clear and enjoyable is a fundamental part of our laser focus on the customer experience.

We continue to invest in technology and innovation to create a simple, intuitive shopping experience to help. Customers are looking for information relevant to their shopping needs so that they can quickly and easily find the product that meets their needs.

We are also using technology to create unique product experiences that bring products to life on our website and in our Tesco "store within a store" trials. Product displays feature interactive screens that allow customers to "interrogate" the product to learn about features, how it will fit with their lifestyles and compare product performance. We have several new initiatives that are being tested, which we expect to roll out in the coming year.

This year, we have focused on applying technology to improve our operating efficiencies, brand presence and customer experience. Some of our initiatives over the year included:

- Moved to a One AO 'centre of expertise' for marketing, e-commerce and creative, integrating Germany & MPD;
- Enhanced our brand identity by updating assets right across the customer journey to support the new visual identity and tone of voice in both UK and Germany;
- Developed an award-winning algorithm to increase personalisation across our websites;
- Improved our customer online purchase experience, resulting in increased completed purchases; and
- Significantly increased SEO traffic and social media effectiveness.

Priorities for FY22

As an online electrical retailer, technology underpins all aspects of our customer lifetime journey, from the customer's experience to logistics and recycling. As we continue to grow and expand internationally, technology will play an essential role in ensuring that our new territories will be able to access our UK centres of expertise easily and efficiently to support them. This approach keeps overhead costs low.

As a rapidly growing Company, our technology systems need to grow with us and retain efficiency and flexibility across borders while maintaining a consistently excellent customer experience. Over the next few years, we will be investing in our technology systems to ensure that they are fit for our future ambitions. We are transforming some of our key systems and will replace some of our custom-built systems and provide modern back-office support.

Technology will also play a key role in enhancing our customer experience. Through interactive technology, our customers will soon be able try new products, visualise how they work and interrogate our product range to find the exact product that meets their needs. Appropriate personalisation will make the customer purchase journey more intuitive and frictionless. Manufacturer suppliers increasingly consider digital as their preferred customer environment. We are working with our suppliers to develop unique customer content produced by our new creative hub. Technology will continue to be at the heart of our customer experience.

...and we keep innovating to continually improve.

UK Retail

We continue to grow and innovate our proposition...

Business overview

Established over 20 years ago, our UK business is one of the leading retailers in the online electricals market, selling a full range of MDA products, complemented by an ever growing range of SDA, computing, AV, mobile phones, consumer electronics, gaming, and smart home products. Our UK business benefits from significant economies of scale, generating strong and sustainable cash flows, which underpin our wider international growth strategy.

AO.com is the main business in UK Retail, which continues to grow and innovate. UK Retail also encompasses Mobile (MobilePhonesDirect), B2B selling to housebuilders and other industries requiring scale MDA installations, consumer financing, warranties and services such as installation and rental.

Review of the year

AO.com had a another highly successful year, coping well with the surge in demand as customers massively shifted to online shopping during the Covid periods of lockdown. In the UK, we introduced 1.9m new customers to The AO Way of buying electricals, despite the significant challenges of remote working for our office-based people. The lockdown also caused significant supply chain disruption to product development, component availability and delayed orders. We coped with these challenges with energy and innovation, with revenues increasing significantly year-on-year, as well as winning new supply contracts from our business partners. Good relationships with suppliers, coupled with our laser focus on customer service, helped us increase both sales and market share during a turbulent year.

As the market shifted online, we invested early and boldly, adding new warehousing space and vehicles, enabling us to stay ahead of supply chain inefficiencies that would have impacted our ability to deliver the brilliant customer experience, which is embedded in our culture. The step change in customer demand, supply chain inefficiencies and product range shortages were all challenges that we successfully managed through prudent investment, the creation of new roles, improved operational agility and working in The AO Way, managing significant growth while maintaining our world-class ratings for customer satisfaction at +80[1].

Our UK business had an exceptionally strong year, increasing market share in MDA by 8 ppts to 23 %, making us one of the market leaders in our category. We have also accelerated our growth in newer categories, with our online market share in SDA rising to 5%. Our market share in televisions and audio visual also showed strong growth, achieving total market shares of 6% and 4%, respectively. These are significant milestones in our strategy as a global electricals retailer.

We continue to invest in enhancing our customer experience through increased personalisation, investment in our online brand and improvement in our website functionality. We are investing in our customer experience by developing world-class product content and information in partnership with our manufacturers to create a unique and trusted online retailing experience.

1. Net Promoter Score ("NPS") is an industry measure of customer loyalty and satisfaction.

...introducing 1.9m new UK customers to The AO Way.

During the year, we also launched a trial with Tesco opening AO concession stores in larger format Tesco stores to showcase our brand and amazing services to customers in person. Although these stores were affected by Covid restrictions, we are pleased with the reaction from customers so far and hope to be able to build on our good relationship with Tesco.

AO Mobile (Mobile Phones Direct) completed its integration into the wider Group, following our acquisition of the business in December 2018. We currently offer competitive network contracts from O2, Vodafone and Three across a wide range of handsets. Mobile experienced higher levels of cashback redemptions throughout the period, which we consider are Covid-related, and higher levels of early churn on contracts, and the business has adjusted its sales model to consider these new behaviours and refined the customer proposition. We continue to work collaboratively with our network partners to rebase our growth strategy for the coming year.

Our B2B division experienced another good year, despite the effect of house building delays over the year, as construction sites were closed under Covid restrictions. We now work in partnership with four of the top five housebuilders, where our next day logistics capabilities offer maximum flexibility to housebuilders managing complex workflows. We are also exploring B2B opportunities in new markets.

Our Financial Services business also experienced good growth this year, as the increase in our customer numbers fed through to growth in additional services, financing and warranties. Additional product lines in consumer electronics, mobiles and tablets were brought under our service and warranty contracts, adding to our cradle-to-cradle customer experience and further expanding the reach of our additional services. Growth in finance was somewhat constrained by credit contraction in the uncertain Covid period but our strong partnership with Domestic & General (AO Care) and NewDay (AO Finance) helped us ensure high customer service levels throughout this challenging period. We continue to work closely with both partners to cement our vision for these products as part of our customer experience and adding to our international expansion strategy.

AO rental provides disadvantaged customers in housing association properties with the ability to rent key domestic products at an affordable weekly rate. We passionately believe that everyone deserves access to necessary appliances and wider electricals that can help create a better living environment. We are, without doubt, ahead of the curve but, particularly with the current landscape, we see a wider understanding by other parties developing and a desire to work with us to roll out and really make a difference for those who need this product most.

Priorities for FY22

Our strategy is to be the destination for electrical retailing that offers many opportunities for continued growth in our core MDA market, as well as in new product lines, such as personal care and gardening products, and extending our reach in SDA, AV and consumer electronics.

With mobile now fully integrated into our culture and systems, the Mobile Phones Direct brand is well placed to grow going forward as our contract mobile offering. We believe, however, that over time, and with the development of eSIM, network contracts and handsets will become segregated, and customers will want to purchase mobiles in a different way. Accordingly, we plan to improve our handset only offering on ao.com.

Additional services and warranties that complement our product offerings also offer opportunities to enhance to the AO customer experience and customer lifetime value. The expected growth in the housing market will also provide a promising environment for our B2B business working with the leading housebuilders and we are exploring other routes to market in the B2B field.

We have invested significantly in extending our brand awareness, and this will continue to be a key area of focus in the near term with one of our initiatives being the launch of Bear (our AO-branded green teddy).

We are experimenting with new ways of reaching customers who still prefer to view products in a physical location and are trialling our "store within a store" concept in five Tesco shops. Customers can view products in a home setting and use interactive technology to visualise how a range of different products could best suit their needs in an immersive AO experience.

Visualisation, interactive product information and a creative customer experience will be further areas of focus as we invest in continually improving and enhancing our brilliant customer experience. Digitalisation will transform how customers buy their electrics, and we are at the forefront of leveraging our position as a leading online retailer.

"We make customers' lives easier by helping them brilliantly."

FY21 UK Net Promoter Score

85

c.970,000

fridges and freezers sold during FY21 in the UK

Excellent Trustpilot score of

4.7

1. FY21 average score based on an ao.com and MPD turnover weighted average.

Logistics

We've shown that we can successfully scale AO...

Business overview

In the UK, our market-leading in-house logistics infrastructure enables the delivery of 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 our warehouses and distribution centres, with a total of over 850,000 sq ft of space, and via our network of 22 delivery depots ("outbases") across the UK. We also have an additional 500,000 sq ft of storage capacity in Stafford and Stoke. Our current fleet comprises around 110 trucks, 840 home delivery vans and 300 trailers.

The services we offer to the end consumer are broad; from the basics of unpacking and inspecting customers' products, to complex duel fuel cookers, American side-by-side fridges, integrated appliance installations, hanging TVs 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 fast 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, with 15 outbases and customer service centres across the country and we are building our third-party delivery proposition.

Review of the year

Nowhere was the value and benefit of our well-invested culture more evident than in our logistics business, and we are incredibly proud of our people and their achievements over the reporting period. Heightened and sustained levels of demand for AO's products and services coupled with social distancing requirements resulted in numerous operational challenges and inefficiencies. Our teams navigated these quickly to ensure we could continue to deliver products and maintain levels of service whilst always ensuring that the safety of our customers, our people and our delivery partners was prioritised. We are grateful to all our front line AOers for their dedication and commitment.

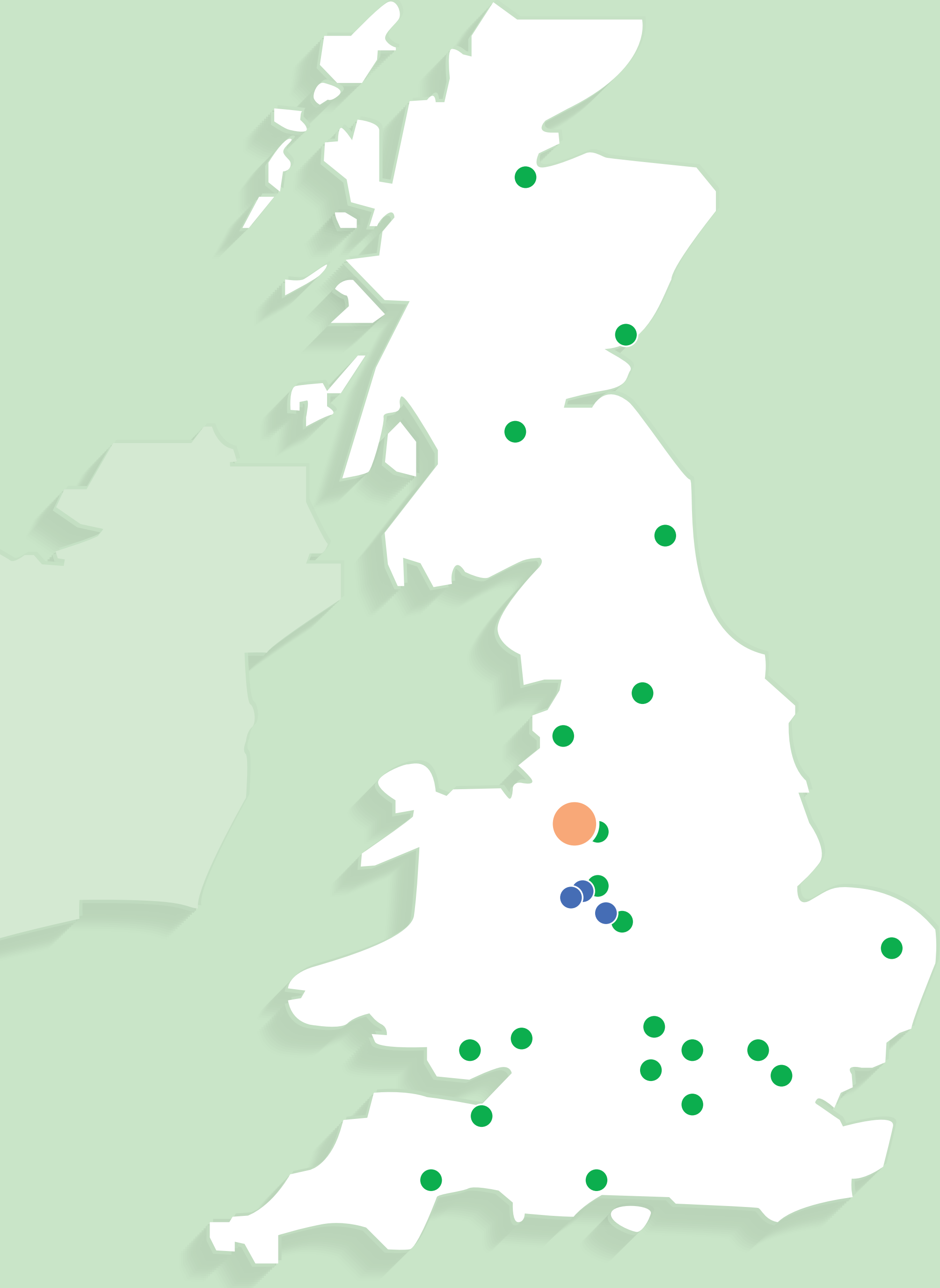
We focused on developing new ways of working with enhanced safety and hygiene measures to protect our drivers and those in front line operational roles, whether in our warehouse or making deliveries. Our distribution network remained open throughout the pandemic; however, for a time, we paused some of our additional services, for example the installation of certain products and indoor recycling collections, to minimise the amount of time drivers were in customers' homes. We also moved to doorstep delivery of products, although our people and drivers were empowered to safely help the vulnerable or those for whom doorstep delivery was not an option. We reintroduced services gradually once we were confident that we could mitigate the risk to our people, drivers and customers.

To facilitate our rapid levels of growth, during the year, we invested early in our infrastructure and opened four new warehouses, providing over 600,000 sq ft of additional space, and five new outbases.

The additional warehousing capacity has helped the retail business increase its stock holding by over 120% during the reporting period. This has helped to mitigate issues in the supply chain and ensured we are able to range the widest possible assortment of stock to consumers. The additional outbases allowed us to deliver increased volumes and be nearer to our customers providing efficiencies from reduced mileage between deliveries. In addition, we have nearly doubled the number of our delivery vehicles on the road when compared to our 2019 peak trading period. We significantly increased the number of self-employed drivers/multi-crews to support ongoing demand and created an additional 500 operational roles in our warehouses to satisfy our peak demand period.

We enhanced our self-employed driver model during the year by ensuring drivers who deliver a consistent five-star service (as rated by our customers), are paid higher rates. To deliver products to our customers, we source independent contractors to make these deliveries for us. Drivers are free to accept or reject work offered and are under no obligation to provide the services personally. In fact, many of our contracts are with drivers or companies who run their own businesses supplying a number of "sub-crews", which they engage to provide delivery services for us.

As we adapted to new ways of working for a short period of time at the start of the first lockdown, we paused offering our logistics services to new third-party clients but continued to maintain our services to our existing base. We continue to review our logistics offering to ensure that it is aligned not only with the needs of our AO retail customers but also those of our third-party clients as we continue to target additional clients and volumes and leverage our market-leading two-man delivery proposition and excellent customer services into new areas.



22
outbases across the UK, driving efficiencies of scale

UK warehousing capacity increased to
1.3m sq ft

Delivery seven days a week; next day delivery available for over
90%
of UK postcodes

Crewe distribution centres
Other distribution centres
Outbases

Priorities for FY22

Our investment in people and infrastructure provides us with a strong foundation to continue to grow and develop. Over the next year, we will look to open additional delivery depots and further increase our warehousing space to ensure that the momentum achieved during the pandemic can be maintained to support the shift to online. We will refine our infrastructure to have the best, most efficient and customer-centric network in the UK and will build on our learnings from the last 12 months. We will also continue to innovate, improving service and revolutionising proposition and customer choice. In addition, the development of electric vehicles on our home delivery fleet, whilst reviewing the use of fossil fuels in our trunking operations, will be a priority.

...increasing speed and efficiency.

Recycling

In the true AO Way, we have taken a problem and innovated...

Our goal is to make new fridges and other white goods out of old ones by using the plastics we recycle. We are uniquely placed to make this happen because of our vertically integrated structure and our strategic relationships with manufacturers through our retail business.

Business overview

Delivering for customers with pace and passion is at the heart of everything AO does. How we help them to dispose of electrical goods responsibly at the end of their useful life is just as important as what happens when they decide to buy from us.

Recycling The AO Way

We own and run one of the biggest fridge recycling plants in Europe. AO Recycling in Telford is where we process – to leading industry standards – all the old fridges and other white goods (also known as waste electrical and electronic equipment or WEEE) that we collect from customers.

Opened in 2017, the plant recycles old white goods collected from our customers and third parties. The plant is able to process all major domestics appliances, but specialises in refrigeration products including large American fridges capturing gases and oils harmful to the environment.

AO Recycling also has its own highly skilled repairs team, which refurbishes appliances delivered to the plant that still have a useful life. These are then sold via trade or our own outlet shops.

We also recycle packaging collected from customers' homes. We stay true to our values by delivering and collecting using our own logistics company so just one journey is made – which, of course, is better for the environment.

Cradle-to-cradle electricals

Our bigger goal is one of true circularity, backed by continued and significant investment in the latest technology; pushing the boundaries of what is technically possible.

In 2019, we opened the UK's only plant to process plastics from fridges and other appliances, using the latest technology and science to create the purest form of recycled fridge plastic.

Our plastics plant separates, cleans, sorts and enhances plastics from the old appliances we've processed for another life in a new product.

The plant creates an economically viable, high-quality plastic, which could be used in new white goods and electronic products.

It can also be recycled again and again. Our output materials are regularly above 99% pure, consistently above 97%, against a market where 90–95% is deemed acceptable.

See pages 68 and 69 of our ESG report for more details on our environmental strategy.

...turning our solution into a point of difference.

Recycling continued

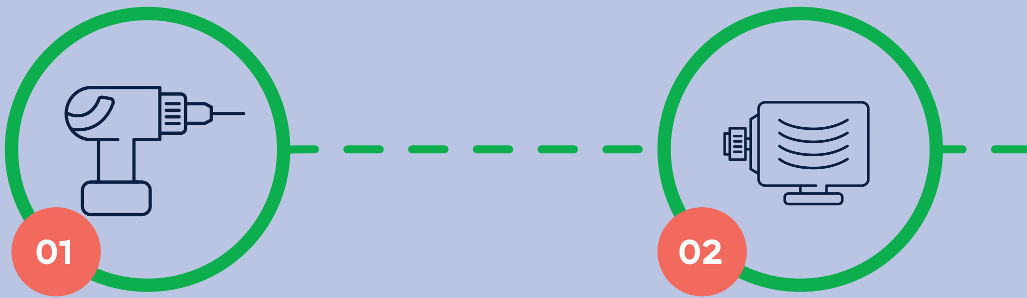
Review of the year

The year under review has been like no other for the recycling industry but the resilience of our recycling team has been remarkable, and our values really shone through. Our priority was, and continues to be, to ensure the safety of our people, customers and partners and we quickly adapted our operations to comply with social distancing measures and improved hygiene requirements in line with government guidance.

A significant challenge for our recycling business over the review period was managing the dramatic spikes in volumes. A high proportion of the appliances we recycle are derived from our local authority clients where we utilise our UK-wide logistics network to collect from them, helping us to also drive efficiencies across the Group. The decision by local councils to close household waste and recycling centres during the first lockdown, coupled with a reduction in our own collections from AO customers as we limited in-home collection services, resulted in a significant fall in the volume of products to our recycling and plastics plants. For a short period of time at the start of the pandemic, we therefore had to significantly reduce our operations. We did, however, use this time as an opportunity to review our operations, particularly in our plastics facility. We optimised and simplified processes where possible, made some small investments to improve our infrastructure and undertook some engineering work.

Once our plants were operating normally and we commenced doorstep recycling collections, our volumes from our AO customers dramatically increased in line with the growth in AO's sales and built-up supply. These volumes, together with those from local authority clients, means we now continue to operate at full capacity. The maintained levels of high volumes have resulted in the need to for us to send excess products to third parties for processing, which has increased our costs. We pride ourselves on our high levels of customer service and environmental standards, which we have maintained throughout the reporting period and so in choosing third parties to process our excess products we have sought to use those, which most closely mirror our own standards.

Here's how we recycle fridges, which we believe is one of the safest, cleanest and most efficient processes in the UK...



01 The refrigerant and oil inside the motor are carefully removed. To do this, we manually drill into the fridge's internal workings to drain everything away.

02 The motor is removed using giant, heavy-duty cutters and sent away for recycling.

The prices we receive for output materials from our plants, however, have been volatile and generally not favourable during the whole reporting period. During the year, we were excited to continue discussions with a number of product manufacturers about using these raw materials to build new products, which should also help to mitigate the volatility in output material pricing.

In the prior year, through our One AO approach, we utilised our web design knowledge, UK-wide logistics network and routing capabilities to develop and launch our "AO Collects" and "Collect & Recycle" propositions allowing businesses and retail customers to arrange collection and recycling of old products. Whilst not only providing an efficient, hassle-free doorstep collection, this proposition also allows customers to experience AO standards of service, encouraging new customers to purchase their future electrical products from AO. These services remained in operation during the year, providing customers with an avenue to dispose of their old appliances when household waste and recycling centres were closed, and we are pleased with the levels of volume achieved.

Priorities for FY22

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. To maintain our high service levels and environmental performance, it is important that we control the end-to-end process.

The implications of Extended Producer Responsibility reforms will require producers of a product, including appliances, to take responsibility, physically and financially, for the lifecycle of their products, by requiring retailers to collect waste products for free. This could significantly increase the demand for recycling services and we are exploring how we can increase our recycling capacity accordingly.

We will also continue to innovate our technology to improve performance and efficiency.

We will expand our recycling services through our plastics recycling facility and continue to work with product manufacturers and other clients to explore how we can make new products from the outputs of our plastics plant. We hope to develop and grow our portfolio over the next 12 months to create an additional revenue stream. Our ultimate ambition is that an appliance can be made using the plastics from our plant.

03

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

04

The fridge is then dropped inside a massive shredder, where heavy-duty steel chains spin around like a kitchen blender. This motion forms a vortex that breaks the outer shell of the fridge into smaller pieces. The insulation foam is smashed into powder to release more of the gases.

05

The rest of the fridge remains are dropped onto a heated conveyor belt below. The heat, again, helps to release and neutralise any leftover gases.

06

Nitrogen is used to condense the gases into liquid so they can be safely sent away for disposal elsewhere.

07

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

08

Plastics, metals and foam are sorted into individual storage containers. These are then shipped on to be recycled into other products, maybe even another fridge.

Germany

We have successfully fixed the fundamentals in our German business...

Business overview

One of AO's key advantages is its ability to scale because the products we sell are fundamentally the same in all the territories we identify in our markets section, the global manufacturers are the same (albeit they may operate local brands) and the methods of shopping online are the same, as are the digital marketing techniques for reaching customers. Warehousing systems and delivery processes follow the same high-level structure and all customers want a friction-free customer journey, without paying more than they must or waiting longer than needed to for delivery.

Our One AO model underpins our strategy to scale internationally. This approach is focused on ensuring that all employees, across all parts of AO, behave as one and operate efficiently. A centralised approach only devolves functions to local operations where necessary, ensuring no duplication of costs and driving operational efficiencies. It also creates a scalable model for growth, providing consistency in operations and standards. We therefore leverage the skills, knowledge and expertise of our UK teams into Germany, particularly in our e-commerce, marketing and logistics disciplines. Under this approach, we are mirroring and building our business using our UK platform creating a scalable model for growth.

We chose Germany as our first step into Europe because it was the largest electricals market, with a significantly underdeveloped e-commerce offering. As we have grown the business, we have evolved the operating model to create the One AO playbook that we will use as we enter new territories.

Review of the year

We are delighted with the performance of our German business during the reporting period as it reached profitability at an adjusted EBITDA level during our third quarter. At the start of the reporting period, we had completed much of the heavily lifting required to fix and reposition the business, which we started to implement during 2019. We centralised through the One AO approach driving best practice sharing, cost effectiveness and cultural alignment whether in conversion management, content, our approach to suppliers or logistics.

Critically we now have the long-term support and trust of our product manufacturers who see AO as a long-term participant in the market. This has resulted in improved ranges, terms and coordination on promotions, all of which have helped to improve profitability during the year. We continue to add new manufacturer relationships as they recognise not only the permanency of the shift to online but also in recognition of AO's increasing position in the marketplace.

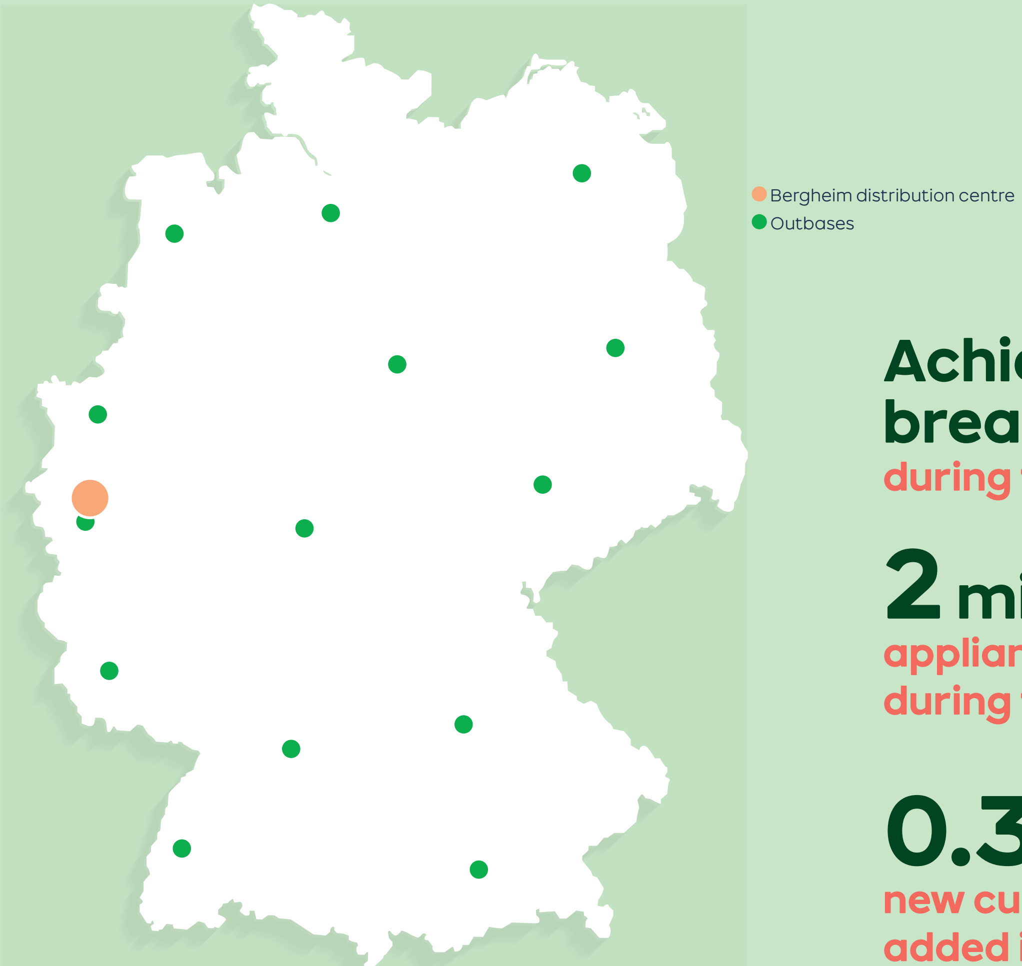
We have focused on efficiency, particularly in logistics, where we restructured our delivery operations, improving van fill through initiatives including investment in new vehicles with higher payloads. We improved our customer acquisition efforts, driving efficiencies on our acquisition spend, focusing on successful channels and driving conversion to improve our return in this area. We have continued to build on this throughout the reporting period.

As a result of the actions above we were well placed to deliver for our German customers during the pandemic. As in the UK, the German online market migrated to online overnight as lockdown commenced and bricks and mortar retailers closed their stores. We experienced a substantial increase in demand and some limited inefficiencies and cost increases due to the impact of implementing social distancing and enhanced hygiene measures. Some of these inefficiencies were, however, offset to some degree by improved delivery rates with customers at home to receive deliveries.

At the start of the pandemic, we ceased offering all additional services, for example connections and installations, and made doorstep only deliveries. We focused on developing new ways of working with enhanced safety and hygiene measures to protect our customers, drivers and people in front line operational roles, whether in our warehouse or making deliveries. In subsequent lockdowns, we were able to take a more tailored approach when confident that we could mitigate the risks to our people, drivers and customers, for example we capped the availability of our installation services based on local incident rates in customer geographies. We could not have more pride in the way our teams reacted navigate the challenges and to ensure the safety for our people, customers and partners.

During the year, we made investments in our infrastructure to support growth for not only our products but our services too through expanding our van fleet and warehouse equipment These investments also support our strategy to extend our service-oriented delivery approach in Germany through offering delivery services to third parties, as in the UK. We were pleased to gain two new clients during the year as we look to build this additional revenue stream.

Our customer proposition remains a key focus to ensure we offer great value to our customer base and drive new customers to the ao.de website. Enhancements to our proposition during the year included the ability for customers to book delivery timeslots, have washing machines and dryers stacked in their homes or have fridge doors switched over. This is in addition to our standard and premium services that cover everything from connecting a washing machine to installing an induction hob. New customers to our website grew by 75% during the year, demonstrating our growing brand in



Achieved break-even
during the 3rd quarter

2 millionth
appliance sold during the year

0.3m
new customers added in FY21

this market with a significant opportunity still ahead of us.

Although we believe that the pandemic has, to some degree, accelerated our performance this year, our ability to continue deliver for our customers during the pandemic whilst maintaining our exceptionally high NPS customer satisfaction levels was only achievable because of the changes implemented in the business in the prior year and on which we continue to build. Our strong overall proposition is resonating with our customers as evidenced by our growing repeat purchase metrics, our growth outstripping the total online market during the period and increases in our share of the total MDA addressable market. Online penetration in Germany is still significantly behind the UK, providing AO with a substantial opportunity to grow, particularly in MDA.

The changes implemented over the last two year means that our processes and capacity are now scalable. We are well positioned to service the shift to online as a result of the compounding factors of an overall growing market and increased online penetration.

Priorities for FY22

We will reinvest the majority of our profits to leverage the improvements that enabled us to achieve a break-even position during the reporting period, scaling our current operations with sales growth, driving more revenue through improved customer acquisition, conversion and range expansion paired with ongoing logistics network optimisation. We will also benefit from AO-wide process and system improvements to enable efficient growth and drive best practice.

As we aim to become Germany's destination for electricals, we will continue to improve our customer proposition, honed to the local market as necessary. We will achieve this by expanding and developing our service offering, be it helping customers with warranty repairs or expanding our AV service offering, expanding into new categories (ensuring these also have a good range of services available) and exploring an improved finance offering. We will continue to optimise the consumer journey, which in turn, will benefit our product manufacturers as we drive innovation around the presentation and explanation of product features to educate customers.

We will continue to optimise our logistics operations so that they continue to support our growth and further lower our cost to deliver. We will look to expand our delivery network to reach our customers faster and offer improved delivery timelines, and continue to build our third-party logistic proposition and increase our client base.

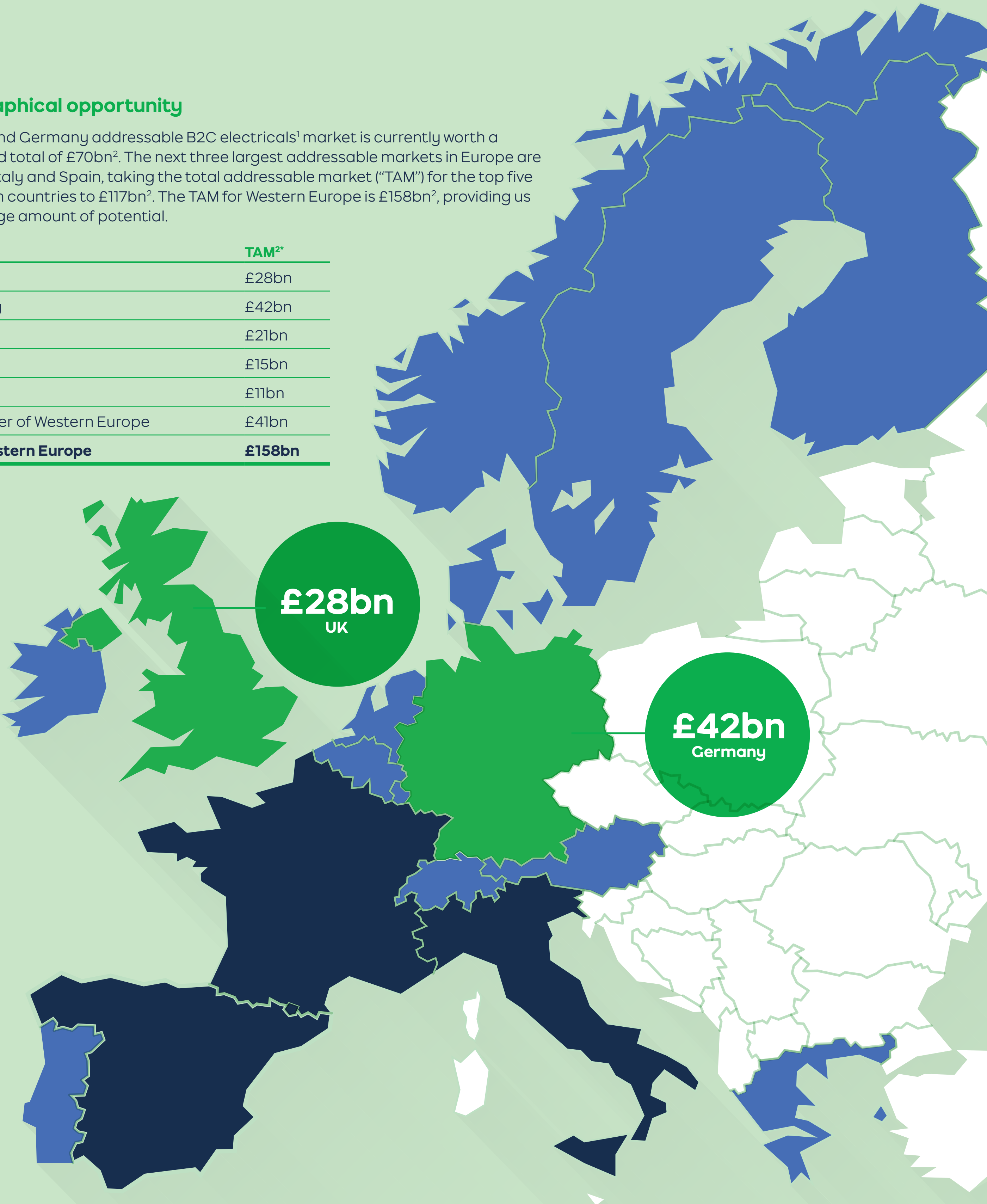
...so we can now accelerate our growth.

Our markets

Geographical opportunity

The UK and Germany addressable B2C electricals[1] market is currently worth a combined total of £70bn[2]. The next three largest addressable markets in Europe are France, Italy and Spain, taking the total addressable market ("TAM") for the top five European countries to £117bn[2]. The TAM for Western Europe is £158bn[2], providing us with a huge amount of potential.

	TAM[2*]
UK	£28bn
Germany	£42bn
France	£21bn
Italy	£15bn
Spain	£11bn
Remainder of Western Europe	£41bn
Total Western Europe	**£158bn**



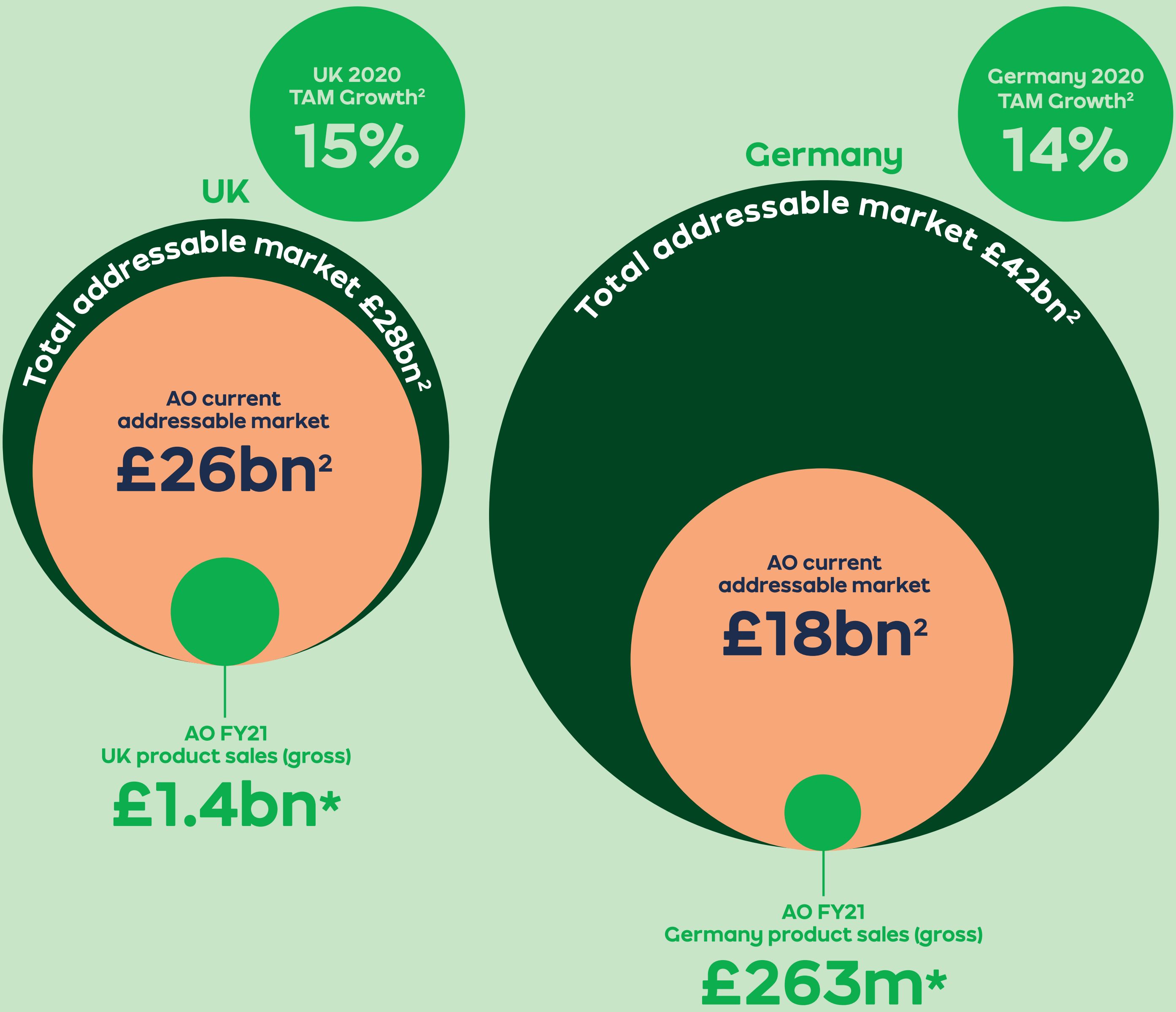
* TAM for GfK quoted figures relate to product sales inclusive of VAT (AO sales have been adjusted to include VAT to aid comparison).

1. Electricals is defined by GfK as MDA, SDA, AV, computing, mobile, smarthome, photography equipment, office equipment and personal care.
2. Source: GfK Western Europe addressable market 2020 across Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland for 12 months to 31 December 2020.
3. AO currently operates in the following categories in the UK: MDA, SDA, AV, computing, mobile, gaming, gardening & DIY, smarthome and wearables. And in Germany: MDA, SDA and AV.

Category opportunity

Being the destination for electricals means having an expansive, curated range of products across all electrical categories to serve the widest possible customer base. One of our strategic objectives is to have comprehensive category coverage across all our territories so we are aiming to increase our offering. In the UK, we currently offer nine electrical categories[3] and we are aiming to roll out two new categories during our current financial year (FY22), which will add an additional c.£1bn[2] of addressable market. Expansion into new categories increases the frequency of purchases, allows cross selling into new categories and builds long-term relationships with our customers across a range of products.

The German TAM is around 50% larger than the UK but our current category range covers MDA, SDA and AV only. To be the true destination for electricals in Germany we need to expand our category coverage significantly and plans are in place to quickly roll out new categories over the coming years allowing us to participate in Germany's total electrical market of £42bn[2]. As we currently only operate in £44bn[2] of the total £70bn[2] electrical market for UK and Germany, we have a significant opportunity for future growth, especially as these markets experienced double-digit growth during the year.



Our markets continued

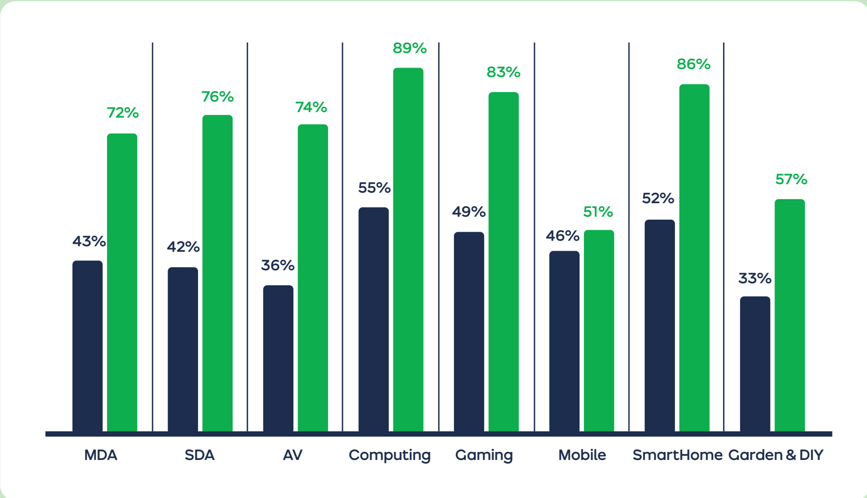
Market trends

Customer behaviour changes

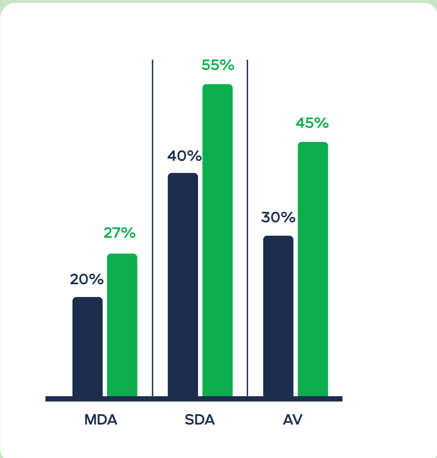
- **The digital shift**

Covid has significantly changed consumer's lives, including the way they shop. Many shoppers were forced to use the online channel as stores closed and, in the UK, internet sales increased by 73%[5] during 2020. This shift also impacted our core electricals market where 72%[4] of all MDA products were purchased online during our financial year, compared with 43%[4] in the comparable prior year period. We believe that the rapid acceleration to the digital environment presents us with a unique opportunity to be the leading online electrical specialist and we are, therefore, working hard to improve our customer value proposition, category coverage, service proposition and are scaling our platform for growth to enable us to capitalise on this shifting landscape.

ONLINE PENETRATION – UK[4]



ONLINE PENETRATION – GERMANY[4]



FY20 FY21

- **Home is the new hub**

Covid forced many to adopt a remote working model and homes were transformed into places of work overnight. This trend is expected to have a lasting impact on consumers who are now seeing their home as a place of work, entertainment and wellness. Consumers are now investing more in electricals, for example upgrading household appliances, purchasing more computing and gaming devices, and investing in smaller kitchen and smart tech devices and, of course, they are using them a whole lot more. This trend is driving category growth and is expected to continue for the coming year.

Technological changes

Having a brilliant customer journey is essential for AO as an e-commerce retailer, and investment into personalisation and great online shopping experiences is more important than ever. As an online retailer, we are ahead of many British retailers in developing new techniques to improve the consumer shopping experience, but we realise that the shift to the online channel is also forcing our competitors, who have historically operated a bricks and mortar model, to focus and invest more online.

MDA appliances are evolving, and global MDA brands are developing fridges and washing machines that use AI technology to save consumers time, improve product experience and save energy. AO is passionate about making these smart products available to the customers and we are working hard with our suppliers to make this happen.

Big in Asia, "Live Commerce" is a new way to shop online and uses live video streaming to demonstrate products and interact with shoppers in real time to encourage purchases. This trend is not widely adopted in the UK or the electricals sector but is something we are monitoring as we look for new ways to connect with our customers.

Smart robots and automation in the retail industry have also seen a recent boom, and as we build a scalable operating model, this would allow us to be prepared for the digital shift and leverage our scale.

Environmental

The electricals market is witnessing drastic changes, which aim to improve product efficiency and reduce waste. These new regulations around sustainability mean the following rules will apply to electronics and electronical retailers in the European Union:

4. Source: GfK Annual Report Apr20-Mar21 across Great Britain and Germany for the period 29 March 2020 to 3 April 2021.
5. https://blazon.online/online-shopping-statistics-from-the-uk-for-a-profitable-2021/.

- **Energy labels change**

To help EU consumers cut their energy bills and carbon footprint, a new version of the widely recognised EU energy label is applicable in all shops and online retailers from March 2021.

- **Distributor Take-back Scheme ("DTS")**

Changes to recycling obligations will require electrical retailers to provide a takeback service for WEEE into their stores from 2021. This legislation will impact all our major competitors who, unlike AO, outsource all their WEEE recycling capabilities.

What this means for AO?

The electricals market continues to grow and, as consumers spend more time in their homes, they are investing in more gadgets and electrical home comforts. During periods of the lockdown the majority of electricals shoppers migrated online and as online retail continues to evolve, as an agile business, we are constantly investing and adapting to meet new expectations from customers. We continue to build on our already market-leading levels of customer service, proposition and journey through technology investments in personalisation and content. Giving the customer confidence in their purchase has never been so important and by providing them with information, inspiration and a seamless shopping experience, we know that once a customer has tried The AO Way they will keep coming back, which further increases the shift to online as the preferred way of purchasing electricals.

AO is well positioned to adapt to the legislative changes in the electricals sector. We have brilliant relationships with our suppliers from an energy labelling perspective and we are working closely with them to ensure we can educate and provide up-to-date information to consumers, giving them confidence when making their purchase through AO. Our recycling plant in Telford enables us to meet our distributor take-back obligations. We have the internal capabilities to responsibly return and recycle our customers appliances, and are able to dispose of old appliances safely.

For details of our Group and ESG strategy see pages 42 and 43 and pages 68 and 69 respectively

Our strategy

Our strategy is to leverage and support the scalability of our business model and market-leading customer proposition in order to achieve our mission to become the Global Destination for Electricals.

Our mission is to be

"The Global Destination for Electricals"

1 INVESTING TO BUILD A BRILLIANT CUSTOMER JOURNEY

Through understanding our customers, we will be able to satisfy their needs and create a brilliant journey, providing them with information, inspiration and a seamless shopping experience.

See pages 26 to 29 to discover how we have continued to enhance our customer journey during the year

2 COMPREHENSIVE CATEGORY COVERAGE

Through expanding our product ranges, we will position AO as a broad electricals retailer, serving the widest possible customer base.

As we build our offering through addressing the needs of our customers, we will cement our position as a leading electrical retailer in all our territories, allowing us to increase selling opportunities and building customer lifetime value.

See pages 22 and 23 to discover how we have worked with our suppliers to improve our product offering during the year

... that are underpinned by our values:

We treat every customer like our gran

We make decisions that make our mums proud

To fulfil our purpose:

To make customers' lives easier

Given the scale and pace of growth seen during the year, we have reviewed and evolved our strategy to focus on the four key pillars explained below. Together, these pillars present us with a clear direction across our business to guide us in achieving our mission and our purpose.

This aspiration means operating on an international basis and being the household name for electrical products and services, delivered by our four strategic objectives:

3 OFFERING SUPPORTING SERVICES

We will enhance our customer offering with a full range of services, for both existing and new categories. We will continually improve our best-in-class delivery, easy returns, product installation and set-up, and recycling propositions.

Enhancing the customer lifecycle through services such as warranties, product trade-ins, repair and maintenance provides us with another touch point and builds our long-term relationship with our valued customers.

See pages 30 to 35 to discover the developments we have made to our services during the year

4 BUILDING A SCALABLE OPERATING MODEL

Through our One AO platform, we will leverage our UK centres of expertise to support growth and expansion into new and existing markets and territories.

As we grow, we will benefit from economies of scale and enhanced purchasing power with our suppliers to enable us to provide enhanced product choice for our customers.

Being vertically integrated allows us to enhance profitability through our scalable model.

See pages 36 and 37 for developments in our German business over the year

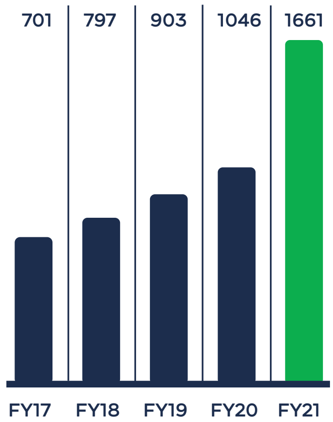
We have a growth mindset

We operate at AO speed

by helping them brilliantly

Key performance indicators

Group revenue (£m)

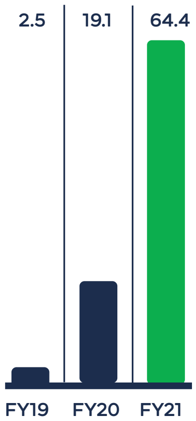


£1,661m

Significance:
Revenue trends measure the attractiveness of our customer offer, market share gains and growth in new markets as well as being linked to operating leverage. Revenue growth also measures progress against our strategic priorities. This measure is reported to the Board.

This year:
Total revenues grew 59% driven by significant market shifts to online accelerated by Covid restrictions and Germany benefiting from market share gains.

Group Adjusted EBITDA[1] (£m)

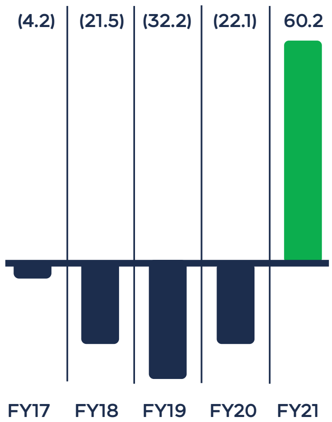


£64.4m

Significance:
Provides the basis of comparing profitability, as it eliminates the potentially distorting effects of financing and capital expenditures. Adjusted EBITDA is a close proxy for cash flow. This measure is reported to the Board.

This year:
Adjusted EBITDA increased 238% as we benefited from the operating leverage inherent in our business model.

Cash flow[2] (£m)

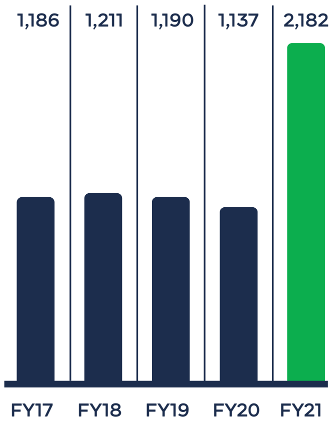


£60.2m

Significance:
Cash flow and associated liquidity underpins our growth strategy and funds investment.

This year:
£60m of cash was generated over the year, equivalent to 93% of EBITDA, driven by increased revenues and improvements in working capital .

Total new customers[3] gained ('000)

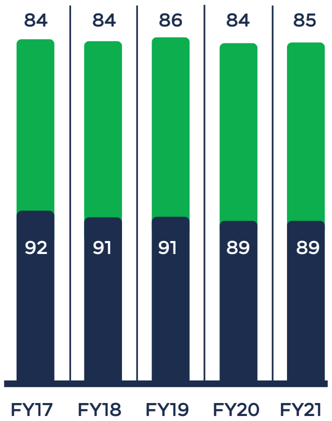


2.2m

Significance:
New customers growth indicates the attractiveness of our customer offer, successful marketing and conversion rates.

This year:
Customer growth increased as Covid restrictions forced all shopping for electrical goods online.

Net promoter score[4]



UK[5]
85

Germany
89

Significance:
Measures the number of customers who are likely to be influencers or promoters of the Company.

This year:
Germany once again achieved a world-class NPS score. The UK's score increased slightly on the prior year despite Covid-related effects on extreme customer demand, delivery services restrictions and supply chain disruption.

1. For consistency, only 2019-2021 figures are included as these have been restated for IFRS 16.
2. Cash generated before new borrowings/proceeds from shares issued.
3. A customer is defined as an individual customer who has purchased through us via ao.com or ao.de, but excludes customers from MPD.
4. NPS is an industry measure of customer loyalty and satisfaction.
5. For FY20 and FY21, UK NPS is based on a turnover weighted average of ao.com and MPD.

Key
Financial
Non-financial

Chief Financial Officer's review

"The Group continues to make considerable progress against its strategic objectives, with good cash generation, strong growth in our UK business and significant margin improvement in Germany."

Mark Higgins
Chief Financial Officer

I am pleased to report another strong financial performance despite the challenges and opportunities in a year dominated by Covid-related events. The continued shift to online shopping, accelerated by Covid restrictions, created a strong sales momentum, which was reflected in our results for the year, as was the operational leverage inherent in our vertically integrated model. As a result, our business achieved an operating profit of £30m compared to an operating loss in FY20.

In our January Q3 trading statement and in our April post-close trading statement, we referred to an increase in warranty plan cancellations and announced our intention to conduct a full review of the customer base. Having completed a full reconciliation, we discovered that a number of plans that were treated as live on the customer database had actually been cancelled, with the vast majority of these cancellations relating to previous years. In addition, a number of live plans had not been reported to the Group. As a consequence, revenue, finance income and the associated contract asset have been overstated in these prior periods. The errors have been corrected by restating each of the affected financial statement line items for prior periods, resulting in a cumulative adjustment to reserves of £11.1m. This change is discussed in more detail below and in Note 35 in the Financial Statements.

The Group has made considerable progress against its strategic objectives, with good cash generation, strong growth in our UK business and Germany achieving break even sales performance during the peak period, on an Adjusted EBITDA basis. We increased capacities in our warehousing space as supply chain disruption caused a rise in inventories, and we invested in additional stock to meet the surge in customer demand. Whilst this helped drive considerable volume growth, we incurred increased costs in assuring the safety of both our customers and staff. The Covid-related lockdowns also forced us to pause our installation services at certain times. In addition, our store trials with Tesco were closed for much of the year and our Recycling facilities were affected by regular closures and social distancing measures.

£(m)	FY21	FY20[1]	% change
Total Group revenue	**1,661**	1,026	62%
UK revenue	**1,435**	901	59%
Germany revenue	**226**	125	81%
Group Adjusted EBITDA[2]	**64**	22	191%
UK Adjusted EBITDA[2]	**67**	41	68%
Germany Adjusted EBITDA[2]	**(3)**	(18)	83%
Group Operating profit/(loss)	**30**	(4)	850%
Profit before tax	**20**	1	1,900%
Basic earnings per share	**3.73p**	0.21p	1,676%
Cash generated/(utilised)	**60**	(22)	372%
Net debt[3]	**(28)**	(99)	(71)%

Unless otherwise disclosed, all figures stated throughout the strategic review (including the CFO review) are on a post-IFRS 16 basis, which we adopted in the prior financial year. Figures are also stated on a pre-adjusting items basis and exclude the performance of our Netherlands operations, which closed in 2019. A comparison including past performance of our Netherlands operations is provided on a comparison basis. 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 FY21 and FY20 are defined as the 12 months to 31 March 2021 and the 12 months to 31 March 2020, respectively.

1. The prior year comparative excludes revenue and losses generated by ao.nl, our Netherlands website, which was closed during the quarter ended 31 March 2020. Prior year numbers have been restated as set out in Note 35 to the Financial Statements.
2. Please refer to our alternative performance measures detailed on page 50.
3. Net debt is defined as cash less borrowings less Lease Liabilities and less overdrafts as per the consolidated statement of financial position.

£1.7bn
Group revenue

£64m
Group Adjusted EBITDA

£20m
Group PBT

Revenue (see Table 1)

Total Group revenue (excluding the Netherlands) grew 62% to £1,661m (2020: £1,026m) with both the UK and Germany recording considerable growth. UK revenues grew 59% to £1,435m (2020: £901m). Revenues in Germany grew 81% to £226m (2020: £125m).

Product revenue

Total revenue growth was primarily driven by the increase in our product sales. As Covid restrictions resulted in most retail outlets closing for much of the year, most non-essential retailing gravitated online, accelerating structural shifts towards the digital environment.

In the UK, product revenue increased 73% to £1,200m (2020: £693m). MDA grew 61% as demand for larger fridges, chest freezers and other home appliances soared during lockdown. We also enjoyed growth in our SDA category of over 100% albeit from a smaller base and increasing our market share. Additional categories relating to home entertainment all grew strongly during the Covid restrictions, including AV (109%), consumer electronics (126%) and Gaming (127%). Our AO Business, which sells to housebuilders and other large volume businesses, continued to build momentum, growing 69% year-on-year.

Our business in Germany experienced robust growth from a smaller base. Due to Covid-related restrictions on store openings, the online MDA market almost doubled over the year, with our market share growing by 1.3ppts to 3.2% and product revenue growing 82% to £221m (2020: £122m).

1 REVENUE

	12 months to 31 March 2021			12 months to 31 March 2020 (restated)			% change		
Revenue £m[1]	**UK**	**Germany**	**Total**	**UK**	**Germany**	**Total**	**UK**	**Germany**	**Total**
Product revenue	**1,200**	**221**	**1,421**	693	122	814	73%	82%	75%
Service revenue	**54**	**4**	**58**	35	3	38	54%	17%	51%
Commission revenue	**146**	**–**	**146**	143	–	143	2%	28%	2%
Third-party logistics	**17**	**1**	**18**	17	–	17	(1)%	2,019%	6%
Recycling	**18**	**–**	**18**	14	–	14	32%	–	32%
Total revenue	**1,435**	**226**	**1,661**	901	125	1,026	59%	81%	62%
Total revenue including NL[1]	**1,435**	**226**	**1,661**	901	145	1,046	59%	57%	59%

Totals may vary due to effects of rounding.

1. The majority of revenue generated in our Netherlands business in the prior year was classified as Product revenue.

Service revenue

Service revenue comprises service bundles, such as gas installations through our premier fleet, installing televisions on walls and timed delivery slots.

UK Service revenue increased 54% to £54m compared to £35m for the same period last year. Covid restrictions on social distancing resulted in the pausing of many of our normal services propositions, although customer demand remained strong outside the lockdown period. Services therefore reported good growth overall, albeit at a lower rate than our headline revenue growth.

Germany experienced a similar market experience; however, the German market was under heavier restrictions than the UK and, consequently, many of our normal services were constrained for longer periods than in the UK, although overall service revenue growth remained pleasing at 17%.

Other revenue

Revenue from commissions comprises revenues from the Mobile Network Operator ("MNO") for the procurement of connections to the MNO's network and the delivery of the handset to the end customer. It also includes the revenue from selling our AO Care branded insurance plans where we act as agent for D&G. During the year, our commissions revenue from the MNOs grew by 2% with our AO Care plan income increasing by 34%.

As reported at the half year, we experienced a shift in customer behaviour in the mobile business with increased cashback redemption rates and cancellation of contracts, which management believe was mainly Covid related. We consequently reviewed the estimates and judgements used in assessing previously recognised revenue, which resulted in a revenue reduction of £10.8m in the reporting period. We reacted quickly to these shifts in customer behaviour, moving our propositions to more upfront cash deals, which reduced the monthly recurring charge ("MRC") for the consumer but also improved the customer journey with simpler, customer-friendly offers. As a result, our Mobile business continued to grow in a mobile contract market that declined 5% year-on-year, whilst also achieving an improved Net Promoter Score.

Our AO Care insurance offering is a regulated product, which provides customers with the security that their new product can be repaired or replaced if required. Revenue from AO Care grew in line with product revenue during the year and, as more customers were at home during the pandemic, conversion rates for AO Care products increased modestly. However, as a result of the restatement of comparatives, this performance was partly offset by the impact of the reassessment of estimates and judgements relating to previously recognised revenue, as set out on page 52. As a result, revenue in the period was constrained by £8.1m.

In the UK, revenues from third-party logistics were broadly flat, as we focused on utilising capacity for our ao.com and existing third-party customers. Deliveries were also constrained by certain products being classified as non-essential under UK Government Covid guidelines. Third-party logistics services performed well in Germany as a new service.

Despite Covid restrictions, which meant recycling centres were closed for long periods under Government guidelines, recycling revenue grew 32%, driven mainly from increased volumes from both our own collections from our AO customers and from local authority clients. We are also pleased that our new plastics centre became fully operational during the year, which meant we have generated our first revenues from selling recycled plastics.

Gross margins (see Table 2)

Total gross profit for the Group, which includes product margins, delivery costs, commissions from selling insurance plans and network connections and other ancillaries, increased 63% to £293m (2020: £179m). Gross margin increased slightly as a percentage of revenue from 17.4% to 17.6%.

UK gross profit grew by 54% to £273m (2020 restated: £177m). Gross margin was broadly unchanged but was impacted by the changes to estimates and judgements in both Mobile and Aftercare as discussed above. Excluding the impact of the changes above, our gross margin remained broadly flat at 19.0% (2020: 19.6%).

We anticipate that UK gross margin will reduce slightly in the near term as we grow our share in new product categories in line with our strategy of being the global destination for electricals. Efficiency gains in logistics for these products will help offset the dilutive effect on margins.

In Germany, gross margin improved strongly to 9% from 1%, and further improving from 2019, when gross margin was negative 2%. This reflects the operational leverage in our business, our achievement in bringing pricing in line with that of the UK and negotiation of more favourable supplier terms. Increased product sales also drove efficiencies in our logistics operation. Gross profit grew strongly to £20m (2020: £2m).

2 GROSS MARGINS

Gross profit £m[1]	12 months to 31 March 2021 UK	Germany	Total	12 months to 31 March 2020 (restated) UK	Germany	Total	% change UK	Germany	Total
Gross profit	**273**	**20**	**293**	177	1	178	54%	1,011%	63%
Gross margin	**19%**	**9%**	**18%**	20%	1%	17%	(0.6)ppts	7.2ppts	0.2ppts
Gross margin including NL	**19%**	**9%**	**18%**	20%	0.6%	17%	(0.6)ppts	8.0ppts	0.6ppts

Totals may vary due to effects of rounding.

Selling, general & administrative expenses ("SG&A") (see Table 3)

Total SG&A costs increased over the year but as a percentage of revenue decreased to 16% (2020: 18%). SG&A costs for the Group increased to £264m (2020: £183m) as we invested in our logistics infrastructure, IT systems and additional people to manage the increase in customer demand and people with specific technical skills.

In the UK, SG&A costs increased 54% to £236m (2020: £153m), although as a percentage of revenue, this was a decrease of 0.6ppts. During the year, we invested in our warehousing, near doubling our capacity as we anticipated the likely disruption in our supply chain during Covid restrictions. This helped us to strengthen our supplier relationships as we were able to absorb additional product stock when retail stores closed and, as a result, we were able to satisfy customer demand when product availability was curtailed as well as building supplier credibility.

We also took the strategic decision to invest in marketing and brand advertising to support our revenue growth, running several successful marketing campaigns across television and social media, and sponsored several sporting events, taking advantage of competitive rates during Covid lockdowns. These activities helped drive a total of 1.9m new customers to our UK website during the year and increased website traffic by 83%.

UK other administration expenses increased to £118m (2020: £84m), although as a percentage of revenue, this was a decrease of 0.9ppts. Expenditure included costs associated with the start of our investment to transform our IT infrastructure and the procurement of the necessary skills required to support the next phase of our growth.

In Germany, we increased our SG&A expenditure to £28m (2020: £25m), although it reduced as a percentage of revenue by 8ppts. This level is now below that of the UK as we further leverage our One AO platform, together with improving efficiencies in our local logistics and admin operations.

Advertising and marketing costs in Germany decreased as a percentage of revenue by 2ppts, as similarly to the UK, customer demand outstripped supply in certain categories in the early part of the reporting year.

Warehousing as a percentage of revenue improved slightly by 0.3ppts as we leveraged our scale with the increased volumes.

We have seen substantial efficiency gains in Germany, which reduced other administration expenses by 5ppts. This is a result of the continuation of the work we commenced during FY20 in restructuring our operations and leveraging our skills and knowledge in the UK as part of the One AO platform.

Operating profit and Adjusted EBITDA (see Table 4)

We are pleased to report a substantial increase in operating profit for the period to £30m (2020: £(4)m restated loss).

Alternative performance measures

The Group tracks several 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

3 SELLING, GENERAL & ADMINISTRATIVE EXPENSES

	12 months to 31 March 2021			12 months to 31 March 2020 (restated)			% change		
SG&A costs £m[1]	**UK**	**Germany**	**Total**	**UK**	**Germany**	**Total**	**UK**	**Germany**	**Total**
Advertising and marketing	**43**	**7**	**50**	22	7	29	98%	7%	76%
% of revenue	**3%**	**3%**	**3%**	2%	5%	3%			
Warehousing	**59**	**7**	**66**	38	4	42	56%	65%	57%
% of revenue	**4%**	**3%**	**4%**	4%	3%	4%			
Research and development	**15**	**–**	**15**	9	–	9	66%	–	66%
% of revenue	**1%**	**–**	**1%**	1%	–	1%			
Other admin	**118**	**14**	**132**	84	13	97	41%	6%	36%
% of revenue	**8%**	**6%**	**8%**	9%	11%	10%			
Adjustments	**–**	**–**	**–**	–	1	1	–	(100)%	(100)%
% of revenue	**–**	**–**	**–**	–	1%	0.1%			
Administrative expenses	**236**	**28**	**264**	153	25	178	54%	12%	48%
% of revenue	**16%**	**12%**	**16%**	17%	20%	17%			
Administrative expenses including NL	**236**	**28**	**264**	153	30	183	54%	(7)%	44%
% of revenue	**16%**	**12%**	**16%**	17%	24%	18%			

Totals may vary due to effects of rounding.

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 profit/(loss) before interest, tax, depreciation, amortisation and profit/loss on the disposal of fixed assets.

Adjusted EBITDA

The reconciliation of statutory operating profit to Adjusted EBITDA is set out in table 4.

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

During the 12 months to 31 March 2021, the following adjustments ("Adjusting Items") were made:

- Management have reassessed the impact on future expected cancellation rates as a result of an increase in cancellations seen through the second half of the year. As a result, revenue has been further constrained by £8.1m with a corresponding reduction in the contract asset. Given the size and nature of the adjustment and its link to the prior period adjustment, the amount has been added back in arriving at Adjusted EBITDA.
- Consistent with the treatment adopted in prior periods, the full cost of an onerous marketing contract in Germany (which ended in December 2020) has been added back in arriving at Adjusted EBITDA. In the 12 months to 31 March 2021, this amounted to £2.2m (2020: £1.3m) and have been added back due to their size, timing and the onerous nature of the contract, which we consider to be exceptional.

During the 12 months to 31 March 2020, as well as the matter noted above on marketing costs, the Adjusting Items were as follows:

- Closure costs of our Netherlands operations: At the time of the publication of our interim results in November 2019, the Group announced its intention to close its operations in the Netherlands. On 9 December 2019, the website was closed and, after that date, we worked with suppliers, staff and the authorities to ensure an orderly closure of the companies, which completed at 31 March 2020. Costs of £2.5m incurred between 9 December 2019 and 31 March 2020 have been

4 OPERATING INCOME AND ADJUSTED EBITDA

	12 months to 31 March 2021			12 months to 31 March 2020 (restated)			% change		
Operating income and Adjusted EBITDA £m[1]	**UK**	**Germany**	**Total**	**UK**	**Germany**	**Total**	**UK**	**Germany**	**Total**
Operating profit/(loss) excluding Netherlands	**38**	**(8)**	**30**	25	(24)	1	55%	64%	3,052%
Netherlands operating loss	**–**	**–**	**–**	–	(5)	(5)	–	(100)%	(100)%
Operating profit/(loss)	**38**	**(8)**	**30**	25	(29)	(4)	55%	(71)%	(791)%
Depreciation	**19**	**3**	**22**	16	3	19	18%	2%	16%
Amortisation	**3**	**–**	**3**	2	–	2	24%	–	24%
EBITDA excluding Netherlands	**59**	**(5)**	**54**	43	(20)	22	41%	74%	147%
Netherlands EBITDA	**–**	**–**	**–**	–	(5)	(5)	–	100%	100%
EBITDA	**59**	**(5)**	**54**	43	(26)	17	41%	80%	223%
Adjusting items									
Adjusting items excluding Netherlands	**8**	**2**	**10**	(2)	2	–	500%	–	4,708%
Netherlands Adjusting items	**–**	**–**	**–**	–	2	2	–	(100)%	(100)%
Total adjusting items	**8**	**2**	**10**	(2)	4	2	502%	(51%)	331%
Adjusted EBITDA excluding Netherlands	**67**	**(3)**	**64**	41	(18)	22	68%	83%	191%
Netherlands Adjusted EBITDA	**–**	**–**	**–**	–	(3)	(3)	–	100%	100%
Adjusted EBITDA	**67**	**(3)**	**64**	41	(21)	19	68%	86%	237%
Adjusted EBITDA as % of Revenue	**5%**	**1%**	**4%**	5%	17%	2%			

Totals may vary due to effects of rounding.

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.

- Following the closure of the Netherlands business, the Group restructured its European business, with additional costs of £0.9m incurred relating to the closure, principally headcount reduction in Germany.
- Following the signing of a new longer term contract with Vodafone in October 2019, certain historic claims against AO Mobile Limited were discharged and, consequently, provisions of £2.3m were released to 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 had never been recognised in the Group income statement.

Taxation

The tax charge for the year was £3.1m (2020 restated: £0.1m credit), resulting in an effective rate of tax for the year of 15.4% (2020: 5.8%), which is lower than the UK corporation tax rate for the period of 19%, due to the corporation tax relief claimed on the share exercises that have occurred in the current year. In addition, the following permanent adjustments also impact on the effective tax rate: non-deductible foreign exchange losses arising on intercompany balances, the share-based payment charges, and non-qualifying depreciation.

The Group is subject to taxes in the UK, Germany, Netherlands and Belgium. 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.

Operations in the Netherlands ceased in December 2019. The Dutch entities are in the process of being of liquidated and therefore there are no longer any brought forward losses in these entities that can be utilised in the Netherlands.

A prior period adjustment to deferred tax of £0.1m credit has also been recognised in the period due to an increase in carried forward losses.

Tax losses in Germany from prior years remain as carried forward losses for UK tax purposes. To the extent that those losses arose before April 2017, deferred tax has not recognised on these losses. However, following the change in the Group relief rules in the UK from April 2017, losses arising after this date have been recognised for deferred tax purposes.

Our tax strategy can be found at ao-world.com/responsibility/group-tax-strategy.

Retained profit for the year and earnings per share (see Table 5)

Retained profit for the year was £17.1m (2020 restated: £0.7m). The improvement in operating profit noted above has been partly offset by net interest paid, taxation and movements in non-cash financing items which include the exchange movement on intra-group loans (resulting in a loss of £6.8m) and the unwind of discounting on long term contract assets.

Basic earnings per share was 3.73p (2020 restated: 0.21p) and diluted earnings per share was 3.68p (2020 restated: 0.21p). Basic earnings per share is reconciled to adjusted basic loss per share (after excluding the impact of foreign exchange differences – see above) of 5.15p (2020 restated: (1.08)p loss).

5 RETAINED PROFIT FOR THE YEAR AND EARNINGS PER SHARE

Retained profit and earnings per share	12 months to 31 March 2021	12 months to 31 March 2020 (restated)
Earnings (£m)		
Profit attributable to owners of the Parent Company	**18**	1
Foreign exchange losses/(gains) on intra-Group loans	**7**	(6)
Adjusted profit/(loss) attributable to owners of the Parent Company	**25**	(5)
Number of shares		
Weighted average number of ordinary shares	**475,626,353**	472,462,309
Potentially dilutive share options	**6,337,186**	4,857,812
Diluted weighted average number of shares	**481,963,539**	477,320,121
Earnings/(loss) per share (in pence)		
Basic earnings per share	**3.73**	0.21
Diluted earnings per share	**3.68**	0.21
Adjusted basic earnings/(loss) per share	**5.15**	(1.08)

Totals may vary due to effects of rounding.

Restatement of comparatives

In conducting a reconciliation of its customer base with the Group's insurance plan partner, D&G, the Group discovered that a number of plans that were treated as live on the Group's database had actually been cancelled. In addition, a number of live plans had not been reported to the Group. These arose primarily as a result of the misinterpretation of data received from the third party and related to the period 2008 to 2020. As a consequence, revenue, finance income and the associated contract asset have been overstated in these past periods. The errors have been corrected by restating each of the affected financial statement line items for prior periods, resulting in a cumulative adjustment to reserves of £11.1m. Further detail is provided in Note 35 to the Financial Statements.

Cash resources and cash flow

Cash balances as at 31 March 2021 were £67m (2019: £7m). The increase in cash was largely driven by the strong operating performance discussed above and a working capital inflow resulting from the operating leverage inherent in our business. This was partly offset by the repayment of borrowings and lease liabilities of £40m and capital expenditure of £6m.

Borrowings, which comprises bank borrowings and lease liabilities, decreased to £95m (2020: £106m) with the repayment of the Group's term debt of £20m. This was partly offset by the recognition of the new right-of-use lease liabilities as the Group invested in its infrastructure.

On 6 April 2020, the Group refinanced its debt facilities by consolidating the existing £60m Revolving Credit Facility ("RCF") and the £20m outstanding balance on the Term Loan into a new £80m RCF, which matures in April 2023, through a banking facility with HSBC Bank plc, Lloyds Bank Plc (subsequently replaced by UniCredit Bank AG), Barclays Bank Plc and NatWest Bank plc. The facility is available for general corporate purposes, including UK working capital movements. This results in total liquidity headroom of £143m at the period end with an undrawn amount at 31 March 2021 of £76m. The amount utilised relates to letters of credit and payment guarantees.

Working capital (see Table 6)

At 31 March 2021, the Group had net current liabilities of £59m (2020 restated: £56m).

UK inventories increased over the period, and at 31 March 2021 stood at £115m (2020: £62m) due to Covid-related inefficiencies in the supply chain and increased customer demand stimulated by Covid restrictions. We anticipate that inventory levels will remain higher than normal when normally inventories tend to adjust to sales growth.

UK average stock days remained broadly consistent against the prior year at 29 days (2020: 27 days).

UK trade and other receivables (both non-current and current) totalled £230m as at 31 March 2021 (2020 restated: £205m), principally reflecting an increase in commercial income receivable such as rebates as a result of the significant increase in trading.

UK trade and other payables increased to £392m (2020: £247m), reflecting the significant increase in trade, which has increased both trade payables and deferred income.

At 31 March 2021, Germany's inventories increased to £25m (2020: £11m), reflecting similar increases as seen in the UK in response to the Covid-related restrictions. Trade and other receivables increased to £21m (2020: £9m) due to the uplift in revenue in the year and an increase in commercial income receivable.

Trade and other payables increased to £28m (2020: £10m), due to the significantly higher stock levels.

Capital expenditure

Total cash capital expenditure in the year was £6.3m (2020: £6.9m). This mainly comprised investment in IT equipment partly as a result of the change in working arrangements during the pandemic, continued investment in our plastics plant/recycling facility and outbases and initial costs of the fit out of stores in our trial with Tesco.

In the prior year, expenditure 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.

6 WORKING CAPITAL

	12 months to 31 March 2021			12 months to 31 March 2020 (restated)		
Working capital £m	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Inventories	**115**	**25**	**140**	62	11	73
As % of cost of goods sold	**10%**	**12%**	**10%**	9%	8%	8%
Trade and other receivables	**230**	**21**	**251**	205	9	214
As % of revenue	**16%**	**9%**	**15%**	24%	6%	22%
Trade and other payables	**(392)**	**(28)**	**(419)**	(247)	(10)	(257)
As % of cost of goods sold	**34%**	**13%**	**31%**	34%	7%	30%
Net working capital	**(46)**	**18**	**(28)**	20	10	30
Change in net working capital	**(66)**	**8**	**(58)**	(3)	(2)	(6)

Totals may vary due to effects of rounding.

Outlook for 2021/22

We are pleased to have reported a robust set of results for FY21, with both benefits and challenges driven by the exceptional Covid pandemic and its restrictions on normal life. We believe the shift to online, accelerated by Covid, will continue, but markets are volatile and forecasting the next 12–18 months remains difficult.

Our strong business model is underpinned by our vertical integration, One AO centres of expertise and a clear vision of our high growth potential in emerging sectors. Our Recycling facilities contribute an added advantage as regulations tighten and customers increasingly demand that companies take responsibility for their role in improving our environment.

These factors give us confidence in our strategy and our vision, and we remain cautiously optimistic about the coming year.

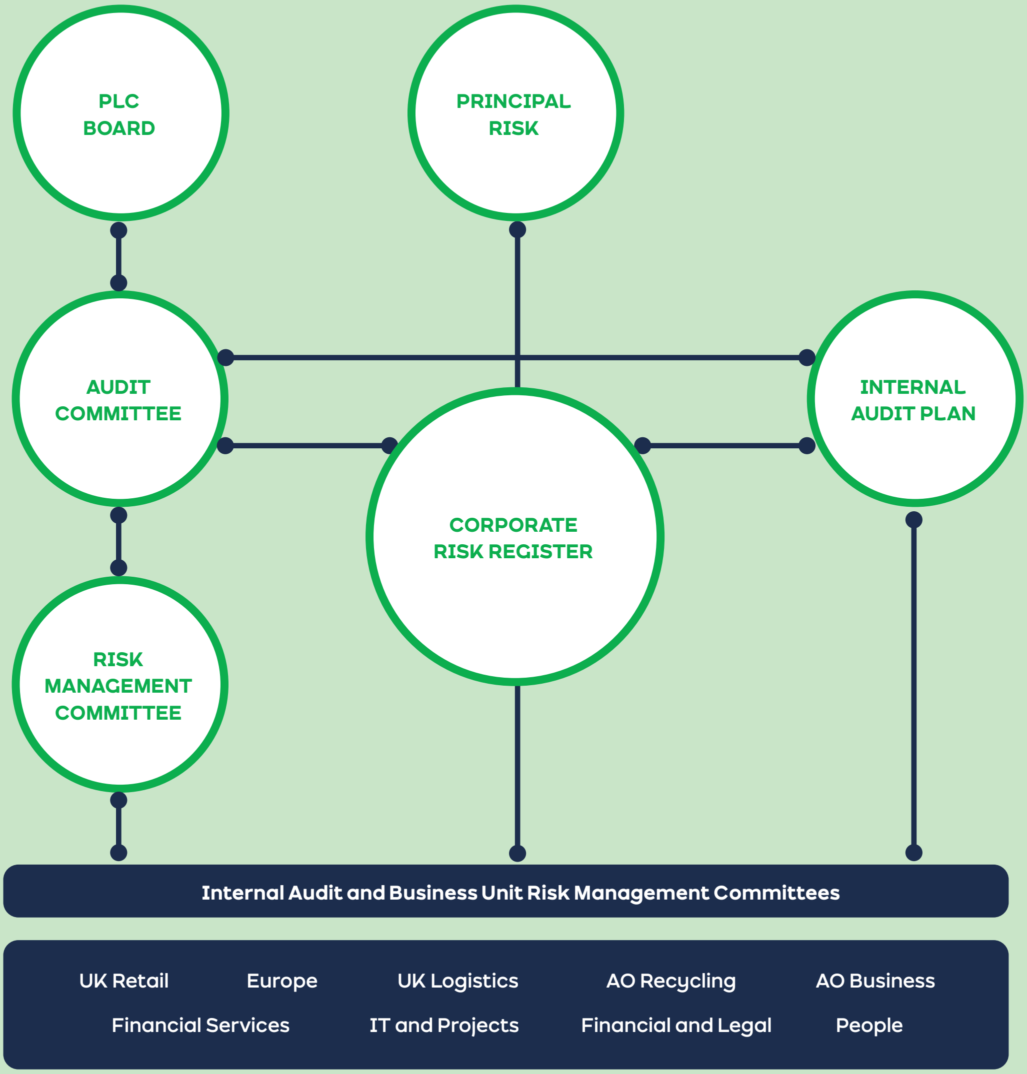
Mark Higgins
Group Chief Financial Officer

30 June 2021

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 109



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 Group Head of 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.

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.

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; 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, we carry some 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, which are set out on page 111.

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.

The year's achievement and further actions

The risk management processes are well embedded in the Group and there is a common understanding and language around the risk management framework, risk appetite and risk mitigation. There is both a top-down and bottom-up approach to risk management as the processes in place with the RMC, attended by the Executive team, are replicated at business unit level with the local senior managers. Each of the business units maintain a risk register, which is consistent with the CRR.

Replicating risk management processes in the business units enables increased risk maturity in the management teams responsible for day-to-day ownership of risk. They gain 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.

The RMC, attended by the Executive Directors, the Legal Director and the Head of Audit and Risk, has continued to meet on a quarterly basis to discuss current and emerging risk. These sessions are 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.

The CRR has been developed to include improved risk descriptions, risk scenarios and accurate risk quantification. This has enabled management to define the root of the risk and the potential impact it will have on the Group if the risk crystallises. In FY22, the improved risk assessment process will be extended to the business unit risk registers to maintain consistency.

The risk registers have been developed to apply a reputational damage weighting to each of the risks, which increases the gross risk on those that would attract adverse media or public attention. Previously there was a standalone 'reputation' or 'brand' risk on the CRR; however, it is recognised that reputational damage would be caused by the crystallisation of a risk and is part of overall impact. The reputational weighting enables attention to be given to risks that would appear to contradict the "make your Mum proud" ethos if they occurred. Further, the gross risk scale on the CRR has been reviewed and amended to proportionately reflect the financial performance of the Group in FY21.

In FY21, we enhanced our focus on the three lines model and will continue this strategy in the coming year; there will be increased focus ensuring that this is fully embedded across all business units.

The backdrop of risk management activity in FY21, and at present, remains the external factors of Covid and Brexit. Both areas have been a key focus of the RMC, dedicated working groups and the business units. Covid has presented operational disruption across the Group and has required ongoing focus to ensure that AO workplaces remain a safe environment for our employees. In terms of Brexit, all practical mitigating actions to reduce the immediate impact of the transition period coming to an end in December 2020 were taken by AO. However, several risk areas remain including movement of goods and labour availability. These will continue to be monitored in FY22.

We have also carried a robust exercise to better understand the commercial risks in our mobile business, following increased cashback redemptions, increased customer fraud and network commission claw-backs over the period in that business unit. This has resulted in the reduction or removal of cash back offers and increasing the use of upfront deposits appropriate to the ongoing monthly tariff. These repositioned offers, whilst remaining competitive in the marketplace, ensure a more safer and sustainable mobile business for us going forward.

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. Further we note the Government's intention to introduce extended producer responsibility with the possibility that retailers are forced to take back customers' waste electricals for free (and no longer be able to charge transportation costs). This, in the short term, could cause operational challenges with regard to van fill and recycling capacity.
- 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, manufactures who wish to sell direct to consumer or other new market entrants are likely to invest sooner and deeper into their online propositions, and competition could intensify.

- In the year(s) ahead, the business will undergo significant transformation as we embark on our next stage of growth. As part of this work, we are looking to implement an Enterprise Resource Platform, which will require significant investment both from a financial and time perspective and an overhaul of processes. Major change programmes are often complicated, interlinked and require considerable resource to deliver. As a result, the expected benefits, timescale for delivery and cost of implementation of each project may slip. AOer engagement may be impacted during a period of significant change and efficiency focus.

Covid-19: how this has affected our business and principal risks

The global pandemic of Covid-19 has presented us, as with many businesses, with operational challenges and significant market uncertainties. Sales have performed well during the pandemic, 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 also experienced challenges with supply of WEEE to our Recycling business, which materially reduced operations during the initial lockdown while local recycling centres were closed and we reduced the collections from consumer houses; however, in recent months, the problem has reversed and we are at capacity limits.

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	
• Supply chain: The impact of supplier factory closures has led to reduced availability of goods.	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.
• Skills shortage: Due to the easing of Covid-19 restrictions and reopening of various sectors (and also partly due EU workers returning home because of Brexit and the pandemic), we could see challenges in recruitment for certain roles such as tech developers and also in the procurement of drivers following the increase in home delivery demand. • People availability: Uncertainty on future waves of illness	• We have robust business continuity plans in place. • We have actively engaged with our people and trade unions in our physical operational environments. We are working to create talent pools we can tap into should we need it. We are reviewing our self-employed driver model to better optimise it and are reviewing all our working practices to ensure they are relevant to the future of work in a post Covid-19 environment. • 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.
MACROECONOMIC RISKS	
Consumer confidence/demand:. • With the furlough scheme expected to end by October 2021 there are risks of redundancies and increased unemployment which could impact disposable incomes. • 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 effects of Covid-19 remains highly uncertain; however, we believe 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.

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Risk trend

Increase | Decrease | No change

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 111

RISK	NATURE OF RISK	MITIGATING ACTIVITIES	OVERALL CHANGE DURING THE YEAR
A **Culture and People** **Relevant strategic pillar** 1 2 3 4 **Risk trend** Increase	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.	AO's culture is supported by a wide range of tools, workshops and events with a dedicated employee events team. The Group leadership team have a shared responsibility to drive culture throughout the business on the basis of AO's values. Senior employees continue to receive attractive remuneration packages and we have an effective incentive package, which drives motivation and 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.	The last year has been like no other in the history of AO with our culture well and truly tested. The vast majority of our office-based AOers have spent the last year working remotely and we have had to introduce new ways of working in our operational areas in accordance with safe practices. Furthermore, we have increased our headcount by c.1,200 and have had to onboard many newcomers with a virtual AO experience. We have recognised the mental health risks associated with the pandemic and remote working. It has been a key priority for the people team to support our AOers with their well-being over the past year. We have done this by recruiting a dedicated culture team: experts in well-being, engagement, diversity and inclusion to support our AOers. It is testament to a strong and engrained culture that the business has thrived over the year and we are pleased that our Employee NPS scores are strong at +30 despite significant disruption. Whilst technology has meant we can stay in touch and we have increased engagement and communications across a variety of remote channels, we have missed the face-to-face contact, inspiration, collaboration and fun that being together in person can create. We look forward to being able to bring our AOers back together physically when regulations permit, although clearly the future of work will look different going forward and we are mindful of the need to have a more flexible approach to remote working. The introduction of the VCP has been well received amongst colleagues, evidencing inclusion across all AOers and further cementing our culture, alongside being a tool with which to motivate and retain our people. Tech vacancy numbers are expected to remain a challenge, particularly following the IR35 reforms, which are having an impact on this sector. A unique AO employer brand has been created to showcase AO Tech as a destination employer and fly the flag for AO, together with a strategic partnership with Tech Returners aimed at those who have stepped out of the industry to redevelop their skills and be recruited into a career in tech with AO.

Our risks continued

RISK	NATURE OF RISK	MITIGATING ACTIVITIES	OVERALL CHANGE DURING THE YEAR
B **IT systems resilience and agility** **Relevant strategic pillar** 1 4 **Risk trend** ↑	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 proprietary websites, 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 regulatory complaints/investigations 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.	AO's system estate is comprised of bespoke self-built applications and enterprise-grade commercial off-the-shelf ("COTS") products. All self-built applications are built with high levels of redundancy, operational monitoring, active alerting, security best practice and fault tolerance. These systems are supported 24/365. COTS products are subject to a procurement and review process to ensure that their failure modes, availability service levels and security qualities are well understood. Change is tested and follows release processes before being deployed in a live environment. Disaster recovery plans are in place to ensure business can recover from interruptions with minimal impacts. In addition, AO takes a multi-layered, continuously improvement approach to information security, including physical, digital and human controls.	The cyber threat landscape continues to become more complex (and there has been an increase in cybercrime and ransomware threats during the Covid-19 pandemic). Against this, there has a been a programme of security improvements and developments over the year. Through the year, we have continued to improve the operational qualities of our systems estate, with regard to availability, performance, recovery and security as we have built out additional features and systems to support the enterprise. Additionally, this year, we have planned and built capability to simplify and consolidate a large part of our middle and back-office systems, to ensure that the foundations of the business systems remain resilient and scalable, long into our future.

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Risk trend

Increase
Decrease
No change

RISK	NATURE OF RISK	MITIGATING ACTIVITIES	OVERALL CHANGE DURING THE YEAR
C **Compliance with laws and regulation** **Relevant strategic pillar** 1 4 **Risk trend** No change	Changes in regulations or compliance failures may affect our strategy or operations, in particular to the following areas: • Data protection and privacy; • 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; and • Health and safety.	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. We further have specific governance and steering committees who oversee key regulatory risks such as data protection, health and safety and SM&CR. Third-party legal advice is sought where necessary and any recommendations are implemented and subject to ongoing monitoring.	Regulation continues to develop at pace. Since Brexit, we are aware laws could diverge across the legal jurisdictions in which we operate across the Group, creating additional complexity. In our key "legal" risk areas: • Data protection and privacy :- Whilst we have not seen significant changes in legislation over the period under review, we are mindful of (i) how strictly the regulators are interpreting the legislation, (ii) the additional guidance being issued by regulators in this area, and (iii) the extent of enforcement by the regulators. Our e-commerce businesses rely heavily on the ability to conduct direct and electronic marketing, and, as we look to develop more personalised and targeted approaches, this is at somewhat odds with the direction of travel in this area. • Drivers – high-profile cases such as the Supreme Court's decision in Uber together with socio-economic pressures could increase the chance of legislative change in this area and/or increase the likelihood of claims relating to worker status. • Health and safety – at a macro-level, the pandemic has increased the health and safety risks to our people and therefore the potential for claims if we are found not to have employed safe working practices. Against this, our in-house health and safety team have been working hard to keep people safe in line with Government guidance and specific advice from the Health and Safety Executive. We acknowledge increasing regulation and governance in the ESG space and have recently recruited a dedicated team to support us in this area.

Our risks continued

RISK	NATURE OF RISK	MITIGATING ACTIVITIES	OVERALL CHANGE DURING THE YEAR
D **Business interruption** **Relevant strategic pillar** 1 2 3 4 **Risk trend** →	A disastrous event occurring at or around one or more of the Group's sites, including our main distribution centre in 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	Two NDCs (and additional storage facilities 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 with support from a third-party specialist. Insurance policies are also in place to further mitigate this risk.	The Group has successfully maintained operations throughout the Covid-19 pandemic with increased controls at AO sites and in the delivery operation to ensure the safety of employees and customers. The Group is also working towards the implementation of an improved business continuity plan ("BCP") with the assistance of a third-party provider. The expansion of the physical warehousing estate has reduced risk through decreasing the reliance on individual sites and the BCP requires alignment to the changes made to the estate. The BCP is also being modernised to a SaaS solution to increase usability and availability if a disastrous event occurred.
E **UK electricals market** **Relevant strategic pillar** 2 **Risk trend** →	Uncertainty in the UK economy following the Covid-19 pandemic 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.	Customer proposition remains strong and continued migration to online shopping should soften macro-economic 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. We closely monitor competitor activity and have the ability to react quickly to ensure our proposition remains competitive.	Continued uncertainty in the economy surrounding 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 over the year and an increased reliance on appliances and electricals for the home. Our sales continue to be strong but there is no guarantee this will be maintained for the long term.

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Risk trend

Increase
Decrease
No change

RISK	NATURE OF RISK	MITIGATING ACTIVITIES	OVERALL CHANGE DURING THE YEAR
F **Key commercial relationships** **Relevant strategic pillar** 1 2 3 4 **Risk trend** No change	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; and • 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.	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.	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. Although there has been a reduction in the warranty contract asset over the year, our relationship with D&G has continued to go from strength to strength over the pandemic through collaboration and trust. Relationships with the mobile network operators have been re-established over the period with management changes and we are working together to improve joint-led proposition improvements and mitigate risks.

Our risks continued

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Risk trend

Increase
Decrease
No change

RISK	NATURE OF RISK	MITIGATING ACTIVITIES	OVERALL CHANGE DURING THE YEAR
G **Funding and liquidity** **Relevant strategic pillar** 1 2 4 **Risk trend** Decrease	Our ambition is to have market-leading high-growth businesses and roll out our UK model overseas. This requires continual substantial investment both in the UK and overseas. During FY21, the Group has benefited from the shift online and has increased its market share in both the UK and Germany. This has driven a significant increase in revenue, profitability and cash in the Group. As lockdown measures ease and bricks and mortar competitors are able to open their stores, there remains a level of uncertainty regarding customers future shopping behaviours. A return to pre-Covid-19 shopping habits would potentially impact on market share and reduce the level of revenue growth in the Group, which may therefore impact on the Group's ability to invest both in the UK and overseas. Whilst support from suppliers has been good throughout the last year, with them being able to increase their position with AO through both self-insurance and credit insurers, there is a risk that, if growth declines, suppliers may require a reduction in terms ,which coupled with a less favourable position from the credit insurers, could cause liquidity problems for the Group.	Given the financial resources available to the Group including its cash resources and the RCF that was renewed in April 2020 and which runs to April 2023, we currently have sufficient funding and cash resources to continue to support the investment in both the UK and Germany. Our three-year plan models the impact of reduced market share in the UK and Germany post-Covid-19 and in a number of different scenarios modelled we continue to be viable – please refer to page 65.	We have amended and extended our RCF facility in April 2020, which now is an £80m facility and matures in April 2023. The Group has been cash generative in the year with an increase in cash resources of c.£60m. With the improved results, credit insurer sentiment has improved and the continued strong relationships with suppliers has contributed to the improved cash position. We continue to recognise that we are still heavily reliant on suppliers and their credit insurers for maintaining credit limits at existing levels.

Viability assessment

In accordance with paragraph 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the viability of the Company and the Group over a three-year period to 31 March 2024. The Directors believe this period to be appropriate as the Company's and the Group's strategic planning encompasses this period, and because it is typically a reasonable period over which the impact of key risks can be assessed within a fast-moving retail business, and changes in the economic environment that may alter customer demand patterns. The Directors are mindful, however, of the heightened uncertainty driven by the Covid-19 pandemic and accept that forecasting across this time frame is more challenging.

In making this viability statement, the Directors have reviewed the overall resilience of the Group and have specifically considered:

- 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 59 to 64 and in the Corporate Governance Statement on page 97; and
- Financial analysis and forecasts showing current financial position and performance, cash flow and covenant requirements. It assumes that a new like-for-like revolving credit facility is obtained on the expiry of the current facility in April 2023.

The Directors have 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, overall market share, the share of the online market and their impact on revenue, margin and working capital requirements), 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, the Board has a reasonable expectation that the Group and Company will be able to continue in operation and meet its liabilities as they fall due, retain sufficient available cash and not breach any covenants under any drawn facilities over the remaining term of the current facilities. As is customary when dealing with longer-term debt facilities, the Board would expect these to be renewed well in advance of their next term.

Going concern statement

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 2 to 85. The financial position of the Company and its cash flows are described in the Chief Financial Officer's review on pages 46 to 53. 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 54 to 65.

Notwithstanding net current liabilities of £59.0m as at 31 March 2021, 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 which at the date of approval of these Financial Statements amount to £67.1m.

The Directors have prepared base and sensitised cash flow forecasts for the Group covering a period of at least 12 months from the date of approval of these Financial Statements ("the going concern period"), 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 its Revolving Credit Facility 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 to sensitise its base case. These primarily include an assessment of how market share could be impacted as Covid-19 restrictions continue to ease and consumers are able to shop in bricks and mortar stores again without precaution. Whilst the Directors are confident that a majority of new customers attracted during the past year will continue to enjoy the benefits of shopping online with AO, the sensitivity analysis has explored reduced market shares and a severe but plausible downside of a return to online MDA sales levels experienced in FY20. Under this severe but plausible downside scenario the Group continues to demonstrate headroom on its banking facilities of £45.9m and remains compliant with covenants.

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.

Engaging 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. The examples that follow demonstrate consideration of the matters set out in Section 172 of the Companies Act 2006. The Corporate Governance section (pages 89 and 103) sets out in more detail how the Board has approached its duty under section 172.

s.172 statement

The Board confirms that, during the reporting period, in using its good faith and judgement, it has acted in a way that would be most likely to promote the success of the Group for the benefit of its shareholders, whilst having due regard to the matters set out in section 172(1) (a) to (f) of the Companies Act. This statement includes the information demonstrating how the Board has had regard to these matters in its actions as set out in this section and in the Corporate Governance Report on page 103.

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.

How we engage

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

What matters to them/ key topics raised

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

How we have responded

- Continued to serve customers safely through social distances measures and enhanced cleaning regimes throughout the pandemic period
- Enhanced customer communications during the pandemic including creation of dynamic videos provide reassurance around service, delivery processes and practices
- Improvements in communications and process in the event of order issues, delays or faulty products
- Introduction of customer self- serve functionality around Returns and Additional Services in My Account

PEOPLE

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

How 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

What matters to them/ key topics raised

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

How we have responded

- We are currently creating an AO Culturebook to help engage and inspire colleagues on what it means to work for AO
- Implementation of the Value Creation Plan, allowing all AOers to share in the success of the business
- Increased colleague engagement and communication throughout the pandemic
- Support of home working where possible and adaptation of working environments introduced for Covid-19 safety measures
- Development of health and well-being initiatives
- Continued focus on diversity and inclusion

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.

How we engage

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

What matters to them/ key topics raised

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

How we have responded

- We are currently developing a supplier onboarding manual to help suppliers understand and meet AO's required standards
- Held our annual supplier conference virtually, allowing broad involvement
- Opening of new London creative hub

COMMUNITY

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

How 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

What matters to them/ key topics raised

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

How we have responded

- Donation of appliances, prioritisation of key delivery slots and product discount to NHS workers throughout the pandemic
- Worked with Cheshire Food Hub to supply slow cookers to vulnerable members of the community and laptop donation to young people in our communities
- Continued to work with Housing Associations to offer a £2 per week rental model to residents as we continue to explore ways to challenge appliance poverty

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 and governance.

How 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

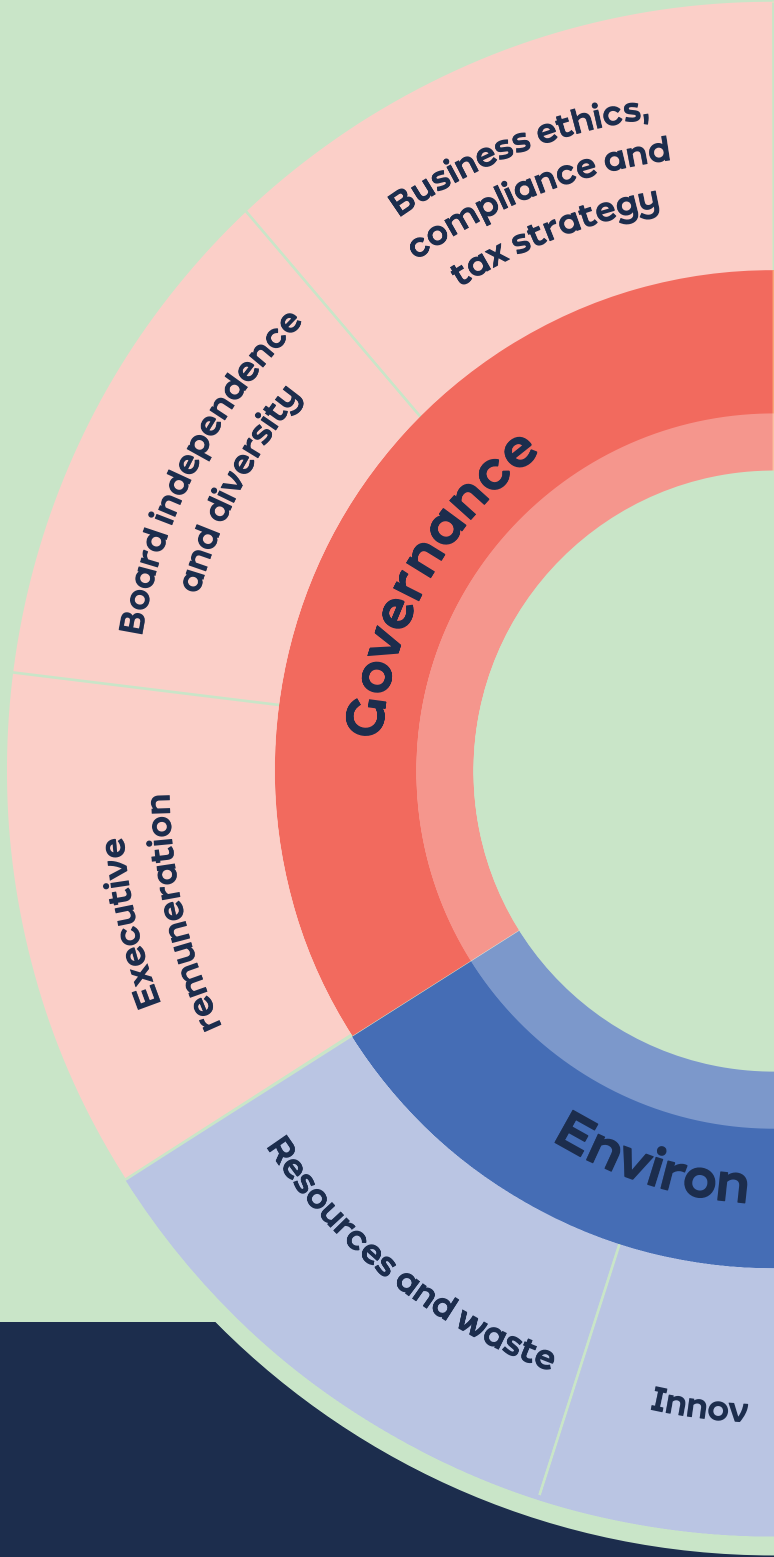
What matters to them/ key topics raised

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

How we have responded

- Recruitment of a dedicated Director of IR to help strengthen quality of information available to shareholders and to act as a further point of contact
- Use of pre-record results video and enhanced live Q&A session

Sustainability



Our operations, behaviour and how we treat our people and communities have a wide-reaching impact on the environment and society. We understand the importance of aligning our purpose, values and strategy with the needs of our stakeholders to build long-term value in a sustainable way. We see sustainability as an investment to stay relevant for customers and our people, and we aim to embed responsible and ethical Environmental, Social and Governance ("ESG") business practices in all that we do.

Across AO's business there are a variety of ESG-focused initiatives in place, for example our recycling facilities, projects to make improvements to vehicle efficiency, the well-being of our people and community outreach projects. We recognise that we need to streamline our approach and develop an over-arching ESG strategy to support the long-term performance and sustainability of the business. We believe that in the long term, customers and talent will gravitate towards companies that are properly addressing the fundamental sustainability challenges faced by our industries. Our approach is structured as:

Our sustainability journey

2020

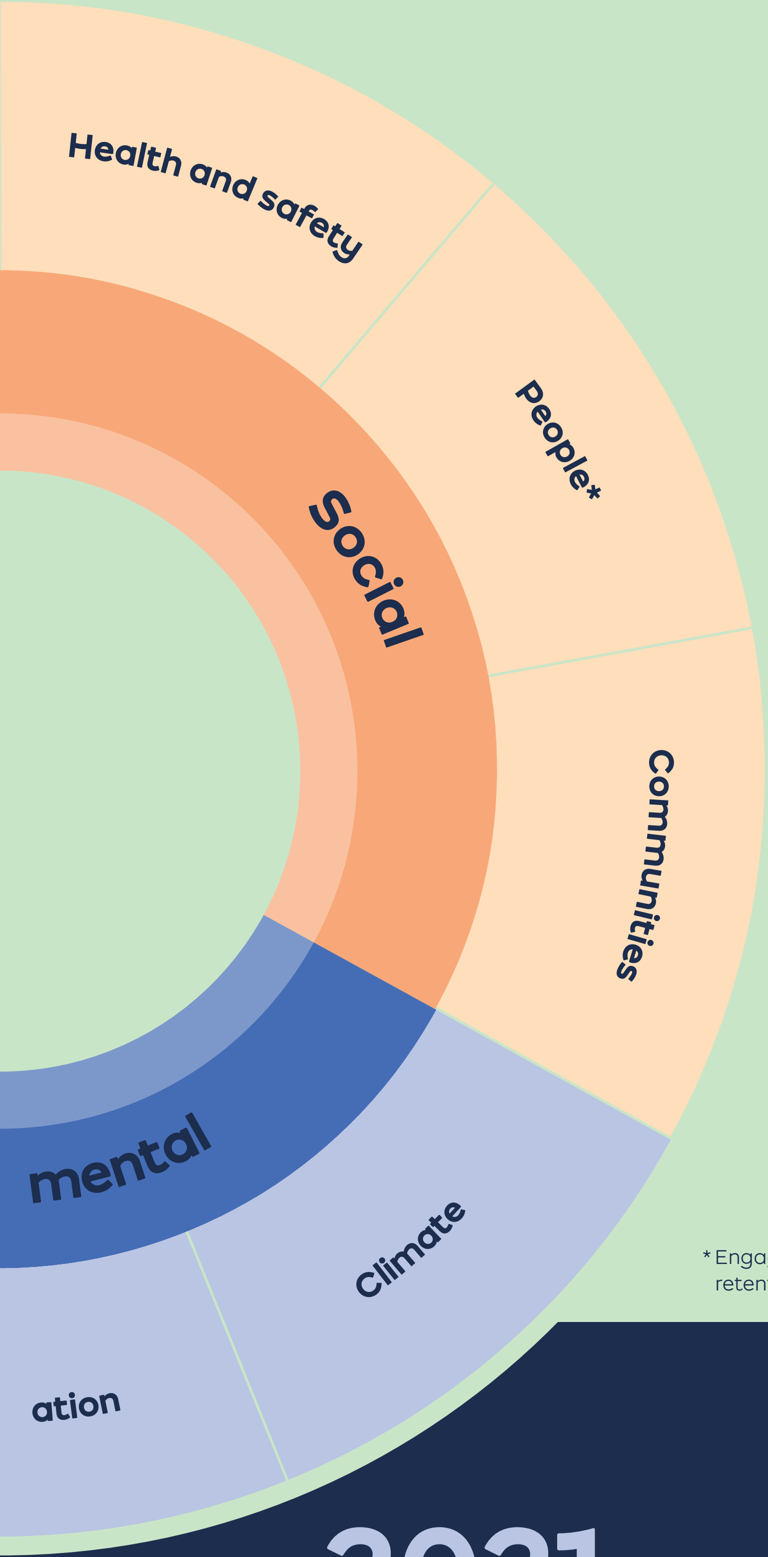
Dedicated resource to review and develop AO's ESG performance and strategy.

Signed up to the British Retail Consortium's Net Zero Climate Action Roadmap, including the following shared targets:

2030: Target for net zero emissions from purchased electricity

2035: Target for net zero emissions from fleet vehicles and heating

2040: Target for net zero emissions across product value chain, both from suppliers and from customers



Working towards the UN Sustainable Development Goals

AO's business strategy contributes to a range of the United Nations Sustainable Development Goals ("SDG") and we continue to work on those areas where we feel uniquely placed to make a positive difference. We recognise the power of working in collaboration to drive real change in the industry, which is why we have committed to ensure that SDG 17 (Partnership for the goals) runs across the breadth of our efforts as we aim to enable progress in all areas of our work.

AO SDG contribution

Environment

Social (our people and communities)

Governance

* Engagement, well-being, diversity, equality and inclusion, talent attraction and retention, learning and development

2021

Task Force for Climate-related Financial Disclosures ("TCFD") Gap Analysis, Climate Screening and Materiality Assessment looking at key risks and opportunities across our ESG footprint undertaken; alignment to UNSDGs.

2021/22

- ESG strategy defined as part of overall strategy work. Baseline carbon footprint determined, and scenario analysis to be undertaken
- Full implementation of TCFD recommendations
- Aim to be able to set science-based targets ("SBTs") in line with the Paris Agreement on Climate Change

The environment

To challenge the extremely wasteful narrative that encapsulates the electricals industry, we take responsibility for the entire lifecycle of our products. We offer our customers the option of collection of their Waste Electrical and Electronic Equipment ("WEEE") and take it back to our facilities where we maximise the value recovered. Our priority is to repair and refurbish an appliance, giving it a new lease of life thus preventing goods from being prematurely recycled. Once these options have been exhausted, we responsibly recycle the product.

Over
1.3m
appliances recycled in FY21

42%
of customer products returned to us are skilfully repaired and refurbished

Processed the equivalent of
568m
single-use plastic bottles

Moving towards circularity

AO Recycling is the first in the world to be certified to a new standard for turning waste electricals into reuse appliances. In November 2020, our facility in Telford achieved the EN 50614 - Preparing for Reuse of WEEE Standard, with its industry-leading practices officially recognised for the first time. We are proud to have gained this accreditation, being the only recycling facility in England to do so. Our recycling facility also meets the highest standard for WEEE disposal set by CENELEC (the European Committee for electrotechnical standardisation) and we are proud to be the UK leader in blowing agent capture rates.

For the third year running, our Telford recycling facility has been awarded the Gold RoSPA for Health and Safety. Additionally, an independent report by Anthesis (Fridge Recycling Standards, November 2019) showed that our fridge recycling plant was the only one meeting UK standards for collecting harmful gases.

We are proud to be setting the bar for recycling electricals in the UK. This year, we have made investments in our recycling facilities including new dock bays and improvements in our packaging system to increase the take back of product packaging. We will continue to innovate and do the right thing for customers by caring about products at all the stages of life.

When appliances are no longer wanted, we can pick them up and take them back to our rework facilities, even if the product is not from AO. This past year, we have scaled up our collections and taken back more appliances than ever before, not only collecting from houses but also on behalf of local authority recycling centres.

As shown in the following diagram, our priority approach is to repair the pre-owned appliances to meet our world-leading standards and give them a new lease of life. Around 42% of customer returns are resold and we are pleased to have our own outlet stores to sell the good quality and durable products at heavily discounted prices.

Customer returns account for around 7% of products coming back to us and the rest is electronic waste that has reached the end of its first life. Our experts work hard to repair and service these appliances, and when this is not possible, it is recycled to the highest standard.

Through brand collaboration, we are working to create a closed-loop process where the appliances that have reached the end of their first life do not get wasted, but instead the materials are broken down and will be used to make new appliances. Currently, the materials have been used to make recycled fence posts and air vent components and we are continually working to improve the quality of the recycled content, to allow us to replace the use of virgin raw materials used in electronic appliances.

The following flow map shows the journey of products after they have been discarded by consumers.

Collection point → AO collection → Cooling units & LOA → AO Logistics → AO Crewe

Inspection and repair
When a product goes through our circular process, it is first inspected and then repaired and resold if possible

Re sale
Our resale models allow us to ensure discarded yet reusable goods are in use for longer, reducing the impact of waste

Recycle
Most products coming to us have been discarded, and while we do prioritise repair and reuse, most products have reached their end of life. When this is the case, we responsibly recycle the products in our specialised facilities, meeting CENELEC standards

AO outlet at Telford
After e-waste has been skilfully repaired and refurbished in our reuse workshop at Telford, meeting world-leading standards, they are put back into the market either at our AO outlet store in Telford or on to second-hand traders

AO outlet EleckDirect at Bolton
When products are returned from customers, they are repaired in Telford and Crewe, and then sold in our AO outlet ElekDirect store in Bolton or through second-hand traders

Service care
When products reach us that need technical repairs, our partners at Service Care repair, refurbish and return them to market

Plastics plant
Our recycling process maximises the value recovery of a products' components and materials. Using our four-acre WEEE plant, we can clean and refine the plastics from products, transforming them into high-quality reusable materials.

Aim for closed-loop system
Efforts to reuse these materials in other products and create a truly closed-loop circular process are underway. This will not only reduce our operations carbon impact but will also minimise the unnecessary use of virgin materials.

The environment

What's next?
Over 155,000 tonnes of electricals are discarded every year instead of being reused or recycled. This results in a huge loss of valuable resources while increasing the demand for virgin raw materials to be mined at significant environmental cost. AO is dedicated to working with our customers, industry partners and governments to drive improvements and innovation in the management of waste electricals and electronic equipment. We strive to reduce the volume of e-waste and the major threats it poses to the environment and human health.

We continue to be ambitious within our own operations when it comes to creating a truly closed-loop recycling process and exploring more circular and fair models of consumption. We are currently collaborating with brand partners and experts in our plastics recycling labs to explore the possibility of refining the processed material from our plastics recycling facilities for use directly in the production of new products. Shortly after the end of our reporting period, we were pleased to announce that we are now working with domestic ventilation fan manufacturer Volution Group, who are using plastics recycled from close to 63,000 old fridges collected from customers and processed in our facility in Telford to produce sustainable ventilation products. We also continue to seek ways of extending the life of electrical products through innovative customer offerings and our in-house AO repair and recycling services.

Our journey to net zero
We are fully committed to meeting our environmental responsibilities and limiting the negative impact of our operations. A dedicated ESG team was established this year with a view to ensuring we create value and a positive impact on all our stakeholders.

To fulfil this ambition and do our part in limiting global warming to 1.5 degrees, we plan to accelerate our efforts to reduce our greenhouse gas emissions. By working with a third-party expert, we have been able to calculate Scope 1 and 2 emissions as well as significant elements of Scope 3 emissions. Through this initial calculation, it is evident that our Scope 3 value chain footprint is considerably larger than our Scope 1 and 2 footprint and, as a result, we are in the process of accurately measuring our entire value chain emissions before setting science-based targets ("SBTs").

Beyond our own actions, we understand that the scale of the decarbonisation challenge will require a concerted pre-competitive action from retailers. Through working together with our suppliers and other stakeholders alongside government action, we are committed to supporting the necessary technological, behavioural and market transformations that are required.

Executive remuneration for the forthcoming year will incorporate metrics linked to our stakeholder relationships, which we recognise are important to drive sustainable growth. Further, we have included a performance underpin requiring the development of a Group-wide ESG strategy, which will include our recycling capabilities as a key component.

Initiatives to improve our environmental performance
95% of electricity used by our UK operations is renewable. We are continually working towards our target of 100% renewable energy supply by 2030 and we continue to explore opportunities to collaborate with property owners on the development of on-site renewables via Power Purchase Agreements.

We currently have 360 carbon fibre trailers on the road that significantly lower the weight of each vehicle and therefore increase fuel efficiency. Our trailers have been specifically designed so that they can be transferred to electric vehicles at the appropriate time. We maximise our fuel efficiencies using vehicle telematics and, by employing double-decker trunking, we can deliver more products per journey to our outbases.

Technologies such as voice picking in our warehouse, chatbots and the more recently developed augmented reality features on our website, are being used to help customers purchase the right goods for them, first time. By ensuring we give customers the information they need and by allowing them to view products in their home via augmented reality, we aim to both delight our customers and reduce the number of products being returned.

The transition to a decarbonised fleet is a strategic priority over the coming years. We have installed four charge points between our Potters Bar and Heywood outbases and have electric delivery vehicles taking part in a trial. The charge points have adapted data interfaces and the results of the trial will be monitored to help inform our medium to long-term strategic plan for decarbonisation.

Industry collaboration
The retail industry in the UK is the largest private sector employer, with a customer base of 67m people. It therefore has a significant role to play in tackling climate change. As well as providing goods and services for UK customers and supporting livelihoods for millions within global supply chains, the industry also contributes significantly to the underlying drivers of climate change, with value chain emissions of approximately 215 $MtCO_2e$ (million tonnes CO_2-equivalent) per year.

AO and 65 other UK retailers have come together as signatories of the British Retail Consortium ("BRC") Climate Action Roadmap to ensure that British Retail takes the steps necessary to achieve a Net Zero UK ahead of the UK Government's 2050 target.

The Climate Action Roadmap describes action in five key areas:

- Putting greenhouse gas data at the core of business decision making;
- Operating efficient sites powered by renewable energy;
- Moving to low carbon logistics;
- Sourcing sustainably; and
- Helping employees and customers to live low carbon lifestyles.

Task Force on Climate-related Financial Disclosures ("TCFD")
The Board recognises the importance of understanding and managing the impact of potential climate-related risks and opportunities on AO's business and strategy. AO therefore supports the recommendations of TCFD and has engaged the support of a third-party expert to support us in preparing to make the relevant disclosures for the coming year.

During the year, we have completed a gap analysis to understand what we need to do to meet the TCFD obligations and conducted a series of climate screening workshops with senior management from across the business. These workshops have educated management on the requirements of TCFD and the landscape of climate-related risks and opportunities.

Governance
The Board will have oversight of material climate related risks and opportunities, receiving regular updates from the ESG Steering Committee, chaired by the CFO.

The environment

Strategy

In our current financial year, we will perform relevant scenario analyses to better understand the likelihood and potential estimated financial impacts of the material climate risks and opportunities identified during the climate screening workshops.

Our initial review has illustrated that AO has resilience to both transitional and physical climate risks, but that we need to ensure we keep pace with consumer and market pressures to respond to climate change and provide services to an increasingly environmentally conscious customer base. We will continue to demonstrate an ability to adapt and move quickly to shifts in consumer demands, and as new technologies become commonplace.

We will seek to diversify our product ranges and product categories in response to the physical risk of climate change and harness long-term competitive advantage from our recycling operations in response to expected legislative changes around the treatment of waste electricals.

Risk management

Climate risk is evaluated by the Risk Committee as part of the Group's overall risk management framework. Where climate risks do not feature as a current principal risk, they are quantified and reviewed as part of a new standalone ESG Risk Register, and full integration of climate risks and opportunities will continue to be developed alongside a climate strategy.

Metrics and targets

We have committed, as a signatory of the British Retail Consortium's ("BRC") Net Zero Roadmap, to become a net zero carbon business by 2040. In addition to this, we intend to set our own specific science-based targets across our Scope 1, 2 and 3 emissions.

The disclosure of our Scope 1, 2 and 3 emissions will be connected to the relevant risks identified in the climate screening.

Greenhouse gas emissions

The non-renewable energy sources used to power our buildings, recycling facilities and the products we sell, fossil fuels used in our transport fleet, and manufacturing within our global supply chains, all create greenhouse gases that are warming our planet.

At AO, we are committed to reduce our consumption wherever we can and seek renewable energy alternatives. We also know that we must be more ambitious by looking at our impacts, not just within our own operations but across our entire value chain, including how our customers use the products that we supply to them and ultimately how they are repaired or recycled at the end of their first life.

This year, AO partnered with an expert third party to carry out a high-level estimation of Scope 3 emissions for FY20/21. Further analysis will be carried out to improve the accuracy and provision of the results, with FY20/21 acting as a baseline for the establishment of science based targets in the year ahead.

AO reports on all of the Greenhouse Gas ("GHG") emission sources as required 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 GHG emissions and energy use is the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and ISO 14064.

Emissions from electricity use have been estimated using "location-based" and "market-based" approaches. For the location-based approach, the average emissions factor for the country is used, applying country-specific emissions factors published annually by the International Energy Agency ("IEA"). The alternative market-based approach refers to renewable energy certificates (given zero emissions), and where no supplier-specific data is held, factors published for residual emissions.

Other emissions factors that have been used to convert activity data (e.g. kWh energy or passenger kilometres travelled) are taken from the "UK Government GHG Conversion Factors for Company Reporting" published annually by BEIS and DEFRA.

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

The total calculated Scope 1 and 2 emissions for the reporting year are shown in Table 1 below.

1 SUMMARY OF AO WORLD PLC GHG EMISSIONS

Carbon emissions (tonnes of CO_2e)	2021	2020	2019
Emissions from operations and combustion of fuel: Scope 1	**32,176**	26,587	25,836
Emissions from energy usage: Scope 2 location-based	**3,411**	3,679	3,887
Total	**35,587**	30,266	29,723
Intensity ratio: Tonnes of CO_2e per £m of revenue	**21.43**	28.55	32.93
Emissions from energy usage: Scope 2 market-based	**1,284**	1,697	–


Russell Hobbs
Russell Hobbs
INSPIRE
INSPIRE
BLACK KETTLE
ao

Social responsibility

Our people

Our 4,400 AOers are the foundation of our business. Their dedication, innovation and ambition contribute to the success and sustainability of our business. We believe that happy people care more and do the right thing. So, we make sure they are 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 live our values. They care not only about our customers but other AOers too, our suppliers and, of course, do it all with a sense of fun.

The last year was one of significant growth, which presented challenges and rapid change across the Group. The pandemic highlighted the value of our well invested culture and we are very proud of how every AOer came together as a One AO team to steer the business through a record year. Our culture and values encourage transformative thinking and collaboration to drive innovation and create best practices. During the last year, we developed new capabilities and ways of working, which have created firm foundations for growth.

Our highest priority during the pandemic was to keep AOers and customers safe whilst fulfilling the unprecedented demand for AO products and services. This required an enormous effort from across the business and our partners. These unique circumstances amplified our appreciation of Logistics as our front-line business alongside our Customer Experience teams who kept services and communication with our customers open and seamless.

The rapid response to workplace changes, moving from on-site to remote working wherever possible, was enabled through our Business Continuity team working across tech, facilities, people and communications, underpinned by the strength of our unifying culture to do the right thing and work as One AO.

We are currently reviewing future ways of working. We are assessing our learnings, both positive and negative, of flexible working over the last year. We will define our policy on this over the coming year and will invest where required to keep our AOers safe, innovating where necessary, recognising that flexibility will be required from across the business.

Engagement

We recognise that strong employee engagement will help drive business sustainability through increasing customer satisfaction, boosting productivity, retaining the best talent and enhancing Company culture. We have enhanced our people experience by actively listening to our AOers through our annual engagement survey, quarterly pulse surveys and regular AOer forums. Our listening channels have been an important way of gathering views and providing a credible voice from AOers, particularly so during the pandemic. As well as employee surveys, we have implemented an AO Engagement Champions and People Forum network, where AOers from across the business get together to share experience and create solutions to improve how we work.

We use the results from our engagement surveys, employee forums and external metrics such as Glassdoor to take action to improve the people experience. This insight allows us to work to increasing one of our key people metrics, our Employee Net Promoter Score ("eNPS") as well as other identified priority areas that need to be addressed so that we can focus local and Group level actions.

Chris Hopkinson, a Non-Executive Director, is our People Champion. As part of our listening approach, Chris attends quarterly engagement lead sessions with AOers from across the Group to allow a diverse and wide viewpoint to be gathered. The sessions focus on how AOers are feeling, a review of the results from our regular surveys and a review of the actions we are taking to make improvements. Chris' involvement allows the Board to hear direct feedback from our AOers helping to build an open and transparent culture. During the year, Chris has helped to drive momentum on Group-wide and business unit specific action plans including areas such as career development and opportunity, reward, recognition and AOer well-being. We were pleased that our eNPS score at the end of the reporting period was five points above our target, providing encouragement that the feedback process and the changes we have implemented in response, are working.

To support our engagement strategy, we use a number of ways to engage with AOers to understand what matters to them to ensure successes are recognised and that there is a broad understanding of business wide performance. This includes a monthly "State of the Nation" led by our CEO who provides a business update followed by a live Q&A session. There are also monthly meetings with the top 130 leaders from which we provide a structured cascade so that all AOers hear the latest messages from their senior manager. We also use a number of internal social media channels such as Yammer and YouTube, both to ensure all AOers are kept up to date with the latest news and developments across the Group and also enable two-way conversations between AOers across the business.

The Group's SharePoint site also allows AOers easy access to Group policies and procedures.

Social responsibility

Diversity, equity and inclusion

We are committed to creating an inclusive environment and attracting a more diverse team of AOers.

As our business grows, we want to have people from different backgrounds play a part right across our organisation. As well as being the right thing to do, we also know our diversity of thought and contribution is critical to our success.

We aim to be a welcoming place where everyone can be their true self, feel they are included, celebrated and that they belong. Our dedicated diversity and inclusion manager focuses entirely in this area, with our CFO having Board responsibility for our diversity initiatives. 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 Committee did not have any female representation, our Senior Leadership team (which reports directly into our Executive Committee) was 25% female including the members of the Executive Committee, and the number of female AOers across the whole business was 31%. We aim to collect ethnicity data this year along with other demographic data at point of attraction, onboarding and for our existing people.

As well as striving for better representation, we are working relentlessly to make our culture even more inclusive. We are promoting the sense of belonging through our recently introduced "Building an inclusive AO" forums. These working groups are focused on highlighting and driving opportunities for action that will drive inclusivity for our AO women, LGBTQ and race communities, alongside "AO Inspire" talks, learning events and awareness days. There are numerous activities to support these groups and to engage all AOers including International Women's Day and Black History Month. We will continue to raise awareness through celebration of key dates across the Group, as well as building a programme of activities to build inclusive leadership skills with all line managers including a focus on improving our listening skills, using data to drive our decision making and recruiting The AO Way. We are committed to working with all our employees to build a place where they can belong, feel safe and included.

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 AOers are also treated fairly in respect of career development. Should an AOer 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.

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
- AOers 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 with a snapshot date of 5 April 2020 can be found at ao-world.com. We were pleased to report that, due to our recent focused activity, our gender pay gap is below the median for the industry. However, we recognise that there is still more to do to close the gender pay gap. Our future initiatives include:

- **Inclusive policy and practice:** We are reviewing and revising our policies to make sure they are in line with best practice standards. This includes our family policy and equality, diversity and inclusion policy.
- **Engaged Employee Network Groups:** The thoughts and views of our AOers are important to us, so we will build on the success of our race network group by launching new networks focused on family.
- **Transparent recruitment:** We will improve the visibility and openness of our recruitment selection criteria and make sure that, wherever possible, there is more than one woman in shortlists for mid and senior level roles. Women in tech will be an emphasis this year and our recruitment for these roles will pay special attention to attracting women to apply.
- **Supporting AOers' career development:** We will put an inclusion lens over our leadership pipeline and succession process and will focus on building inclusive practices into our leadership programmes. This is coupled with inclusion learning for all our AOers.
- **Engaging with initiatives and events:** We will celebrate the contribution of our women on International Women's Day and Ada Lovelace Day. We will also support women returning to work, both from maternity and from extended career breaks, by engaging with programmes such as Tech Returners.

Over the coming year, we will continue to 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. Creating an inclusive environment where everyone can succeed and be rewarded for their efforts will continue to be a priority.

Keeping people safe

At AO, we are committed to providing a safe and healthy environment for our AOers 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 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 created a 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 in a 'One AO' approach.

Social responsibility

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 and our internal audit function. We actively promote open conversation with the enforcing bodies within health and safety as we seek to be the best at what we do.

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.

We prioritise well-being at AO, and this has been especially true through the pandemic. We embedded well-being into our ways of working and delivered mental health awareness training to our managers, launched an online Well-being Hub providing support and advice for health, well-being sessions, fitness classes, social and financial well-being, on demand digital learning and 24/7 well-being support through our Employee Assistance Programme, and supported AOers with schooling from home and learning materials for children.

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; and
- 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 in enhanced safety/hygiene measures to protect our people in frontline operational roles, whether in our warehouses, plants, stores or whilst making deliveries. We also equipped everyone who can work from home with what they need to do so and supported our people in frontline operational roles.

Talent attraction and retention, learning and development

People are at the heart of our business and build our success, so we continue to invest in them. We recognise the importance of learning and development and have a culture of continuous improvement.

We know competition for talent is fierce and we are building our reputation by proactively marketing AO's unique culture.

Our accelerated growth during the year resulted in the creation of 1,200 new roles. We evolved our approach in talent acquisition, focusing our efforts in: attracting talent where there are skills shortages; raising the bar in our selection and interview process; deepening our leadership capabilities through attraction and development; and using AI and technology to our advantage to support the quality and speed of recruitment in higher volume areas.

Our learning philosophy is accessible, engaging, personalised and scalable, with a clear focus on AOers being the best version of themselves and understanding their role in a high-performing team. It is important we provide a clear development journey. During the year, we reviewed the learning experience for AOers at every stage and every level and have increased overall capability. Going forward, we will leverage a new, more scalable learning platform for AOers to access the learning experiences they need.

We created a digital "AO Hello" welcome programme for new joiners and optimised our face-to-face operations training. We have also made on-demand learning and live events available to all AOers via our Learning Hub.

We were pleased to commence partnerships with Henley Business School, Critical Eye and LEAP development group during the year so we can look to support our leaders and managers through 2021 in expanding their networks, building self-leadership, nurturing innovation and high-performance teams, accelerating our growth and transformation. We have also sought to embed a consistent approach across the Group for talent and succession planning, especially for strategically critical roles, to build a shared understanding and calibration of potential and high performance across the business.

Over the next year, we will look to optimise roles, technologies, structures and ways of working. We will continue to increase the quality of new hires, create a clear skills framework, extend our learning opportunities and continue to focus on high-performance leadership teams. We also plan to introduce Objectives and Key Results ("OKRs") to align AOers, drive high performance and stimulate growth and innovation. All of this, together with streamlined people processes and our investment in a core people system to improve efficiencies and make it easier for all AOers to get the information and advice they need, will ensure that we are fit for the future and that our people are set- up for personal and business success.

Reward

We believe that a fair and attractive reward package makes an important contribution to both employee engagement and the attractiveness of AO as a place to work.

During the year, we have made progress on a modern and sustainable reward strategy underpinned by a philosophy and principles, which incorporate the strong link between reward and value creation assessed through performance, of which behaviours are an important component. We have designed and implemented a new job classification framework, based on work levels, so that every AOer knows how their role contributes to the success of the business and have introduced additional transparency into our annual salary review process. We have set out our intention to pay market competitive base salaries, at or above the relevant market median for AOers once they are established and performing effectively in their role and made progress towards this in our 2021 pay review. We are building on this with a full and detailed market review this year to ensure our pay is competitive at all levels and roles so that we can attract and retain the best talent.

Critical to our reward strategy is the ability of our employees to share in our success and, in September 2020, we were pleased to launch our Value Creation Plan ("VCP"). The 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 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 all our people. All employee participation is a key feature of this incentive plan. The VCP is aimed not only at incentivising exceptional performance but also to assist with the retention of our talented team with the maximum opportunity only achievable if our growth plans are sustained in the long term and provides financial motivation for our entire workforce to accelerate profitable growth.

We also offer an annual Sharesave scheme to all UK employees, providing them with the opportunity to purchase ordinary shares in the Company. This helps to encourage employee interest in the performance of the Group. During the year, we refreshed our communications, creating a short video to help explain the details of the scheme in a clear and engaging way.

Social responsibility

Our community

Supporting the NHS during Covid-19

To show our appreciation for all the NHS staff working on the frontline, we were pleased to have been able to support them in various ways. We have donated kitchen appliances to several hospitals so that NHS staff can prepare their own food and hot drinks without risking the spread of the virus at busy canteens. We listened to the needs of frontline workers and offered free delivery slots of their choice thereby ensuring that deliveries of essential electricals could fit in with shift times. We have offered NHS workers a 10% discount on large domestic appliances continuously since the start of the pandemic in March 2020. This is one of the longest standing discounts AO has ever offered and show of gratitude to those that have cared and looked after us all.

Supporting vulnerable members of the community

Covid-19 has exposed and deepened the inequalities within our society. The scale of those struggling to make ends meet and feed their families is demonstrated by the increasing numbers of people reliant on emergency foodbanks. The January 2020 Turn2Us Report highlighted that this issue is worsened by 2.8m people in the UK not having access to a freezer. The absence of a freezer is estimated to add £1,365 a year on to the average family food bill as it prevents the ability to bulk buy and often leads to the increased wastage of fresh food.

We are proud to have teamed up with Cheshire Food Hub, The Welcome Network and The Recipe Exchange, to be a part of the Love Slow Cookers, Hate Food Waste campaign. The project supports families across Cheshire with recipes and ingredients to prepare low-cost nutritious meals in a slow cooker. The campaign aims to help families minimise food waste, learn cooking skills and reduce energy bills with a slow cooker costing just 18p an hour to run. After the successful delivery of 200 slow cookers to Cheshire Food Hub, we are in the process of providing a further 2,000 slow cookers and are committed in the coming year to exploring new initiatives to effectively support the most vulnerable members of society.

Rental model

Prior to the Covid-19 crisis, 4.8m people in the UK were living without at least one essential household appliance (Turn2Us, Jan 2020). We want to challenge the current trajectory of appliance poverty by addressing the financial premiums faced by members of society who have the least financially. We believe that everybody should have access to reliable and affordable appliances. As a tech retailer with its roots in Greater Manchester, it is hugely important for us to help the people in our communities to access quality electricals at affordable prices.

This past year, we have continued our rental model proposition whereby customers can rent electrical items for £2 a week via their Housing Association. This includes the delivery and installation of the product along with its repair or replacement when required. We continue to reflect upon and learn from our rental model and partnerships with housing associations.

We remain optimistic that AO can make a real difference in the rental space, increasing fair access to appliances whilst also challenging the take-make-use-dispose model of purchasing, which currently dominates the electrical industry.

Young people – laptop donation

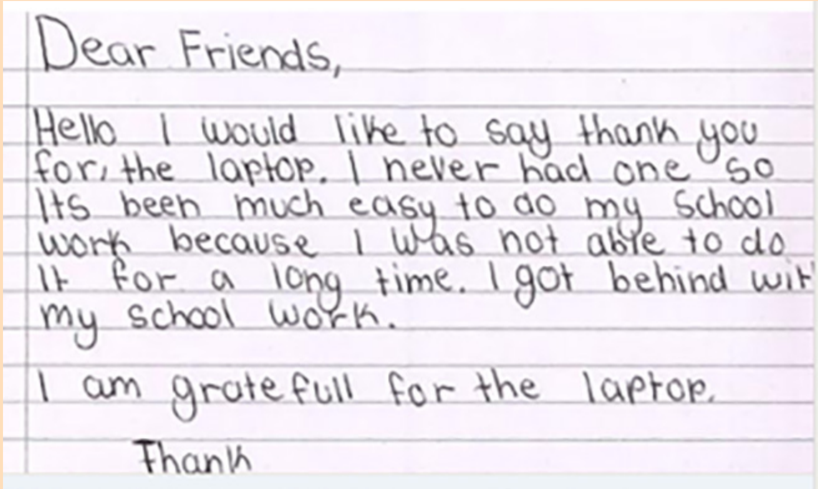
Adapting to an online lifestyle this past year has brought attention to the digital divide particularly amongst young people, with many not having the necessary digital access to switch to home- schooling during the pandemic. We believe, as a tech-based retailer, it is our responsibility to collaborate with others within our industry to reduce the inequalities associated with digital exclusion and ensure the young people in our communities have access to the required technology. As a result, we joined other retailers in donating laptops to the Greater Manchester Tech fund and made a further donation of laptops to the charity Onside.

AO continues its support of Onside and this year became a founding ambassador for Onside's Hide Out Youth Zone, supporting the new centre and its young members through AOers from our Manchester office volunteering their time and supporting fundraising efforts.

This past year, we have also become a founding ambassador of Fast Futures. This initiative allows us to engage with

Jo Garner at Cheshire Food Hub receives the first delivery of slow cookers from AO high-potential, diverse young people and support their employability within the digital sector. In addition, we have collaborated with different organisations and charities to support young people in our communities; these include Career Ready UK, The Prince's Trust, Engineering & Design UTC, Cheshire & Warrington LEP and Learn Live with Job Centre Plus. With the help of our key collaborators, we are building a mentoring culture throughout our business, with 52 AOers mentoring young people this past year. The support of our mentors' ranges from work experience, enterprise projects, interview coaching and sessions focusing on mental well-being and resilience.

Growing and retaining diverse talent across the business is important to us, and so this past year, we have participated in 26 career events for young people. In October 2020, we established our AO Academy: a recruitment programme for individuals who want to work at AO but have barriers to employment or are retraining after being displaced from their jobs due to Covid-19. Jobseekers are referred to the AO Academy where they are offered training resulting in a level 2 certificate in Warehousing and


Dear Friends,

Hello I would like to say thank you for, the laptop. I never had one so Its been much easy to do my School work because I was not able to do It for a long time. I got behind wit my school work.

I am gratefull for the laptop.

Thank

Storage, along with employability skills training. After the seven-day programme is completed, the individuals undertake a working trial where currently 70% are offered jobs at AO.

AO Smile

We support our people to make a positive contribution to the wider community. Smile was awarded the top award of Diamond Payroll Giving Award by the Government's Cabinet Office for the second year running. To facilitate volunteering, we offer two paid Make A Difference ("MAD") days a year to every AOer. In addition, when AOers raise money for a charity close to their hearts, AO Smile foundation boosts the money raised.

Whilst AO Smile has supported numerous charities this past year through donating £47,450, the main beneficiary has been the Cash for Kids campaign. This campaign offers support to vulnerable children and families in the UK who are most impacted by the Covid-19 pandemic. Smile's summer and Christmas campaign for Cash for Kids raised £9,630 supporting 321 families (£30 per family). During the year, AOers donated £41,559 to AO Smile though payroll giving.

AOers are offered two volunteering days a year to make a difference

Head teacher Paul Eckley receives the delivery of new laptops from AO

Governance: responsible retailing

At AO we recognise that being an environmentally responsible and ethically focused business is valued by all stakeholders, along with presenting commercial opportunities.

Business ethics and compliance

We have partnered with third-party experts to undertake an ESG Materiality Assessment with input from key stakeholder groups including senior management, employees, customers, suppliers, investors and NGOs. This is intended to reaffirm the ESG risks and opportunities for AO and will inform the Risk and Audit Committee's approach.

Our Modern Slavery statement for the year ended 31 March 2020 was published during the year. 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 formal anti-bribery policy and whistleblowing procedures. Our whistleblowing procedures allow our people to raise any issues of impropriety in confidence. As noted in the governance section, we have undertaken an assessment of these procedures during the year and are confident these are working effectively.

Work is underway to review our supplier onboarding process including the creation of a supplier code of conduct, ensuring alignment to the Modern Day Slavery Act 2015; and we continue to look at our procurement processes and focus on our key risks.

In light of the financial pressures impacting some customers during the pandemic, and having regard to FCA guidance on treating customers fairly, during the year, we have developed and rolled out a vulnerable customer e-learning tool for the contact centre and have also worked with our supplier partners to ensure their practices treat customers fairly too.

For our people, we are working on the creation of a Culture Book, which will include a Code of Ethics, replacing our existing Code of Conduct. Our policies, including cyber security, GDPR, modern slavery and anti-bribery are supported through our employee learning hub, which helps to ensure that these principles are fully understand and are at the forefront of minds.

Tax strategy

As part of our Group strategy, we believe in doing what is right and fair. Our tax strategy seeks to serve the overall Group strategy, enhancing shareholder value for our shareholders and ensuring that the tax obligations are managed effectively minimising risk and uncertainty for the business. We will continue to review the tax strategy to ensure that the two are aligned on a regular basis.

Our key objectives include:

- Maintaining integrity in respect of compliance and reporting;
- Controlling and mitigating tax risks; and
- Enhancing shareholder value.

A copy of our current tax strategy can be found at on our corporate website at ao-world.com/responsibility.

Board independence, diversity and Executive remuneration

Our Corporate Governance reports sets out further details of our governance around Board independence and diversity and Executive remuneration.

Risk management

Details of our risk management practices can be found on page 54 and 55.

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 THAT GOVERN OUR APPROACH	INFORMATION NECESSARY TO UNDERSTAND OUR BUSINESS AND ITS IMPACT, POLICY DUE DILIGENCE AND OUTCOMES
Environmental	• Environmental policy	Sustainability report: our environment, pages 70 to 75 Sustainability report: SECR/GHG emissions, page 74
Employees	• Group employee handbook • Whistleblowing policy • Health and safety policy • Code of conduct • Equal opportunities policy • Flexible working policy • Data protection policy	Our culture, pages 16 and 17 Sustainability report: our people, pages 76 to 81
Social matters	• Modern slavery policy • Data protection policy	Sustainability report: our communities, pages 82 and 83
Human rights	• Modern slavery policy • Code of conduct • Hospitality and gifts policy	Sustainability report: responsible retailing, pages 84 and 85
Anti-corruption and bribery	• Anti-bribery policy • Hospitality and gifts policy	Sustainability report: responsible retailing, pages 84 and 85
Principal risks and impact on the business		Risk report, pages 54 to 56
Description of business model		Our business model, pages 14 and 15
Non-financial KPIs		KPIs, pages 44 and 45

Our policies and procedures are available on our corporate website or from our Company Secretary on request.

The Company's Strategic Report is set out on pages 8 to 85 and was approved by the Board on 30 June 2021 and signed on its behalf by:

Julie Finnemore
Company Secretary

30 June 2021

Governance

"Excellent service. Easy-to-use website, great communication before delivery... will definitely purchase from AO again."

Jean,
AO Customer

Chair's letter and introduction

"Driving good corporate governance to help steer the Company and achieve its purpose."

Geoff Cooper
Chair

Dear shareholder

I am pleased to present our Corporate Governance report for the year ended 31 March 2021. At AO, we believe that a healthy culture, positive values and high-quality team members are the key to delivering our strategic objectives and to supporting the long-term success of the Company. This, together with the "backstop" of a robust corporate governance framework, which provides effective control and oversight, combined with the entrepreneurial spirit of the business has been instrumental to the success of the Group, particularly during the challenges of Covid-19.

In this report, we set out our approach to governance and the initiatives undertaken during the year. Our statement of compliance with the 2018 UK Corporate Governance Code is set out on page 90.

The focus of the Board this year has been to oversee the Group's response to Covid-19, whilst supporting significant transformation within the business and the design of a five-year strategy.

Our key priority has been, and continues to be, ensuring the safety of our people and customers through a period of rapid growth. To support this growth and to further improve operational efficiency, the Board reviewed and approved a number of investments in infrastructure including additional warehousing space, new outbases and fleet. These investments will ensure that we are well placed to capitalise on the consumer shift to online and to deliver the Group's future objectives.

Working closely with management, the Board also conducted a robust review and assessment of the evolution of Group strategy. Several Board strategy days were scheduled to allow the Directors to debate, challenge and understand the opportunities ahead. Further details of our strategy can be found on pages 42 and 43.

The Code requires a FTSE 350 Board to conduct an externally facilitated review of its effectiveness at least every three years. Our last such review was conducted for the year ending 31 March 2018 and so we had anticipated conducting an external review during the reporting period. However, the Board determined that, given the challenges arising from Covid-19, management should not be distracted. Further, the lack of Board face-to-face meetings meant that

such a review would have been conducted in somewhat artificial circumstances. We therefore intend to conduct an external review as soon as possible once normal working practices have been restored and settled down.

Instead, we conducted an internal review of the Board's effectiveness, led by me. The results indicated that the Board is working well and that there are no significant concerns about its effectiveness. Last year, we highlighted that the Board had determined that an additional Independent Non-Executive Director should be appointed. The Nomination Committee has now commenced work to shape the process for the recruitment of two additional Independent Non-Executive Directors. This will be a focus over the coming months as we look to identify individuals who can help expand the Board's experience and skill set, to provide new avenues of thought to drive growth. We will conduct our search as broadly as possible as we seek to increase the level of diversity in our Boardroom. With this in mind, we may have to look further than the traditional search advisers as, to date, they all seem to be chasing the same diminishing pool of people that meet this criteria.

During the year, we procured the services of a third party to assist with improvements to Board information. This includes improvements to Board papers through training for report writers to produce streamlined, high-impact papers to facilitate effective discussion.

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. This has been particularly important during the Covid-19 crisis and it has been clear that the relationships we have previously built have served us well. We were able to collaborate with our employees and suppliers to resolve issues relating to the pandemic and to continue to serve our customers brilliantly by adapting to the challenging environment.

AO exists "To make customers' lives easier by helping them brilliantly". The culture to underpin and enable this to happen begins by the tone set in the Boardroom. This year, we have sought to increase the Board's review of AO's culture through more refined and regular reports from the Chief People Officer. We have also enhanced the levels of employee engagement to take into account the move to homeworking for many of our employees and have had a particular focus on mental health and overall well-being initiatives to support our people.

The Board understands that a highly engaged workforce is critical to our success. During the year, Chris Hopkinson began his work as the Designated Non-Executive Director responsible for reviewing and supporting workforce engagement. Through Chris' involvement in the Group's quarterly Voice to the Board forums, he gives our employees a voice in the Boardroom by promoting and directly representing them in Board discussions and feeding back the steps that the Board are taking to address any concerns or issues they have raised. This process helps the Board to understand how we can maintain a highly engaged and motivated workforce.

We have also established a dedicated ESG team to review and develop our ESG strategy as part of the overall strategy work, and this will be of particular focus to the Board over the coming year. You can read more about this work in our Sustainability report (pages 68 to 85)

Our AGM will be held on 29 September 2021. At the time of writing, we are hopeful that we can conduct an open meeting; however, the Board remains cognisant of ongoing risks to public health from Covid-19 and so we will keep our arrangements under constant review, and advise shareholders of any changes accordingly. Notwithstanding the ability to hold an open meeting, should shareholders wish to discuss any governance matters in advance of the meeting, 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
30 June2021

AO's compliance with the 2018 UK Corporate Governance 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 (the "Code") during the reporting period. The Financial Reporting Council is responsible for the publication and periodic review of the UK Corporate Governance Code. 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, regarding share capital, are set out in the Directors' report on pages 140 and 141. Disclosures required by DTR 7.2.8 relating to the Group's diversity policy are detailed in the Sustainability: Our people report on page 78 and in the Corporate Governance report on pages 98 and 99. Directors' biographies and membership of Board Committees are set out on pages 92 and 93.

The table below summarises how the Directors have applied the key principles of the Code during the year and where key content can be found in the report. The Directors consider that the Company has, throughout the period under review, substantially complied* with the provisions of the Code. The Directors confirm that, through the activities of the Audit Committee described on page 109, it has reviewed the effectiveness of the Company's system of risk management and internal controls.

SECTION OF 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.	Business model – pages 14 and 15 Risk management – pages 54 to 65 Board of Directors – pages 92 and 93 Board leadership and purpose – page 95 Shareholder and stakeholder engagement – pages 66 and 67 People and culture – pages 16 and 17 Workforce engagement– pages 66 and 67
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.	Governance framework – page 94 Board of Directors – pages 92 and 93 Division of responsibilities – pages 94 and 95 Independence and time commitments – page 100 Nomination Committee report – pages 104 to 107
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.	Board evaluation – page 99 Nomination Committee report – pages 104 to 107 Board skills and experience – pages 92 and 93
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.	Risk management report – pages 54 to 65 Audit Committee report – pages 108 to 113
Remuneration	The Remuneration Committee sets levels of remuneration that are designed to promote the long-term success of the Group and structures remuneration to link it to both corporate and individual performance, thereby aligning management's interests with those of shareholders.	Remuneration Committee report – pages 114 to 139

* The Board did not complete an externally facilitated review of the Board during the reporting period but expects to do so in the current year. More details can be found on page 106. Further, whilst we have had more engagement with our workforce on reward in general, we recognise the need to further engage with the workforce to explicitly set out how Executive compensation aligns with the rest of the workforce. Designing an overarching reward philosophy and framework has been a key work stream for the Remuneration Committee and our People team over the reporting period. This will be implemented in the current year and will be the basis on which we can engage properly with this workforce on reward.


18
FOX STREET

Board of Directors

Geoff Cooper
Non-Executive Chair

Committee membership
N

Appointment to the Board
1 July 2016

Relevant skills and experience
- Over 25 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
- Former non-executive chairman of Bourne Leisure Holdings, 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
None

Independent
Yes

John Roberts
Founder and Chief Executive Officer

Committee membership
None

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
None

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 Limited and the Caudwell Group
- Member of the Chartered Institute of Management Accountants

Marisa Cassoni
Senior Independent 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, 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 and Employee Champion

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 Limited

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 several 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 of Trainline Plc and non-executive Director and audit and risk committee chair at boohoo group plc

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.

Significant current external appointments

Non-executive director at INGKA Holding B.V. (IKEA), Aryzta AG, Barclays Bank (Suisse) SA, Telia Company AB (publ) and Fortum Oyj

Independent

Yes

Key

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

Corporate governance report

Governance framework

The Board is responsible for maintaining a strong and effective system of governance throughout the Group. Day-to-day management of the implementation of the matters approved by the Board, the Group's activities, governance and oversight is delegated to the Executive Committee comprising the CEO, CFO and COO. The Executive Committee are supported by the Senior Leadership team, a team of highly skilled and experienced senior management, comprising the Chief People Officer, Director of IT and the Managing Directors of the Group's Retail and Logistics operations. The Senior Leadership team meet with the Executive Committee twice a month and are focused on long-term planning and the achievement of the Group's strategic priorities.

Operational Committee meetings, led by the COO, are held weekly. This Committee focuses on operational delivery and driving the business commercially and culturally, and is formed by the senior operational layer of the business including the managing directors of the business units, along with individuals who are responsible for certain key centralised Group functions. The Senior Leadership team also hold regular "deep dive" sessions for each business unit and function.

Steering Committees are also in place for key areas of compliance such as GDPR, SM&CR, and health and safety and are also formed for specific projects as required, for example, the Covid-19 BCP team and the One AO Transformation team. Formal Board meetings of our operating subsidiary companies are also held on a regular basis. Our Risk Management Committee, which reports to the Audit Committee and which includes the members of the Executive Committee, also meets at least quarterly to ensure robust risk management procedures are implemented and to critically review the Group's register.

Board leadership and Group purpose

Our Board is collectively responsible for the Group's performance and to shareholders for the long-term sustainability and success of the Company; we recognise that a clearly defined and well-established strategy and purpose combined with the Group's culture and values are critical to achieving this.

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 on pages 92 and 93.

The positions of our Chair 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
Chair Geoff Cooper	• Providing 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 • Providing entrepreneurial leadership of the Company to ensure the delivery of the strategy agreed by the Board
Chief Financial Officer Mark Higgins	• Providing 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	• Acting as an internal sounding board for the Chair and serving as an intermediary for the other Directors, with the Chair, when necessary • Being 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	• Bringing independence, impartiality, experience and special expertise to the Board • Constructively challenging 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 • Ensuring a regular dialogue between employees and the Board to aid information flow and to communicate the views and concerns of the workforce • Working with the Board to take appropriate steps to evaluate the impact of Board proposals on the workforce • Assessing and monitoring the Group's culture • Ensuring workforce policies and practices are consistent with the Company's values

Corporate governance report continued

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 and the reports of the Committee Chairs are set out on pages 104 to 139.

COMMITTEE	ROLE AND TERMS OF REFERENCE	MEMBERSHIP REQUIRED UNDER TERMS OF REFERENCE	MINIMUM NUMBER OF MEETINGS PER YEAR UNDER TERMS OF REFERENCE	COMMITTEE REPORT ON PAGES UNDER TERMS OF REFERENCE
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	Three	108 to 113
Remuneration	Responsible for all elements of the remuneration of the Executive Directors and the Chair, the Company Secretary and the direct reports of the CEO	At least three Independent Non-Executive Directors (or such number as is required from time to time by the UK Corporate Governance Code)	Three	114 to 139
Nomination	Reviews the structure, size and composition of the Board and its Committees, and makes appropriate recommendations to the Board	At least three 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	104 to 107

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.

Board meetings

The Board meets as often as necessary to effectively conduct its business. Eight formal meetings are scheduled each year plus additional meetings to exclusively discuss the Group's strategy. Unscheduled, ad hoc meetings are arranged as required where, for example, additional time is required or where a decision is required outside of the Board's normal meeting cycle. The Board also, in usual times, holds several informal dinners before or after a Board meeting, which help foster a healthy culture and promote open and transparent debate.

The Board has an annual rolling plan of items for discussion, which is reviewed and adapted regularly to ensure all matters reserved for the Board, with other items as appropriate, are discussed. Pre-agreed meeting agendas ensure that time is balanced between operating performance, strategy, governance and compliance so that the Board can discharge their duties effectively. To ensure the Board's time is used effectively in meetings, papers are circulated several days in advance using a secure, electronic portal to provide adequate time for reading and to raise any specific queries or questions.

At each meeting, the Chief Executive Officer updates the Board on key operational developments, provides an overview of the market, 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 feedback and 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 Chief Operating Officer attends Board meetings to update on operational performance and reports on health and safety. 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.

Ordinarily, external speakers are also invited to present to the Board on topical industry and regulatory issues, although this was hampered during the year by the impact of Covid-19. These topics lead to discussion, debate and challenge amongst the Directors.

There is a formal schedule of matters reserved to our Board for decision, which the Company Secretary ensures is complied with and which is available on the Company's website at ao-world.com, and from the Company Secretary upon request.

Key Board activities during the year to 31 March 2021

Examples of some of the key matters considered by the Board during the year are set out below.

Strategy

- Oversaw the Group's response to Covid-19, and reviewed and approved the investments required to support growth and assessed the new health and safety measures implemented
- Conducted a robust review and assessment of the Group's strategy and priorities including presentations from management on our markets and opportunities, our customers, marketing and tech investment. Several strategy days were held to facilitate full debate and discussion
- Through, and with, the Remuneration Committee supported the design and implementation of the all-employee Value Creation Plan, which supports and incentivises execution of strategy

Operational performance

- Review of regular reports from senior management on trading, business performance and health and safety
- Received update presentations from managing directors
- Approved the annual budget, the business plan for the Group and individual capital expenditure projects

Finance and investor relations

- Reviewed and approved the Group's full-year and half-year results, together with trading statements and the Group's Viability Statement and going concern status
- Reviewed the monthly reports produced by the CFO
- Received reports and updates on investor relations activities and the views of shareholders

Governance

- Continuing review of compliance with the Code
- Consideration of the composition and effectiveness of the Board
- Received updates from the Chief People Officer on people issues, for example, Gender Pay Gap analysis
- Improved workforce engagement process with updates provided from the Non-Executive Director People Champion on the results and key matters highlighted in people engagement forums and feedback from employee surveys
- Conducted the annual review and approved the appropriate updates of matters reserved for the Board and other policies and statements including the Company's share dealing code and procedures, Gender Pay Gap statement and annual Modern Day Slavery statement

Risk management

- Undertook the annual review of the principal and emerging risks of the Group and consideration of risk appetite. Via the Audit Committee, reviewed and validated the effectiveness of the Group's systems of internal controls and risk management framework
- Received reports on specific risk areas across the Group including GDPR, the IT security environment and business continuity

Board meeting attendance

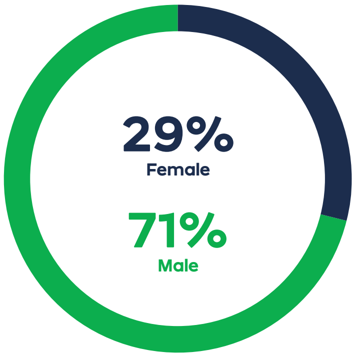
The table below summarises the attendance of the Directors during the year ended 31 March 2021.

Director	Meetings eligible to attend
Geoff Cooper	9/9
John Roberts	9/9
Mark Higgins	9/9
Chris Hopkinson	9/9
Marisa Cassoni	9/9
Shaun McCabe	9/9
Luisa D. Delgado	9/9

BOARD MEETING ATTENDANCE

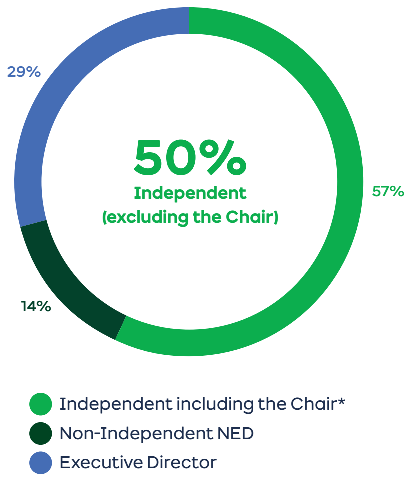
Corporate governance report continued

BOARD GENDER



BOARD TENURE AT 31 MARCH 2021

BOARD ROLE AND INDEPENDENCE



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	●			●		●	●

Composition, succession and evaluation

Composition

As at the date of this Annual Report, the Board comprises seven members: the Chair, two Executive Directors and four Non-Executive Directors, which includes the Senior Independent Director. Excluding the Chair, three Board members are considered independent in line with the Code. All current Directors served throughout the year. No new appointments were made to the Board during the year. Details of the skills, career background, Committee membership, tenure and external appointments of all Directors are set out on pages 92 and 93. Further details on the role of the Chair and members of the Board can be found on pages 94 and 95. The Chair, Senior Independent Director and Non-Executive Directors are appointed for a three-year term, subject to annual re-election by shareholders following consideration of the annual Board effectiveness evaluation.

Our Board currently includes two women, representing 29% of its membership (2020: 29%). The Board's policy on diversity is set out in the Report of the Nomination Committee on page 105. 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 Sustainability: our people report on pages 76 to 81.

The composition of the Board has been an area of focus for the Nomination Committee this year as it considers succession planning and seeks to ensure that the Board maintains the appropriate balance of skills, experience and independence, as well as providing the appropriate challenge and to promote diversity.

The Board had planned to conduct a search for a replacement Non-Executive Director during the reporting period. However, the impact of Covid-19 and the work to support significant transformation with the business and the design of a five-year strategy has delayed this during the reporting period. The Nomination Committee has now commenced work to shape the process for the recruitment of two additional Independent Non-Executive Directors. This will be a key area of focus over the coming months as we look to identify individuals who can help expand the Board's experience and skill set, to provide new avenues of thought to drive growth. We will conduct our search as broadly as possible as we seek to increase the level of diversity in our Boardroom.

In making new appointments, the Board will explore all avenues and opportunities to identify suitable candidates and will continue to make appointments based on merit and against objective criteria. The process will take into account suitability for the role, the Board's composition, its balance and the required mix of skills, background and experience, with due regard for the benefits of diversity and delivery of our strategy. The Nomination Committee has delegated authority for any new appointments to the Board following a formal, rigorous and transparent procedure with the decision for any appointment a matter reserved for the Board.

Further detail on the work of the Nomination Committee during the year, including the Board's Diversity Policy, can be found on page 105. For information on our procedures concerning the appointment and replacement of Directors, please see the Directors' report on page 140.

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, Chair 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 be seen from the biographies on pages 92 and 93, and the skills matrix on page 98, the Chair and the Non-Executive Directors collectively have significant industry, public company and international experience, which will support the Company in executing its strategy.

Directors' skills and experience

The Board skills and experience matrix opposite details some of the key skills and experience that our Board has identified as particularly valuable to the effective oversight of the Company and execution of our strategy.

Induction process

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, with each Director's individual experience and background taken into account in developing a programme tailored to their own requirements. The induction typically includes the provision of background material on the Company, one-to-one meetings with the CEO, CFO and COO and briefings with senior management as appropriate. Any new Director will also be expected to meet with major shareholders if required. New Directors also receive appropriate guidance on key duties as a Director of a listed company.

Evaluation and effectiveness

The effectiveness and performance of the Board is vital to our success. The Code requires that there should be a formal and rigorous annual evaluation of the performance of the Board, its Committees, the Chair and individual Directors and that consideration should be given to conducting a regularly, externally facilitated Board evaluation, which for FTSE 350 companies should be at least every three years. Our last external evaluation was carried out in the year ending 31 March 2018 and so an externally facilitated review was required during this year under the Code.

The Nomination Committee considered the requirement and determined that given the pace at which the business was operating during the reporting period an externally facilitated review should not be prioritised, particularly as, the impact of Covid-19 restrictions on the usual workings of the Board (such as reduced face-to-face meetings) meant that a review during that financial year would not necessarily be a true reflection of the way in which the Board was operating. Therefore, it was determined that an internal evaluation was appropriate for the year under review. We intend to conduct an external review as soon as possible once normal working practices have been restored and settled down.

The internal evaluation was led by the Chair. As part of this process, a skills matrix was used to assess the skills, experience and knowledge of each Director in matters of Board operations, the markets in which the Group operates, leadership and business performance. One-to-one meetings were also conducted with all Directors who were given the opportunity to express their views about:

- the performance of the Board and its Committees, including how the Directors work together as a whole;
- the balance of skills, experience, independence and knowledge of the Directors; and
- individual performance and whether each Director continues to make an effective contribution.

The results of the evaluation were collated by the Chair and an assessment was provided to the Nomination Committee for further discussion. The results of the evaluation indicated that the Board is working well and that there are no significant concerns among the Directors about its effectiveness. Some actions were agreed and will be progressed over the coming year, for example strengthening the Non-Executive Director component of the Board to ensure the correct mix of skills and to provide appropriate support to the Executive Directors in pursuit of achieving the Group's strategic objectives. The evaluation also highlighted that additional focus was needed on: succession planning of the Group's Senior Management team and how this team's capabilities specifically in technology, digital, mobile and international management could be developed; how to attract quality external talent and develop home grown talent; and how to develop the Company's ESG strategy.

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

Information, support and development opportunities available to Directors

All Board Directors have access to the Company Secretary, who advises them on governance matters. The Chair 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.

During the year, we procured the services of a third party to assist with improvements to Board information. This includes improvements to Board papers through training for report writers to produce streamlined, high-impact papers to facilitate effective discussion and contribution from the Board at meetings. A secure portal is also used to enable easy access to papers. The portal also contains a resources and information area which includes analysts' reports, regulatory publications, codes and best practice guides, relevant Group policies and procedures, and other ad hoc information provided to the Board outside of standard Board packs, for example, strategy documents or updates from the Company Secretary or IT.

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 Auditor 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. Directors are encouraged to be proactive and identify areas where they would like additional information to ensure that they are adequately informed about the Group.

The Board confirms that all members have the requisite knowledge, ability and experience to perform the functions required of a Director of a UK premium listed company.

External directorships and time commitment

Each Director is expected to attend all meetings of the Board and of those Committees on which they serve, and is required to be able to devote sufficient time to the Group's affairs allowing them to fulfil their duties effectively as Directors. In accordance with the Code, full Board approval is sought prior to a Director accepting an external appointment to a publicly listed company or other significant commitment. Prior to the approval of any external appointments, the Board considers the time commitment required by Directors to perform their duties effectively. As part of the selection process for any new Board candidates, any significant time commitments are considered before an appointment is agreed. All Non-Executive Directors are required to devote sufficient time to meet their Board responsibilities and demonstrate commitment to their role.

During the year, Shaun McCabe requested approval from the Board to accept an external non-executive directorship with boohoo group plc. The Board assessed the appointment and was satisfied that the time commitment required would not prevent Shaun McCabe from performing his duties to AO effectively and approval was granted. Shortly after the end of the reporting period, Luisa D. Delgado requested approval from the Board to accept external non-executive directorships with Telia Company AB (publ) and Fortum Oyj. The Board assessed the appointments and was satisfied that the time commitment required would not prevent Luisa D. Delgado from performing her duties to AO effectively and approval was granted. As part of its annual review, the Nomination Committee has also considered the external directorships and time commitment of all the Directors and agreed that these do not impact on the time that any Director devotes to the Company, and believes that such 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. Mark Higgins holds no external directorships. Details of the Directors' significant external directorships can be found on pages 92 and 93.

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 Director's 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.

"Punctual, helpful, resourceful and polite. I know that I rely on AO for reliability and for having skilled fitters."

Richard,
AO Customer

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.

Whistleblowing and anti-bribery and corruption procedures

AO is committed to the highest standards of ethical conduct, honesty and integrity in our business practices. The Board recognises that transparent communication is essential to maintain our business values and is supportive of a culture where there is genuine means for the workforce to raise any concerns. During the year, the Board, via authority delegated to the Audit Committee, reviewed the whistleblowing policies in place across the Group and received regular updates on reports arising from its operation. The review confirmed that AO's policies were appropriate, accessible and comprehensive, and provided colleagues with the opportunity to raise concerns about any form of wrongdoing anonymously.

The Group also has zero tolerance of corruption, fraud, criminality (including financial crime), or the giving and receiving of bribes for any purpose. The Group's Code of Conduct sets out what is expected from our people and our stakeholders. The Group has online training modules via its learning and development platform for competition law and anti-bribery and corruption, which colleagues are required to complete periodically. Any breach of procedures will be regarded as serious misconduct, potentially justifying immediate dismissal.

Shareholder engagement

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 them. The Company has established an Investor Relations function, headed by the Investor Relations Director, who reports to the Chief Financial Officer. The Investor Relations Director 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 Investor Relations Director generally deals with ad hoc queries from individual shareholders. The Remuneration Committee Chair also engages in discussion with shareholders on significant matters relating to Executive remuneration, in particular any amendments or material changes to our Remuneration policy and the Chair of the Board also engages with shareholders as and when requested or required.

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, Jefferies and Numis Securities, and more recently Goldman Sachs, 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).

Annual General Meeting

Based on the Government's current roadmap to ease the restrictions around public gatherings in light of Covid-19, the Board currently plans to hold an open AGM at 8.00 am on Wednesday 29 September 2021 at the Company's Manchester office at Baskerville House, Browncross Street, West Riverside, Salford M60 9HP. However, the Board remains cognisant of the ongoing public health risk and recognises that the situation in relation to the pandemic can change quickly and that social distancing requirements may make an open meeting impractical. The Board will, therefore, continue to monitor developments and will make changes to the arrangements for the meeting as necessary. Any such changes will be advised to shareholders though the Company's website and, where appropriate, by RNS announcement.

Should an open meeting be held, all shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The notice of the AGM can be found in a booklet that 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. However, 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 27 September 2021.

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 2021AGM@ao.com and these will be responded to on an individual basis.

The results of the voting will be announced to the London Stock Exchange and made available on our corporate website as soon as practicable after the meeting. At last year's AGM, all resolutions were passed with votes in support ranging from 90.5% to 100%.

Stakeholder voice into the Boardroom

Section 172 of the Companies Act 2006 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. Further information on how the Group engages with its key stakeholders including suppliers, employees and the community and the Group's s.172 statement can be found on pages 66 and 67. In setting and monitoring strategy, the Board is mindful of the impact that its decisions will have on the Group's stakeholders.

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.

The following are used to bring the voice of the stakeholder into the Boardroom:

- 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
- The Non-Executive Director People Champion, Chris Hopkinson, provides regular feedback and updates from the Employee Voice to the Board forum
- The CEO holds a monthly State of the Nation, a live update given to all employees including an interactive Q&A session
- The Board's strategy sessions 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

Further information on how the Group engages with its stakeholders can be found on pages 66 and 67.

Examples of how the Board has considered stakeholders in its decision-making process during the year are set out below.

Covid-19

During the year, the Board considered the interests of all the Group's stakeholders when responding to the impact of Covid-19 on the business.

The health and safety of our people and our customers was, and continues to be, our top priority. During the pandemic, we adapted the services we offer, invested to ensure social distancing and enhanced safety measures to protect our people in frontline operational roles, whether in our warehouses or making deliveries. We prioritised services to the most vulnerable members of society and donated essential products to those in need.

We also equipped everyone who can work from home with what they needed to do so. We embedded well-being into our ways of working and delivered mental health awareness training to our managers, launched an online Well-being Hub providing support and advice for health, well-being sessions, fitness classes, social and financial well-being, on demand digital learning and 24/7 well-being support through our Employee Assistance Programme, and supported AOers with schooling from home and learning materials for children.

Having regard to the performance of the Group during the reporting period, the Board also took the decision not to take advantage of the Government's Coronavirus Job Retention Scheme ("furlough"), and either did not claim, or have repaid any amounts received.

We increased the level of engagement with all our stakeholders, for example, created dynamic videos to reassure customers around our service and delivery processes /practices during the pandemic, and we worked closely with suppliers to deal with the logistical challenges of getting stock into our supply chain.

Valuation Creation Plan

We were pleased to launch our Value Creation Plan ("VCP") during the year following strong support from our shareholders. Critical to our reward strategy is the ability of our employees to share in our success and the 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 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 all our people. All-employee participation is a key feature of this incentive plan. The VCP is aimed not only at incentivising exceptional performance but also to assist with the retention of our talented team with the maximum opportunity only achievable if our growth plans are sustained in the long term and provides financial motivation for our entire workforce to accelerate profitable growth. We believe that this innovative all-employee model reflects the unique culture at AO, and its core role at the heart of our business.

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 ended 31 March 2021. Full details of the Committee and its activities during the year are given below.

	Meeting attendance
Geoff Cooper	2/2
Chris Hopkinson	2/2
Luisa D. Delgado	2/2

Membership and meetings

- During the year, the Nomination Committee comprised three Non-Executive Directors,
- The Code requires that the majority of the Committee are Independent Non-Executive Directors. Luisa D. Delgado is deemed independent. I am Chair of the Board and of the Committee, and was deemed independent on appointment and the Board considers that I continue to be so. Chris Hopkinson is not deemed to be independent due to his historic involvement with the Company; however, the continuity, experience and knowledge of Chris made a significant contribution to the work of the Committee, ensuring it was run effectively. Therefore, the Board considers that the Committee comprises a majority of Independent Non-Executive Directors and complies with the requirement of the Code.
- Detailed experience, skills and qualifications of all Committee members can be found on pages 92 and 93.
- The Group Legal Director 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, Chief People Officer and the other Non-Executive Directors.
- Under its Terms of Reference, the Committee is required to meet no less than twice a year. This year the Committee met twice; this number being deemed appropriate to the Committee's role and responsibilities during the year.
- The timing of meetings is scheduled to coincide with key dates in the Group's financial cycle and in advance of a Company Board meeting to maximise effectiveness. 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.

Key responsibilities and Terms of Reference

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 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 and with regard to the results of the review of Board effectiveness.

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

The Chair 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.

The responsibilities of the Committee are delegated by the Board and are set out in its written Terms of Reference, which are reviewed, updated as necessary and approved each year. A copy of the Terms of Reference is available on our corporate website or upon request from the Company Secretary.

Board appointment process

The Nomination Committee has a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. When the need to appoint a Director is identified, the Committee determines the role profile including the skills, knowledge and experience required. This takes into account the existing composition of the Board and any required experience and understanding of our stakeholders. We use a combination of external recruitment consultants and personal referrals in making any required appointments. We consider the gender, nationality, ethnic background, educational and professional background of candidates, as well as individual characteristics that will enhance diversity of thinking of the Board and delivery of our strategy. Suitable candidates are interviewed by Committee members and the CEO. We give careful consideration to ensure proposed appointees have enough time available to devote to the role and that the balance of skills, knowledge and experience on the Board is appropriate. When the Nomination Committee has identified a suitable candidate, we then make a recommendation to the Board who have responsibility for making the final decision. All appointments are made on merit, against objective criteria and with due regard to the benefits of diversity on the Board.

Board composition and succession planning

There were no changes to the composition of the Board during the year and it remains compliant with the provisions of the Code as half the Board, excluding the Chair, are Independent Non-Executive Directors. Following the resignation of a Non-Executive Director, in the prior year, the Committee determined that an additional Independent Non-Executive Director should be appointed to the Board to further strengthen and diversify its work and had planned to conduct a search during the reporting period. However, the impact of Covid-19 and the work to support the five-year strategy design and transformation within the business has delayed this. A recent review by the Committee of succession planning, together with its ongoing requirement to ensure that the Board maintains the appropriate balance of skills, experience and independence, as well as providing the appropriate challenge and to promote diversity, confirmed that it was now an appropriate time to recommence this work. The Committee is currently shaping the process for the recruitment of two additional Independent Non-Executive Directors. This will be a key area of focus for the Committee over the coming months as we look to identify individuals who can help expand the Board's experience and skill set, to provide new avenues of thought to drive growth. We will conduct our search as broadly as possible as we seek to increase the level of diversity in our Boardroom, bearing in mind the targets set by the Hampton-Alexander Review and the Parker Review.

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.

Diversity and inclusion

The Board's diversity policy forms part of AO's Group-wide diversity and inclusion strategy, which seeks a workforce with a culture that truly accepts diversity of thought, equity and inclusion. The Board believes that diversity in its composition is an important part of its overall effectiveness and that a diverse Board with different perspectives, and those that reflect the Group's customer base, will enhance the quality of debate and decision making. The Directors consider that, although relatively small in number, its composition should aim to reflect diversity in its broadest sense including aspects such as diversity of skills, perspectives, industry experience, educational and professional background, gender, ethnicity and age. All these aspects are to be considered in determining the optimum composition of the Board and the Executive Committee to ensure an appropriate balance.

Nomination Committee report continued

The Directors remain supportive of the recommendations in both the Hampton-Alexander Review on gender diversity and the Parker Review on ethnic diversity, and are committed to achieving female representation of 33% as soon as practicable, and a minimum of one Director of ethnic minority background on the Board by 2024. The Board and the Committee will look to drive the agenda on diversity and inclusion across the Group over the coming year.

Prior to the resignation of Jaqueline de Rojas in September 2019, the Board complied with the Hampton-Alexander 33% female representation target. However, with no Board changes made since that time, female representation is currently 28.7% and senior management (as defined by the Code) has 25% female representation, with no ethnic diversity at either of these levels. The section above on Board Composition, and on page 89 of the Corporate Governance report, details the Board's intention to commence a search to identify an additional two Non-Executive Directors.

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 Sustainability: our people report on page 78.

Board effectiveness

Pursuant to the recommendation set out in the Code, an externally facilitated review was required to be undertaken during the reporting period. However, the Nomination Committee determined that, given the pace at which the business was operating and the impact of Covid-19 restrictions on the usual workings of the Board (such as reduced face-to-face meetings), an externally facilitated review should not be prioritised. An internal process of evaluating the performance of the Board, led by myself, was instead undertaken. We intend to conduct an external review as soon as practicable during the current financial year. In addition to supporting the Committee's assessment of Board composition and succession planning, it will also provide a unique opportunity to consider how the Board performed in response to the Covid-19 pandemic and to capture any learnings for the future.

A number of highly productive and effective strategy days were held during the reporting period, which have also helped to foster relationships and encourage a more open culture of debate and challenge between Board members.

Further details of this year's internal review and its results can be found on page 89 of the Corporate Governance section. Overall, the evaluation indicated that the Board is working well and that there are no significant concerns about its effectiveness.

Assessment of independence and time commitments of the Non-Executive Directors

Following our assessment this year, the Nomination Committee is satisfied that, throughout the year, all Non-Executive Directors remained independent as to both character and judgement and in accordance with the Code. This was with the exception of Chris Hopkinson who is designated as non-independent due to his tenure of appointment and historic involvement with the Company. However, the Committee remains confident that the continuity, experience and knowledge of Chris continued to make a significant contribution to the work of the Board over the reporting period.

Before appointing prospective Directors, the Board takes into account the other demands on the Directors' time and any significant time commitments are disclosed prior to appointment. The letters of appointment for the Chair and Non-Executive Directors set out their expected time commitments to the Group. Any additional external appointments following appointment to the Board require prior approval by the Board in accordance with the Code.

In its assessment of the effectiveness of the Board, the Committee gave consideration to the number of external appointments held by the Non-Executive Directors, including the time commitment required for each. No instances of over boarding were identified and the Nomination Committee confirms that all individual Directors have sufficient time to fulfil their responsibilities and are fully engaged with the Group's business. As set out on page 100, during the year, Shaun McCabe requested and was granted approval from the Board to accept an external non-executive directorship with boohoo group plc.

Reappointment of Directors

On the recommendation of the Nomination Committee and in line with the Code, all currently appointed Directors will retire at the 2021 AGM and offer themselves for reappointment. The biographical details of the current Directors can be found on pages 92 and 93. 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.

Looking ahead

Over the coming year, the Committee will be focused on the appointment of the two new Independent Non-Executive Directors, conducted through a broad search to identify appropriate skill sets and experience, whilst having regard to increasing the diversity of the Board. Senior management succession planning and strengthening our senior talent pipeline will also remain key priorities, along with supporting the business as it continues to build on the work undertaken to build a more diverse and inclusive business. We also look forward to conducting an externally facilitated review of the Board's effectiveness and considering the findings.

Geoff Cooper
Chair, Nomination Committee
AO World Plc

30 June 2021

"AO has a culture that embraces people's skill sets, characteristics, beliefs and outlooks – and empowers them."

An AO employee

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 for the year ended 31 March 2021. The report provides an overview of the Committee’s role and how it has discharged its responsibilities in monitoring and reviewing the integrity of financial information and in ensuring appropriate challenge and oversight across the Company’s internal control environment and financial reporting, setting out the significant issues we have reviewed and concluded on during the year.

Overview

COMMITTEE MEMBERS AND MEETINGS ATTENDED

	Meetings attended
Marisa Cassoni	8/8
Shaun McCabe	8/8
Luisa D. Delgado	8/8

Membership

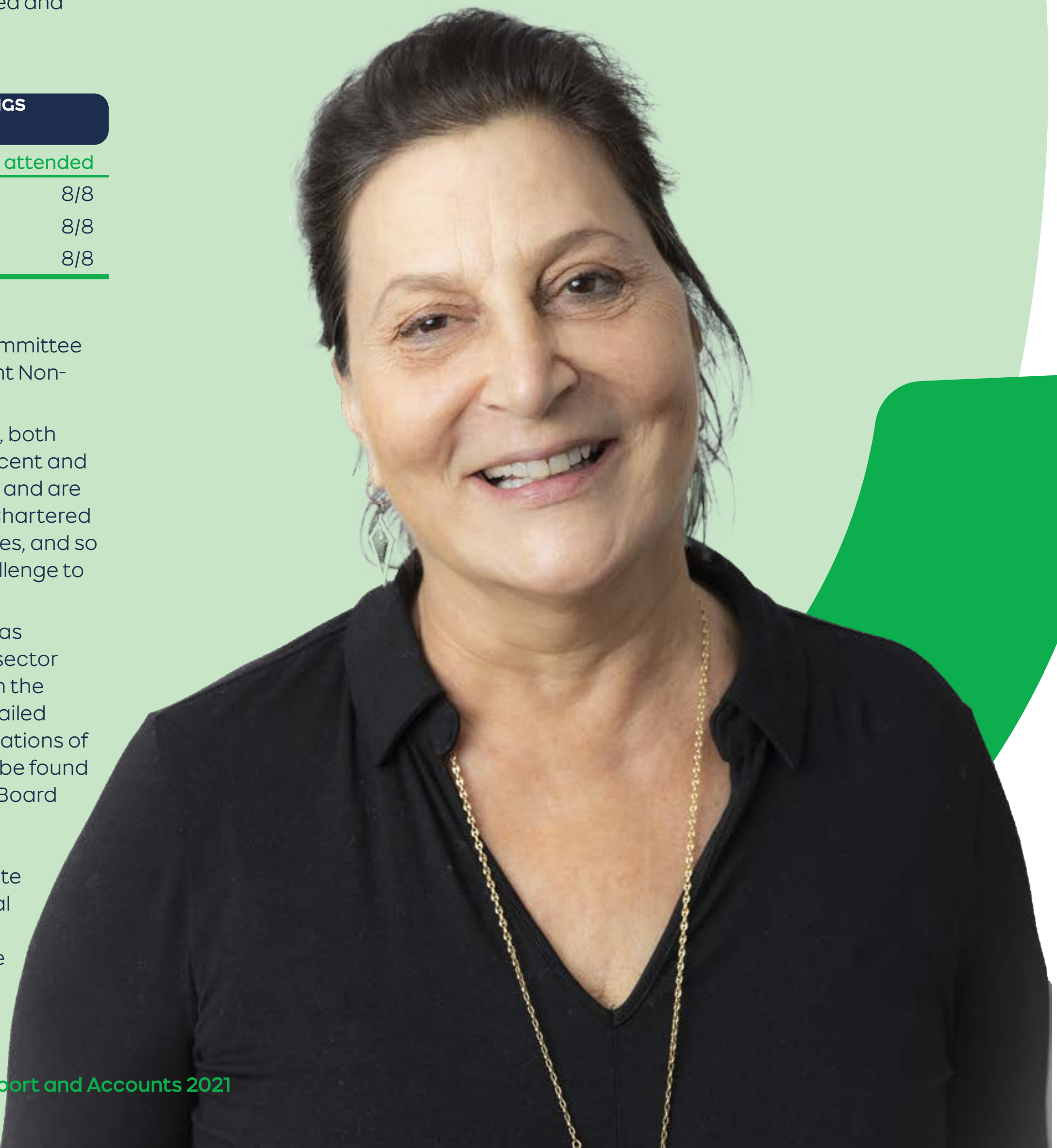
- During the year, the Audit Committee comprised three Independent Non-Executive Directors.
- As required by the 2018 Code, both Shaun McCabe and I have recent and relevant financial experience and are Members of the Institute of Chartered Accountants in England and Wales, and so can provide appropriate challenge to management.
- The Committee, as a whole, has competence relevant to the sector in which it operates in line with the 2018 Code requirements. Detailed experience, skills and qualifications of all Committee members can be found on pages 92 and 93, and the Board has confirmed that it is satisfied that the Committee members have the appropriate range of financial, commercial and sectoral expertise and that it satisfies the 2018 Code requirements.

Key responsibilities and Terms of Reference

The responsibilities of the Committee are delegated by the Board and are set out in its written Terms of Reference, which are reviewed, updated as necessary and approved each year. A copy of the Terms of Reference is available on our corporate website ao-world.com, Board Committees, or upon request from the Company Secretary.

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 99. The review for the year to 31 March 2021 concluded that the Committee continued to operate effectively during the year.



Key work during the year

- Focused on financial reporting, to ensure the Annual Report & Accounts is fair, balanced and understandable.
- Reviewed interim results statements and financial results presentations.
- Considered the impact of Covid-19 on key accounting judgements.
- Reviewed the effectiveness of external and internal audit processes and the effectiveness and appropriateness of our system of internal controls.
- Approved and oversaw the transition to the new audit partner.
- Reviewed the quarterly internal audit reports and oversaw continued improvements in internal reporting to the Committee.
- Reviewed AO's business continuity planning and the response to Covid-19.
- Recommended the reappointment of the External Auditor, terms of engagement and reviewed audit and non-audit fees.
- Reviewed the Group's risk management procedures.
- Reviewed updates on the changing regulatory environment, for example, the BEIS white paper on audit reform, and current FRC reporting expectations.
- Reviewed the Group's whistleblowing and anti-bribery and fraud prevention procedures and controls.

Assessment of the Group's internal controls and risk management

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, notably monitoring the risks associated with the considerable impact that Covid-19 has had on the business and any impact on internal control mechanisms and risk management.

Internal Audit

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. 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.

Having previously been approved by the Committee, at the start of the pandemic, there was a short pause in the delivery of the FY21 Internal Audit plan as the business adapted to the logistical implications of new ways of working. The plan continued to be adapted during the year as working restrictions prevented access to certain of the Group's sites and to allow a greater focus on those areas of the business that experienced a shift in risk due to the impact of Covid-19 and an increase in demand.

The Audit Committee receives reports from the Internal Audit functions on a quarterly basis. These reports, along with risk management updates, enable the Committee to discuss key findings, recommendations and any plans by management to address any areas of weakness, with management action tracked and reviewed as appropriate. Progress against the audit plans is also reviewed.

The information received over the year highlighted that overall the Group had an adequate internal control framework for its circumstances. However, there are some areas that have required and continue to require improvement, in particular:

- Mobile: Increases in cashback redemptions, customer fraudulent transactions and contract cancellations has led us to improve the controls and governance around the commercial proposition for mobile contracts to limit financial exposure and to ensure it is adequately provided for.
- Data Protection and privacy: We are cognisant of the continually evolving data protection and privacy legislative landscape (including placement of cookies) which contradict generally accepted e-commerce practices. We continue to make improvements in this area alongside data mapping and data cataloguing.

Germany: Over the period of decentralisation, some controls in the logistics and e-commence operations deviated from Group policy and we experienced a minor fraud in logistics. All policies and procedures are being revisited as part of our One AO platform.

Further, the scale and pace of growth experienced by the Group, due to the Covid-19 driven accelerated migration to online shopping, has led to some areas of control weakness in the strength of business resilience practices and policies with some improvements required in first and second lines of defence. The Group is reliant on manual controls, which carry risk particularly as transactional volumes increase. This will be improved through more automated controls, which will be introduced over the coming years through our systems improvement project.

The Committee recognises that there has been a strengthening in certain centralised functions during the year, for example, in IT, HR, Legal, Finance and Group Insurance, which will support the Group during its next phase of growth.

Internal Audit effectiveness review

We monitor and assess the role, effectiveness and independence of the Internal Audit function in the overall context of the Group's risk management systems annually. Following its annual assessment and when taken with its review of the annual plan and Internal Audit reports outlined above, the Committee confirms that it is satisfied that, throughout the reporting period, the Internal Audit function provided the level of assurance required and had an appropriate level of resources in order to carry out its responsibilities effectively and that it continues to do so. The necessary procedures are also in place to ensure the appropriate independence of the Internal Audit function.

Other key elements of the Group's risk management and internal controls systems, which have been reviewed by the Committee during the year include: the Group's management and organisational structure; its financial reporting and information systems; policies and process surrounding the entering into of contractual commitments and risk management. Our Risk Management Committee operates separately (meeting quarterly and attended by Executive Directors) sitting alongside the Audit Committee, and issues regular reports to the Audit Committee. In line with the 2018 Code, this year the Risk Management Committee has reviewed the Group's risk management processes and procedures including those in place to identify emerging risks. A separate report of the work of the Risk Management Committee, including the Group's risk management practices, its principal risks and its long-term viability, can be found in the risk section on pages 54 to 65.

Whistleblowing

The Group has established formal whistleblowing procedures by which all employees may, in confidence, raise concerns about possible improprieties in finance and other matters. Our Whistleblowing policy sets out the ethical standards expected of everyone that works for and with us, and includes the procedures for raising concerns in strict confidence through two channels – email or voicemail. Both channels are manned by the Company Secretary and Head of Internal Audit to ensure independence. All investigations are carried out independently with findings reported to the Audit Committee and all significant matters reported directly to the Board.

The Audit Committee monitors and reviews the effectiveness of the Group's whistleblowing arrangements. Following its annual review of whistleblowing arrangements, the Committee is satisfied that they are effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to take place. The Committee also reviewed the Group's Anti-Bribery & Corruption and Fraud Prevention procedures and controls, and were satisfied that these were effective.

The Board has confirmed that, through the Audit Committee's review of the key financial and internal control matters for 2021 as detailed above, it has reviewed the effectiveness of the system of internal, financial, operational and compliance controls and risk management.

Review of financial statements and reporting

The Audit Committee is responsible for reviewing the appropriateness of and monitoring the financial reporting processes for the Group. This includes reviewing reports from the External Auditor, reports on internal controls, accounting and report matters, and management representation letters concerning accounting and reporting matters. The Committee reviews management's report on areas of significant amounts of judgement and estimation and considers if these correlate with the key audit risks identified by the External Auditor and the comments of the External Auditor on management's chosen approach. The Committee also considers the accounting policies and practices adopted by the Group, the application of the applicable reporting standards, compliance with governance frameworks and the presentation and disclosure of financial information.

Fair, balanced and understandable

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 2021 when taken as a whole, are fair, balanced and understandable and whether they provided the information necessary for members to assess the Group's position, performance, business model and strategy.

Following the Committee's review, we were pleased to provide assurance to the Board that the Annual Report and Accounts for the year ending 31 March 2021 are fair, balanced and understandable and that the Directors have provided the necessary information for our shareholders to assess the Company's position, prospects, business model and strategy. This was confirmed to the Board, whose statement in this regard, is set out on page 145 of the Directors' report.

Significant financial statement reporting issues

In reviewing the financial statements with management and the Auditor, the Audit Committee reviewed and discussed reports from management on accounting policies, current accounting issues and the key judgements and estimates in relation to this Annual Report. It assessed whether suitable accounting policies had been adopted and the reasonableness of the judgements and estimates that had been made by management. The following table highlights the most significant issues, judgements, estimates and policies for the Period in the opinion of the Audit Committee.

SIGNIFICANT FINANCIAL MATTERS

Revenue recognition and contract asset recoverability 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 at the point of sale 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, the historical rate of customer attrition and any other matters which could affect future 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. As noted in Note 35 to the Report and Accounts, the erroneous inclusion of a number of plans which had been cancelled in prior years has resulted in a restatement of the comparatives. This has also resulted in a significant reassessment of the estimates and judgements used in recognising revenue which are detailed in Note 22. As a consequence of the above, the management team has prepared detailed updates to its policies setting out the key assumptions in the model in addition to the impact on the current year accounts of the restatement and changes in estimates. The Committee has reviewed these changes and the judgements and estimates used in this area by management and, following appropriate challenge, we consider the policy and practice appropriate.
Revenue recognition, contract asset recoverability and cashback provisioning in our Mobile business	The Group's Mobile business receives commission from the Mobile Network Operators. The network commission revenue is 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. During the current year, management have seen a significant change in customer behaviour in relation to cashback redemptions and the early cancellation of contracts. As a consequence, they have reassessed the estimates and judgements used in quantifying revenue and in particular the amount of variable consideration which should be constrained. The impact of this exercise is seen in Notes 22 and 23 to the Report and Accounts. As a result of the changes made, the management team has prepared updated detailed policies setting out the key assumptions used in recognising revenue. The Committee has reviewed the judgements and estimates 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 Mobile Phones Direct Limited (since renamed AO Mobile Limited) in December 2018 the Group recognised goodwill and intangible assets which at 31 March 2021 had a carrying value of £26.8m. The carrying value is assessed by performing a value in use calculation at each balance sheet date 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 revenue and EBITDA growth. 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. At 31 March 2021, the amount of headroom above the carrying value was £1.2m. Note 16 to the Report and Accounts sets out the key assumptions used in the value in use calculation in addition to the impact of a change in these assumptions on the amount of headroom. The management team has prepared detailed paper setting out the key assumptions, estimates and judgements in this area and the sensitivities applied to the base case. 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.

Audit Committee report continued

Going concern and viability assessments

The Committee reviewed the Group's going concern and viability statements as set out on page 65. It considered the reports prepared by management in support of such statements and obtained the external Auditor's views on the work undertaken by management to assess the Group's resilience to its principal risks under various scenarios. The Committee was satisfied that the viability statement set out in the Strategic report presented a reasonable outlook for the Group to March 2024 and recommended to the Board the adoption of both the going concern and viability statements for inclusion in this report.

External audit

The Audit Committee has primary responsibility for leading the process for selecting the External Auditor and overseeing the relationship and performance. It is required to make appropriate recommendations on the appointment, reappointment and removal of the External Auditor, through the Board, to the shareholders to consider at the Company's AGM. It is also required to assess the independence of the External Auditor on an ongoing basis and to negotiate the terms of engagement, audit fee and to ensure that they have an appropriate audit plan in place. Following approval by shareholders at the AGM held on 20 August 2020, KPMG LLP was reappointed as AO's External Auditor for the financial year ending 31 March 2021 and, during the year the Committee approved and oversaw the transition to the new audit partner, David Neale, who has led the audit for 2021. The External Auditor was not asked to look at any specific areas by the Audit Committee during the review period.

Review of effectiveness of external audit process

A key responsibility of the Committee is to review and monitor the effectiveness of external audit process and independence of the External Auditor. The assessment of the audit effectiveness for the year ended 31 March 2020 was undertaken at the completion of that audit as part of an ongoing process of review throughout the year.

In conducting its review, the Committee had regard to:

- 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 through its meetings with management; 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.

The assessment process is based on open and honest dialogue with the External Auditor. The Committee sought assurance from KPMG at the half-year review and year-end audit planning meetings on the approach to the audit, an explanation of their understanding of the Group's significant risks to audit quality and the level of their understanding of the business, its industry and related risk. Further, the Committee held discussions with the External Auditor at various stages during the year to discuss their remit and any issues arising from their work that helped to ensure, particularly given the challenges of conducting an audit in restricted working conditions presented by Covid-19, that the audit remained on track and that the deliverables would be achieved.

Based on the above, the Committee was satisfied that KPMG delivered a robust and quality audit with the appropriate resources available to the Company, suitable focus placed on the significant risk areas and key areas of accounting judgement and that they provided effective challenge to management. We therefore concluded that the relationship with the External Auditor continued to work well and we are satisfied with their effectiveness and independence.

External audit partner rotation

On behalf of the Board, the Committee oversees the relationship with the External Auditor. KPMG were appointed as Auditor to the Company in July 2016 for the financial year ended 31 March 2017, and were reappointed at the 2020 AGM. Mick Davies, who held the role of lead audit partner since the audit engagement began five years ago, stepped down from his role in September 2020 and is replaced by David Neale, who has led the audit for the year ending 31 March 2021.

External audit tenure

In accordance with requirements set out within the Competition and Markets Authority's regulations (the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014) (the "CMA Order") and the UK Corporate Governance Code, published in July 2018, the Committee is required to retender the external audit contract by no later than the 2027 year-end audit, this being ten years since appointment. Under the CMA Order, when an incumbent Auditor has been in office for five consecutive years, the Company is required to explain when it plans to conduct a new tender process and the reasons why completing it in that year is in the best interests of the Company's members.

The Committee has assessed the quality, effectiveness and continuity of the relationship with KPMG as the Group's current External Auditor, and has recommended to the Board that it is in the best interests of the Group and shareholders to tender the audit contract by a date no later than that stipulated by the current regulations, being for the 2027 year-end audit, subject to the annual assessment of the effectiveness and independence of the External Auditor carried out by the Committee.

Reappointment of External Auditor for the 2022 financial year

Through open and honest dialogue with the External Auditor, as well as feedback received from the CFO and senior management, the Committee is satisfied with the objectivity and independence of the External Auditor. The Committee is also satisfied that KPMG continues to perform its audit work to a high standard and with robust challenge. On this basis, the Committee has recommended to the Board that KPMG be reappointed at the 2021 AGM.

Statement of compliance with the Competition and Markets Authority ("CMA") Order

The Company confirms that it has complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Processes and Audit Committee Responsibilities) Order 2014 (Article 7.1), including with respect to the Audit Committee's responsibilities for agreeing the audit scope and fees and authorising non-audit services.

Non-audit services

There are policies and procedures in place in relation to the provision of non-audit services by the External Auditor. The Company's general policy is not to use the appointed External Auditor for any non-audit services. However, the Committee recognises that it may be appropriate to use the External Auditor 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 as a result of their position, subject always to EU audit rules surrounding prohibited non-audit services. In such ad hoc occurrences, the Group's policy ensures that: there is adequate protection of their independence and objectivity, any such use requires approval by the Audit Committee; any non-audit services must fall within the limits specified by EU legislation of not more than 70% of the average audit fee over a consecutive three-year period, and various services are wholly prohibited, including tax, legal, valuation and payroll service. Further, the External Auditor is not permitted to perform any work, which they may later be required to audit, or which might affect their objectivity and independence or create a conflict of interest.

During the year, KPMG undertook non-audit related assignments relating to the review of the Group's half-year report amounting to £45,000 (2020: £45,000), and representing 7% of the value of the Group Audit (2020: 8%). This assignment was conducted in accordance with the Group's policy and was consistent with the professional and ethical standards expected of the External Auditor, and the Committee considers that the assurance provided by the Auditor on this item is considered necessary in the interests of the Group. The Audit Committee were satisfied with work performed and considered the level of these fees against the fees paid to KPMG for audit services determining that they are not material relative to the income of the external audit as a whole, and therefore did not conflict with KPMG's objectivity and independence.

The Group has also continued with the appointment of other accountancy firms to provide certain non-audit services to the Group, for example, in connection with tax advisory services, remuneration advice and debt advice, and anticipates that this will continue during the year ending 31 March 2022.

External Auditor fees

During the financial year, the Group External Auditor's fees were £0.8m (2020: £0.6m). The Audit Committee was satisfied that the level of audit fees payable in respect of the audit services provided were appropriate and that an effective audit could be conducted for such a fee.

Details of the fees paid to the External Auditor for audit and non-audit are set out in Note 9 to the consolidated financial statements.

Independence and objectivity

The Audit Committee monitors and assesses the independence and objectivity of the External Auditor, including the evaluation of potential threats to independence and the safeguards in place to mitigate these. The Committee considered there were no relationships between the external Auditor and the Group that could adversely affect its independence and objectivity. The External Auditor reported to the Committee that it had considered its independence in relation to the audit and confirmed that it complies with UK regulatory and professional requirements and that its objectivity is not compromised. The Committee also considered the tenure of the External Auditor, the Auditor's own processes for maintaining independence and the nature and amount of non-audit work undertaken by the Auditor. The Audit Committee took these factors into account in considering the External Auditor's independence and concluded that KPMG remained independent and objective in relation to the audit.

Priorities for year ending 31 March 2022

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.

In line with guidance from the Professional Practice of Internal Auditing, an External Quality Assessment of AO's Internal Audit activities will be conducted during FY22. The Committee will review the outcome of the assessment and will determine and assign any actions as appropriate. The results of the External Quality Assessment will be communicated in the Audit Committee's report next year.

The work of the Committee will also focus on overseeing management's preparations and responses to the changing control landscape, including the outcome of the BEIS consultation paper on audit reform. The Committee will also seek to undertake a full appraisal of the effectiveness of the Group's risk management process and procedures.

Marisa Cassoni
Chair, Audit Committee
AO World Plc

30 June 2021

Directors' remuneration report

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

Luisa D. Delgado
Chair, Remuneration Committee

FY21 highlights:
Highlights of the work of the Remuneration Committee in FY21 and to the date of this report:

- Design and implementation of the Company's All-Employee Value Creation Plan including extensive shareholder consultation, employee consultation and consideration of the impact of this incentive structure on broader remuneration arrangements.
- Attending training and updates on market developments on Executive remuneration landscape.
- Design of the proposed Directors' remuneration policy including consideration of the requirements of the 2018 UK Corporate Governance Code and various investor and proxy adviser guidance on remuneration.
- Determined the levels of vesting for the AO Incentive Plan FY21 Award, which is due to vest this summer on approval of the Accounts.
- Considered the remuneration for FY22 for our Executive Directors, the Executive Committee and certain senior management liaising with the People team on a Group-wide reward strategy and principles of remuneration.
- Set the performance conditions for the AO Incentive Plan FY22 Award, with robust target setting and evolving the design of performance conditions.
- Review of the Company's Gender Pay Gap report and recommended actions.

This section sets out the Company's Directors' remuneration report. The report is structured as follows:

- The annual statement from the Chair of the Remuneration Committee
- The proposed Directors' remuneration policy (which will be put to the shareholder vote at the 2021 AGM)
- The Annual Report on Remuneration for FY21 (which will be subject to an advisory vote at the 2021 AGM)

Annual Statement by the Chairman of the Remuneration Committee

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' remuneration report for our financial year ended 31 March 2021 (FY21).

Pay for sustainable performance; our remuneration policy

During the year, the Committee undertook a full review of our policy and approach to Executive remuneration, considering the evolving best approaches to support sustained value creation and performance steering along our goals and stretching targets. The Committee considered a range of potential options (including restricted stock units and reverting to a separate annual bonus and traditional LTIP) and listened to participants of the AO Incentive Plan ("AOIP") that was implemented three years ago to understand its strengths and weaknesses and what impact it was having.

After careful consideration, we decided that continuing to operate our current remuneration framework – base salary and benefits plus the AOIP, the single incentive scheme, supports our business agenda in the optimal way. Under the AOIP, awards are determined based on performance against stretching annual financial and strategic targets. Any amount earned is paid out one-third in cash and two-thirds deferred for three years as conditional deferred share awards (conditional on performance underpins and continued employment). The share portion of Executives' awards are subject to a further one year holding period such that the total performance, vesting and holding period for this element of the award is five years, in- line with the UK Corporate Governance Code.

AO is a fast-paced dynamic high-growth business, with an entrepreneurial culture at its heart to evolve and innovate rapidly and in agile ways to meet and anticipate market needs, leverage technology developments shaping their use in innovative customer journeys and to drive shareholder value creation. The Committee believes that the AOIP, which allows the Committee to refresh targets each year, aligns effectively with AO's strategy of working towards annual milestones to deliver long-term performance, allowing the Company to remain agile and respond to a rapidly changing market, whilst ensuring that both performance measures and targets align with our evolving business strategy. Multi-year targets that would need to be set, for example, under an LTIP would reduce the business' agility in reacting to market circumstances. Further, AO is performance driven, and the AOIP is a fully performance-based plan. The performance targets set under the AOIP provide a strong steering around what is important to the Company and emphasise what needs to be delivered each year to build success for the long- term.

We are clear that a robust process for setting meaningful targets is at the heart of the effective operation of the AOIP. There is strong Remuneration Committee oversight of the target setting process, as well as discretion on vesting outcomes to ensure those are balanced in the context of the underlying business performance, the managerial impact, and the experience of shareholders and other stakeholders. Combined with overall Board oversight, we are committed to continuing to strengthen the plan with appropriate governance around business planning, decision making and monitoring processes.

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 stakeholder experience. 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 and overall compensation trends throughout the Company, as this provides important context when determining pay for our Executives (see later in our Approach to Remuneration for FY22). 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.

UK Corporate Governance Code

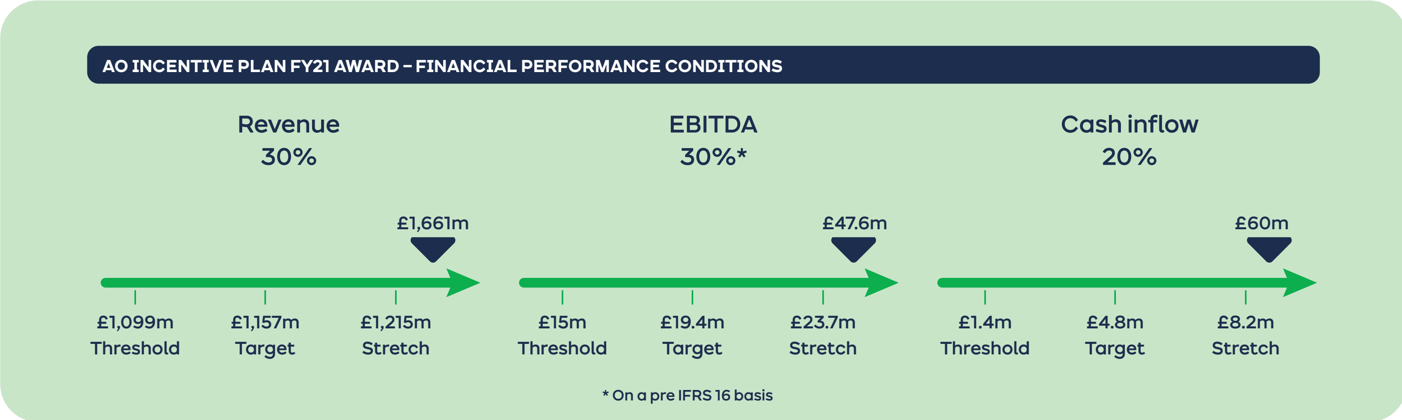
When making decisions relating to remuneration, the Committee is mindful of the guidance in the UK Corporate Governance Code around clarity, simplicity, risk, predictability, proportionality, and alignment to culture. As detailed in this report, various steps have been taken to ensure that the approach to remuneration is consistent with these principles – indeed these have been key considerations when designing the policy.

Under the new policy, we have formalised our post-termination shareholding requirements – at 200% of salary for two years post-termination. In the prior year, we reduced the pension contribution levels for our incumbent Executive Directors to 9% of salary, in line with the wider management of the Company, and are committing to identify a plan to align pension for the Executive Directors with the rate available to the majority of the wider workforce in the UK by 1 January 2023.

Value Creation Plan

During the year, we introduced our all-employee AO Value Creation Plan ("VCP") to support the implementation of our ambitious high-growth business strategy, leveraging our business momentum and involving all our employees in a way that is reflective of our unique, people-centred culture. The plan targets sustained profitable high growth measured by the resulting creation of sustained shareholder value. It was designed with highly ambitious, deeply transformational growth targets in mind; any value delivered beyond those high targets will be shared by each and every one of our employees in a meaningful way, with the intention that all current employees would have the possibility to earn approximately one year's salary at the end of March 2025.

Directors' remuneration report continued



In designing the VCP, the Committee was mindful of potential inherent risks, and incorporated a number of safeguards within the plan design. Those included a phased vesting schedule over three years to drive long-term sustainable performance, a dilution cap, a cap on individual awards of £20m for the Executive Directors, a robust recovery mechanism (malus and clawback), and broad discretionary Committee authority for overriding the formulaic outcome if the Committee considers that would not be reflective of the overall performance of the business over the period.

The Committee undertook extensive consultation with shareholders and adjusted the design of the plan accordingly before its finalisation. We were pleased that the VCP was approved by shareholders at the 2020 AGM with a favourable vote of 91%. We are also pleased the VCP was received with excitement by our employees at its launch; it has started to prove powerful in engaging the broad employee population effectively on a common stretching path, creating understanding of value creation drivers, market mechanics, clarity in understanding and steering progress and immense pride of being one team. We would like to thank shareholders for their engagement and support.

Performance and reward for FY21

The Annual Report on Remuneration (set out on pages 127 to 139) 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.

The Group delivered a very strong performance across all aspects of the business in FY21, stepping up to the challenges, and capitalising on the opportunities presented by the Covid pandemic. We have seen significant increases in revenue, a step change in profitability at both Group and divisional levels, strong cash generation, improved financial resources, and substantial progress in operational capability. For further details of our performance and investments over the year, please see pages 46 to 53.

Group revenues increased by 62% to £1.66bn, with the UK generating substantial trading profits and the German business achieving run-rate profitability in Q3. Group Adjusted EBITDA, despite Covid-related costs, was £64.4m (on a post IFRS-16 basis) (an increase of 191% compared to FY20) excluding a one-off non-cash reduction of £19.6m in the value of the warranty contract asset relating to the period 2008 to 2020. Cash inflow was over c.£60m.

Importantly, the Government support initially requested was repaid early- on in the year and none was claimed again, thus had no impact on profitability.

The targets for the FY21 AOIP Award consisted mainly of financial targets, addressing both top-line growth and profit, but also cash flow and two stakeholder metrics centred on customer satisfaction and employee satisfaction (measured by NPS scores).

For the financial metrics, all stretch targets were achieved. 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 average of 85. This market-leading score was achieved notwithstanding significant operational challenges and huge increase in order volumes caused by the pandemic. At the same time, our Employee NPS result was +30 (which was ahead of a target of +25 but behind the maximum target of +40) and where +10 would be considered "good".

The Committee considered whether there should be any adjustment to financial targets in light of Covid-19 tailwinds, both at several intervals during the year and then also following year-end, to assess whether strict application of the performance conditions and targets reflected correctly the performance and impact of management on the results. Our conclusion, after weighing carefully all aspects of the market, the operations, and the performance over the year, including the interventions management made to sustain that performance and drive it forward, we determined that it is right to maintain the targets, and to maintain the resulting rewards. A summary of our assessment is as follows:

- Whilst Covid-19 has clearly increased online shopping, the business has been able to both successfully service the significantly increased demand in the immediate, and to prepare our capacity and capability to service effectively a sustained change in shopping behaviour going forward. It has done so through investing in additional infrastructure for the mid to long- term (in terms of warehousing, outbases and delivery vehicles), leveraging its pre-existing relationships with manufacturers cemented over many years to secure product availability, and added to its headcount by c.50%, all whilst ensuring that its people and customers were safe. In particular, the Committee noted the fact that the business has thrived through the pandemic was testament to a well-invested culture, strong management team and having the right building blocks in place to cope with increased demand and to execute exceptionally.

- We believe that the shift to online over the past year will be permanent and, due to our investment in our people and infrastructure, the business will be capable of continuing to deliver sustainable growth.
- The share price had seen a significant increase over the year and thus considerable value had been created for shareholders.
- Covid-related Government support initially claimed was repaid and no further support was claimed and therefore had no impact on profitability, as noted above. At the same time, we created an additional c.1,200 roles, mainly in our customer service teams and operational areas, to service increased demand.

In total, we have, in principle, as a consequence, awarded 97.5% of the maximum AO Incentive Plan Award, which we feel is a fair reflection of the strong performance over the year. The award will be settled as one-third in cash and two-thirds in deferred shares.

Full details of the cash amount to be paid and share awards to be issued to our Executive Directors under the AO Incentive FY21 Award are disclosed on page 127.

The Committee deems that the payout levels over the past years show the AOIP functioning as intended, with a payout close to the maximum this year for very strong performance and payouts of 47.8% and 51.2% for the years ended 31 March 2020 and 2019 being awarded, respectively.

Approach to Remuneration for FY22

Executives

The Remuneration Committee is working with the AO reward team to define a Group-wide pay philosophy and principles, which will ensure that all our people earn a fair and attractive salary, and benefits reward package aligned around common pay principles that support the culture and values that mark AO as a unique and thriving business. These will reflect our customer orientated, agile, merit-based and inclusive culture that represents a competitive strength for the Company's business model and competitive in attracting and retaining top, high-performing talent required for the achievement of our profitable business growth aspirations.

Further work will be required for a detailed review of the broad employee population and the Executives within that. We recognise that the business and organisation has evolved over the past years, and very significantly so in the past 12-18 months, in scope and complexity, and so have many roles in their responsibility and impact. The market has also evolved equally significantly, particularly in key talent clusters. Our market competitiveness is therefore being assessed in that combined context. Early indications, on a total compensation level, are that certain individual roles and clusters of high market demand roles in AO are no longer compensated competitively, and turnover of people in some functions is higher than we would like it to be. In addition, we have been made aware that some of our top talent have been approached to move elsewhere - to date, their prospects, boosted considerably by the potential of the VCP, have led them to conclude they should stay with AO. Accordingly, upon validation of these early indications, we may increase the compensation for the roles affected across the organisation and levels, including at Executive level, if required. The Committee intends to engage with major shareholders in advance of making any changes.

In terms of variable pay, the Executives will be entitled to participate in the AOIP, where we have evolved the performance conditions along three sets of deliverables:

(1) Revenue, EBITDA and cash targets, as ultimate (short-term) "output" measures.

(2) Strategic transformation measures, specifically addressing the progress along the key value creation drivers of our strategic business plan, thus representing the "input" measures (targets that will drive the business forward for the medium to longer term);

(3) ESG/stakeholder impact measures, as we are sharpening our related Group strategy and focusing our ESG measurement system (targets for the longer term).

Please see page 136 for further details.

We will continue to challenge ourselves and set robust target levels with a stretching and ambitious mindset, reflective of the winning culture that is special to our high-growth business model. Together with an appropriate exercise of discretion by the Remuneration Committee, we believe that it is therefore right to maintain the current vesting profile. The maximum opportunity remains at 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 with a subsequent one-year holding period. This therefore means the total performance, vesting and holding period is five years, in line with the revised requirements in the Code and, importantly, ensuring close alignment between shareholders and management interests.

Non-Executives

Fees for the Non-Executive Directors (including the Chairman) were reviewed during the year and increases were awarded to the chairs of both the Audit and Remuneration Committees in view of the increasing scope and complexity of their roles, as well as time commitments required.

Further details regarding the implementation of our policy in the year ahead are provided on pages 134 to 139.

Employees

As set out in the Corporate Governance report on page 95, Chris Hopkinson, our designated People Champion, has headed up engagement with the workforce generally and looked at areas of pay through survey feedback and "voice to the Board" sessions. When considering the AOIP, we consulted with a number of participants to understand their views as leaders and participants on the merits of the plan.

We plan to continue engaging with employees to ensure both transparency of remuneration, and that employee views are taken into account when setting and determining Executive remuneration in the year ahead. As said above, it is our particular intent to ensure that the Company has a clear overall pay and benefits philosophy, and that Executive packages move within that context in an equitable and cohesive way.

I hope this sets out clearly how the Committee has implemented the existing policy during FY21, the key features of the proposed policy and how we propose to implement the policy in FY22.

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

Luisa D. Delgado
Chair, Remuneration Committee
AO World Plc

30 June 2021

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.

The Policy will be put to a binding shareholder vote at the 2021 AGM and, subject to approval, will take formal effect from that date. We do not propose any fundamental changes our Policy (in particular surrounding variable remuneration) as following careful consideration of the remuneration landscape, taking into account our evolving strategy and stakeholder views and, looking at its implementation over recent years, we believe that it is operating effectively and closely aligns to our business strategy. However, the Policy will formalise certain features that we had already introduced and amend other aspects to more closely align with the Code.

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

The Policy was developed over the course of 2020 and early 2021. The Committee undertook a thorough review of arrangements with a particular focus on alignment to AO's forward strategy and aspirations, general market developments and stakeholder expectations. Input was received from the Chairman and management whilst ensuring that conflicts of interest were suitably mitigated. Input was provided by the Committee's appointed independent advisers throughout the process.

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 for sustained contribution and to focus them on the delivery of the Group's strategic and business objectives, to promote a strong winning and customer orientated culture that builds on accountability of results, to incentivise high growth and innovation, to align the interests of Executive Directors with those of shareholders and stakeholders. In promoting these objectives, the Committee aims to ensure that Executives are paid fairly. It 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"; this is reflected in the approach to setting pay across the whole senior management population as a team, and to overall principles for remuneration and benefits for the overall employee population of AO.

The Committee's Terms of Reference are available on the Company's website at ao-world.com.

How the views of shareholders are taken into account

The Committee understands that constructive dialogue with shareholders plays a key role in informing the development of a successful remuneration policy, values this dialogue as a source of exchange and learning, and we regularly seek to actively engage with shareholders in these matters. The Committee will continue to consider any further shareholder feedback throughout the year and further 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 Chair will consult with major shareholders of these in advance and will ensure that there is opportunity for discussion, in order that any views can be properly reflected in the Policy formulation process.

While deliberating on the proposed incentive structure, we actively sought shareholders' views 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

When designing the Policy for Executive Directors, the Committee takes into account the overall approach to reward for, and the pay, benefits 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, ensuring our reward philosophy is consistently and fairly applied. The Committee is also provided with periodic updates on employee remuneration practices and trends across the Group.

As part of our Policy design consideration we sought feedback from a cross section of the AOIP participants. We have also discussed pay and benefits with our Employee Champions through our Voice to the Board sessions, which Chris Hopkinson (our NED Engagement Champion) has attended.

The Remuneration Committee is, in particular, mindful of the Code requirements to align Executive pension contributions with the wider workforce. During FY21, we aligned the Executive pension contributions with the rate received by other managers at AO and are working to identify a plan, by 1 January 2023, to then align Executive Directors' pension contributions with the rate received for the majority of the wider workforce in the UK and to develop a Company-wide strategy for compensation and benefits.

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 had conducted this assessment and remains satisfied that the proposed Policy is appropriately aligned with the risk profile of the Company and that the remuneration arrangements whilst rewarding entrepreneurial spirit and innovation do not encourage excessive risk taking.


BM AO 3701

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 with the expertise and experience to deliver the Company's strategy • To reflect individual experience and expertise • To provide a fair and appropriate level of fixed basic income	• To provide an externally competitive benefit whilst remaining internally consistent with percentages of contributions • To provide an appropriate level of percentage of in service fixed income in retirement
Operation	• Normally reviewed annually, with any increase normally effective on 1 April (increases may be awarded at different times if considered appropriate by the Committee) • Set initially at a level required to recruit suitable Executive Directors, reflecting their experience and expertise and in context of other comparable positions • 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; (e) any changes in the size and complexity of the organisation; (f) any changes market practice; and (g) 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 and where this has also been applied to other employees in similar circumstances • 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 9% of salary (which is the rate received by other managers in the business). We are committing to identify a plan to align pension for the Executive Directors with the rate available to the majority of the wider workforce in the UK by 1 January 2023
Framework used to assess performance	• The Committee reviews the salaries of Executive Directors each year taking due account of all the factors described in how the salary policy operates	N/A

OTHER BENEFITS	"AO INCENTIVE PLAN"
• To provide a competitive benefits package to aid recruitment and retention of high-calibre 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 (including tax thereon) 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 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 normally be subject to additional performance underpin conditions measured over a period of at least three years running from the end of the performance period • Normally 62.5% of maximum is payable for target levels of performance with 25% normally paying for threshold levels of performance. • Following the vesting of deferred shares awards, Executives will normally be required to hold the awards for one further year, bringing the overall period to five years. The shares held may be net of tax if determined by the Committee • 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 material misstatement of accounts, an error in assessing any applicable performance condition or employee misconduct, a material failure of risk management, serious reputational damage; a material corporate failure or any other circumstances that the Board in its discretion considers to be similar in their nature or effect
• 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 may, in its discretion, adjust AOIP payouts if it considers that the formulaic outcome is not reflective of the underlying financial or non-financial performance of the Group or the individual performance of the participant over the relevant period, or that such payout level is not appropriate in the context of circumstances that were unexpected or unforeseen when the targets were set. When making this judgement the Committee may take into account such factors as it considers relevant. Any use of discretion will be detailed in the following year's Annual Report on Remuneration • No vesting will occur below a threshold level of performance as set by the Committee on a year-by-year basis

Value Creation Plan

In addition, Executive Directors also participate in the all-employee AO Value Creation Plan ("VCP"), which was approved by shareholders as a separate resolution at the 2020 AGM. The VCP supports the implementation of our ambitious AO's high-growth business strategy, leveraging our business momentum and involving all our employees in a way that is reflective of our unique people-centred culture.

The Plan will continue to operate on the terms set out in the 2020 Notice of AGM.

Implementation of the policy for the FY21 can be found in the Annual Report on Remuneration.

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; (iii) where otherwise approved by shareholders; or (iv) 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.

Terms of the AO Incentive Plan

Awards under the AO Incentive Plan, 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 that 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. in respect of the portion of the award granted in shares, be settled in cash at the Committee's discretion (it is intended that this provision would only be used for Executive Directors where it is not possible to settle share portion of the award in shares due to regulatory or legal reasons); 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.

Executive Directors are expected to build a minimum shareholding of 200% of salary. Where the holding is not already attained it is expected 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.

Post-cessation of office ownership guidelines

Post-employment guidelines were introduced from 1 April 2020, with Executive Directors expected to retain 200% of salary (or actual shareholding if lower) for one year following stepping down from the Board, reducing to 100% of salary (or actual shareholding if lower) between one and two years following stepping down from the Board. Following consultation with shareholders, our guideline has been extended such that following stepping down from the Board, Executive Directors will normally be expected to maintain a minimum shareholding of 200% of salary (or actual shareholding if lower) for two years following departure from the Board. The Committee retains discretion to waive this guideline it is not considered to be appropriate in the specific circumstance.

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.

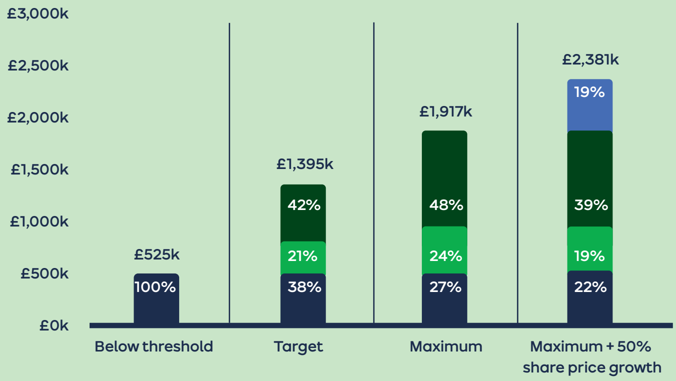
Overall, the remuneration policy for the Executive Directors is more heavily weighted towards performance-related pay than for other employees. In particular, performance-related incentives are generally not provided outside of senior management as they are reserved for those considered to have the greatest 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. 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. Further, as noted above, the VCP implemented during FY21 extends to all current employees.

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

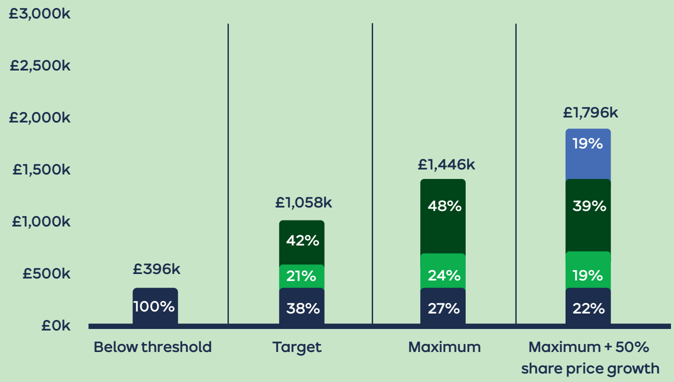
Reward scenarios

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

CEO TOTAL REMUNERATION OPPORTUNITY AT DIFFERENT LEVELS OF PERFORMANCE*



CFO TOTAL REMUNERATION OPPORTUNITY AT DIFFERENT LEVELS OF PERFORMANCE*



Fixed pay · AOIP – cash · AOIP – deferred shares · Share price growth

* Total may not sum to 100% due to rounding

Assumptions:

- Below threshold = fixed pay only (i.e. basic salary, benefits and pension).
- Target = fixed pay plus 62.5% of maximum AOIP payout.
- Maximum = fixed pay plus 100% of maximum AOIP payout.
- Maximum + 50% share price growth = fixed pay plus 100% of maximum AOIP payout, with 50% share price appreciation applied to the deferred shares delivered through the AOIP.
- Fixed pay includes the base salaries for each Executive Director applying on 1 April 2021, together with pension (at 9% of base salary), a car allowance of £12,000 for each Executive Director and the value of other taxable benefits (such as gym membership and medical cover) based on the cost of supplying those benefits in FY21.
- Maximum AOIP Award is equivalent to 300% of salary.

In addition, the Executive Directors also participate in the VCP, which gives participants the opportunity to share in the value created above a pre-determined share price hurdle. The value of any vested award will be dependent on the Company's share price and performance relative to the targets set. Awards for Executive Directors vest in three equal tranches (with five, six and seven-year performance periods, ending in 2025, 2026 and 2027 respectively), with the total maximum payable capped at £20m for each Executive Director. The VCP is not included in the scenario charts above.

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 six months' notice to terminate employment (by either party) must be given. However, incumbent Executive Directors' service contracts are subject to 12 months' notice to terminate in line with the historic policy.

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 incumbent Executive Directors. Six months for newly appointed 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. During the vesting period, 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. Where an Executive Director ceases employment during the holding period they shall not normally forfeit their award.

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 that 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, their outstanding awards will be satisfied and deferred share awards will vest as soon as reasonably practicable after the date of their death on the basis set out for other "good leavers" above.

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. The opportunity would normally be pro-rated for the period of employment unless the Committee determined otherwise. 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 normally 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 Performance Share Plan 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.
- Any new Executive Director may participate in the all-employee AO Value Creation Plan on the terms approved by shareholders at the 2020 AGM (or as subsequently amended at any future AGM).
- 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 Chair 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.

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 • Additional fees may be paid to reflect additional Board or Committee responsibilities as appropriate • 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. The Company may meet any tax liabilities that may arise on any such expenses • Additional non-significant benefits may be introduced if considered appropriate	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 FY21 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 in September.

Single figure of total remuneration for FY21 (Audited)

The audited table below shows the aggregate emoluments earned by the Directors of the Company during the period 1 April 2020 to 31 March 2021 (or relating to that period in the case of the AO Incentive Plan) (FY21) and, for comparison, the amounts earned during the period 1 April 2019 to 31 March 2020 (or relating to that period in the case of variable remuneration) (FY20).

		Salaries and fees £	Benefits/ taxable expenses £[1]	Pension[3] £	Total fixed £	Value of PSP[4] £	AOIP cash[5] £	Total variable £	Total £
Executive Directors									
John Roberts[1]	FY21	464,000	19,055	41,200	524,255	–	452,400	452,400	**976,655**
	FY20	450,000	22,927	44,640	517,567	–	215,100	215,100	**732,667**
Mark Higgins[2]	FY21	350,000	14,536	33,921	398,457	–	341,250	341,250	**739,707**
	FY20	340,000	16,716	39,081	395,797	413,280	162,520	575,800	**971,597**
Chairman									
Geoff Cooper	FY21	200,000	–	–	200,000	–	–	–	**200,000**
	FY20	200,000	–	–	200,000	–	–	–	**200,000**
Non-Executive Directors[6]									
Chris Hopkinson	FY21	55,000	–	–	55,000	–	–	–	**55,000**
	FY20	55,000	–	–	55,000	–	–	–	**55,000**
Marisa Cassoni[7]	FY21	75,000	-	–	75,000	–	–	–	**75,000**
	FY20	72,051	761	–	72,812	–	–	–	**72,812**
Shaun McCabe	FY21	55,000	–	–	55,000	–	–	–	**55,000**
	FY20	55,000	–	–	55,000	–	–	–	**55,000**
Luisa D. Delgado	FY21	65,000	–	–	65,000	–	–	–	**65,000**
	FY20	65,000	1,373	–	66,373	–	–	–	**66,373**
Total	FY21	1,264,000	33,591	75,121	1,372,712	0	793,650	793,650	**2,166,362**
Total[8]	FY20	1,237,051	41,777	83,721	1,362,549	413,280	377,620	790,900	**2,153,449**

1. For John Roberts, benefits include medical and life assurance and a car allowance of £12,000 paid in cash and private fuel, and £200 attendance bonus available on the same basis to all employees. The FY20 figure has been restated to reflect £6,000 of private fuel costs not disclosed last year.
2. For Mark Higgins, benefits include car allowance of £12,000 paid in cash and private fuel and, £200 attendance bonus available on the same basis to all employees.
3. Executive Directors were entitled to Company pension contributions of 12.75% of gross basic salary for FY20 and for the first six months of FY21 with £10,000 being paid into a pension and the balance paid in cash (after deducting employer National Insurance contributions at 13.8%). From 1 October 2020, the pension contribution rate was reduced to 9% in line with the wider management contribution rate. The cash portion is no longer reduced to reflect employers NIC.
4. FY20 was the final year for vesting of PSP schemes, therefore there is no PSP linked remuneration for FY21. The FY20 figure has been restated to reflect the actual value of the award upon vesting. This is based on a share price of £1.64 with options over 252,000 shares vested.
5. Both John Roberts and Mark Higgins were granted an award under the AO Incentive Plan of 300% of salary for the performance period of FY21. Following near maximum attainment of the performance conditions, 97.5% 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 being awarded in the form of a deferred share award. The deferred share award will be released in July 2024 subject to continued employment and attainment of the performance underpin, following which Executives will be required to hold awarded shares for a further year. Given that the deferred shares remain subject to a performance underpin they have not been included in the FY21 single figure. The value of the deferred shares will be disclosed in the single figure in the FY24 Annual Report. As the portion of the AOIP disclosed is in cash, no portion of the value of the award relates to share price appreciation. No discretion has been exercised in respect of the award.
6. 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.
7. 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). FY21 fees comprise the basic NED fee, the Audit Chair fee and the SID fee for the full year. Please refer to note 6 above for information regarding taxable expenses.
8. FY20 total figures have been restated to exclude Jacqueline de Rojas and Brian McBride, who have not served in office during FY21. Total remuneration paid to Jacqueline de Rojas and Brian McBride for FY20 amounted to £37,500 and £20,109 respectively.

Directors' remuneration report continued

Details of variable pay earned in FY21 (Audited)

AO Incentive Plan Award

John Roberts and Mark Higgins both participated in the AO Incentive Plan (which combines a cash award and conditional deferred share award) under which they could receive an award of up to 300% of salary, for the year ended 31 March 2021.

The targets for the AO Incentive Plan Award were weighted towards financial metrics, with 30% of maximum award subject to Group Revenue performance conditions, 30% of maximum award subject to Group Adjusted EBITDA performance conditions, 20% 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 net promoter score and employee net promoter score.

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 strategy as can be seen on pages 42 and 43. 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. Similarly, employee satisfaction is central to creating long-term sustainable growth and there is empirical evidence of high employee engagement with increased levels of customer satisfaction, whether expressed through NPS or other measures, which, in turn, has positive impacts on financial performance.

The following table sets out the targets, actual performance against these targets and accordingly, the applicable payout for the FY21 AO Incentive Plan Award.

Measure (weighting)	Targets		% payout (for this element)	Performance achieved	Award
Group revenue (40%)	Threshold	£1,099m	25%		
	On target	£1,157m	62.5%	£1,661m	30%
	Stretch	£1,215m	100%		
Group Adjusted EBITDA (30%)*	Threshold	£15m	25%		
	On target	£19.4m	62.5%	£47.6m	30%
	Stretch	£23.7m	100%		
Cash inflow (10%)	Threshold	£1.4m	25%		
	On target	£4.8m	62.5%	£60m	20%
	Stretch	£8.2m	100%		
Customer NPS (10%)**	Threshold	70	25%		
	On target	75	62.5%	85	10%
	Stretch	80	100%		
Employee NPS (10%)	Threshold	10	25%		
	On target	25	62.5%	30	7.5%
	Stretch	40	100%		
				Total	97.5%

* Calculated on a pre-IFRS 16 basis and is Adjusted EBITDA of £64.4m as per Note 3 to the financial statements on page 168, less the impact of IFRS 16 of £16.9m.

** This is the average NPS figure across ao.com, mpd.co.uk and ao.de, weighted by revenue.

Directors' remuneration report continued

Performance against financial targets

As previously reported, the Group delivered a strong performance across all aspects of the business in FY21, stepping up to, and capitalising on, the challenges and opportunities presented by the Covid pandemic. This included significant increases in revenue, a step change in profitability at both Group and divisional levels, strong cash generation, improved financial resources, and substantial progress in operational capability.

Group revenues increased by 62% to £1.66bn, with the UK generating substantial trading profits and the German business achieving rate profitability in Q3. Group Adjusted EBITDA, despite Covid-related costs, was £64.4m, excluding a one-off non-cash reduction of £19.6m in the value of the warranty contract asset relating to the period 2008 to 2020. Further, over the period, Government support initially requested was repaid early- on in the year and then not claimed again, therefore having no impact on profitability. Cash inflow was over £60m.

The Committee has considered whether there should be any adjustment to financial targets in light of the Covid-19 tailwinds, but has determined that it would not be right or fair to reduce awards (or adjust targets) for the following reasons:

- Whilst Covid-19 has increased online shopping, the business has had to be able to service that demand. It has done so through investing in additional infrastructure for the mid to long- term (in terms of warehousing, outbases and delivery vehicles), leveraging its pre-existing relationships with manufacturers cemented over many years, to secure product availability, and adding to its headcount by c.50%, all whilst ensuring that its people and customers were safe. The fact that we have managed to capitalise on the pandemic is testament to a well-invested culture, Management team and having the right building blocks in place to cope with increased demand and to execute exceptionally.
- We believe that the shift to online over the year will stick in the main and, due to our investment in our people and infrastructure, the business will continue to deliver sustainable growth.
- The share price has seen a significant increase over the year, and thus considerable value has been created for shareholders.
- Accordingly, the Committee has determined that the financial performance conditions have been met in full.

Performance against strategic targets

The Committee is delighted that customer satisfaction, measured via NPS, has remained strong over the year. For ao.com and ao.de respectively we have achieved average NPS scores of 86 and 88. Our Mobile Phones Direct business achieved an average NPS of 75 which, whilst lower than the AO branded platforms, is still considered "Excellent". These scores are market leading and an excellent achievement by the team during a rather turbulent year and as the business has serviced unforeseen and exceptional demand, adding an additional 2m customers to its customer base. Accordingly, the Committee has determined that this performance condition has been met in full.

On an average basis over the year the employee NPS score has been above target at +30 (where a score of +10 would be considered good). Accordingly, the Committee has determined that 7.5% of the 10% pertaining to this metric, be awarded.

In total, therefore, we have awarded 97.5% 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%	97.5%	£452,400	£904,800
CFO	300%	97.5%	£341,250	£682,500

1. The cash element will vest and will be paid in July following approval of the accounts by the Board.
2. The share award will be granted in July 2021 and these shares will be deferred for a period of three years. The vesting of these shares is subject to the performance of the business until the completion of our financial year ending 31 March 2024 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.

Percentage change in remuneration levels (Unaudited)

The table below shows the movement in the salary, benefits and cash element of the AO Incentive Plan Award for each Director between the financial year ended 31 March 2021 and the previous financial year compared to that for the average employee of the Company – AO World plc - (but not the wider Group). For the benefits and bonus/Incentive Award (cash element) per employee, this is based on those employees eligible to participate in such schemes.

	Salary[1]	Taxable benefits[2]	AOIP cash element[3]
John Roberts	3%	-10.8%	110%
Mark Higgins	3%	-14.3%	110%
Geoff Cooper	0%	0%	0%
Chris Hopkinson	0%	0%	0%
Marisa Cassoni[4]	0%	0%	0%
Shaun McCabe	0%	0%	0%
Luisa Delgado	0%	0%	0%
Other employees (AO World Plc)	4.0%	-29.9%	102%

1. Reflects the average change in pay for employees, calculated by reference to the aggregate remuneration for all employees of AO World Plc in each year divided by the number of employees.
2. There are no changes to benefit entitlements for employees – the reduction in cost primarily reflects lower private fuel reimbursement and gym membership claims due to lockdown and a reduction in medical insurance premiums. There were no changes in benefits for Executives for FY21 against the prior year, save that we reduced their pension contributions to that received by the wider management workforce from 1 October 2020 and in line with the broader employee population; there was also lower private fuel reimbursement.
3. The percentage change in remuneration AO Incentive Plan Award cash element for "other employees" is calculated by looking at the average amount participants in the scheme for FY20 received in cash, compared to the cash element participants in the AO Incentive Plan are expected to receive relating to FY21, in each case excluding Executive Directors.
4. Marisa Cassoni was appointed as Senior Independent Director part way through FY20 and received pro-rata fees for the additional responsibilities in that year. For the purpose of the comparison we have assumed that the full fees were paid in FY20.

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 2021. This index was chosen as it represents a broad equity market index, of which AO is a constituent, which includes companies of a broadly comparable size and complexity.

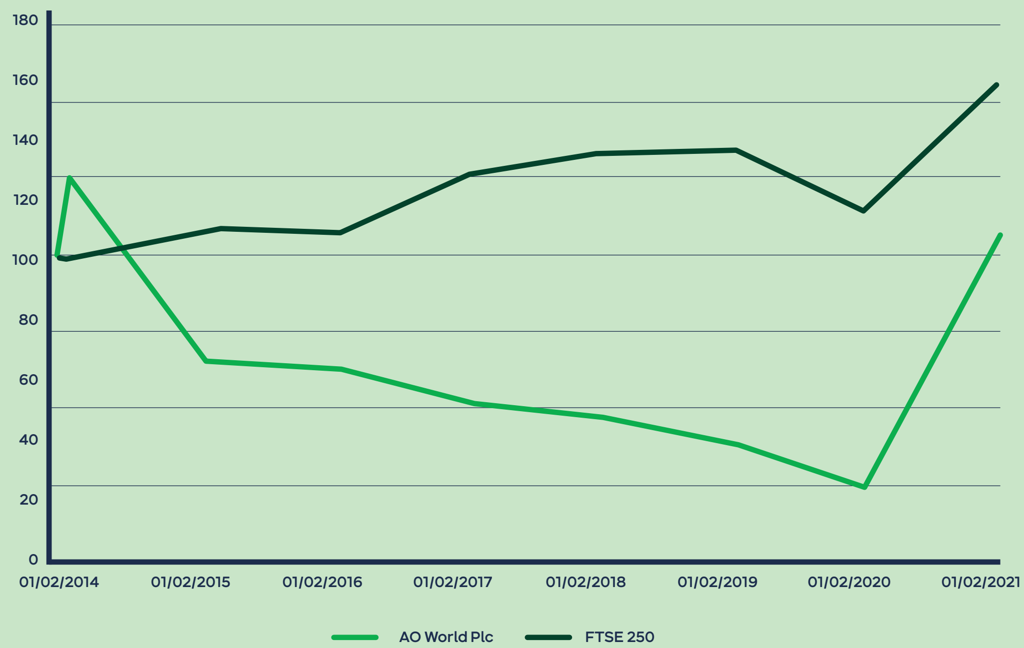


Table 2, below, shows the total remuneration figure for the Chief Executive during the financial years ended 31 March 2011 to 31 March 2021. The total remuneration figure includes the annual bonus payable for performance in each of those years up to FY19 and from FY19 the cash element of the AOIP. The annual bonus percentage shows the payout for each year as a percentage of the maximum.

2 TOTAL REMUNERATION OF CEO

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Total remuneration (£'000)[1]	243†	227†	537†	537†	588†	575*‡	781*	551†‡	733†	977†
Annual bonus (% of maximum)	0%	0%	0%	0%	10%	10%	37.5%	–	–	–
AO Incentive Plan Award (% of maximum)	–	–	–	–	–	–	–	50.5%	47.8%	97.5%
PSP vesting (% of maximum)	–	–	–	–	–	–	–	8.59%	–	–

† John Roberts
* Steve Caunce
‡ Figures calculated for full year pro-rata

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.

	FY20	FY21	% change
Staff costs[1]	£112.1m	£140.1m	25.0%
Distributions to shareholders	No distributions were made to shareholders in the year		

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

CEO pay ratio

The table below shows the ratio of the single total figure of remuneration ("STFR") of the CEO to the equivalent pay for the 25th, 50th and 75th percentile employees (on a full-time equivalent basis).

Year	Method	P25 25th percentile pay ratio	P50 50th percentile pay ratio	P75 75th percentile pay ratio
FY21	Option A	46:1	37:1	26:1
FY20	Option A	35:1	28:1	20:1

Notes:

1. 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 means of identifying the median, lower and upper quartile employees.
2. The single total figure of remuneration of all AOers employed by the Group for FY21 was calculated and ranked using 2020/21 P60 and P11D data, employer pension contributions and payments under the Company share schemes, in line with the reporting regulations. The remuneration for FY21 for the employees identified at P25, P50 and P75 is £21,114, £26,218, and £37,533 respectively. The base salary in respect of FY21 for the employees identified at P25, P50 and P75 is £19,190, £22,000 and £29,808 respectively.
3. FY21 payments to the wider employee base referred to above include the FY20 cash element of the FY20 AOIP payment, which was paid in FY21, but for the CEO, we have uses the single total figure value, which include the FY21 AOIP cash payment payable in June but which relates to the FY21 performance).
4. 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.

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. As noted on pages 118 and 134, the Company's principles for making pay decisions for our Executives are the same as for the wider workforce, reflecting our One AO Pay Philosophy; a fair and attractive reward package, market competitive in the context of the relevant talent market and differentiated by the level of value creation.

The ratios therefore reflect the different remuneration arrangements between our warehouse and call centre employees at one end, and our senior Executives whose roles require them to focus on long-term value and alignment with shareholder interest.

Given a significant proportion of the CEO's total remuneration is variable and linked to the AOIP, the increase in the pay ratio this year compared to last is influenced by the AOIP outcome (which has vested at 97.5% for FY21 vs 47.8% in the prior year for the CEO).

The Company believes that the ratio is consistent with the pay, reward and progression policies across the Group.

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 2021.

External appointments

No fees were received by Executive Directors for external appointments during the year ended 31 March 2021.

Directors' shareholdings and share interests (Audited)

Directors' shareholdings as at 31 March 2021 are set out below in Table 3.

During the year under review, the following options were exercised:

- Each of the CEO and CFO exercised SAYE options over 20,224 shares.
- Mark Higgins, CFO, exercised his 2017 PSP options over 252,000 shares. He also exercised his 2016 PSP options over 57,537 shares. A portion of the resulting shares was sold to cover the applicable tax. Of the balance, half were retained in line with policy to build up to shareholding guidelines.

There have been no changes to Directors' shareholdings during the period from 1 April 2021 to the date of this report.

3 DIRECTORS' SHAREHOLDINGS

	Shares held beneficially at 31 March 2020[1]	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	**108,832,829**	200%	Yes	43,153	284,900	5,421
Mark Higgins	**95,448**	200%	No	NIL	586,742	NIL
Chris Hopkinson	**22,956,306**	N/A	N/A	N/A	N/A	N/A
Marisa Cassoni	**52,628**	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. Mark Higgins had vested options under the 2016 PSP and 2017 PSP over 57,537 and 252,000 respectively. These options were exercised during the year under review and a portion was sold to cover the applicable tax. Of the balance, half were retained in line with policy to build up to shareholding guidelines.
4. For John Roberts, conditional awards over 284,900 shares were awarded in July 2020 as part of the AOIP FY20 award (based on a share price of £1.51), which will be released in July 2023 subject to the attainment of the performance underpin and continued employment.
5. For Mark Higgins, conditional awards over 371,484 were awarded in July 2019 as part of the FY19 AOIP Award, which will be released in July 2022 subject to the attainment of the performance underpin and continued employment. Further conditional awards over 215,258 shares were awarded in July 2020 as part of the AOIP FY20 award (based on a share price of £1.51), which will be released in July 2023 subject to the attainment of the performance underpin and continued employment.
6. Further share awards are expected to be granted to John Roberts and Mark Higgins in July 2021 as part of the AO Incentive Plan Award FY21 grant – with a value of £904,800 and £682,500 at grant respectively, which will be released in July 2024 subject to the attainment of the performance underpin and continued employment.
7. During the period, SAYE options over 20,244 shares vested for each of John Roberts and Mark Higgins, and such options were exercised. John entered into a further SAYE contract during the reporting period, under which options over 5,421 were granted.

VCP

As noted in the annual statement from the Chair of the Remuneration Committee, we have, during the year, introduced a Value Creation Plan. The Executive Directors, along with all employees, will be eligible to participate in the plan.

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

The plan will begin funding at a share price of £5.23 and will then fund at 10% of the value created above this threshold (the "Plan Value"). On 30 September 2020, awards representing 3% of the Plan Value were allocated to the two current Executive Directors and COO (1% each), with the remaining 7% allocated to current and future employees. The plan will cease funding on achievement of a £12.55 share price. The level of funding is subject to a maximum dilution of 5% of the Company's issued share capital.

All awards will normally be delivered in shares and there is a cap on the aggregate payments to any individual of £20m.

For Executives (and the COO), awards vest in three equal 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.

For all other employees, awards will vest based on the three-month average share price of the Company at 31 March 2025. The Remuneration Committee retains discretion around the treatment of awards after year five including the ability to measure performance at a later date.

The Committee will have absolute discretion on the vesting of the awards to override the formulaic outcomes.

On 30 September 2020, awards were made to the Executive Directors under the VCP. Depending on performance against the stretching share price targets set under the VCP, these awards will entitle each Executive Director to a number of Ordinary Shares equal to 3.33% of the Plan Value on each of 31 March 2025, 31 March 2026 and 31 March 2027, up to a maximum value of £20m. The Plan Value is equal to 10% of AO's market capitalisation created above a share price of £5.23 and will cease funding at a share price of £12.55.

As previously set out, we see the AOIP as our driver for sustained short to medium-term achievement, and the VCP for extraordinary performance over five to seven years. After careful assessment, and combining technical advice and our judgement, we believe that the two levels are currently balanced: AOIP levels are competitive in the light of the market, and our pay out levels over the past years show it is functioning as intended, with an actual pay out of 97.5% for the very strong performance in the year ended 31 March 2021, and payouts of 47.8% and 51.2% for the years ended 31 March 2020 and 2019, respectively. Also, at the time of the VCP finalisation, we adjusted the originally proposed Executive VCP quantum from £25m to £20m taking into account the AOIP.

Each year, when reviewing overall compensation packages, we will take into account the VCP award potential, AOIP awards and base salary and benefits.

Implementation of Remuneration Policy for 2021/2022 ("FY22")

The Policy can be found on pages 114 to 139 of this Annual Report.

Salary

The Remuneration Committee is working with the AO reward team to define a Group-wide pay philosophy and principles, which will ensure that all our people earn a fair and attractive reward package aligned around common pay principles. These will reflect our customer orientated, agile, merit-based and inclusive culture that represents a competitive strength for the Company's business model and competitive in attracting and retaining top high-performing talent required for the achievement of our profitable business growth aspirations.

No salary increases have been awarded yet for FY22 for Executive Directors but the Committee is working with the AO reward team to do a detailed review of the broad employee population including the Executives. We recognise that the business and organisation has evolved over the past years, and very significantly so in the past 12–18 months, in scope and complexity, and so have many roles in their responsibility and impact. Also, the market has evolved equally significantly, particularly in key talent clusters. Our market competitiveness is therefore being assessed in that combined context. Early indications, on a total compensation level, are that certain individual roles and clusters of high market demand roles in AO are not compensated competitively, and turnover of people in some functions is higher than we would like it to be. In addition, we have been made aware some of our top talent have been approached to move elsewhere – to date, their prospects, boosted considerably by the potential of the VCP, have led them to conclude they should stay with AO. Accordingly, upon validation of these early indications, we may increase the compensation for the roles affected across the organisation and levels, including at Executive level, if required. The Committee intends to engage with shareholders in advance of making any changes.

The current salaries as at 1 April 2021 (and those as at 1 April 2020) are as follows:

Individual	Role	Base salary at 1 April 2021	Base salary at 1 April 2020	% increase
John Roberts	CEO	**£464,000**	£464,000	0%
Mark Higgins	CFO	**£350,000**	£350,000	0%

For comparison, the average salary increase provided to all UK employees in April 2021 was 2.7%, but additional in year increases from 1 April 2020 to 31 March 2021 increased the average salary by 1.5%.

Pension and other benefits

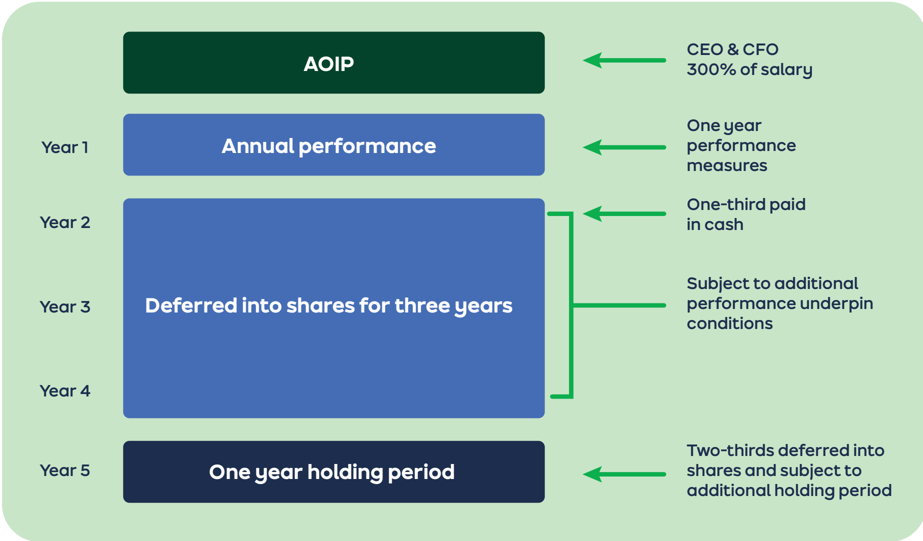
Executive Directors currently receive an employer's pension contribution (or a cash allowance in lieu of pension) at the rate of 9% of salary, aligned to the rate received by the wider management population within the business. We are committing to identify a plan to align pension for the Executive Directors with the rate available to the majority of the wider workforce in the UK by 1 January 2023.

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 private fuel.

AO Incentive Plan

In respect of FY22, the Executive Directors will have a maximum award opportunity of 300% of basic salary. Performance will be measured between 1 April 2021 and 31 March 2022 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 FY22. 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 and, post vesting, are subject to a one-year holding period. This, therefore, means the total performance, vesting and holding period is five years, in line with the revised requirements in the Code.



Performance conditions for the FY22 AO Incentive Plan Award

In terms of variable pay, the Executives will be entitled to participate in the AOIP, where we have evolved the performance conditions along three sets of deliverables:

(1) Revenue, EBITDA and cash targets, as ultimate (short-term) "output" measures;

(2) Strategic transformation measures, specifically addressing the progress along the key value creation drivers of our strategic business plan, thus representing the "input" measures (targets that will drive the business forward for the medium to longer term); and

(3) ESG/stakeholder impact measures, as we are sharpening our related group strategy and focusing our ESG measurement system (targets for the longer term).

Within this framework, the financial performance conditions proposed for this year's award comprise Group revenue, Group Adjusted EBITDA and a Group cash flow target as with prior years but, in addition, some territory specific targets being ao.com revenue growth in the wider electricals category (i.e. excluding MDA) and Germany revenue growth (with a profit underpin). We have also set a target relating to our progress in business transformation.

The stakeholder focused targets are maintaining customer NPS scores (across the Group) at high levels and improving our employee NPS with an underpin that the Group must develop a credible ESG strategy, which has a key focus on environmental considerations and, in particular, its recycling business.

The Committee believes these measures provide the appropriate balance, driving transformation and delivery in line with our five-year strategic plan, recognising the importance of all our stakeholders, and output measures that should drive the creation of shareholder value.

For the financial/output metrics and certain of the transformation metrics, we have set targets having regard to the Company's budget for the year ahead and, following a robust process with a stretching and ambitious mindset, reflective of the winning culture that is special to our high-growth business model. We deem the budget numbers to be commercially sensitive at this juncture but will disclose these retrospectively in next year's Annual Report on Remuneration.

As can be seen on pages 42 and 43, customer and employee satisfaction are central to our strategy with both being 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.

Employee NPS (ENPS) remains a key measure and is 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 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.

	Performance condition	Weighting
Group financial (55%)	Group revenue	25%
	Group Adjusted EBITDA	20%
	Cash flow	10%
Strategic transformation measures financial (15%) non-financial (10%)	Ao.com revenue growth in categories other than MDA in £	5%
	Germany Revenue (with a maximum losses underpin)	10%
	Business transformation: design of target operating model	10%
ESG – stakeholder measures non-financial (20%)	Customer NPS	10%
	Employee NPS With underpin of defining a robust and holistic ESG strategy from which we aim to set AOIP performance conditions in the future	0%

The award pays out in full for achieving maximum levels of performance, 62.5% of maximum pays out for achieving target levels of performance. The target requirements are set to be significantly stretching and therefore the Committee considers that this level of payout at target is appropriate. 25% of maximum pays out for threshold performance.

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 in the Policy.

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 FY22 will be 200% of salary.

Mindful of the Code requirements regarding post-termination shareholding guidelines, the Committee has amended its guidelines such that all Executive will be required to hold shares to the value of 200% of salary for two years following stepping down from the Board.

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

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

Non-Executive Director fees

There have been increases to the Audit and Remuneration Committee Chairs' fees, given the increasing complexity and remits of these committees and the time commitments of the chairs as shown in the table below.

Non-Executive Director fees	2021/2022	2020/2021	% change
Chairman fee covering all Board duties	£200,000	£200,000	0%
Non-Executive Director basic fee	£55,000	£55,000	0%
Supplementary fees to Non-Executive Directors covering additional Board duties			
Audit Committee Chair fee	£10,000	£15,000	50%
Remuneration Committee Chair fee	£10,000	£20,000	100%
Senior Independent Director fee	£10,000	£10,000	0%

Directors' remuneration report continued

Details of Directors' service contracts and letters of appointment

Details of the service contracts and letters of appointment in place as at 31 March 2021 for Directors are shown in Table 4, below.

Geoff Cooper, Marisa Cassoni and Chris Hopkinson have agreed to extensions of the term of their appointments following expiry of the initial three-year terms and subsequent extensions. The extension of such appointment is subject to the terms of the letters of appointment in force.

4 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
Chris 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 (Chair), Marisa Cassoni, and Shaun McCabe.

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 FY21, there were 11 formal meetings of the Remuneration Committee, all of which achieved full attendance by the relevant committee members.

The responsibilities of the Committee are set out in the Corporate Governance section of the Annual Report on page 90. 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 2021 in relation to incentive arrangements and the proposed remuneration policy for Executive Directors and the wider senior management population. It 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 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 fees for remuneration advice were £79,650 plus VAT, with additional fees of £152,790 plus VAT in relation to the VCP.

Shareholder feedback (Unaudited)

At the 2020 AGM ,the Annual Remuneration Report for the year ended 31 March 2020 was put to shareholders by way of an advisory vote. We also sought shareholder approval for the VCP (with consequential amendments to the AOIP). At the 2018 AGM, the current Policy was put to shareholders for a binding vote. Votes cast are set out in the table below.

	Votes in favour No. of shares	%	Votes against No. of shares	%	Total number of votes cast	Votes withheld No. of shares
2020: To approve the Directors' remuneration report	392,698,842	99.66	1,326,451	0.34	395,876,905	1,851,612
2020: To approve the adoption of the AO World Plc Value Creation Plan and the amendment of the AO 2018 Incentive Plan	358,280,687	90.50	37,596,218	9.5	395,876,905	0
2018: To approve the Directors' remuneration policy	342,654,617	87.01	51,174,812	12.99	393,829,429	4,077,005

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

30 June 2021

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 2021.

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

Director	Position as at 31 March 2021	Served in the year ended 31 March 2021
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

Their biographical details are set out on pages 92 and 93. Further details relating to Board and Committee composition are disclosed in the Corporate governance report and Committee reports on pages 94 to 139.

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 their 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 92 and 93.

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 2021, the issued share capital of the Company was £1,198,443.76, comprising 479,377,505 ordinary shares of 0.25p each.

During the year, the Company issued 602,102 ordinary shares of 0.25p each to satisfy the exercise of options under the AO 2014 Employee Reward Plan (2017 grant) and 836,449 ordinary shares of 0.25p each to satisfy the exercise of options under the AO World Sharesave scheme (2018 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 185 . All the information detailed in Note 28 on page 185 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 186 to 189.

At the Annual General Meeting of the Company, to be held on 29 September 2021, the Directors will seek authority from shareholders to allot shares in the capital of the Company up to a maximum nominal amount of £798,962.51 (319,585,003.33 shares (representing approximately 66.6% of the Company's issued ordinary share capital)) of which 159,792,501 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 47,937,750 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.

Shareholders are also 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 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.

Directors' report continued

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 (with UniCredit Bank AG replacing Lloyds Bank Plc during the reporting period), there are no significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control.

2021 Annual General Meeting

Based on the Government's current roadmap to ease the restrictions around public gatherings in light of Covid-19, the Board currently plans to hold an open AGM at 8.00 am on Wednesday 29 September 2021 at the Company's Manchester office at Baskerville House, Browncross Street, West Riverside, Salford M60 9HP. However, the Board remains cognisant of the ongoing public health risk and recognises that the situation in relation to the pandemic can change quickly and that social distancing requirements may make an open meeting impractical. The Board will, therefore, continue to monitor developments and will make changes to the arrangements for the meeting as necessary. Any such changes will be advised to shareholders though the Company's website and, where appropriate, by RNS announcement.

The Notice of Meeting setting 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[1]	108,826,481	22.70%
Camelot Capital Partners LLC	60,430,492	12.61%
Conifer Capital Management LLC	32,636,910	6.81%
Brook Asset Management	25,444,640	5.31%
Chris Hopkinson[2]	22,881,306	4.88%
Standard Life Aberdeen	21,020,099	4.38%
Invesco Limited	20,354,874	4.25%
London & Amsterdam Trust Company Limited	17,431,152	3.63%
Sir Norman Stoller CBE KStJ DL	16,469,403	3.44%

1. Holding includes 882,350 ordinary shares held by Sally Roberts, defined under MAR as a person with whom John Roberts is closely associated, but excludes ordinary shares held by Crystalcraft Limited, a company of which he is a director and shareholder.
2. Holding includes 350,877 ordinary shares held by Gayle Halstead, defined under MAR as a person with whom Chris Hopkinson is closely associated.

Results and dividends

The Group's and Company's audited financial statements for the year are set out on pages 157 to 195.

No dividend was paid by the Company during the year to 31 March 2021.

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 of 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, which it expects to complete during the year ended 31 March 2022. 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 themselves 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 s.418 of the Companies Act 2006.

Directors' report continued

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 s.414A-D	Strategic report on pages 8 to 85
DTR4.1.8R – management report – the Directors' report and Strategic report comprise the 'management report'	Directors' report on pages 140 to 145, and the Strategic report on pages 8 to 85
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 114 to 139
Likely future developments of the business and Group	Strategic report on pages 8 to 85
Board's assessment of the Group's internal control systems	Corporate governance report on page 99, and the Audit Committee report on page 109
Board of Directors	Corporate governance statement on page 90
Community	Strategic report; Sustainability responsibility report on pages 82 and 83
Directors' interests	Directors' remuneration report on page 133
Diversity policy	Sustainability report on page 78, the Corporate governance report on page 98, and the Nomination Committee report on page 105
Employee engagement	Pages 66 and 67 and page 76 of our Sustainability report
Employee involvement	Strategic report: engaging with our stakeholders on pages 66 and 67, and Sustainability report: our people on page 76
Employees with disabilities	Strategic report; Sustainability report: our people on page 78
Going concern	Strategic report page 65
Greenhouse gas emissions and streamlined energy and carbon reporting	Sustainability report pages 72 to 74
Details of use of financial instruments and specific policies for managing financial risk	Note 33 to Group financial statements on pages 189 to 193
Significant related party agreements	Note 34 to the consolidated financial statements page 193

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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 and applicable law, and have elected to prepare the parent Company financial statements under FRS101. In addition, the Group financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the Group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures 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

30 June 2021

Our Results

"Easy to order, easy to pay, delivery fast, well informed and on time... will shop here again."

Janice,
AO Customer

Independent Auditor's 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 2021 which comprise the Consolidated Income Statement, Consolidated 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 in 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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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 to the extent applicable.

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 first appointed as Auditor by the shareholders on 21 July 2016. The period of total uninterrupted engagement is for the 5 financial years ended 31 March 2021. 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	£2.5m (2020: £2.0m) 0.15% (2020: 0.2%) of Group total revenues	
Coverage	99% (2020: 99%) of Group total revenues	
Key audit matters		**vs 2020**
Recurring risks	Product protection plans contract asset	▲
	Network commissions contract asset and liability	▲
	Recoverability of mobile goodwill	▲
	Volume rebates receivable	◀▶
	Recoverability of parent Company's investment in subsidiaries and debt due from Group entities	◀▶

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Recurring risk	The risk	Our response
Product protection plans contract asset £80.7m contract asset (2020 restated : £70.0m) Refer to page 111 (Audit Committee Report), page 163 (Accounting policy), Page 169 Other areas of estimation uncertainty); and page 181 and 182 (Financial disclosures – contract asset), page 194 to 195 (Financial disclosures – restatement of comparatives).	The contract asset recognised is 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 could be misstated. The effect of these matters is that, as part of our risk assessment, we determined that the carrying value of £80.7m 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. In addition, as described in the financial statements Note 35, the Group identified during the year that a number of plans, which were treated as live within the Group's model, had actually been cancelled, as a consequence revenue, finance income and the associated contract asset have been overstated in past periods. **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. **Prior year adjustment** Completeness and accuracy of data used to calculate the prior year adjustment as well as accuracy of adjustment calculation could be incorrect. Furthermore the disclosures presented may not adequately address the requirements of IAS 8 in relation to the description of the adjustment and the impact of the correction.	Our procedures included: • **Data comparisons:** With the assistance of our own data modelling specialists, we performed reconciliations between the third party live data at year end and the database system which stores this data and onwards into the model. In respect of the missing cancellation data, we independently obtained the historical reports from the third party detailing the plans and reconciled this to the updated analysis to ensure that they have been appropriately identified and corrected in the calculation of the prior year adjustment. • **Methodology implementation:** With the assistance of our own data modelling specialists, we assessed the accuracy of the implementation of the methodology behind the calculation. • **Expectation vs outcome:** We evaluated the accuracy of the model with reference to alternative data, e.g. expected cumulative cash received compared to actual 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. • **Assessing transparency:** We assessed the adequacy of the Group's disclosures on 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. We also assessed the adequacy of the disclosures in relation to the prior year adjustment against the requirements of IAS 8. **Our results:** We found the carrying value of the contract asset for product protection plans, the calculation of the prior year adjustment and all related disclosures to be acceptable.

Recurring risk	The risk	Our response
Network commission contract asset and liability £91.5m contract asset (2020: £90.9m) £63.0m contract liability (2020: £61.5m) Refer to page 111 (Audit Committee Report), page 163 (Accounting policy), page 169 to 170 (Other areas of estimation uncertainty); and page 182 to 183 (Financial disclosures).	**Subjective estimate** The network commissions contract asset is based on the value of commissions due over the expected life of mobile phone network contracts. The contract liability is, in addition to including cash received upfront, based on the value of cashback expected to be redeemed in instalments over the life of the contract. As this requires subjective estimates to be made there is a risk that the contract asset and liability are materially misstated. The effect of these matters is that, as part of our risk assessment, we determined that the contract asset carrying value of £91.5m and contract liability carrying value of £63.0m have a degree of estimation uncertainty, with a potential range of reasonable outcomes. The financial statements Notes 22 and 23 disclose the sensitivities 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 manual nature of the calculations involved in the data transfer from the third party and subsequently onwards into the model. **Calculation error** The model used to calculate the fair value is based on large volume of data and calculations are manual by nature so open to the possibility of arithmetical error. **Subjective estimate** Subjective inputs into the cashback contract liability calculations, such as expected redemption rates, and into network commissions contract asset calculation, such as 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 incorporates the accounting standards appropriately; • **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, number of customer disconnections, monthly expected cash receipts and expected cash back redemption rates based on our knowledge of the business, third party trends and the Group; • **Sensitivity analysis:** We performed sensitivity analysis on judgemental assumptions as described above; and • **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 and contract liability . **Our results:** We found the carrying value of the network commission's contract asset and liability to be acceptable (2020: acceptable).

Recurring risk	The risk	Our response
Recoverability of Mobile goodwill Mobile Goodwill: £14.7m; (2020: £14.7m) Refer to page 111 (Audit Committee Report), page 164 (Accounting policy), page 168 and 169 (Key sources of estimation uncertainty); and page 176 (Financial disclosure).	**Subjective estimate** MobilePhonesDirect goodwill ("Mobile goodwill") is significant and at risk of irrecoverability due to uncertainty of achieving future forecasts. The recoverable amount of Mobile Goodwill is determined based on value in use calculation. Recoverability of Mobile goodwill is subject to estimation in terms of the assumptions used and inherent uncertainty involved in forecasting the future cash flows that are used in the discounted cash flow model. The key assumptions are revenue, gross margin and discount rate. A downturn in revenues in recent years has increased the risk of recoverability of goodwill. 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 evaluated the Group's assumptions included within the discounted cash flow forecasts by comparing key inputs such as projected revenue, gross margin, discount rate, terminal growth rate and apportionment of stewardship costs to internally and externally derived data; • **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. Due to the judgemental nature of impairment testing, we performed the detailed tests above rather than seeking to rely on any of the Group's controls. **Our results:** We found the carrying amount of Mobile goodwill to be acceptable (2020: acceptable).

Recurring risk	The risk	Our response
Volume rebates receivable £18.2m volume rebates receivable; (2020: £11.6m) Refer to page 163 and 164 (Accounting policy); and page 183 (Financial disclosures).	**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; • **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 receivables back to post year end confirmatory evidence, including credit notes and supplier email confirmation; and • ***Assessing transparency:*** We assessed whether the Group's disclosures about the amount of the receivable agreed and settled post year end was accurate. **Our results:** We found the carrying value of the volume rebates receivable to be acceptable (2020: acceptable).

Recurring risk	The risk	Our response
Recoverability of Parent Company's investment in subsidiaries and debt due from Group entities Investment in subsidiaries £85.4m; (2020: £83.1m) Refer to page 198 (Accounting policy and financial disclosures) Debtors due from Group entities £137.3m (2020: £115.8m) Refer to page 196 (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 36% (2020: 39%) and 57% (2020: 53%) 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 continued to be considered a risk given the infancy of AO Deutschland in its achievement of profitability and cash generation. 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 subsidiary financial results for the period; • **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 expected subsidiaries' profit by analysing the forecasting accuracy for each in previous periods; 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 (2020: acceptable).

We continue to perform procedures over Going concern as set out in section 4 of this report. However, this risk was considered to be event driven in 2020 and reflecting on a reduction in economic uncertainty relating to COVID-19, the Group's financial performance in the year subject to audit and the Group's financial position at year-end, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified as a key audit matter in our report this year.

In the prior year, we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. Following the trade agreement between the UK and the EU, and the end of the EU-exit implementation period, the nature of these uncertainties has changed. We continue to perform procedures over material assumptions in forward looking assessments such as going concern; however, we no longer consider the effect of the UK's departure from the EU to be a separate key audit matter.

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 £2.5m (2020: £2.0m), determined with reference to a benchmark of Group total revenue of £1,660.9m, of which it represents 0.15% (2020: 0.2%) of Group total revenue.

We consider total revenue 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 £0.79m (2020: £1m), determined with reference to a benchmark of gross assets, of which it represents 0.3% (2020: 0.5%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £1.875m (2020: £1.5m) for the Group and £0.59m (2020: £0.75m) for the parent Company.

We applied this percentage in our determination of performance materiality based on the level of identified control deficiencies and entity level control deficiencies identified during the prior period.

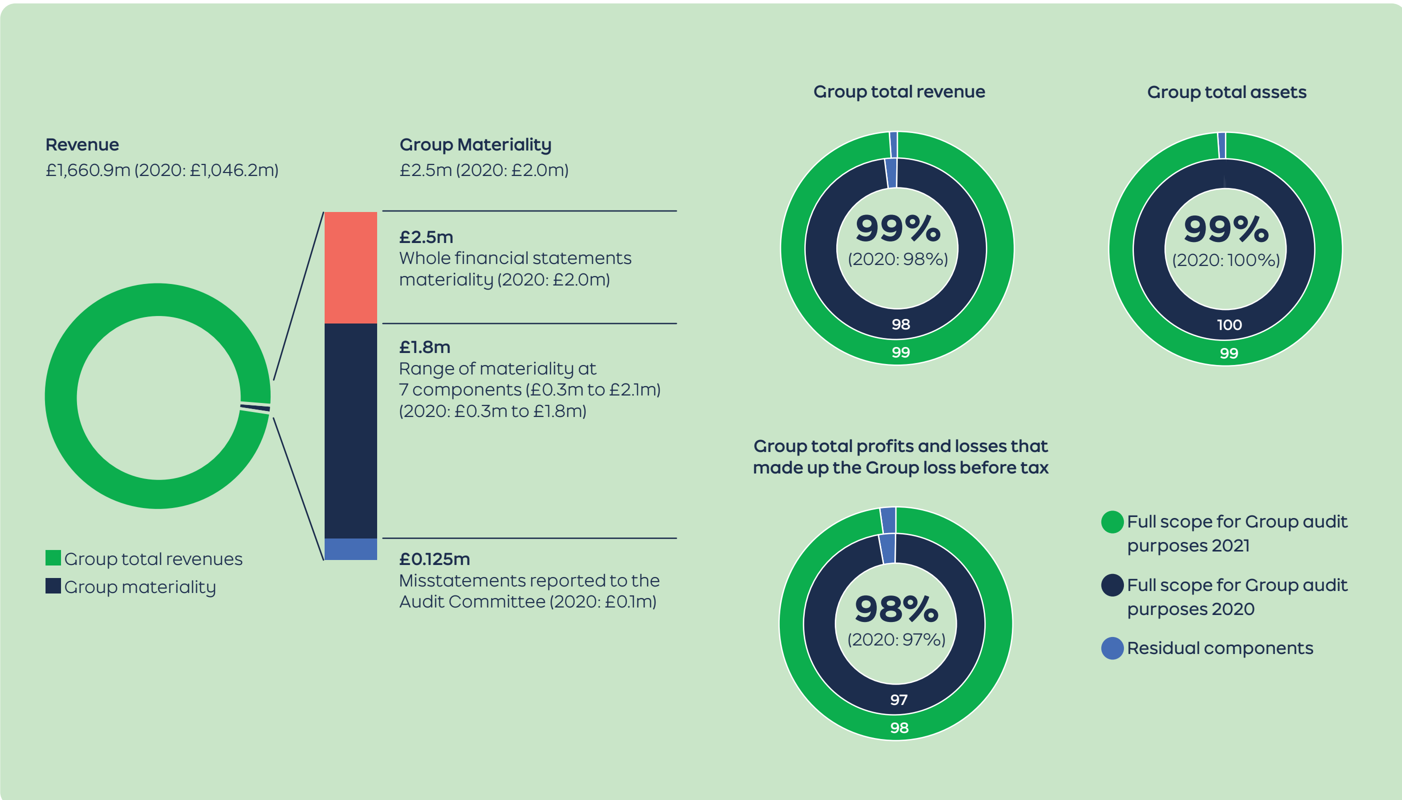
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £125,000 (2020: £100,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 13 (2020: 13) reporting components, we subjected 7 (2020: 7) to full scope audits for Group purposes, all of which, including the audit of the parent company, were performed by Group Audit team.

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

We conducted reviews of financial information (including enquiry) at a further 0 (2020: 1) non-significant components. The component for which we performed review in prior year discontinued its operation and became dormant in current year.

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.



4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company'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").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period were:

- The uncertainty of the ongoing impact of Covid-19 on the Group's market share.
- The impact of market share on revenue and margin growth.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Group's current and projected cash and facilities (a reverse stress test).

We considered whether the going concern disclosure in Note 3 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks, dependencies and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the Directors' statement in Note 2 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 the going concern period, and we found the going concern disclosure in Note 2 to be acceptable; and
- the related statement under the Listing Rules set out on page 65, is materially consistent with the financial statements and our audit knowledge.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks"), we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the Audit Committee and internal audit as to the Group's high level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and performance incentives, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is recorded in the wrong period and the risk that Group and component management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on a risk criteria and comparing the identified entries to supporting documentation. These included those posted to unexpected account combinations, those posted with unusual descriptions and those posted by unexpected users.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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 the audit standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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.

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.

Whilst the Group is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. 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 emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability assessment on page 65 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the risk management framework disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the 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.

We are also required to review the viability assessment, set out on page 65 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

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 judgements 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 and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- 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;
- the section of the Annual Report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the Annual Report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review, and to report to you if a corporate governance statement has not been prepared by the Company. We have nothing to report in these respects.

7. 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 145, 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 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 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 frc.org.uk/auditorsresponsibilities.

9. 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.

David Neale
(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

1 July 2021

Consolidated income statement

For the year ended 31 March 2021

	Note	2021 £m	2020 £m Restated (See Note 35)
Continuing operations			
Revenue excluding Netherlands		**1,660.9**	1,026.4
Netherlands revenue		**–**	19.3
Total revenue	5, 6	**1,660.9**	1,045.7
Cost of sales	6	**(1,368.4)**	(867.9)
Gross profit		**292.5**	177.8
Administrative expenses	6, 7	**(263.6)**	(183.3)
Other operating income	8	**0.8**	1.2
Operating profit excluding Netherlands		**29.7**	0.9
Netherlands operating loss		**–**	(5.2)
Total operating profit/(loss)	6,8	**29.7**	(4.3)
Finance income	11	**4.3**	10.5
Finance costs	12	**(13.8)**	(5.6)
Profit before tax		**20.2**	0.6
Tax (charge)/credit	13	**(3.1)**	0.1
Profit after tax excluding Netherlands		**17.1**	5.9
Netherlands loss after tax		**–**	(5.2)
Profit after tax for the year		**17.1**	0.7
Profit/(loss) for the year attributable to:			
Owners of the Company		**17.7**	1.0
Non-controlling interests	29	**(0.6)**	(0.3)
		17.1	0.7
Profit per share (pence per share)			
Basic profit per share	15	**3.73**	0.21
Diluted profit per share	15	**3.68**	0.21

Consolidated statement of comprehensive income

For the year ended 31 March 2021

	2021 £m	2020 £m Restated (See Note 35)
Profit for the year	**17.1**	0.7
Items that may subsequently be recycled to income statement		
Exchange differences on translation of foreign operations	**5.8**	(5.5)
Total comprehensive profit/(loss) for the year	**22.9**	(4.8)
Total comprehensive profit/(loss) for the year attributable to:		
Owners of the Company	**23.5**	(4.5)
Non-controlling interests	**(0.6)**	(0.3)
	22.9	(4.8)

Consolidated statement of financial position
As at 31 March 2021

	Note	2021 £m	2020 £m Restated (See Note 35)	2019 £m Restated (See Note 35)
Non-current assets				
Goodwill	16	**28.2**	28.2	28.2
Other intangible assets	17	**15.6**	15.8	16.9
Property, plant and equipment	18	**32.8**	29.3	26.5
Right of use assets	18	**74.3**	64.7	63.1
Trade and other receivables	22	**85.3**	79.2	71.4
Derivative financial asset	33	**–**	0.6	0.8
Deferred tax	20	**5.6**	4.6	4.6
		241.8	222.4	211.5
Current assets				
Inventories	21	**139.6**	72.7	76.3
Trade and other receivables	22	**166.2**	134.9	112.2
Corporation tax receivable		**1.0**	1.0	0.6
Cash and bank equivalents	24	**67.1**	6.9	28.9
		373.9	215.5	218.0
Total assets		**615.7**	437.9	429.5
Current liabilities				
Trade and other payables	23	**(411.4)**	(249.6)	(229.8)
Borrowings	25	**–**	(5.2)	(9.5)
Lease liabilities	26	**(21.4)**	(16.1)	(14.3)
Derivative financial liability	33	**–**	(0.2)	(0.6)
Provisions	27	**(0.1)**	(0.7)	–
		(432.9)	(271.8)	(254.2)
Net current liabilities		**(59.0)**	(56.3)	(36.2)
Non-current liabilities				
Trade and other payables	23	**(7.9)**	(7.5)	(7.4)
Borrowings	25	**–**	(16.7)	(20.9)
Lease liabilities	26	**(73.9)**	(68.1)	(67.8)
Derivative financial liabilities	33	**–**	(0.8)	(2.9)
Deferred tax	20	**(2.3)**	(2.6)	(2.7)
Provisions	27	**(2.3)**	(1.9)	(2.2)
		(86.4)	(97.5)	(103.9)
Total liabilities		**(519.3)**	(369.3)	(358.1)
Net assets		**96.4**	68.6	71.5
Equity attributable to owners of the parent				
Share capital	28	**1.2**	1.2	1.2
Investment in own shares	28	**–**	–	–
Share premium account	28	**104.3**	103.7	103.7
Other reserves	30	**25.3**	21.9	29.0
Retained losses		**(33.1)**	(57.1)	(61.5)
Total		**97.7**	69.7	72.4
Non-controlling interest	29	**(1.3)**	(1.0)	(0.9)
Total equity		**96.4**	68.6	71.5

The financial statements of AO World Plc, registered number 05525751, on pages 157 to 195 were approved by the Board of Directors and authorised for issue on 30 June 2021. 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 2021

				Other reserves								
	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
Reported balance at 1 April 2019	1.2	–	103.7	22.2	0.5	13.1	(4.2)	(2.5)	(51.2)	82.7	(0.9)	81.8
Cumulative adjustment to opening balance (see Note 35)	–	–	–	–	–	–	–	–	(10.4)	(10.4)	–	(10.4)
Restated balance at 1 April 2019	1.2	–	103.7	22.2	0.5	13.1	(4.2)	(2.5)	(61.5)	72.4	(0.9)	71.5
Profit/ (loss) for the period	–	–	–	–	–	–	–	–	1.0	1.0	(0.3)	0.7
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	–	–	–
Restated balance at 31 March 2020	1.2	–	103.7	22.2	0.5	11.7	(9.7)	(2.7)	(57.1)	69.7	(1.0)	68.6
Profit/ (loss) for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**17.7**	**17.7**	**(0.6)**	**17.1**
Share-based payment charge net of tax	**–**	**–**	**–**	**–**	**–**	**4.2**	**–**	**–**	**–**	**4.2**	**–**	**4.2**
Issue of shares net of expenses	**–**	**–**	**0.6**	**–**	**–**	**–**	**–**	**–**	**–**	**0.6**	**–**	**0.6**
Foreign currency gain arising on consolidation	**–**	**–**	**–**	**–**	**–**	**–**	**5.8**	**–**	**–**	**5.8**	**–**	**5.8**
Acquisition of minority interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.3)**	**–**	**(0.3)**	**0.4**	**0.1**
Movement between reserves	**–**	**–**	**–**	**–**	**–**	**(6.3)**	**–**	**–**	**6.3**	**–**	**–**	**–**
Balance at 31 March 2021	**1.2**	**–**	**104.3**	**22.2**	**0.5**	**9.6**	**(4.0)**	**(3.0)**	**(33.1)**	**97.7**	**(1.3)**	**96.4**

Consolidated statement of cash flows

For the year ended 31 March 2021

	Note	2021 £m	2020 £m Restated (See Note 35)
Cash flows from operating activities			
Profit for the year		**17.1**	0.7
Adjustments for:			
Depreciation and amortisation	17, 18	**24.6**	21.1
Finance income	11	**(4.3)**	(10.5)
Finance costs	12	**13.8**	5.6
Taxation charge/(credit)		**3.1**	(0.1)
Share-based payment charge	31	**3.3**	2.0
Increase in provisions	27	**0.9**	0.4
Operating cash flows before movement in working capital		**58.5**	19.2
(Increase)/decrease in inventories		**(67.6)**	4.0
Increase in trade and other receivables		**(35.9)**	(29.0)
Increase in trade and other payables		**162.0**	19.7
Total movement in working capital		**58.5**	(5.3)
Taxation (paid)/refunded		**(2.4)**	0.2
Cash generated from operating activities		**114.6**	14.1
Cash flows from investing activities			
Interest received	11	**–**	0.1
Proceeds from sale of property, plant and equipment		**–**	0.1
Acquisition of property, plant and equipment		**(6.3)**	(6.9)
Acquisition of intangible assets		**(2.8)**	(1.1)
Cash used in investing activities		**(9.1)**	(7.9)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		**0.6**	–
Acquisition of non-controlling interest		**(0.1)**	(0.5)
Interest paid on borrowings	12	**(2.3)**	(1.5)
Interest paid on lease liabilities	12	**(4.0)**	(3.7)
Repayments of borrowings		**(21.9)**	(6.4)
Repayment of lease liabilities		**(17.6)**	(16.2)
Net cash used in financing activities		**(45.3)**	(28.2)
Net increase/(decrease) in cash		**60.2**	(22.1)
Cash and cash equivalents at beginning of year		**6.9**	28.9
Exchange gains on cash and cash equivalents		**–**	0.1
Cash and cash equivalents at end of year	24	**67.1**	6.9

Notes to the consolidated financial statements
For the year ended 31 March 2021

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 Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The address of the registered office is given on page 204. The nature of the Group's operations and its principal activities are set out in Note 19 and in the Strategic Report on pages 8 to 85.

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.

The following amendments to accounting standards and interpretations, issued by the International Accounting Standards Board ("IASB"), have been adopted for the first time by the Group in the period with no significant impact on the consolidated results or financial position:

- Amendments to References to the Conceptual Framework in IFRS Standards.
- Amendments to IFRS 3 Definition of a Business.
- Amendments to IAS 1 and IAS 8 Definition of Material.

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 IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 'Interest Rate Benchmark Reform' – phase 2

The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed and require adoption by the Group in future reporting periods. The Group does not consider that any other standards, amendments or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements.

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 54 to 65.

Notwithstanding net current liabilities of £59.0m as at 31 March 2021, 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 which at the date of approval of these financial statements amount to £67.1m.

The Directors have prepared base and sensitised cash flow forecasts for the group covering a period of at least 12 months from the date of approval of these financial statements ("the going concern period") 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 Revolving Credit Facility 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 to sensitise its base case. These primarily include an assessment of how market share could be impacted as Covid-19 restrictions continue to ease and consumers are able to shop in bricks and mortar stores again without precaution. Whilst the directors are confident that a majority of new customers attracted during the past year will continue to enjoy the benefits of shopping online with AO, the sensitivity analysis has explored reduced market shares and a severe but plausible downside of a return to online MDA sales levels experienced in FY20. Under this severe but plausible downside scenario the Group continues to demonstrate headroom on its banking facilities of £45.9m and remains compliant with covenants.

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.

3. Significant accounting policies continued

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. All websites are for the sale of electrical products. Revenue from the sale of goods is recognised when a Group entity delivers a product to the customer. Payment of the transaction price is due immediately when the customer purchases the product 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 estimated 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 £122.3m). 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, including any constraints, is based on historical data, 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.

3. Significant accounting policies continued

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; and
- Foreign exchange gains arising on the retranslaton of intra-Group loans.

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

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, which are recognised in the income statement using the effective interest method;
- Financing costs of raising debt and ongoing utilisation/non-utilisation fees; and
- Foreign exchange losses arising on the retranslation of 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.

3. Significant accounting policies continued

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.

Right of use assets and liabilities
The Group has applied IFRS 16 in these financial statements.

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 are recognised in the income statement on a straight-line basis over the lease term.

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 Company 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 Company's incremental borrowing rate. The Company uses its 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 Company 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 Company 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 Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as Other operating income. The Company has classified cash flows from operating leases as operating activities.

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.

3. Significant accounting policies continued

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.

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.

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 as at the reporting date. 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.

3. Significant accounting policies continued

Taxation continued

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 31). 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 that 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 that 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. On vesting, amounts held in the share based, payments reserves are transferred to retained losses.

Employee benefit trust

The Group operates an employee benefit trust ("EBT"). Own shares held by the EBT are treated as Treasury shares on consolidation and are shown as a reduction in equity in the statement of financial position.

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

3. Significant accounting policies continued

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 profit/(loss) 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 that 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:

- Management have reassessed the impact on future expected cancellation rates as a result of an increase in cancellations seen through the second half of the year. As a result, revenue has been further constrained by £8.1m with a corresponding reduction in the contract asset. Given the size and nature of the adjustment and its link to the prior period adjustment, the amount has been added back in arriving at Adjusted EBITDA.
- 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 has now renegotiated the contract and the new terms will take effect from April 2021. However, the existing terms up to 31 March 2021 continue to result in the cost of fulfilling the contract over its life will exceeding any benefit gained from it and therefore in line with the treatment in prior years, management have added back the full cost in the current period of £2.2m (2020: £1.3m).

The additional Adjusting Items for the prior year were 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 which was completed by 31 March 2020. Costs incurred between 9 December 2019 and 31 March 2020 of £2.5m were treated as the cost of closure of these operations and included the write-off of unsold stock, redundancy payments for all staff and legal costs.
- 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 Mobile Phones Direct 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 had never been recognised in the Group income statement.

Adjusted EBITDA (excluding Netherlands)

As a consequence of the closure of the Group's Dutch business during the prior 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.

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 Mobile Phones Direct Limited in 2018, 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.

4. Key sources of estimation uncertainty continued

Whilst at 31 March 2021, 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

As noted in Note 22 and Note 35, during the year ended 31 March 2021, management have made significant revisions to the carrying value of the contract assets in relation to product protection plans and mobile commissions. These have mainly arisen due to:

1. A misinterpretation of data supplied by a third party in relation to product protection plans, which has resulted in a restatement of prior year financial statements (see Note 35);
2. The consequential effect on assumptions and estimates used in recognising revenue in past years from the amendment to the underlying data noted above (see Note 3 and 22); and
3. A significant change in customer behaviour in the Mobile business resulting in the tenure of contracts reducing as end customers have cancelled contracts or defaulted, as well as an increase in redemption rates on relating to cashback schemes. Management believe that the financial impact of Covid-19 has contributed significantly to these behaviours.

Having taken account of the above matters, which are all considered to be non-recurring by management and the effect of which has been reflected in the current carrying value, the Directors do not believe there is a significant risk of a material reversal of revenue in the following 12 months. However, they believe that disclosure of the assumptions made in relation to the recognition and assessment of the recoverability of commissions relating to product protection plans and Mobile Network Operator contracts is important for an understanding of the financial statements.

Historical information available to the Group prior to FY21, and the approach taken in calculating revenue to recognise, provides management with a degree of confidence that the initial revenue recognised should be consistent with the subsequent receipt of cash.

The nature of the estimates made based on the historical information available reflects a range of reasonable outcomes based on the facts and circumstances present at the year end, therefore the revenue recognised is not expected to trigger a material upward or downward adjustment.

We do, however, continue to believe that the information provided is useful for a reader of the Annual Report as it gives meaningful insight into the factors considered when recognising commission 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 after 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 2021 was £80.7m (2020 restated: £70.0m). The discount rate used to unwind the commission receivable is 3.55% (2020: 4.6%).

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).

4. Key sources of estimation uncertainty continued

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 the Group is entitled;
- The discount rate using external market data (principally forecasts of inflation – 1.5% (2020: 2.75%);
- The length of contract entered into by the consumer (12 – 24 months); and
- Consumer average tenure which takes account of both the default rate during the contract period and the expectations that some customers will continue beyond the initial contract period and generate out of contract ("OOC") revenue (4% – 12.5%)

The 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 2021 was £91.5m (2020: £90.9m). The discount rate used to unwind the commission receivable is 0.1% (2020: 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

	31 March 2021			31 March 2020 Restated (See Note 35)		
(£m)	UK	Europe	Total	UK	Europe	Total
Product revenue	**1,200.3**	**220.9**	**1,421.2**	692.8	140.7	833.5
Service revenue	**54.0**	**4.0**	**58.0**	35.0	3.4	38.3
Commission revenue	**146.0**	**0.3**	**146.3**	143.3	0.2	143.5
Third party logistics revenue	**16.5**	**1.2**	**17.7**	16.6	–	16.7
Recycling revenue	**17.7**	**–**	**17.7**	13.5	0.2	13.6
Total revenue	**1,434.5**	**226.4**	**1,660.9**	901.2	144.5	1,045.7

Details of the revenue in each category are set out in the accounting policies note on page 163.

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.

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.

6. Segmental analysis continued

a) Income statement

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

Year ended (£m)	31 March 2021 UK	31 March 2021 Europe	31 March 2021 Total	31 March 2020 Restated (See Note 35) UK	31 March 2020 Restated (See Note 35) Europe	31 March 2020 Restated (See Note 35) Total
Total revenue	**1,434.5**	**226.4**	**1,660.9**	901.2	144.5	1,045.7
Cost of sales	**(1,161.6)**	**(206.8)**	**(1,368.4)**	(724.3)	(143.6)	(867.9)
Gross profit	**273.0**	**19.5**	**292.5**	176.9	0.9	177.8
Administrative expenses	**(235.6)**	**(27.9)**	**(263.6)**	(153.2)	(30.1)	(183.3)
Other operating income	**0.8**	**–**	**0.8**	0.8	0.4	1.2
Operating profit/(loss)	**38.1**	**(8.4)**	**29.7**	24.5	(28.8)	(4.3)
Finance income	**4.3**	**–**	**4.3**	6.0	4.5	10.5
Finance costs	**(6.9)**	**(6.9)**	**(13.8)**	(4.9)	(0.7)	(5.6)
Profit/(loss) before tax	**35.4**	**(15.3)**	**20.2**	25.6	(25.0)	0.6
Tax (charge)/credit	**(3.1)**	**–**	**(3.1)**	0.1	(0.1)	0.1
Profit/(loss) after tax	**32.3**	**(15.3)**	**17.1**	25.7	(25.1)	0.7

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)	31 March 2021 UK	31 March 2021 Europe	31 March 2021 Total	31 March 2020 Restated (See Note 35) UK	31 March 2020 Restated (See Note 35) Europe	31 March 2020 Restated (See Note 35) Total
Operating profit/(loss) excluding Netherlands	**38.1**	**(8.4)**	**29.7**	24.5	(23.5)	0.9
Netherlands operating loss	**–**	**–**	**–**	–	(5.2)	(5.2)
Operating profit/(loss)	**38.1**	**(8.4)**	**29.7**	24.5	(28.8)	(4.3)
Depreciation	**18.6**	**3.2**	**21.8**	15.8	3.1	18.9
Amortisation	**2.8**	**–**	**2.8**	2.2	–	2.2
Loss/(profit) on disposal of non-current assets	**–**	**–**	**–**	(0.1)	0.1	–
EBITDA excluding Netherlands	**59.4**	**(5.2)**	**54.2**	42.3	(20.4)	21.9
Netherlands EBITDA	**–**	**–**	**–**	–	(5.1)	(5.1)
EBITDA	**59.4**	**(5.2)**	**54.2**	42.3	(25.5)	16.8
Adjusting items (see Note 3):						
Adjusting items excluding Netherlands	**8.1**	**2.2**	**10.3**	(2.0)	2.2	0.2
Netherlands Adjusting items	**–**	**–**	**–**	–	2.2	2.2
Total adjusting items	**8.1**	**2.2**	**10.3**	(2.0)	4.4	2.4
Adjusted EBITDA excluding Netherlands	**67.5**	**(3.0)**	**64.4**	40.3	(18.2)	22.1
Netherlands Adjusted EBITDA	**–**	**–**	**–**	–	(3.0)	(3.0)
Adjusted EBITDA	**67.5**	**(3.0)**	**64.4**	40.3	(21.1)	19.1

The table above separates the results of the ongoing Group from those of its Netherlands operation, which closed during the prior year. The Netherlands operation did 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 year on year.

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).

6. Segmental analysis continued

c) Other information

2021 (£m)	Additions: Intangible assets	Additions: PP&E	Additions: Right of use assets	Depreciation	Amortisation	Profit on disposal
UK	**2.8**	**11.4**	**26.2**	**18.6**	**2.8**	**–**
Europe	**–**	**0.2**	**1.5**	**3.2**	**–**	**–**
	2.8	**11.6**	**27.7**	**21.8**	**2.8**	**–**

2020 (£m)	Additions: Intangible assets	Additions: PP&E	Additions: 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	–

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

	2021 £m	2020 £m
Marketing and advertising expenses	**50.4**	29.8
Warehousing expenses	**65.6**	42.5
Research and development	**15.4**	9.3
Other administrative expenses	**132.2**	101.7
	263.6	183.3

8. Operating profit/(loss) for the year

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

	2021 £m	2020 £m
Depreciation of:		
Owned assets	**4.4**	4.0
Owned assets financed by lease	**3.2**	2.7
Right of use assets	**14.2**	12.2
Amortisation	**2.8**	2.2
Cost of inventory	**1,202.6**	755.7
Staff costs	**144.7**	114.4
Other operating income from short-term sublets	**(0.8)**	(1.2)
Adjusting items (see Note 3)		
Revisions to estimates in relation to contract assets	**8.1**	–
Executive restructuring costs	**–**	0.9
Netherlands closure costs	**–**	2.5
Provision release	**–**	(2.3)
Onerous contract costs	**2.2**	1.3

Adjusting items are included in the income statement as follows:

	2021 £m	2020 £m
Revenue	**8.1**	(2.6)
Cost of sales	**2.2**	2.4
Gross profit	**10.3**	(0.2)
Administrative expenses	**-**	2.6
Operating profit	**10.3**	2.4

9. Auditor's remuneration

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

	2021 £m	2020 £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	**0.7**	0.5
Total Auditor's remuneration	**0.8**	0.6

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

Non-audit fees of £45,000 were incurred in relation to the review of the interim financial statements (2020: £45,000) and £5,000 in relation to agreed upon procedures in relation to the Group's covenant reporting pack (2020: £5,000.)

10. Staff numbers and costs

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

	2021 Number	2020 Number
Sales, marketing and distribution	**3,909**	3,219
Directors (Executive and Non-Executive)	**7**	8
	3,916	3,227

Their aggregate remuneration comprised:

	2021 £m	2020 £m
Wages and salaries	**121.4**	97.6
Social security costs	**14.5**	9.4
Contributions to defined contribution plans (see Note 32)	**5.5**	5.0
Share-based payment charge (see Note 31)	**3.3**	2.0
	144.7	114.1

11. Finance income

	2021 £m	2020 £m Restated (See Note 35)
Non-cash foreign exchange gains on intra-Group loans	**–**	6.0
Movement in valuation of put and call option	**0.8**	1.9
Unwind of discounting on non-current contract assets	**3.4**	2.5
Other interest	**–**	0.1
	4.3	10.5

12. Finance costs

	2021 £m	2020 £m
Interest on lease liabilities	**4.0**	3.7
Interest on bank loans	**0.4**	0.6
Other finance costs	**1.9**	0.9
Non-cash foreign exchange losses on intra-Group loans	**6.8**	–
Unwind of discounting on long-term payables	**0.1**	0.3
Movement in valuation of put and call option	**0.6**	0.1
	13.8	5.6

13. Tax

	2021 £m	2020 £m Restated (See Note 35)
Corporation tax:		
Current year	**3.4**	0.1
Adjustments in respect of prior years	**–**	–
	3.4	0.1
Deferred tax (see Note 20)		
Current year	**(0.1)**	0.9
Adjustments in relation to prior years	**(0.3)**	(1.0)
Total tax charge/(credit)	**3.1**	(0.1)

The expected corporation tax charge for the year is calculated at the UK corporation tax rate of 19% (2020: 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 charge for the year can be reconciled to the profit in the statement of comprehensive income as follows:

Year ended 31 March	2021 £m	2020 £m Restated (See Note 35)
Profit before tax on continuing operations	**20.2**	0.6
Tax at the UK corporation tax rate of 19% (2020: 19%)	**3.8**	0.1
Ineligible expenses	**1.7**	0.3
R & D tax credit	**–**	–
Difference in overseas and UK tax rates	**–**	(0.3)
Movement in unrecognised deferred tax	**–**	1.5
Impact of difference in current and deferred tax rates	**–**	(0.2)
Income not taxable	**(0.1)**	(1.5)
Share-based payments	**(2.0)**	1.0
Prior period adjustments	**(0.3)**	(1.0)
Tax charge/(credit) for the year	**3.1**	(0.1)

13. Tax continued

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. The UK deferred tax asset/(liability) as at 31 March 2021 was calculated at 19% (2020: 19%).

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. As these changes were not substantively enacted at the balance sheet date, the Group has continued to recognised deferred tax in relation to UK companies at 19%. The impact of the rate change is not believed to have a material impact on the deferred tax position as at 31 March 2021.

14. Dividends

The Directors do not propose a dividend for the year ended 31 March 2021 (2020: £nil).

15. Earnings/(loss) per share

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

	2021 £m	2020 £m Restated (See Note 35)
Profit for the purposes of basic and diluted earnings per share being profit attributable to owners of the parent Company	**17.7**	1.0
Number of shares		
Weighted average shares in issue for the purposes of basic loss per share	**475,626,353**	472,462,309
Potentially dilutive shares options	**6,337,186**	4,857,812
Weighted average number of diluted ordinary shares	**481,963,539**	477,320,121
Earnings per share (pence per share)		
Basic earnings per share	**3.73**	0.21
Diluted earnings per share	**3.68**	0.21

The basic earnings per share is affected by significant non-cash foreign exchange movements arising from intra-Group funding arrangements. Management have therefore presented an adjusted earnings per share which is based on an adjusted earnings attributable to the owners of the parent company and the diluted weighted average number of shares as they 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.

	2021 £m	2020 £m Restated (See Note 35)
Earnings/(loss)		
Profit attributable to owners of the parent company	**17.7**	1.0
Add back/ (reduction) of foreign exchange movements on intra-Group loans	**6.8**	(6.0)
Adjusted earnings/(loss) attributable to owners of the parent Company	**24.5**	(5.1)
Number of shares		
Weighted average number of ordinary shares	**475,626,353**	472,462,309
Potentially dilutive shares options	**6,337,186**	4,857,812
Diluted weighted average number of shares	**481,963,539**	477,320,121
Earnings/(loss) per share (pence per share)		
Basic earnings per share	**3.73**	0.21
Diluted earnings per share	**3.68**	0.21
Adjusted earnings/(loss) per share	**5.15**	(1.08)

Notes to the consolidated financial statements continued
For the year ended 31 March 2021

16. Goodwill

	£m
Carrying value at 31 March 2019	28.2
Carrying value at 31 March 2020	28.2
Carrying value at 31 March 2021	**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), the acquisition of AO Recycling Limited (formerly The Recycling Group Limited) and the acquisition of Mobile Phones Direct Limited (now AO Mobile Limited) by AO Limited.

Impairment of goodwill

UK CGU – £13.5m

At 31 March 2020, goodwill acquired through UK business combinations (excluding Mobile Phones Direct 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 2021. 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 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 12.7% (2020: 11.2%).

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.

Mobile Phones Direct Limited – £14.7m

The Group has assessed the goodwill arising on the acquisition of Mobile Phones Direct Limited in December 2018. This was performed based on a value in use calculation in the same way as for the UK business noted previously, but using a pre- tax weighted average cost of capital appropriate for MPD as a standalone business of 14.2% (2020: 14.4%).

The total recoverable amount in respect of goodwill for this CGU Group is greater than its carrying value by £1.2m in managements base case.

The main assumptions underlying the value in use calculation are the volume of mobile connections (and hence revenue) where growth is forecast between 3%-23%% per year and margin that is assumed to stay flat at 12%. Management are cognisant of the unusual trading conditions seen in FY21 and the base case reflects an underlying profitability closer to that achieved in FY20 and reflects the change in the business strategy adopted in the second half of the year to reduce the impact of cashback and customer cancellations/defaults.

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. Management believe that the key assumptions are revenue and margin. If revenue growth was 10% lower than forecast it would have an impact of £(0.5)m on the amount of headroom. If margin reduced by 0.1% this would have an impact of £(1.3)m on the amount of headroom (without management taking any mitigating action). A change in the discount rate of 0.5% would have an impact of +/- £0.9m on the amount of headroom.

However, management believe that based on the range of possible outcomes noted above, whilst the value in use is broadly equivalent to the carrying value, there is no current impairment. Further details of this area of estimation uncertainty are 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 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
Additions	–	2.8	–	–	2.8
Disposals	–	(0.4)	–	–	(0.4)
At 31 March 2021	**1.5**	**7.3**	**14.8**	**0.4**	**24.0**
Amortisation					
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
Charge for the year	–	1.2	1.5	0.1	2.8
Disposals	–	(0.2)	–	–	(0.2)
At 31 March 2021	**1.1**	**3.7**	**3.4**	**0.2**	**8.4**
Carrying amount At 31 March 2021	**0.3**	**3.6**	**11.4**	**0.3**	**15.6**
At 31 March 2020	0.3	2.2	12.9	0.4	15.8

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

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 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
Additions	0.7	–	1.0	3.3	4.3	2.3	0.1	11.6
Disposals	–	–	–	–	(0.1)	(0.2)	–	(0.3)
Transfer from AICC	1.7	(5.2)	–	3.6	–	(0.1)	–	–
Exchange differences	(0.2)	–	–	–	–	–	–	(0.2)
At 31 March 2021	**5.5**	**–**	**15.3**	**21.3**	**16.4**	**11.6**	**0.4**	**70.5**
Accumulated depreciation								
At 1 April 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
Charge for the year	0.4	–	1.4	2.3	2.3	1.1	0.1	7.6
Disposals	–	–	–	–	(0.1)	–	–	(0.1)
At 31 March 2021	**1.4**	**–**	**7.8**	**8.2**	**10.6**	**9.5**	**0.1**	**37.6**
Carrying amount								
At 31 March 2021	**4.1**	**–**	**7.5**	**13.1**	**5.8**	**2.1**	**0.3**	**32.8**
At 31 March 2020	2.4	5.2	7.9	8.7	3.7	1.1	0.3	29.3

At 31 March 2021, the net carrying amount of leased plant and machinery included above was £12.3m (2020: £10.1m). The leased equipment secures lease obligations (see Note 26).

18. Property, plant and equipment continued

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 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
Additions	12.4	15.3	–	27.7
Disposals	(4.2)	(0.8)	–	(5.0)
Exchange differences	(0.4)	(0.1)	–	(0.5)
At 31 March 2021	**93.6**	**34.5**	**1.0**	**129.1**
Accumulated depreciation				
At 1 April 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
Charge for the year	8.7	5.3	0.2	14.2
Disposals	(1.1)	(0.4)	–	(1.5)
At 31 March 2021	**38.2**	**16.0**	**0.6**	**54.8**
Carrying amount				
At 31 March 2021	**55.4**	**18.5**	**0.4**	**74.3**
At 31 March 2020	55.3	8.9	0.6	64.7

The expense relating to short term leases and low value assets included within the Income Statement amounted to £0.5m (2020: £0.1m).

At 31 March 2021, the Group was not committed to any leases which had not yet commenced (2020: 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 2021.

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 Ltd	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 Ltd	United Kingdom	Ordinary	100%	Holding company
AO Deutschland Limited	Germany	Ordinary	100%‡	Retail
AO Ltd	United Kingdom	Ordinary	100%	Holding company
AO.BE SA	Belgium	Ordinary	99.99%*	Dormant
AO.NL BV	Netherlands	Ordinary	100%	Dormant
AO Logistics (Netherlands) BV	Netherlands	Ordinary	100%	Dormant
AO Recycling Limited	United Kingdom	Ordinary	81.6%	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	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 Club 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 204 apart from BERE Ltd and AO.BE SA who are registered at the addresses listed below.

BERE Ltd	AO.BE SA
44 Esplanade St Helier Jersey JE4 9WG	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 Recycling Limited.

† Indirectly owned through AO Limited.

‡ Indirectly owned through Worry Free Limited (50%) and Appliances Online Limited (50%).

20. Deferred tax

Deferred tax is recognised by the Group as shown in the table below.

	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
At 1 April 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	–	(0.3)	0.1
At 31 March 2020	0.8	1.5	0.3	(2.6)	0.9	1.2	2.1
(Debit)/credit to income statement	0.7	(0.1)	0.1	0.3	(0.1)	(0.5)	0.4
(Debit)/credit to reserves	0.9	–	–	–	–	–	0.9
At 31 March 2021	**2.4**	**1.4**	**0.4**	**(2.3)**	**0.8**	**0.7**	**3.4**

The above are disclosed as follows in the statement of financial position:

Deferred tax asset	5.6
Deferred tax liabilities	(2.3)
Net deferred tax	3.4

The Group has an unrecognised deferred tax asset of £2.0m (2020: £8.1m) in respect of unused losses carried forward.

21. Inventories

	2021 £m	2020 £m
Finished goods	**139.6**	72.7

Included within inventories are stock provisions of £0.5m (2020: £0.5m).

22. Trade and other receivables

	2021 £m	2020 £m Restated (See Note 35)
Trade receivables	**19.8**	20.5
Contract assets	**172.2**	160.9
Prepayments and accrued income	**46.8**	29.7
Other receivables	**12.7**	3.0
	251.5	214.1

The trade and other receivables are classified as:

	2021 £m	2020 £m Restated (See Note 35)
Non-current assets	**85.3**	79.2
Current assets	**166.2**	134.9
	251.5	214.1

All of the amounts classified as Non-current assets relate to contract assets.

22. Trade and other receivables continued

Contract assets

Contract assets represent the expected future commissions receivable in respect of product protection plans and mobile phone connections. The Group recognises revenue in relation to these plans and connections when it obtains the right to consideration as a result of performance of its contractual obligations (acting as an agent for a third party). Revenue in any one year therefore represents the estimate of the commission due on the plans sold or connections made.

The reconciliation of opening and closing balances for contract assets is shown below:

	2021 £m	2020 £m Restated (See Note 35)
Balance brought forward as previously reported	**160.9**	151.1
Restatement – see Note 35	**–**	(10.4)
Balance brought forward as restated	**160.9**	140.7
Revenue recognised *	**174.0**	153.4
Cash received	**(153.0)**	(134.7)
Revisions to estimates – adjusting items (see Note 3)	**(8.1)**	–
Revisions to estimates – other	**(5.0)**	(0.7)
Unwind of discounting	**3.4**	2.2
Balance carried forward	**172.2**	160.9

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

Commission receivable on product protection plans is estimated using a number of assumptions including the customer cancellation rate. As set out in Note 35, the misinterpretation of data supplied by a third party, which is used in calculating the expected cancellation rates, has resulted in a prior year restatement of the financial statements as a result of a number of cancelled plans being counted as live plans within the contract asset valuation. As a consequence of these plans now being excluded, management have reassessed the impact of the plans on the overall expected recoverability of the contract asset and the assumptions and estimate used in such valuation.

The consequential effect on assumptions and estimates used in recognising revenue in past years from the amendment to the underlying data noted above amounts to £8.1m, and as it does not relate to the underlying trading in the period has been added back as an Adjusting Item in arriving at the Group's Adjusted EBITDA (see Note 3). This is shown as a separate item in the table above. Normal revisions to estimates in relation to revenue recognised in past years amounted to £1.4m.

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

Included in the total contract asset balance at 31 March 2020 was an amount of £3.6m in respect of variable consideration recognised as revenue up to that date that has been reversed in the year ended 31 March 2021. This has been included in the revision in estimates – other in the table over. Overall, the estimated transaction price recognised as revenue and contract assets up to 31 March 2021 in relation to mobile commission is constrained by £4.7m (31 March 2020: £11.7m).

Product protection plans

Under our arrangement with Domestic & General ("D&G"), the Group receives commission in relation to its role as agent for introducing its customers to D&G and recognises revenue at the point of sale as it has no future obligations following this introduction. A discounted cash flow methodology is used to measure the estimated value of the revenue and contract assets in the month of sale of the relevant plan, by estimating all future cash flows that will be received from D&G and discounting these based on the expected timing of receipt. Subsequently, the contract asset is measured at the present value of the estimated future cash flows. The key inputs into the model which forms the base case for management's considerations are:

- the contractually agreed margins, which differ for each individual product covered by the plan as is included in the agreement with D&G;
- the number of live plans based on information provided by D&G;
- the discount rate for plans sold in the year using external market data – 3.55% (2020: 4.6%);
- the estimate of profit share relating to the scheme as a whole based on information provided by D&G;
- historic rate of customer attrition that 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); and
- the estimated length of the plan based on historical data plus external assessments of the potential life of products (5 to 16 years).

22. Trade and other receivables continued

The last two 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 c.2.5m plans that have been sold. Of these, c.1.0m 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 that 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 could reduce or increase the total cash flows ultimately realised over the forecast period. Management make a regular assessment of the data and assumptions with a detailed review at half year and full year to ensure this continues to reflect the best estimate of expected future trends.

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 and revenue £m
25% reduction in terminal drop-off rate after actual data available	**0.3**
25% increase in terminal drop-off rate after actual data available	**(0.3)**
Cancellations increase by 1%	**(0.8)**
Cancellation rate reduces by 1%	**0.9**

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 been updated during the year to reduce volatility by excluding expected revenue beyond a backstop date. Over the past year, actual cancellations have been broadly in line with the expected terminal drop-off rates. As the amount of data beyond the period is limited, no adjustment has been made to the assumption in the model. We would reasonably expect a maximum variance to the current drop-off rate of 25%. The backstop date reduces the impact of any variance.

Cancellations

The number of cancellations and therefore the cancellation rate can fluctuate based on a number of factors. These include macroeconomic changes e.g. unemployment, but will also reflect the change in nature of the plan itself (insurance plan vs service plan). Assumptions were updated during the year to remove assumed improvements that should reduce the impact of changes in the cancellation rates. 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 (principally forecasts of inflation – 1.5% (2020: 2.75%);
- the length of contract entered into by the consumer (12 – 24 months); and
- consumer average tenure that takes account of both the default rate during the contract period and the expectations that some customers will continue beyond the initial contract period and generate out of contract ("OOC") revenue (4%–12.5%)

22. Trade and other receivables continued

The last two inputs are estimated based on extensive historical evidence obtained from the networks, and adjustment is made for the risk of potential changes in consumer behaviour. Applying all the information above, management calculate their initial estimate of commission receivable. Consideration is then given to other factors outside of the historical data noted above which could impact the valuation. This primarily considers the reliance on historical data as this assumes that current and future experience will follow past trends.

As noted earlier, management believe that the financial impact of Covid-19 has contributed significantly to the impact of customer behaviours, resulting in the tenure of contracts reducing as end customers have cancelled contracts or defaulted as well as an increase in redemption rates on relating to cashback schemes. This has impacted previously recognised revenue in the current year with revisions to estimates amounting to c.£10.8m. The risk remains that changes in consumer behaviour may continue and could reduce or increase the total cash flows ultimately realised over the forecast period. Management make a regular assessment of the data and assumptions with a detailed review at half year and full year to ensure this continues to reflect the best estimate of expected future trends and appropriate revisions are made to the estimates. The sensitivity analysis below is disclosed as we believe it provides useful insight to the users of the financial statements by giving insight into the factors taken into account when calculating the revenue to be recognised. The table shows the sensitivity of the carrying value of the commission receivables and revenue to a reasonably possible change in inputs to the discounted cash flow model over the next 12 months, having taken account of the changes in behaviour experienced in the period.

Sensitivity	Impact on contract asset and revenue £m
1% increase in contractual entitlement	**2.4**
2% increase in the default rate	**(3.7)**

Prepayments and accrued income

At 31 March 2021, there is £18.2m (2020: £11.6m) 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 2021, the balance outstanding was £5.0m (2020: £2.7m).

23. Trade and other payables

	2021 £m	2020 £m
Trade payables	**273.8**	139.6
Accruals	**36.8**	23.1
Contract liabilities	**63.0**	61.5
Deferred income	**27.4**	15.2
Other payables	**18.3**	17.6
	419.3	257.1

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 62 days (2020: 52 days), reflecting improved terms with a number of suppliers during the year.

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 within the mobile business.

Certain mobile phone contracts include variable consideration resulting from cash-back rights that a customer must claim periodically. The Group constrains the transaction price in relation to the cash back based on historical information and has in past periods not considered that the estimates in arriving at the provision were significant as historically, many customers have not fully claimed cash back to which they are entitled. However, during the current year, the Group saw an unprecedented increase in the level of cashback redemptions, which was inconsistent with the previous trend of redemptions reducing year on year.

Management believe that the financial impact of Covid-19 has contributed to the increased redemptions and, as a consequence, the Group has revised its estimate of the transaction price based on current consumer behaviour. Included in the total contract liability balance at 31 March 2020 was an amount of £7.2m in respect of variable consideration recognised as revenue in prior years that has been reversed in the year ended 31 March 2021. At 31 March 2021, a liability of £8.2m (31 March 2020: £12.9m) has been recognised out of a maximum potential exposure of £16.2m (31 March 2020: £42.9m). Taking into consideration the revenue constraints required by IFRS 15, the range of the estimated liability is between £8.2m and £nil (31 March 2020: £12.9m and £nil).

The trade and other payables are classified as:

	2021 £m	2020 £m
Current liabilities	**411.4**	249.6
Long-term liabilities	**7.9**	7.5
	419.3	257.1

24. Net debt

	2021 £m	2020 £m
Cash and cash equivalents at year end	**67.1**	6.9
Borrowings – Repayable within one year	**–**	(5.2)
Borrowings – Repayable after one year	**–**	(16.7)
Lease liabilities – Repayable within one year	**(21.4)**	(16.1)
Lease liabilities – Repayable after one year	**(73.9)**	(68.1)
Net debt	**(28.2)**	(99.1)

Movement in financial liabilities in the year was as follows:

	Borrowings £m	Lease liabilities £m
Balance at 1 April 2020	21.9	84.1
Changes from financing cash flows		
Repayment of borrowings	(21.9)	–
Payment of interest	(0.4)	(4.0)
Repayment of lease liabilities	–	(17.6)
Total changes from financing cash flows	**(22.3)**	**(21.6)**
Other changes		
New lease liabilities	–	32.8
Reassessment of lease term	–	(3.5)
Interest expense	0.4	4.0
Exchange difference	–	(0.5)
Total other changes	**0.4**	**32.8**
Balance at 31 March 2021	**–**	**95.3**

	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

25. Borrowings

	2021 £m	2020 £m
Secured borrowing at amortised cost		
Bank loans	**–**	21.9
Amount due for settlement within 12 months	**–**	5.2
Amount due for settlement after 12 months	**–**	16.7
	–	21.9

On 6 April 2020, AO Limited, a direct subsidiary of AO World plc, entered into a new Revolving Credit Facility of £80m which replaced the existing revolving credit facility and term loan. This did not constitute a loan modification but rather the settling of an old facility and replacement with a new one. 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. At 31 March 2021, AO Limited had undrawn amounts on its Revolving Credit Facility of £76.1m (2020: £56.7m). The amount drawn at the year end was in relation to letters of credit (£3.9m).

During the year ended 31 March 2019, AO Limited entered into a term loan agreement under which it borrowed £24m to partly fund the acquisition of Mobile Phones Direct Limited. This was repayable in quarterly instalments starting on 1 April 2019 with a final repayment date in June 2021. At 31 March 2020, £20m was outstanding and was repaid out of the new Revolving Credit Facility on 6 April 2020.

In the same year, AO Recycling Limited entered into £3m term loan to part fund the capital expenditure required for the development of its Plastics Plant. During the prior year, £2.0m of the loan had been converted into finance leases resulting in £1m being outstanding at 31 March 2020. This was repaid in full in April 2020.

26. Lease liabilities

	Minimum lease payments	
	2021 £m	2020 £m
Amounts payable under lease liabilities:		
Within one year	**25.3**	19.8
Greater than one year but less than five years	**64.8**	53.2
Greater than five years but less than ten years	**17.1**	22.6
Beyond ten years	**0.6**	1.2
	107.8	96.8

	Present value of minimum lease payments	
	2021 £m	2020 £m
Amounts payable under lease liabilities:		
Within one year	**21.4**	16.1
Greater than one year but less than five years	**58.3**	45.7
Greater than five years but less than ten years	**15.0**	21.5
Beyond ten years	**0.6**	0.8
	95.3	84.1

27. Provisions

	2021 £m	2020 £m
Provisions	**2.4**	2.6

Provisions are classified as:

	2021 £m	2020 £m
Current liabilities	**0.1**	0.7
Non-current liabilities	**2.3**	1.9
	2.4	2.6

	Dilapidations provision £m
At 31 March 2020	2.6
Utilised in the year	(0.7)
Provisions created in the year	0.5
At 31 March 2021	**2.4**

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 2020	477.9	1.2	103.7
Share issue	1.4	–	0.6
At 31 March 2021	**479.4**	**1.2**	**104.3**

On 21 July 2020, the Company issued 0.6m shares to satisfy awards under the vested ERP and 2017 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.

As at 31 March 2021 the number of shares held by the EBT was 1,597,868.

On 1 March 2021, the Company issued 0.8m shares under the vested SAYE scheme 2018 (see Note 31), resulting in an increase in Share premium of £0.6m.

29. Non-controlling interest

	2021 £m	2020 £m
Balance at 1 April 2020	**1.0**	0.9
Share of loss for the year	**0.6**	0.3
Acquisition of minority interest	**(0.4)**	(0.2)
Balance at 31 March 2021	**1.3**	1.0

During the year, AO World Plc exercised its third 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 18.4% (2020: 25.6%) 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 2021, AO Recycling Limited had non-current assets of £17.0m (2020: £17.0m), net current liabilities of £18.4m (2020: £14.2m) and non-current liabilities of £6.2m (2020: £7.0m). During the year, AO Recycling Limited contributed £14.8m (2020: £12.6m) and £0.5m loss (2020: £0.8m earnings) to the Group's revenue and Adjusted EBITDA respectively. Its retained loss for the year was £3.5m (2020: £1.5m loss). Net cash outflow was £3.5m (2020: £2.6m inflow).

If the stake in AO Recycling Limited had remained at 74.4%, 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 arose on the purchase of DRL Limited (now AO Retail Limited) in the year ended 31 March 2008 and Mobile Phones Direct Limited in the year ended 31 March 2019.

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 third 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.

	2021 £m	2020 £m
2017 LTIP	–	0.4
2018 SIP	**0.5**	0.1
2019 SIP	**0.7**	0.5
2020 SIP	**0.9**	–
Value Creation Plan ("VCP")	**0.9**	–
Sharesave scheme	**0.3**	1.0
Total share scheme charge	**3.3**	2.0

The details regarding each of the schemes is as follows:

Schemes vesting in the current year

The performance period for the 2017 LTIP concluded 31 March 2020 and, following approval at the Board meeting in August 2020, the share awards under this schemes vested. The number of shares vesting under the 2017 LTIP scheme was 602,102.

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 £1.44.

Based on the performance criteria achieved, and subject to continued employment, the number of conditional shares relating to the scheme is 1,972,164.

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.

Based on the performance criteria achieved, and subject to continued employment, the number of conditional shares relating to the scheme is 6,766,831.

Single Incentive Plan 2020

On 20 August 2020, the Company adopted the AO 2020 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 2021. The vesting date for the conditional shares is July 2024.

The fair value was determined to be the share price at grant date of £1.998.

Thirty per cent of the awards are subject to a Group Revenue performance condition for the year ended 31 March 2021 as shown below:

Group Revenue for the performance period	Extent to which performance condition satisfied
Below £1,099m	0%
£1,099m (Threshold)	25%
£1,157m (Target)	62.50%
£1,215m or higher (Stretch)	100%

Thirty per cent of the awards are subject to a Group EBITDA performance condition for the year ended 31 March 2021 as shown below:

Group Adjusted EBITDA for the performance period	Extent to which performance condition satisfied
Below £15m	0%
£15m (Threshold)	25%
£19.4m (Target)	62.50%
£23.7m or higher (Stretch)	100%

31. Share-based payments continued

Twenty per cent of the awards are subject to a Group cash outflow performance condition for the year ended 31 March 2021 as shown below:

Group cash flow for the performance period	Extent to which performance condition satisfied
Above £1.4m	0%
£1.4m (Threshold)	25%
£4.8m (Target)	62.50%
£8.2m 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 2021 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%

Ten per cent of the awards are subject to a Group weighted average ENPS performance condition for the year ended 31 March 2021 as shown below:

Net promoter score for the performance period	Extent to which performance condition satisfied
Below 10	0%
+ 10 (Threshold)	25%
+ 25 (Target)	62.50%
+ 40 or higher (Stretch)	100%

The following table illustrates the number and weighted average exercise price ("WAEP") of, and movements in, share options granted under the SIP 2020 awards.

	2021 No. of options	2021 WAEP (£)*	2020 No. of options	2020 WAEP (£)*
Outstanding at the beginning of the year	**–**	**–**	–	–
Granted during the year	**2,917,334**	**–**	–	–
Forfeited during the year	**(44,896)**	**–**	–	–
Outstanding at the end of the year	**2,872,438**	**–**	–	–

* Weighted average exercise price.

Based on the performance criteria achieved, and subject to continued employment, the number of conditional shares relating to the scheme is expected to be 2,872,438.

Value Creation Plan

The Awards

On 30 September 2020, the Company granted Awards to both Executives and employees in the form of conditional awards over AO shares that will vest at the end of the measurement periods subject to the participant remaining in employment and meeting certain performance conditions. There is no exercise price associated with the Awards.

31. Share-based payments continued

Executive Awards

On 30 September, three conditional awards were granted.

The executive Awards have been granted in three separate equal tranches with the first tranche vesting at a measurement date of 31 March 2025, the second tranche at a measurement date of 31 March 2026, and the third tranche at the measurement date of 31 March 2027, all subject to the meeting the performance conditions:

Percentage of value above the hurdle attributable to the Awards	
AO Total market cap < £2.5 billion (£5.23 per share) at measurement date	0%
AO Total market cap between £2.5 billion and £4.5 billion at measurement date	3% of the excess between £2.5bn and £4.5bn

The maximum payment on vesting of the Executive Awards is £60m (£20m per executive), equivalent to a cap of £4.5bn as noted in the above table. Note that the maximum amount payable under any tranche is one third of the cap (e.g. £6.67m).

The fair value of each award was £287,700, £329,700 and £359,700 for 31 March 2025, 2026 and 2027 respectively.

Employee Awards

On 30 September 2020, 138,866 conditional awards were granted.

The employee Awards will vest in a single tranche at a measurement date of 31 March 2025. However, to the extent that the Company's share price increases between 31 March 2025 and the second and third measurements dates (of 31 March 2026 and 31 March 2027 respectively), at the Board's discretion, the further incremental value will be delivered on the Awards in line with the following table. The value of the employee Awards may therefore increase at each measurement date.

Percentage of value above the hurdle attributable to the Awards	
AO Total market cap < £2.5 billion (£5.23 per share) at measurement date	0%
AO Total market cap between £2.5 billion and £4.5 billion at measurement date	7% of the excess between £2.5bn and £4.5bn
AO Total market cap between £4.5 billion and £5.0 billion at measurement date	As above plus 10% of the excess between £4.5bn and £5.0bn
AO Total market cap between £5.0 billion and £6.0 billion (£12.55 per share) at measurement date	As above plus 5% of the excess between £5.0bn and £6.0bn

Under both the Executive and employee Awards, the number of shares issued to satisfy the Awards cannot exceed 5.0% of the Company's share capital. For the employee Awards, this means that above a market cap of £5.0 billion the percentage of value attributable to the Awards cannot exceed 5% of the market capitalisation.

In arriving at the fair value of each award, the following assumptions have been used:

Assumptions			
Market capitalisation at grant	£1.032bn	£1.032bn	£1.032bn
Hurdle	£2.5bn	£2.5bn	£2.5bn
Cap	£4.5bn/£6.0bn	£4.5bn/£6.0bn	£4.5bn/£6.0bn
Dividend yield	0.0%	0.0%	0.0%
Expected term	4.5 years	5.5 years	6.5 years
Risk free rate	0.0%	0.0%	0.0%
Volatility	45.0%	45.0%	45.0%
Discount for post vesting restrictions	nil	nil	nil

The fair value of each award was £42.57, £21.90 and £18.14 for 31 March 2025, 2026 and 2027 respectively.

31. Share-based payments continued

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:

	2021 No. of options	2021 WAEP (£)*	2020 No. of options	2020 WAEP (£)*
Outstanding at the beginning of the year	**3,437,415**	**0.83**	2,920,071	0.97
Granted during the year	**1,285,091**	**3.32**	2,349,838	0.77
Forfeited during the year	**(199,907)**	**1.03**	(1,519,585)	0.87
Lapsed in the year	**(30,317)**	**1.49**	(312,909)	1.25
Outstanding at the end of the year	**4,492,282**	**1.53**	3,437,415	0.83

* Weighted average exercise price.

During the year ended 31 March 2021, options were granted on 25 January 2021. For the shares outstanding at 31 March 2021, the remaining weighted average contractual life is 1.78 years (2020: 2.28 years). The weighted average fair value of options granted during the year was £3.32 per share.

The following table gives the assumptions made during the year ended 31 March 2021:

For options granted on	1 Mar 2017	1 Feb 2019	22 Jan 2020	25 Jan 2021
Risk-free rate	0.41%	0.79%	0.79%	**0.79%**
Expected volatility	49.9%	46.5%	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 £5.5m (2020: £5.0m). Contributions totalling £0.7m (2020: £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.

33. Financial instruments continued

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.

	2021 Carrying amount £m	2021 Fair value £m	2020 Carrying amount £m	2020 Fair value £m
Financial assets designated as fair value through profit or loss				
Call option	–	–	0.6	0.6
Loans and receivables				
Cash and cash equivalents	**67.1**	**67.1**	6.9	6.9
Trade receivables (see Note 22)	**19.8**	**19.8**	20.5	20.5
Prepayments and other receivables (see Note 22)	**59.5**	**59.5**	32.7	32.7
Total financial assets	**146.4**	**146.4**	60.8	60.8
Financial liabilities measured at amortised cost				
Trade payables (see Note 23)	**(273.8)**	**(273.8)**	(139.6)	(139.6)
Other payables excluding deferred income (see Note 23)	**(118.1)**	**(118.1)**	(102.3)	(102.3)
Borrowings (see Note 25)	–	–	(22.0)	(22.0)
Lease liabilities (see Note 26)	**(95.3)**	**(95.3)**	(84.1)	(84.1)
Financial liabilities at fair value through profit and loss				
Put option to acquire non-controlling interest	–	–	(1.0)	(0.3)
Total financial liabilities	**(487.2)**	**(487.2)**	(349.0)	(348.3)
Total financial instruments	**(340.8)**	**(340.8)**	(288.2)	(287.5)

The table below shows the movement in valuation for both the call and put option during the year.

Call option	**£m**
At 1 April 2019	0.8
Change in valuation	(0.1)
At 31 March 2020	**0.6**
Change in valuation	**(0.6)**
At 31 March 2021	**–**

Put option	**£m**
At 1 April 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**
Exercised in the year	**(0.2)**
Unwind of discount	**0.1**
Change in valuation	**(0.9)**
At 31 March 2021	**–**

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.

33. Financial instruments continued

As set out in Note 29, AO World Plc exercised its option over the third 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 £0.1m.

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	**–**	**–**	**–**	**–**
At 31 March 2021	**–**	**–**	**–**	**–**
Call option	–	–	0.6	0.6
At 31 March 2020	–	–	0.6	0.6

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities				
At 31 March 2021				
Put option to acquire non-controlling interest	**–**	**–**	**–**	**–**
At 31 March 2020				
Put option to acquire non-controlling interest	–	–	0.3	0.3

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:

	2021 £m	2020 £m
Trade receivables	**19.8**	20.5
	19.8	20.5

33. Financial instruments continued

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	**16.0**	**–**	**16.0**
Past due 0–30 days	**3.1**	**–**	**3.1**
Past due 31–120 days	**0.1**	**–**	**0.1**
More than 120 days	**0.8**	**(0.2)**	**0.6**
At 31 March 2021	**20.0**	**(0.2)**	**19.8**
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

The current year includes an impairment charge of £0.2m (2020: £0.1m) to trade receivables. Contract assets are also assessed for credit risk. Total contract assets at 31 March 2021 were £172.2m (2020: £160.9m). Management assess the counter party risk relating to these assets that 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 expected credit loss provision is required. Expected credit losses on other financial assets held at amortised cost are not considered to be material.

c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. It is Group policy to maintain a balance of funds, borrowings, committed bank and other facilities sufficient to meet anticipated short-term and long-term financial requirements. In applying this policy, the Group continuously monitors forecast and actual cash flows against the maturity profiles of financial assets and liabilities. Uncommitted facilities are used if available on advantageous terms. It is Group treasury policy to ensure that a specific level of committed facilities is always available based on forecast working capital requirements. Cash forecasts identifying the Group's liquidity requirements are produced and are stress tested for different scenarios including, but not limited to, reasonably possible decreases in profit margins and increases in interest rates on the Group's borrowing facilities and the weakening of sterling against other functional currencies within the Group.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	Carrying amount £m	Contractual cash flows £m	Within 1 year £m	Between 1 and 5 years £m	Between 5 and 10 years £m	In more than 10 years £m
Non-derivative financial liabilities						
Trade and other payables	**383.7**	**383.7**	**375.8**	**7.9**	**–**	**–**
Bank loans	**–**	**–**	**–**	**–**	**–**	**–**
Lease liabilities	**95.3**	**107.8**	**25.3**	**64.8**	**17.1**	**0.6**
At 31 March 2021	**479.0**	**491.5**	**401.1**	**72.7**	**17.1**	**0.6**

	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

33. Financial instruments continued

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:

	2021 £m	2020 £m
Fixed and variable rate instruments		
Fixed rate	**9.6**	9.4
Variable rate	**–**	21.0
	9.6	30.4

e) Capital management

It is the Group's policy to maintain an appropriate equity capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The capital structure of the Group consists of net cash, borrowings (disclosed in Note 23) and equity of the Group. The Group is not subject to any externally imposed capital requirements. In addition, as set out in Note 23, AO Limited, a direct subsidiary of AO World Plc and the holding company of AO Retail Limited and Expert Logistics Limited, has access to 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	
	2021 £m	2020 £m	2021 £m	2020 £m
Euros	**157.5**	142.9	**41.3**	42.3

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	
	2021 £m	2020 £m
Sterling strengthens by 10%	**(11.6)**	(10.1)
Sterling weakens by 10%	**10.6**	9.2

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 12.

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 below.

Transactions with Directors and key management personnel

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

	2021 £m	2020 £m
Key management emoluments including social security costs	**4.6**	3.5
Awards granted under a long-term incentive plan	**3.0**	3.0
Company contributions to money purchase plans	**–**	0.1
	7.6	6.6

Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 114 to 139.

35. Restatement of comparatives

In conducting a reconciliation of the contract base with the Group's insurance plan partner, the Group discovered that a number of plans that were treated as live on the Group's database had actually been cancelled, in addition to a number of live plans that had not been reported to the Group. These arose due primarily to a misinterpretation of data received from the third party. These plans related to the period 2008 to 2020.

As a consequence, revenue, finance income and the associated contract asset have been overstated in these past periods. The errors have been corrected by restating each of the affected financial statement line items for prior periods. The following tables summarise the impacts on the Group's consolidated financial statements.

Summarised consolidated income statement and other comprehensive income

£m	Year ended 31 March 2020 as reported	Adjustment	Year ended 31 March 2020 restated
Revenue	1,046.2	(0.5)	1,045.7
Operating loss	(3.8)	(0.5)	(4.3)
Finance income	10.9	(0.4)	10.5
Finance costs	(5.6)	–	(5.6)
Profit before tax	1.5	(0.9)	0.6
Tax (charge)/credit	(0.1)	0.1	0.1
Profit after tax for the year	1.4	(0.8)	0.7
Total comprehensive loss for the year	(4.1)	(0.8)	(4.8)

The restatement of the Income Statement has also resulted in Earnings per Share being restated. The profit attributable to shareholders in the prior year has decreased from £1.7m to £1.0m. As a consequence this results in basic profit per share being 0.21p (2020 reported: 0.38p) and diluted profit per share being 0.21p (2020 reported: 0.37p).

Summarised consolidated statement of financial position

£m	At 31 March 2020 as reported	Adjustment	At 31 March 2020 restated
Non current assets			
Trade and other receivables	87.9	(8.7)	79.2
Deferred tax asset	4.5	0.1	4.6
Other non current assets	138.6	–	138.6
	231.0	(8.6)	222.4
Current assets			
Trade and other receivables	137.4	(2.5)	134.9
Other current assets	80.6	–	80.6
	218.0	(2.5)	215.5
Total assets	449.0	(11.1)	437.9
Total liabilities	(369.3)	–	(369.3)
Net assets	79.7	(11.1)	68.6
Retained losses	(46.1)	(11.1)	(57.2)
Other reserves	126.8	–	126.8
Total	80.7	(11.1)	69.7
Non controlling interest	(1.0)	–	(1.0)
Total equity	79.7	(11.1)	68.6

There is no impact on the overall cash balance as at 31 March 2020. Deductions for the related overpayments of taxation have been reflected in respect of the 2020 financial year. No further deductions relating to periods prior to 2020 have been recognised in these financial statements due to the uncertainty around the recoverability of overpayments of tax relating to these periods.

35. Restatement of comparatives continued

Summarised consolidated statement of financial position

£m	At 31 March 2019 reported	Adjustment	At 31 March 2019 restated
Non current assets			
Trade and other receivables	79.4	(8.1)	71.3
Other non current assets	140.1	–	140.1
	219.5	(8.1)	211.5
Current assets			
Trade and other receivables	114.5	(2.3)	112.2
Other current assets	105.8	–	105.8
	220.3	(2.3)	218.0
Total assets	439.8	(10.4)	429.5
Total liabilities	(358.1)	–	(358.1)
Net assets	81.8	(10.4)	71.5
Retained losses	(51.2)	(10.4)	(61.5)
Other reserves	134.0	–	134.0
Total	82.8	(10.4)	72.5
Non controlling interest	(1.0)	–	(1.0)
Total equity	81.8	(10.4)	71.5

Summarised consolidated statements of changes in equity

				Other reserves								
	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
Reported 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
Cumulative adjustment	–	–	–	–	–	–	–	–	(11.1)	(11.1)	–	(11.1)
Restated balance at 1 April 2020	1.2	–	103.7	22.2	0.5	11.7	(9.7)	(2.7)	(57.1)	69.7	(1.0)	68.6

				Other reserves								
	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
Reported 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
Cumulative adjustment	–	–	–	–	–	–	–	–	(10.4)	(10.4)	–	(10.4)
Restated balance at 1 April 2019	1.2	–	103.7	22.2	0.5	13.1	(4.2)	(2.5)	(61.5)	72.4	(0.9)	71.5

Company statement of financial position

As at 31 March 2021

	Note	2021 £m	2020 £m
Non-current assets			
Intangible assets	4	**1.9**	1.0
Property, plant and equipment	5	**2.2**	2.6
Right of use assets	5	**6.4**	7.3
Investment in subsidiaries	3	**85.4**	83.1
Amounts owed by Group undertakings		**137.3**	115.8
Deferred tax asset	7	**2.0**	1.3
Derivative financial asset	11	**–**	0.6
		235.2	211.7
Current assets			
Corporation tax receivable		**0.8**	0.8
Trade and other receivables	8	**3.8**	1.5
Cash at bank and in hand		**0.7**	2.6
		5.3	4.9
Total assets		**240.5**	216.6
Current liabilities			
Derivative financial liability	11	**–**	(0.3)
Trade and other payables	9	**(105.8)**	(89.9)
Borrowings	10	**–**	(0.2)
Lease liability	10	**(1.1)**	(1.1)
		(106.9)	(91.5)
Net current liabilities		**(101.6)**	(86.6)
Non-current liabilities			
Lease liability	10	**(6.4)**	(7.4)
Derivative financial liability	11	**(0.1)**	–
		(6.5)	(7.4)
Total liabilities		**(113.4)**	(98.9)
Net assets		**127.1**	117.8
Equity			
Share capital	12	**1.2**	1.2
Share premium	12	**104.3**	103.7
Merger reserve		**22.2**	22.2
Capital redemption reserve		**0.5**	0.5
Share-based payments reserve		**9.3**	11.7
Other reserves		**0.4**	0.1
Retained losses		**(10.8)**	(21.6)
Total equity		**127.1**	117.8

The financial statements of AO World Plc, registered number 05525751, were approved by the Board of Directors and authorised for issue on 30 June 2021. 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 2021

	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
Balance at 1 April 2019	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 non-controlling entity	–	–	–	–	–	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**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**4.5**	**4.5**
Share-based payments charge net of tax	**–**	**–**	**–**	**–**	**3.9**	**–**	**–**	**3.9**
Issue of shares (net of expenses)	**–**	**0.6**	**–**	**–**	**–**	**–**	**–**	**0.6**
Acquisition of shares in non-controlling interest	**–**	**–**	**–**	**–**	**–**	**0.3**	**–**	**0.3**
Movement between reserves	**–**	**–**	**–**	**–**	**(6.3)**	**–**	**6.3**	**–**
Balance at 31 March 2021	**1.2**	**104.3**	**22.2**	**0.5**	**9.3**	**0.4**	**(10.8)**	**127.1**

Notes to the Company financial statements

For the year ended 31 March 2021

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 accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"), but makes amendments where necessary in order to comply with 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 s408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash flow statement and related notes;
- comparative period reconciliations for share capital, tangible fixed assets, intangible assets;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of key management personnel; and
- disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share-based Payments in respect of Group-settled share-based payments;
- certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets; and
- certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

Investments

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Other accounting policies

For other accounting policies, please refer to the Group accounting policies on page 162.

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

	2021 £m	2020 £m
Cost at 31 March 2020	**83.1**	82.3
Additions	**0.1**	27.0
Transfer to subsidiary undertakings	**–**	(0.6)
Amounts written off	**–**	(26.5)
Group share-based payments	**2.2**	0.9
Cost at 31 March 2021	**85.4**	83.1

The additions in the current year relate to:

i. The acquisition of further shares in AO Recycling Limited for £0.1m following the exercise of the third tranche of options put in place on the original acquisition in 2015.

In addition, the Company has made capital contributions to its subsidiaries of £2.2m (2020: £0.9m) in relation to the allocation of share-based payment charges.

Management note that the parent company net assets of £127.1m exceed the consolidated net assets (£96.4m) by £30.7m. Despite this difference, management have not performed impairment tests on the carrying value of the investments held in the parent company balance sheet as, at the 31 March 2021, the overall market capitalisation of the Group was approximately £1.4bn and hence no indication of impairment is noted.

4. Intangible assets

	Domain names £m	Software £m	Total £m
Cost			
At 31 March 2020	1.2	1.6	2.8
Additions	–	1.4	1.4
At 31 March 2021	1.2	3.0	4.2
Amortisation			
At 31 March 2020	0.9	0.9	1.8
Charge for the year	–	0.5	0.5
At 31 March 2021	**0.9**	**1.4**	**2.3**
Carrying amount			
At 31 March 2021	**0.3**	**1.6**	**1.9**
At 31 March 2020	0.3	0.7	1.0

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 2020	2.4	2.7	5.1	9.6
Additions	0.6	–	0.6	0.1
Disposals	–	–	–	(0.2)
At 31 March 2021	**3.0**	**2.7**	**5.7**	**9.5**
Accumulated depreciation				
At 31 March 2020	1.4	1.1	2.5	2.3
Charge for the year	0.5	0.5	1.0	1.0
Disposals	–	–	–	(0.2)
At 31 March 2021	**1.9**	**1.6**	**3.5**	**3.1**
Carrying amount				
At 31 March 2021	**1.2**	**1.1**	**2.2**	**6.4**
At 31 March 2020	1.0	1.6	2.6	7.3

The carrying value of Right of use assets is analysed as follows:

Right of use assets	2021 £m	2020 £m
Land and buildings	**6.1**	6.9
Motor vehicles	**0.3**	0.3
	6.4	7.3

6. Subsidiaries

Details of the Company's subsidiaries at 31 March 2021 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 Ltd	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 Ltd	United Kingdom	Ordinary	100%	Holding company
AO Deutschland Limited	Germany	Ordinary	100%‡	Retail
AO Ltd	United Kingdom	Ordinary	100%	Holding company
AO.BE SA	Belgium	Ordinary	99.99%*	Dormant
AO.NL BV	Netherlands	Ordinary	100%	Dormant
AO Logistics (Netherlands) BV	Netherlands	Ordinary	100%	Dormant
AO Recycling Limited	United Kingdom	Ordinary	81.6%	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 Club 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 Recycling Limited.
† 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 204 apart from BERE Ltd and AO.BE SA who are registered at the addresses listed below.

BERE Ltd	AO.BE SA
44 Esplanade St Helier Jersey JE4 9WG	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 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
(Debit)/credit to income statement	0.1	0.4	(0.3)	–	0.2
(Debit)/credit to reserves	–	0.4	–	–	0.4
Deferred tax asset at 31 March 2021	**0.2**	**1.5**	**–**	**0.2**	**2.0**

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 (2020: £nil) in respect of share options.

8. Trade and other receivables

	2021 £m	2020 £m
Prepayments	**2.7**	1.0
Other receivables	**1.1**	0.5
	3.8	1.5

Expected credit losses on assets held at amortised cost are not considered to be material.

9. Trade and other payables

	2021 £m	2020 £m
Trade payables	**0.9**	1.2
Accruals	**9.2**	5.0
Other payables	**0.8**	0.7
Amounts owed to Group undertakings	**94.9**	83.0
	105.8	89.9

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

	2021 £m	2020 £m
Secured borrowing at amortised cost		
Bank loans	**–**	0.2
Amount due for settlement within 12 months	**–**	0.2
Amount due for settlement after 12 months	**–**	–
Total borrowings	**–**	0.2

b. Lease liabilities

	2021 £m	2020 £m
Secured borrowing at amortised cost		
Lease liabilities	**7.5**	8.5
Amount due for settlement within 12 months	**1.1**	1.1
Amount due for settlement after 12 months	**6.4**	7.4
Total borrowings	**7.5**	8.5

Movements in the year were as follows:

	Borrowings £m	Lease leases £m
At 1 April 2020	0.2	8.5
Changes from financing cash flows		
Repayment of borrowings	(0.2)	–
Repayment of lease liabilities	–	(1.1)
Payment of interest	–	(0.5)
Total changes from financing cash flows	(0.2)	(1.6)
Other changes		
New lease liabilities	–	0.1
Interest charge	–	0.5
Total other changes	–	0.6
At 31 March 2021	**–**	**7.5**

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 31 March 2019	0.8
Change in valuation	(0.1)
At 31 March 2020	**0.6**
Change in valuation	**(0.6)**
At 31 March 2021	**–**

Put option	£m
At 31 March 2019	(0.9)
Change in valuation	0.3
Exercised in the year	0.2
At 31 March 2020	**(0.3)**
Change in valuation	**(0.1)**
Exercised in the year	**0.3**
At 31 March 2021	**(0.1)**

12. Share capital and share premium

	Number of shares m	Share capital £m	Share premium £m	Merger reserve £m
At 1 April 2020	477.9	1.2	103.7	22.2
Share issue	1.4	–	0.6	–
At 31 March 2021	**479.4**	**1.2**	**104.3**	**22.2**

On 21 July 2020, the Company issued 0.6m shares to satisfy awards under the vested ERP and 2017 LTIP share scheme (see Note 31).

On 1 March 2021, the Company issued 0.8m shares under the vested SAYE scheme 2018.

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.

14. Share-based payments

The Company recognised total expenses of £1.1m (2020: £1.0m) in the year in relation to both the Performance Share Plan (referred to as LTIP or SIP), Value Creation Plan ("VCP") and the AO Sharesave scheme (referred to as SAYE). Details of these 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:

	2021 £m	2020 £m
Interest charged to AO Recycling Limited	**0.1**	0.1

At 31 March 2021, the balance outstanding with AO Recycling Limited was £6.3m (2020: £2.3m).

Important information

Registered office and headquarters
AO
5A The Parklands
Lostock
Bolton BL6 4SD

Registered number: 5525751
Tel: 01204 672 400
Web: ao-world.com

Company Secretary
Julie Finnemore
Email: cosec@ao.com

Joint Stockbrokers
Goldman Sachs International
Plumtree Court
25 Shoe Lane
London EC4A 4AU

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

HSBC Bank plc
4 Hardman Square
Spinningfields
Manchester M3 3EB

UniCredit Bank AG
Moor House
20 London Wall
London EC2Y 5ET

Registrar
Link Group
Unit 10, Central Square
29 Wellington Street
Leeds
LS1 4DL

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, profit/loss on the disposal of fixed assets and Adjusting items.

Adjusting items means the items as set out on page 168

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-recycling.com
ao-business.com
ao-drivers.com
ao-outlet.co.uk
mobilephonesdirect.co.uk
elekdirect.co.uk

Corporate
ao-world.com

German site:

Customer
ao.de

Shareholder notes

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