We've come a long way...

AO World plc
Annual Report and Accounts 2014

Contents

It started from nothing: a one pound bet in a pub in Bolton, Christmas Eve 1999.

That people would eventually use the internet to buy 'white goods' and that this could potentially create a multi-billion pound international business.

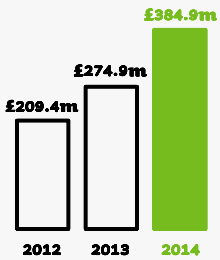
Revenue for the year to 31 March 2014 was £384.9m.

2014 highlights*

In August 2013 we re-branded our principal website.

Revenue

+40.0%



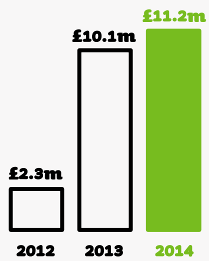
AO Website Sales

+45.4%

Adjusted EBITDA

+10.9%

Adjusted EBITDA is defined as loss/profit before tax, depreciation, amortisation, net finance costs, fees incurred in relation to IPO, and PSP costs.



* These represent our financial KPIs

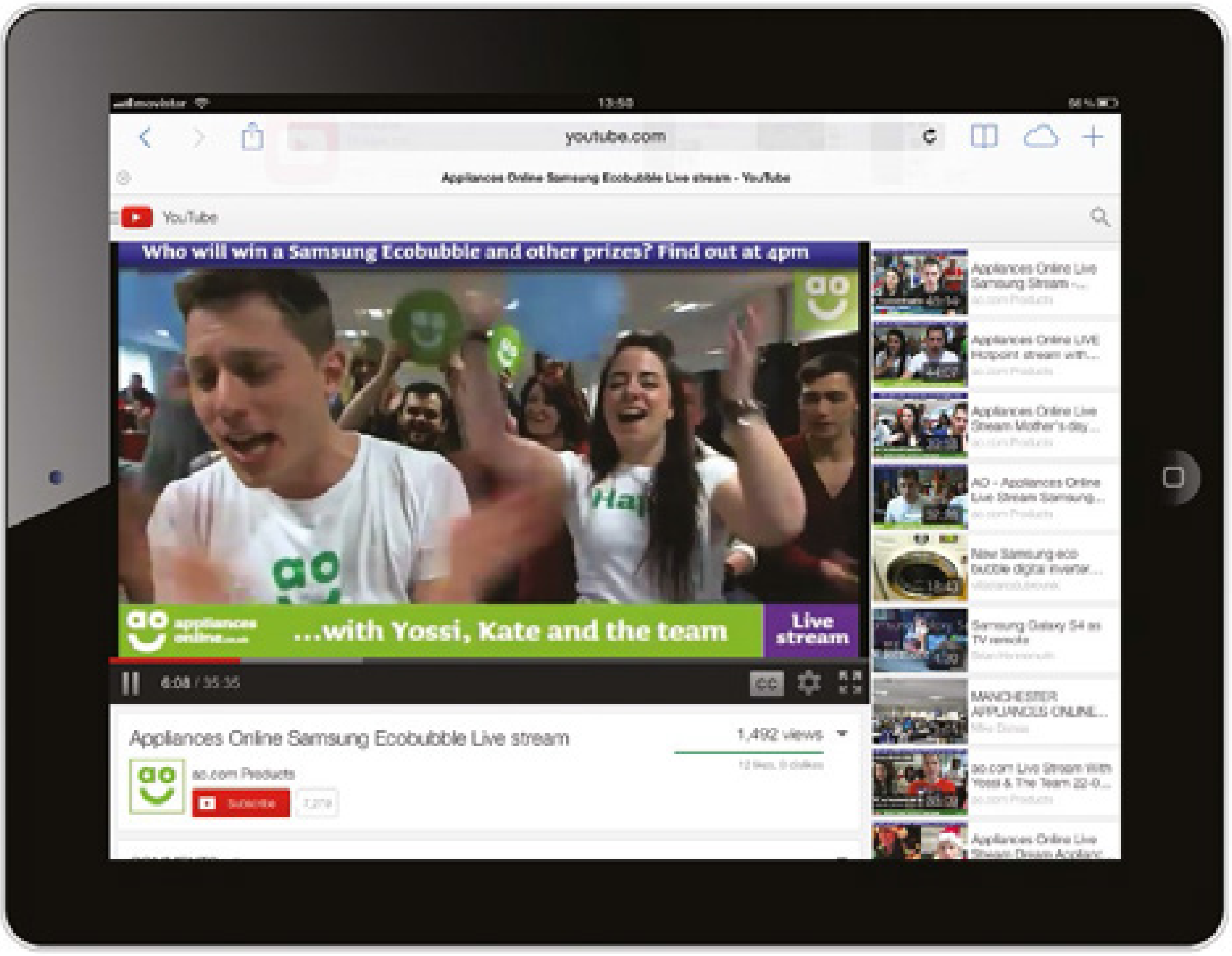
...but we plan to go much further.

Our culture is key to this.
There's a bit about this on the next few pages.

We like to share notes, insights, opinions; anything that we think might be useful. When you see a scribble, have a read; it might be of interest.

What makes us happy?

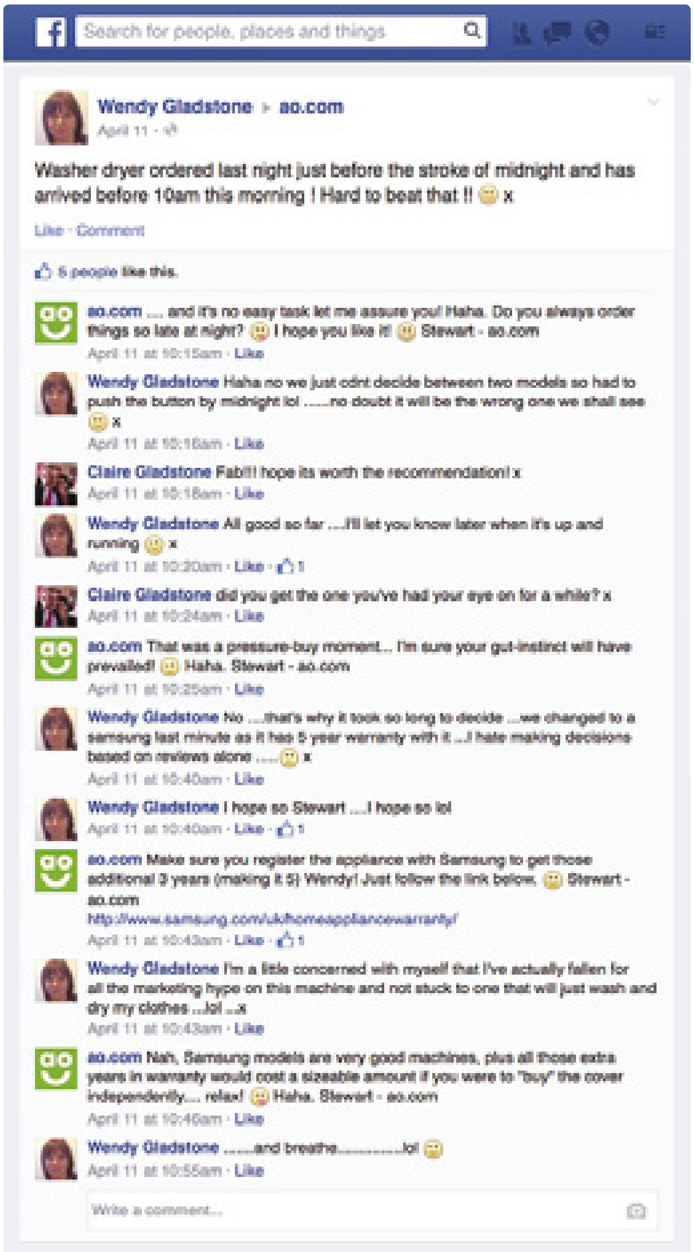
Delivering things with care.



Having fun with customers.

New ways of getting where we're going.

Truck loads of love.


Search for people, places and things

Wendy Gladstone ▸ ao.com
April 11 ·

Washer dryer ordered last night just before the stroke of midnight and has arrived before 10am this morning ! Hard to beat that !! x

Like · Comment

5 people like this.

ao.com .... and it's no easy task let me assure you! Haha. Do you always order things so late at night? I hope you like it! Stewart - ao.com
April 11 at 10:15am · Like

Wendy Gladstone Haha no we just cdnt decide between two models so had to push the button by midnight lol ......no doubt it will be the wrong one we shall see x
April 11 at 10:16am · Like

Claire Gladstone Fab!!! hope its worth the recommendation! x
April 11 at 10:18am · Like

Wendy Gladstone All good so far ....I'll let you know later when it's up and running x
April 11 at 10:20am · Like · 1

Claire Gladstone did you get the one you've had your eye on for a while? x
April 11 at 10:24am · Like

ao.com That was a pressure-buy moment... I'm sure your gut-instinct will have prevailed! Haha. Stewart - ao.com
April 11 at 10:25am · Like

Wendy Gladstone No ....that's why it took so long to decide ...we changed to a samsung last minute as it has 5 year warranty with it ...I hate making decisions based on reviews alone x
April 11 at 10:40am · Like

Wendy Gladstone I hope so Stewart ....I hope so lol
April 11 at 10:40am · Like · 1

ao.com Make sure you register the appliance with Samsung to get those additional 3 years (making it 5) Wendy! Just follow the link below. Stewart - ao.com
http://www.samsung.com/uk/homeappliancewarranty/
April 11 at 10:43am · Like · 1

Wendy Gladstone I'm a little concerned with myself that I've actually fallen for all the marketing hype on this machine and not stuck to one that will just wash and dry my clothes ...lol ...x
April 11 at 10:43am · Like

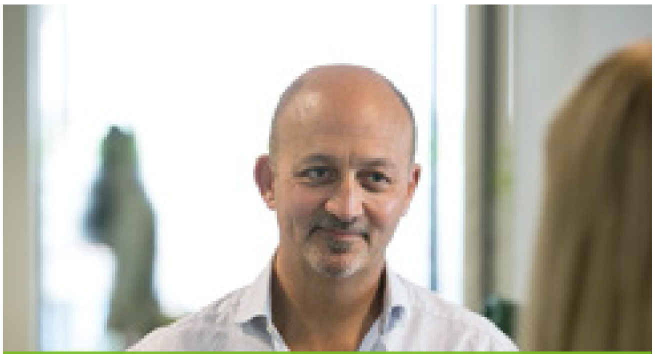
ao.com Nah, Samsung models are very good machines, plus all those extra years in warranty would cost a sizeable amount if you were to "buy" the cover independently.... relax! Haha. Stewart - ao.com
April 11 at 10:46am · Like

Wendy Gladstone ....and breathe.............lol
April 11 at 10:55am · Like

Write a comment...

Making our customers happy.

We do it with pixie dust*.
(*The composition of pixie dust is commercially sensitive.)



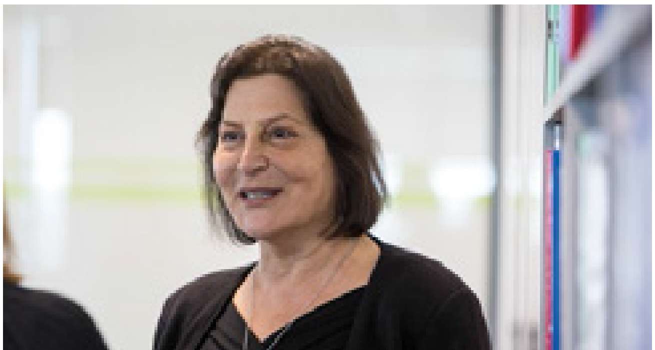
Richard Rose
Non-Executive Chairman

John Roberts
Founder and Chief Executive Officer

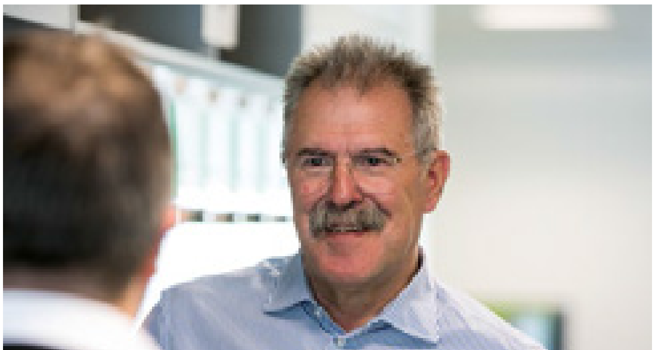
Steve Caunce
Chief Operating Officer & Chief Financial Officer

Bill Holroyd CBE DL
Non-Executive Director

Brian McBride
Senior Independent Non-Executive Director



Marisa Cassoni
Independent Non-Executive Director



Rudolf Lamprecht
Independent Non-Executive Director

Chris Hopkinson
Non-Executive Director

See what makes our Board happy.
You'll be nicely surprised on pages 38 and 39.

This is our first Annual Report as a public company and it's my great pleasure to welcome you as a shareholder. As Chairman for the last seven years I have seen the business grow and develop and am now even more excited than ever before. The business has a unique culture and this is at the heart of everything we do.

We were delighted with the support shown during our Initial Public Offering ("IPO"), with the offer being many times oversubscribed. The Company has an impressive record of both sales and profits growth and we now have the ability to accelerate the broadening into other related product categories and territories.

Focusing exclusively as we do on retailing through the online channel and owning the process from point of order to point of delivery has enabled us to develop what we believe to be the most cost-effective logistics model with an extraordinary level of customer service – giving a unique advantage on both price and customer experience.

Putting it all together in a seamless way, delivered by a team who are passionate in everything they do, enables us to provide a service that our customers describe as "exceptional".

Our Company is very different from most. Making the process simple enough to deliver both products and promises in a way that constantly and consistently delights customers has taken more than a decade of relentless attention to detail.

Strategy

Our strategy has remained the same – to "Build, Drive and Broaden".

"Build" in the UK is largely complete. Our proprietary software and systems, brand loyalty, experience, relationships, culture, team, logistics and reach give us more than enough capacity for growth – and for many years to come.

Our success at "Drive" is evidenced by our sales growth over recent years from our own websites and third-party client sites and we intend to leverage our position to continue driving market share in the UK.

For many years our Company was exclusively focused on selling major domestic appliances (MDAs). Last year "Broaden" commenced with the introduction of small domestic appliances (SDAs). A key rationale for the IPO was to accelerate this "Broaden" phase of our strategy and we are delighted to confirm that we have recently launched the sale of TVs on ao.com and earlier than promised.

We have the ability and opportunity to replicate our UK model in mainland Europe. Our systems and logistics infrastructure is fully transferable with minimal additional investment and we have aligned our UK teams to accommodate building and operating the business in Europe. Starting in Germany we have identified premises, commenced hiring staff and engaging suppliers, with the intention to begin trading during this financial year.

Whilst I believe our competitive strengths give us a broad range of advantages over both online and bricks and mortar retailers, we will continue to build and evolve our proposition to ensure we remain ahead.

The Board

In preparation for the IPO the Board of Directors was strengthened to provide a balanced Board that would provide the skills and experience we need to achieve our ambitions.

After performing essential Non-Executive roles during the development of the business, two of our long-standing members of the Board have stepped down – Norman Stoller CBE CStJ DL and Kevin Philbin. It has been my pleasure and privilege to work with them over many years and thank them both for their outstanding contribution and support.

We are delighted to have appointed three very experienced and complementary Non-Executives who are all well equipped to help us deliver our drive and broaden strategy.

Brian McBride is a seasoned expert in online retail, amongst other things. He is Chairman of ASOS, the global online fashion retailer and until 2011 was Managing Director of Amazon in the UK.

Marisa Cassoni is a highly experienced finance professional who, having been CFO at John Lewis until 2012, has the perfect background in relevant people culture, product categories and technologies to join our team.

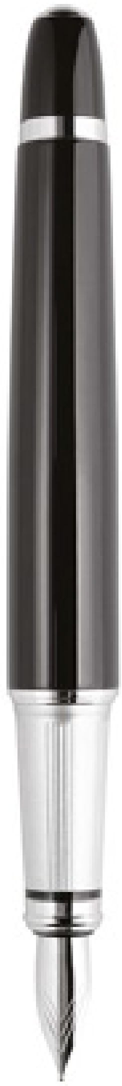
Rudi Lamprecht has exceptional knowledge of the international domestic appliance market having been Non-Executive Chairman of BSH (Bosch and Siemens GmbH).

Outlook

The 2015 financial year has started well with trading in line with our expectations in all respects. Our plans to broaden in the UK are being implemented ahead of plan and our European strategy is also proceeding well.

We have the potential, opportunity and resource to grow into a significant European online retailer and I've never been more excited about the future.

Richard Rose
Non-Executive Chairman



I'm used to writing letters. I do it all the time. Last year I wrote over 5,000 to our customers because after all… it's personal.

But this is the first time that I have written to shareholders to share my vision.

Dear Shareholder,

In 2014 AO World exploded into investor consciousness and like most overnight success stories we have actually been climbing into the starting blocks for 14 years. In this financial year we have continued to make good progress against our plans, growing revenues by 40%, enhancing our customer proposition, strengthening the AO brand and executing the IPO process whilst minimising distraction to the business.

AO World is an exceptional company but not everyone understands why customers vote for us the way they do. It is important to recognise that this is ok. Not everything is for everyone at the outset or even ever, and we respect that opinions develop. We are very clear about our strategy, what we stand for and what we stand against. We are fully committed to that strategy and the culture that supports it is at the very heart of our progress so far.

Our growth to date has been delivered through the toughest economic environment in one of the deepest and lengthy periods of economic hardship the country has ever witnessed. We have done this without any private equity investment and without bank debt. Instead, since their initial capital funding, we have had the unwavering commitment of some of the most supportive angel investors I could have hoped for and now as a public company we welcome similarly supportive investors to position us for the next phase of our growth.

Inevitably through such a journey there have been lots of lessons. These valuable learnings gathered over 14 years of obsessively innovating just how to deliver our customers the biggest range, best price and fastest delivery sit at the heart of our values.

We have lived the journey. We understand the business from the ground up and we understand what customers have every right to expect. We therefore see it as our job to engineer our business and our supply chain to meet the customer's needs in the most efficient, intelligent and effective economic way possible; and when faced with a choice, we make the right choice for our customers and not necessarily the easy, quick or cheap option available for the business.

We genuinely want to change the world of retail and we want consumers to become intolerant of poor service and realise that they simply don't have to accept it. We want to make a difference and through the democracy of choice we want to encourage consumers to use their credit cards to vote for a better way.

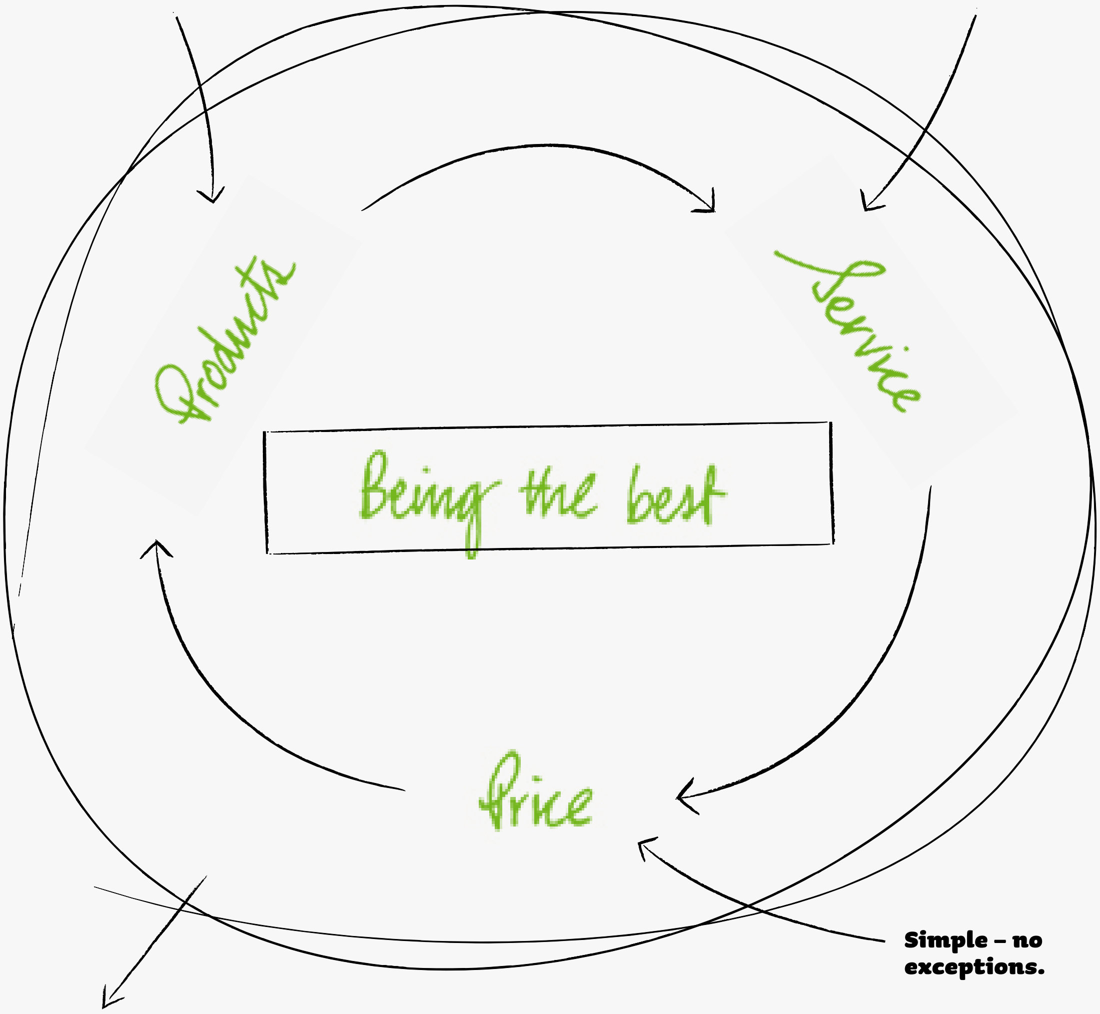
We hope you find the journey with us rewarding and enjoyable on many levels.

John Roberts
Founder and Chief Executive Officer

How I see our business

Authoritative information online to choose the right product in a better way that's easy to understand.

Best proposition delivered in the best way with a bit of fun.



Simple – no exceptions.

All this ensures we maximise returns to shareholders.
Have a look at our business model on pages 20 and 21.

How we got here

In 2000 we started out to create a business which was structurally more efficient with a lower cost base that could simultaneously provide a better retail experience at every level for customers. To achieve it we had to change the rules and therefore we had to drive change, innovation and think differently about how it would be built, how we would bring it all together and what kind of people could achieve such an ambition.

We have lived the journey. We understand the business from the ground up and the lessons of the past will guide our future…

This first Annual Report as a public company is a perfect opportunity for those that we were unable to meet in person during the IPO process to set out what we're about, where we believe we can take it and what you should expect from us.

We're ambitious

Our goal for our business is very clear. We are on a mission to become a leading electrical retailer in Europe by providing an unsurpassed customer experience and value proposition with a sprinkling of fun so that consumers actually enjoy their shopping experience with us as well as getting the best value available.

When our goals are within touching distance we always reset them far into the horizon.

Put customers first in everything we do

We understand what customers have every right to expect and we are fanatical about the importance of delivering it.

The burden of responsibility we carry when a customer has trusted us with their hard-earned cash is a serious one in good times but even more acute when that cash is so hard to come by. We respect the burden and we relish the challenge.

We care about customers being happy and we'll always do what is right and fair. We want them to feel that we would have treated our very own Grans the same way – and we love our Grans!

People make the difference

Service is after all a very personal thing. To live our focus on each customer's individual needs we must recruit and retain the very best people that truly care.

It's not about the money because you simply can't pay people to care. We invest in our people, create the best environment that enables them to flourish and love coming to work.

We trust and empower them to take risks, make decisions and be honest and open when we've made a mistake and then ask people to forgive us. Therefore we only want people who will live our values and are fixated on the importance of maintaining this standard.

We will never be afraid to experiment and challenge the norm

We believe ideas are good even if they don't work and we learn valuable lessons that form part of our investment in the future. The inherent knowledge of having lived the journey has huge intrinsic value and is a significant source of competitive advantage.

We also believe that it is important to obsess about the detail and the cumulative and compounding effect of sweating the small stuff while joining the dots to all work together for the same outcome.

Few achieve much on their own

Our trading partners are key to our business development at every level so we aim to build long-term trusting relationships that add value to our trading partners where we invest alongside them to build the best proposition while driving the hardest deals to ensure the best value for our mutual customers.

We take a lot from society

So therefore we believe we have a responsibility to take that very seriously. We want to have a positive impact in the wider communities where we are based and help make our society a better place as a result of us existing.

We aim to reduce our impact on our environment for the sake of our children and their future generations and to support charities to do as much good as we can. Charity is a very personal thing so we want to help our own people to maximise their own efforts for the charities that are personal to them for their own reasons.

What we decide not to do is just as important

What we stand against is as important because it creates clarity on what not to do just as the vision sets out what to do.

So we aim to:
- never become arrogant or display any hubris, however successful we become;
- never become complacent and to always create a sense of healthy paranoia;
- not forget where we came from or who has helped us to be a success;
- not complicate things, simplicity is the ultimate sophistication;
- never shirk the tough decisions; and
- never lack ambition.

"We care about customers being happy and we'll always do what is right and fair."

Our markets

The UK is one of the most developed markets in the world for electrical appliances with high product penetration; yet it is also one of the most dynamic. Over the past 25 years (1988-2013) the annual volume of household appliance sales has quadrupled, according to the Office for National Statistics (ONS), while at the same time prices have fallen by 68%.

This sales growth is in part due to demographic changes including the increase in the number of households – up from around 22m in 1988 to 27m in 2013. New households are likely to require new appliances and the number of households is forecast to increase by a further 500,000 by 2015, then by 8% a year to 29m by 2021.

At the same time, the relative reduction in the cost (and complexity) of buying new appliances has accompanied a relative increase in the cost (and difficulty) of repairing old ones, making replacement a more likely option.

Markets in which AO operates are split between major domestic appliances (MDAs), currently worth £3.2bn, and our newer markets of small domestic appliances (SDAs), worth £1.6bn and TV, worth £4.3bn.

At the moment we mainly retail MDAs – "white goods"– such as washing machines, cookers and fridges. Around two-thirds of this market is the 'necessity' replacement of old or broken machines but almost one-third is driven by product upgrade or home improvement.

The UK MDA market

Five manufacturers (with 14 brands) account for around 80% of the overall market. The relationships between retailers and manufacturers are therefore highly significant.

And, until the end of 2012, five retailers had a combined 60% share of the UK market with Currys (Dixons) having more than a quarter of the market. Of these five, AO was the only pureplay online retailer. The administration of Comet in December 2012 – the then number two retailer – altered the dynamics of the market at a time when the shift to online retailing was also beginning to have a major impact on purchasing patterns. The remaining market leaders all benefited from the demise of Comet.

While AO's share of the overall market was around 8% according to a review conducted by strategic consultants OC&C in October 2013, it was the clear market leader in online with a 24% share.

The OC&C report also recognised that online penetration of the UK MDA market had moved from 15% in 2008 to 34% in 2012. Their estimate was that this figure would have grown to 41% during 2013 and to 52% by 2016.

Check out point 4 of our strategy to see how we are expanding internationally.
It's on pages 18 and 19.

Other UK markets

AO has recently entered the SDA market which covers everything from irons and microwave ovens to coffee machines.

According to OC&C, the UK market for SDAs is set to grow at 3% a year from 2013 to 2017. Online penetration for SDAs in 2012 was 5% lower than for MDAs at 29% but is growing.

Alongside the SDA market are so-called "brown goods" – in particular televisions, which at £4.3bn represent a larger market than MDAs. Although both gross margins and market growth rates are lower than for MDAs, AO has well-established relationships with leading suppliers and the retail sales and logistics processes are similar.

Channel switching

The ONS estimated that online sales of household goods would increase by 20% in 2013 while in-store sales would decline by 2.5%. Using most recent data provided from OC&C, while the overall UK MDA market is likely to have grown by 1.1% 2010 to 2013, the increase in online during the same period would have been 22.5%.

OC&C forecasts that by 2015, 49% of spending in the UK MDA appliance market will be online.

These figures reflect the accelerating trend of consumers switching away from purchasing in "bricks and mortar" stores.

Reasons for this change include increasing broadband penetration and growing consumer confidence in online as a shopping channel. The content that AO now provides in terms of information, video and customer reviews enables the consumer to make a choice which we believe is more informed than they could make in a store.

White Goods in particular lend themselves to online purchasing. They have relatively high purchase prices and long lifespans. They are also not a "take home today" product and require delivery, thus reducing some of the felt benefit of physical shopping. At the same time, online can offer a wider product range, more competitive prices and enhanced product information compared to often disappointing in-store experiences.

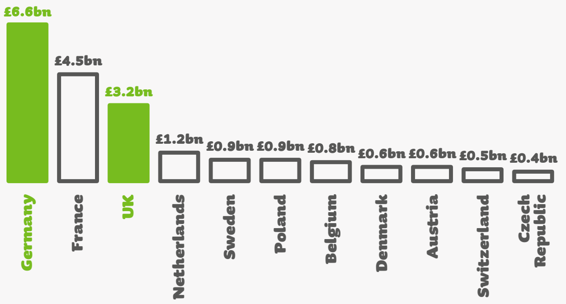
European markets

Across the EU, OC&C estimates that online market penetration for MDAs is highest in the UK (41%) – and among the lowest in Germany (14%). At the same time, Germany has the largest MDA market within the EU – at £6.6bn, presenting a significant opportunity for growth.

It has higher per capita spending on MDAs than the UK as a result of a shorter replacement cycle and higher prices together with a population density that enables the implementation of a similar hub and spoke distribution system as we have introduced in the UK.

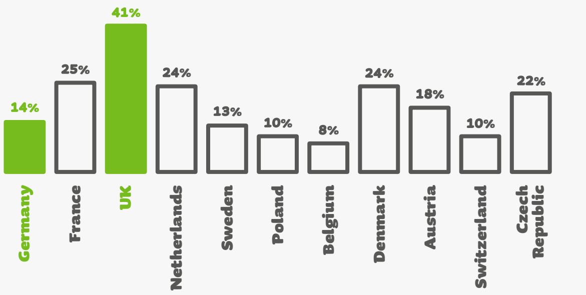
AO plans to begin trading in Germany shortly using essentially the same business model as in the UK and working with many of the same manufacturers.

MDA market size
(2012, inc VAT)



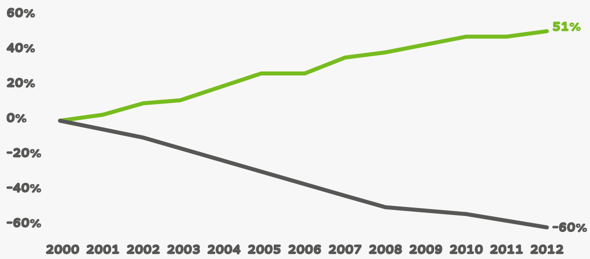
Source: OC&C Strategy Consultants, Strategic Review October 2013

MDA online penetration
(2013F)



Source: OC&C Strategy Consultants, Strategic Review October 2013

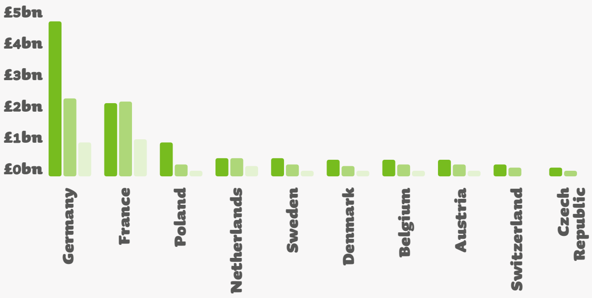
Labour cost change of the Retail Trade and Repairs industry vs. price change of household appliances



- Labour cost change since 2000 (%)
- Price change since 2000 (%)

Source: ONS

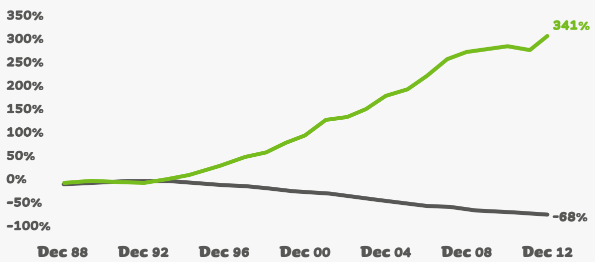
TV, SDA and AV market size in potential AO target markets
(2012, inc VAT)



- TV market (£bn)
- SDA market (£bn)
- AV market (£bn)

Source: OC&C Strategy Consultants, Strategic Review October 2013

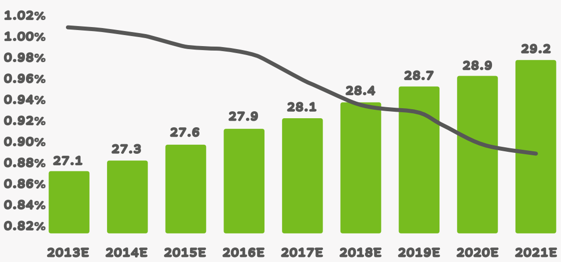
Volume and price changes since 1988 of household appliances
(%)



- Sales volume change since 1988 (%)
- Price change since 1988 (%)

Source: ONS, Jefferies

Forecast households in the UK, 2013-2021
(m)

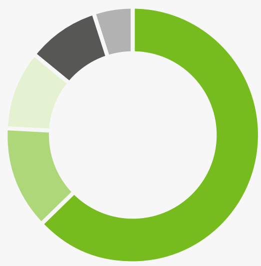


- Households (m)
- Growth (%)

Source: gov.uk

Reason for MDA purchase

- Replacement 63%
- Upgrade 13%
- New home 10%
- Current home refurbishment 9%
- Other 5%



Source: OC&C Strategy Consultants, Strategic Review October 2013

Strategic objective 1

Build on market-leading proposition and increase share of UK online market for MDAs

We are the leading player in the online market and will build on our advantages that include a full service proposition and greater flexibility and value than competitors with significant store-based assets can match.

The value of the UK online MDA market has grown at a CAGR of 21% between 2008 and 2012 to represent 34% of the overall UK market. Online is forecast to continue growing at 11% CAGR between 2013 and 2016.

The proposition risks are discussed on page 33.

Performance this year

Our delivery proposition was considerably enhanced as we introduced to the majority of areas same day delivery. This is an amazing service, and a first for the UK, where a customer can order before midday for delivery that same day. In addition, and a similarly impressive enhancement, the cut-off time for Next Day Delivery has moved from 10 pm to midnight. Meaning a customer can order online before they go to bed and the product can be with them in time for breakfast.

Availability is essential to a customer's decision to purchase, so during the year to complement the Same Day and Next Day services we extended the range of products available for these two services.

Our range of over 4,000 SKUs includes a wide selection of cooking appliances, so naturally customers have been asking us to add gas and electrical installation services to our capability. This service was launched in certain areas and we have new teams of trained specialists.

Our online content, including customer and video reviews which provide detailed general and technical advice on the products we offer, has been enhanced providing an offering to the customer which we believe removes the need for them to go to a store.

Priorities next year

To do more of the same:

We will continue to evolve ao.com, to deepen website content across a wider range of appliances, use customer experience data to refine site navigation and ease of use and improve access to ao.com via smartphones and tablets, all with the objective to improve session-to-order conversion rates.

We will also continue to enhance delivery, installation and removal services.

Strategic objective 2

Drive our brand awareness

Our success to date has been achieved by continuing to deliver amazing and remarkable service, despite low brand awareness among UK consumers. In March 2013, our unprompted brand awareness was way below our competitors – one of whom no longer existed! Increased brand awareness will drive growth and lower the cost of customer acquisition.

We intend to do this through constantly improving our websites; increasing our social media presence; developing our online search visibility; and by investing in TV advertising.

The risks relating to developing the AO brand are discussed on page 33.

Performance this year

In March 2013, before our rebranding of the principal website to ao.com, only 2% of UK consumers spontaneously identified Appliances Online as a leading retailer of major domestic appliances.

Coincident with the change to ao.com we began using TV commercials to raise awareness of our brand.

If you haven't seen our adverts, you must.
Check them out on YouTube.

We believe social media via Facebook provides a great platform for us to engage with our customers in a way that communicates the fun that is central to our brand values. We launched our Facebook community in April 2012 and we anticipate we will shortly exceed 1.5m "likes". This represents a significant asset in terms of brand awareness and customer acquisition.

Progress? By March 2014 spontaneous recognition had gone up five-fold to 10%.

Priorities next year

We aim to continue with marketing activities to improve brand awareness and lower cost per customer acquisition – through improved social media, email and SMS content, together with targeted programmes which highlight products based on customers' browsing and purchase history.

Strategic objective 3

Broaden the range of products and services we offer

Small domestic appliances (SDAs) – from coffee machines to vacuum cleaners – are an obvious adjacent opportunity to MDAs – though the market is highly fragmented.

TVs, on the other hand, represent a larger market than MDAs and a more concentrated market than SDAs. Their sale and distribution play to our strengths. They also offer future add-on technologies.

Our broader risks are discussed in the Risk Review on page 32 and 33.

Performance this year

In terms of broadening into new categories we started trading SDA during the 2014 financial year with a fairly limited range of products as a natural extension of the MDA category and began planning for launch of TV and related products.

Priorities next year

As we broaden to become a multi-category retailer we have made the organisational changes required to develop our proposition and grow our business in the new areas.

We will continue to develop our SDA range.

On 15 May 2014 we launched our TV proposition. As with MDA, our online content provides customers with reviews and information that brings to life the amazing features that are available from our excellent range of products, and available services include next day delivery and installation.

Strategic objective 4

Expand into other European markets

We expect to begin operating in Germany in FY15.

In the longer term, we will consider expansion opportunities in other EU markets focusing initially on markets adjacent to Germany.

The risks to our expansion in Europe are specifically discussed in the Risk Review on page 33.

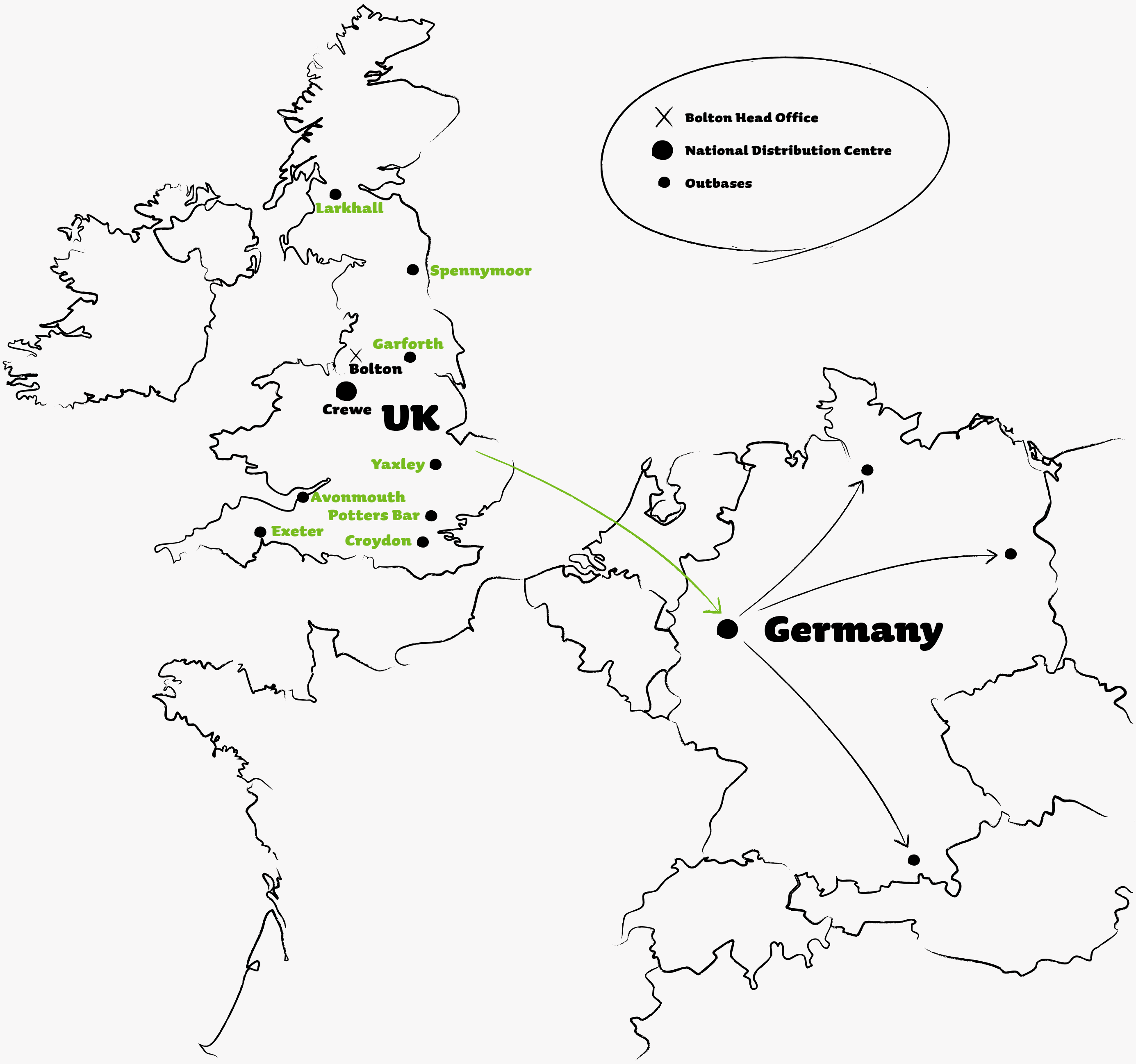
Priorities next year

We aim to replicate our UK model in mainland Europe, initially in the MDA market only.

This means as far as possible we will: leverage the transferable elements of our existing systems and logistics infrastructure; recruit local talent who exhibit the characteristics of the AO culture; develop local relationships while leveraging existing relationships with UK suppliers; and most importantly of all, deliver to customers the same unbeatable service and unbeatable prices that has been successful in the UK.

How we are expanding into Germany

We have the ability and opportunity to replicate our UK model in mainland Europe. Our systems and logistics infrastructure is fully transferable with minimal additional investment. We have begun the process of building an operation in Europe, starting in Germany, which is scheduled to begin trading during the 2015 financial year.



"We treat every customer like they're our Gran."

There are two key facts about our business model.

The first is that it is proven – it works. We believe that our fully in-sourced online proposition provides structural advantages over our competitors. It allows us to:

- control the customer experience from order to delivery,
- control the margin end-to-end from supplier to customer, and
- maintain a lower fixed-cost base as compared to competitors with significant store-based assets.

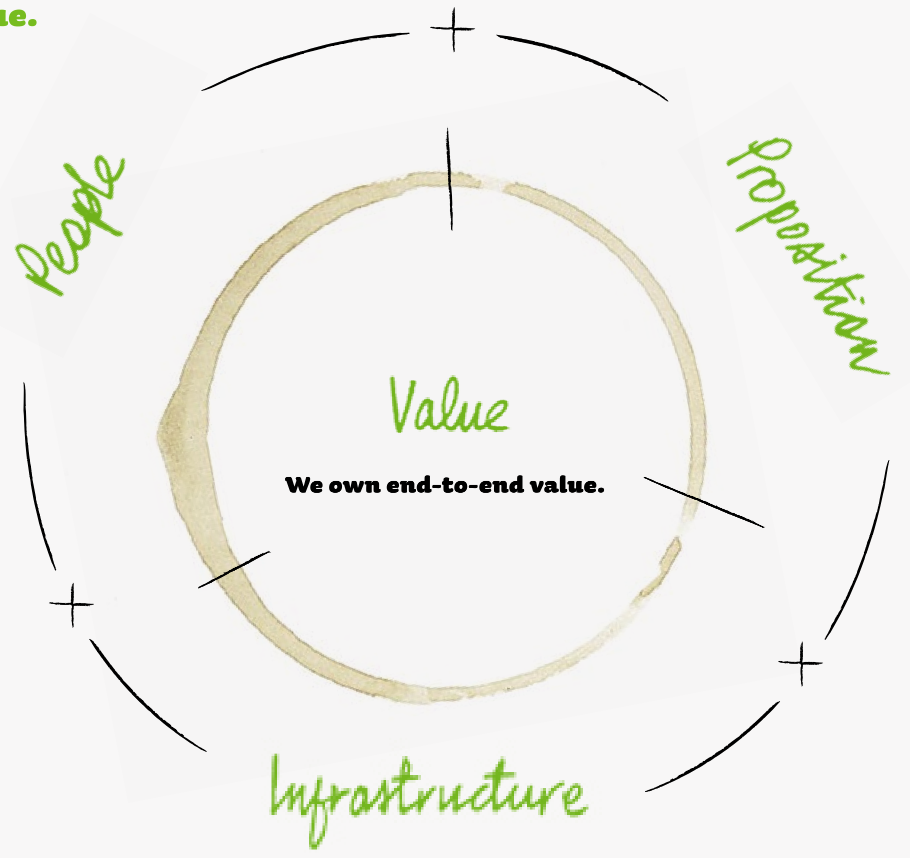
The second key fact is that our model is based on a wealth of knowledge and proprietary systems built over many years, creating a significant barrier to entry and making it difficult for competitors to copy but easy for us to replicate in new territories.

The model itself consists of three main elements. These are our:

- **Proposition**
- **People** and
- **Infrastructure**.

The factors that could impact our business model and future performance are considered in our disclosures around principal risks and uncertainties on pages 32 and 33.

This is how we create value.



Proposition

Our mission statement is to "redefine retailing through a devotion to happiness and amazing customer service".

We put customers first in everything we do and engineer the supply chain accordingly to provide the best service possible for them in the most efficient, intelligent and economic way. We aim to be the shortest link between the customer and the manufacturer and thus to offer the best proposition at the lowest cost.

We want to offer customers the best price, the widest range, the best delivery proposition and the best customer service.

Price: We aim to offer the best price and will match any price in the market but we are not a price leader.

Range: We offer an extensive range of MDA items at around 4,000 SKUs and are growing our range of SDAs and TVs.

Delivery: Our in-sourced seven-day delivery is the best in the market for free delivery. We also offer a wide range of delivery options including next-day and same-day delivery.

Service: Of course we can claim that our service is wonderful but independent customer feedback scores are also exceptionally high. We give customers excellent product information, a flexible and personal approach, and make clear commitments to them – that we then deliver on.

People

We ensure that our staff enjoy what they do and we trust them to run the business, and to do the right thing. That is what we mean by 'empowerment'.

We empower them to treat every customer as if they were their Gran. This includes giving them authority to make decisions which ensure that things go right as far as the customer is concerned.

Inevitably this will mean that we sometimes make mistakes which will cost us. But we believe it is more important (and more cost-effective) to put in controls after the event – to make sure the mistake doesn't happen again – rather than to put them in beforehand, which might limit the service we offer.

Infrastructure

Most of the IT systems we use were developed in-house. This means that we can – and do – adapt them in order to improve customer experience. It also means that they are scalable and transferable and it reduces our reliance on third parties.

Key bespoke systems include our website and subsequent order management, warehouse management and delivery routing systems. Our existing IT infrastructure has the capacity to handle planned growth and more.

Within the UK we also have our own national delivery fleet operating out of a central distribution centre with a network of outbases across the country, which gives us control over our entire distribution chain – from the online purchase of an appliance through to its delivery to the customer.

Delivery of MDAs is always a two-person operation, is available seven days a week and is a service that includes the basic installation of new appliances and the removal and recycling of old ones.

None of our competitors offer the range of delivery options that we provide.

"We don't believe that you can fake being happy."

We control the operations of our business end-to-end and that is one of our great strengths. For the most part we are in charge of our own destiny.

Our success to date has been based on a number of key elements: our customer service; our culture; our processes and systems; and our supplier relationships.

Supplier relationships

AO is a retailer. We don't make things, so we are reliant on our suppliers and see our role as being the shortest/most direct link between them and the end user – our customers.

We buy our products directly from the leading appliance manufacturers. Around 80% of our revenue comes from products manufactured by five suppliers – Indesit, Beko, Bosch, Electrolux and Samsung.

There is considerable interdependence between us and most of the relationships have been in place for many years. Through AO they are able to offer a wider range of appliances including some higher-end, lower-volume products, which traditional retailers might not stock.

These relationships are becoming increasingly strategically important to our suppliers as we grow our customer base and sales volumes.

It is AO's policy to agree the terms and conditions under which business transactions are conducted with each supplier. We abide by the payment terms where the supplier has provided goods and services in accordance with the terms and conditions of the contract.

Customer relationships

What do customers want? The best products, with the best service, at the best price.

So that's what we offer.

We have over 4,000 MDA SKUs – almost twice as many as any of our competitors. We offer a "price match promise". We deliver seven days a week at no extra charge: and a vast majority of our products can be delivered same-day. None of our competitors offer all that.

Our online platform includes detailed technical information, customer reviews and product and price comparison tools, which are scarcely available in stores. We also provide video reviews of products that are available on ao.com. These are produced in-house and represent part of our end-to-end service offer.

As a result customer satisfaction levels are high. A survey conducted by consultants OC&C in April 2013 reported that 93% of our customers were likely to purchase their next MDA from us and we have a rating of 4.9 out of 5 on Google Shopping.

In addition to sales of MDAs through AO websites we also sell appliances through third-party branded websites and to trade clients. Third-party branded website sales are sales to customers through third-party branded websites, with AO developing and operating these websites and sourcing and delivering appliances to fulfil customer orders. Trade sales are business-to-business sales where we fulfil appliance orders generated by third-party retailers. Trade sales also include sales of replacement appliances to product protection plan providers and insurers where AO delivers the appliances directly to the plan/policy holder.

Strong management and corporate culture

Culture is at the core of AO.

Happy employees are more engaged, deliver better service and require less management. So we make sure they're happy by giving them autonomy where appropriate, support where needed and a great environment to work in. They are empowered; they are incentivised; and they know they are trusted. We do this because it leads to an improved customer experience at a lower cost.

In 2014, for the third consecutive year, we were ranked in the top 5 in the Sunday Times "100 Best Companies to Work For", an achievement we are proud of when you consider our rapidly growing staff numbers.

We have two Executive Directors and eight members on our Senior Executive team. Between them they have over 160 years of experience in the retail industry and an average of eight years' service at AO. They have lived the journey; this is the team that has successfully developed and expanded the Group's business and they oversee the key functions of delivery and logistics, information technology, finance, marketing, operations and purchasing.

Processes and systems

Our end-to-end operations include our in-house delivery and logistics services and our IT systems.

Delivery

Customers like to have control over when and how they get their product. Delivery options, speed and reliability are important, as are the installation of the new machine and the removal and recycling of the old.

Our in-house delivery system is based on a single 360,000 square foot warehouse in Crewe and eight stockless outbases around the UK. From these our staff provide a comprehensive delivery service for customers who can choose morning, lunch, afternoon or evening delivery times seven days a week – which could include same-day delivery.

Customers can track their orders online and for the 2014 financial year, our rate of delivering to promise was more than 98%.

We believe that the standard of the in-house delivery service we provide is crucial; it's a key part of our pixie dust, given that delivery teams are typically the only face-to-face interaction that customers have with the Company.

In fact our two-man delivery service is also used by a small number of third parties who ask us to deliver their own products through our network on their behalf.

IT

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

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

The close relationship we have with Google should also enable us to drive and manage web traffic to newly-established sites as we expand into other European territories.

Employee Engagement and Community

People Development and Training and Health and Safety

We've already alluded to our culture on the preceding pages, but it really is paramount to the success of our Company.

We invest in our people and create an environment in which they can flourish and be the best that they can be. Our People Direction team delivers bespoke training modules covering topics ranging from presentation skills and time management, to confidence and assertiveness. These training courses are available to all employees across the business and over 300 of our staff took part last year in more than 600 training sessions.

To enable our staff to understand better the Group's performance and have an awareness across different aspects of the business, we give a monthly update on business developments. This is supplemented with regular "what we are doing workshops" led by heads of departments giving real insight into their specific areas and bringing our teams closer together. We treat people like grown-ups and, as a result, they really engage with the business. As an example, we've recently launched our first save-as-you-earn scheme which was open to all employees who had passed their probationary period. The take-up was fantastic with over a third of eligible employees participating in the option scheme.

We're committed to maintaining the highest standards of health and safety practices for our employees, customers, visitors, contractors and anyone affected by our business activities. Health and safety is a standing agenda item at Board meetings and a full report is made to the Board on a quarterly basis. We've continued to develop our Health and Safety systems and culture through the standardisation of methodologies across the Group, holding an increased number of formal training sessions and improving our accident reporting procedures.

AO is committed to an equal opportunities policy. We aim to ensure that no employee is discriminated against, directly or indirectly, on the grounds of colour, race, ethnic and national origins, sexual orientation or gender, marital status, disability, religion or belief, being part time or on the grounds of age.

Across our business of approximately 1,350 employees, female employees represented approximately 31% and held 9% and 34% of senior managerial positions and other managerial roles in the business respectively as at 31 March 2014.

Community

As well as focusing on our people internally, we aim to have a positive impact on the local communities in which we are based. Last year, for example, our employees raised over £250,000 for a number of charities that are focused primarily on giving children a better start in life and access to better opportunities.

Spectacular highlights of the year were Finn Christo (our customer search and journey manager) who, as part of a four-man team, rowed across the Atlantic on behalf of a Bolton-based charity for disadvantaged youth, and a team of 13 that cycled from John O'Groats to Land's End, raising £100,000 for a local children's hospice.

One of the reasons we place such an emphasis on this is that our employee surveys suggest that people feel energised by the charity and community work that we/they do. We try to make work fun. We've mentioned our rating in the Sunday Times "100 Best Companies to Work For" – but in the category of giving back to the community, we were ranked number one. The organisers said they had never seen commitment levels as high.

Our culture is key and must be maintained as we grow and expand.

Together we raised over £250,000 for a number of charities. Along the way we also got sore hands and soaking wet.

Fourth. We love a challenge.

Environment

We are also mindful of the effects of our business on our environment. We are committed to meeting or exceeding legislative requirements across the board, in particular with regard to packaging and waste electrical and electronic equipment ('WEEE') waste.

To ensure minimum environmental impact all handling processes are developed to fully utilise supplier packaging with less than 0.1% additional packaging added from receipt into our warehouses to delivery to our consumers. More than 95% of packaging collected during delivery to the consumer is recycled with more than 1,500 tonnes of card and plastic (including Expanded Polystyrene) recycled each year.

We offer a collection and recycling service to our customers for their old appliances (for a small charge) or, alternatively, we accept any WEEE free of charge which is delivered directly to our warehouse. Old appliances are mostly broken down into recyclable parts. A proportion are refurbished and put back into the market; re-use is after all the ultimate in recycling. Last year approximately 20,000 tonnes of WEEE was processed.

Energy efficient operations

As with all responsible organisations we are dedicated to driving energy efficiencies:

- Last year the Group increased the number of delivery locations it operated from six to nine reducing the average distance travelled per vehicle per day by more than 30km, and reducing carbon emissions by more than 9%.
- We have installed driver telemetric monitoring systems to our delivery vehicles enabling a reduction in vehicle carbon emissions.
- We also try to maximise our fuel efficiency by, for example, employing double-decker trunking so that we can deliver more products in one go to our outbases.
- We offer customers an environmental delivery option – enabling customers to choose a delivery date when we are already scheduled to be in their area, rather than making a special trip.

Greenhouse Gas Emissions Statement

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

The methodology used to calculate our emissions is based on the financial consolidation approach, as defined in the Greenhouse Gas Protocol, A Corporate Accounting and Reporting Standard (Revised Edition) 2004, and therefore emissions associated with the Group's delivery vehicles are not included in this statement because they are held via operating leases and are not under the financial control of AO. However, the Company anticipates that the forthcoming expected changes in financial reporting will require these vehicles to be included within future Greenhouse Gas Emissions reports. Emission factors used are from UK government (DEFRA) conversion factor guidance current for the year reported.

The report includes the "Scope 1" (combustion of fuel) and "Scope 2" (purchased electricity and gas) emissions associated with our offices, national delivery centre and outbases for the 12 months between 1 April 2013 and 31 March 2014. For the purposes of the report only "Scope 1" (combustion of fuel) and "Scope 2" (purchased electricity and gas) emissions sources are required.

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

Greenhouse Gas Emission data	Tonnes of CO_2e
For period from 1 April 2013 to 31 March 2014	
Scope 1	
Combustion of fuel and operation of facilities (non-material)	–
Scope 2	
Purchased electricity and gas	2,059
Company's chosen intensity measurement: tonnes of CO_2e per £m of revenue	5.35

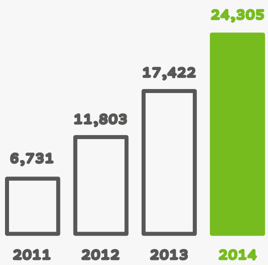
John Roberts
Founder and Chief Executive Officer

Non-financial key performance indicators*

Total sessions
(000)

How this is calculated
The number of occasions the ao.com website has been visited.

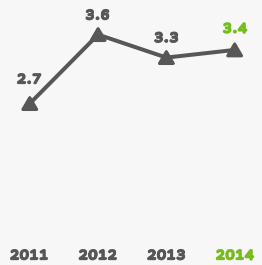
Performance this year
An increase of 39.5% over the previous year.



Conversion rate
(%)

How this is calculated
Total number of orders taken to completion in connection with AO Website Sales divided by total sessions.

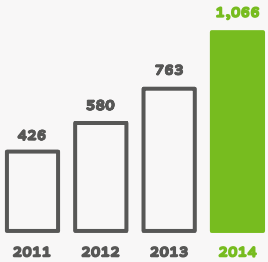
Performance this year
Conversion remained broadly consistent with the previous year.



Number of orders
(000)

How this is calculated
Total number of orders taken to completion in connection with AO Website Sales and Third-party Website Sales.

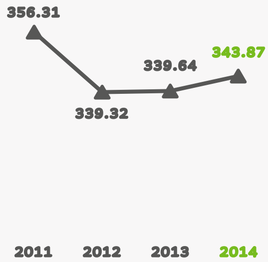
Performance this year
An increase of 39.6% over the previous year.



Average order value
(£)

How this is calculated
The sum of AO Website Sales and Third-party Website Sales divided by total number of orders.

Performance this year
Slight improvement over the previous year of 1.2%.



Products per order
(000)

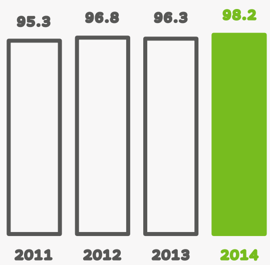
How this is calculated
Total number of units sold in connection with AO Website Sales and Third-party Website Sales divided by Number of orders.

Performance this year
PPO has remained stable for the last 4 years.

Deliver to promise rate
(%)

How this is calculated
Percentage of deliveries made successfully on the customer's chosen delivery date at the first time of asking, based on an average of weekly statistics.

Performance this year
Improvement over the previous year to 98.2%.



* Our financial KPIs are set-out in the overview section

Steve Caunce
Chief Operating Officer & Chief Financial Officer

Operational Review

Brand

One of our key strategic objectives is to increase brand awareness amongst UK consumers in order to help drive growth and lower the cost of customer acquisition. In August 2013 we launched a national marketing campaign, including a programme of national television advertising, to coincide with the rebranding of our Appliances Online website to ao.com. Prior to rebranding, only 2% of consumers identified Appliances Online as a business which came to mind when considering purchasing a large domestic appliance in a survey of unprompted brand awareness. It is therefore very pleasing to report that by the end of our financial year unprompted brand awareness measured in similar surveys had increased to 10%, and the improvement has continued into our new financial year.

During the year to 31 March 2014 we continued to evolve our social media content to engage with our customers and enhance our brand visibility. Our expertise in this area is illustrated by the continuing rise of likes on Facebook which we anticipate will shortly exceed 1.5m.

Customer Service & Proposition

AO is committed to delivering excellent customer service. The strength of our offering and high customer satisfaction levels encourages the purchase of additional items from our existing customers whilst also helping to attract new ones. Over the reporting period we continued to make good progress in our customer-related metrics. We use Net Promoter Score (NPS) as a measure of customer loyalty and satisfaction. Over the reporting period, our NPS was 81 (2013: 74). Contacts Per Order (CPO), being the number of times a customer contacts our customer services team, continued to reduce. The Group seeks to maintain a high NPS whilst reducing the level of contact it has with customers underpinning our philosophy that a "right first time" approach should result in no unnecessary contact with our customers. The collation of NPS and CPO data allows us to refine processes and help improve customer satisfaction levels, thus improving our efficiency.

We were delighted that our excellence in customer service was recognised by the wider retail industry when we were presented with the Customer Service Initiative award at the 2014 Oracle Retail Week Awards.

Our delivery proposition was considerably enhanced during the reporting period as we introduced to certain areas our same day delivery service and extended the cut-off time for next day delivery from 10 pm to midnight. We also significantly extended the range of products available for these two services.

To enable the customer to make an informed decision during the purchase process, we use our in-house video production facility to produce reviews of appliances. These reviews provide detailed general and technical advice on the products AO offers, providing our customers with a more enhanced level of product information. Our capability in the area has helped to bring our TV and AV accessories proposition, launched in May 2014, to market in a way that has not been available online before.

Customers have access to a range of ancillary services through ao.com including product protection plans, disposal and connection services. During the year we introduced additional installation services, including gas and electrical installation on cooking appliances which are available to customers in certain areas. These installations are performed by a new team of trained and approved specialists.

AO's in-house logistics service has performed strongly over the period delivering products to our customers on time, as promised. The average monthly number of deliveries made successfully, on the customer's first chosen delivery date and with the desired or higher specification product at no extra cost, our Deliver-to-Promise (DTP) KPI, increased to 98.2% for the year ended 31 March 2014 compared to 96.3% for the prior year period. This is a substantial achievement when considered against an increase in orders of approximately 40%.

The hub of the logistics operation is at our 360,000 sq.ft National Distribution Centre (NDC) in Crewe, with stock transported to stockless outbases and loaded onto delivery vehicles for delivery to customers daily. Some deliveries are also made directly from the NDC. During the year we increased the number of outbases to eight by opening in Yaxley, Cambridgeshire in August 2013 and in Spennymoor, County Durham and Exeter, Devon in October 2013. AO's stockless outbases are strategically positioned in order to maximise the efficiency of our delivery fleet. The opening of the three additional outbases during the reporting period has enabled each outbase to serve a smaller area, thereby increasing the efficiency of deliveries and making AO less reliant on any single stockless outbase. The current UK warehouse and outbase structure has significant capacity for growth.

Culture

Culture is at the core of AO's business model and we believe has been critical to our success to date.

We were therefore delighted to retain 4th place in the 2014 Sunday Times "100 Best Companies to Work For" award this year for the second year running. The Sunday Times collects its data from the employees and ranks companies chiefly by eight key indicators of staff engagement including leadership, wellbeing, personal growth and the way the Company treats its staff. This award represents an external validation of our commitment to sustaining our culture whilst at the same time continuing to grow headcount to over 1,300 at the year end. Additions were made across a broad cross-section of business functions as we laid the foundations for future growth.

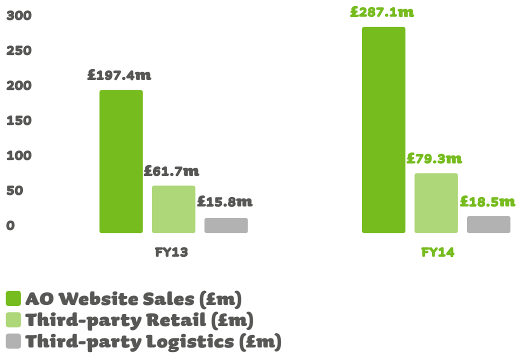
Among the highlights for staff was the relocation of the Head Office at the end of 2013 to our new 48,550 sq.ft building in Bolton. The building is modern, stylish and has been fitted with a number of features all aimed at making AO a happy and desirable place to work. The reaction from staff has been overwhelmingly positive and we believe this will help to maintain AO's culture whilst at the same time attracting the high-quality employees we need to drive our market-leading business model.

Immediately post the end of the reporting period we launched the AO World Sharesave Scheme. We are particularly proud that approximately one-third of employees eligible joined the scheme, highlighting our people's positivity and passion for the business.

Financial Review

Revenue

For the year ended 31 March 2014 total revenue for the year increased by 40.0% to £384.9m (2013: £274.9m).



Year ended 31 March (£m)	2014	2013	Growth
AO Website Sales	**287.1**	197.4	45.4%
Third-party Website Sales	**79.3**	61.7	28.5%
Third-party Logistics Services	**18.5**	15.8	17.1%
Revenue	**384.9**	274.9	40.0%

Growth during the year was largely driven by an increase in ao.com sales which experienced an increase of 45.4% to £287.1m (2013: £197.4m) as the Group benefited from customer proposition enhancements, its continued commitment to exceptional levels of customer service and improved brand awareness through our targeted advertising activities which resulted in increased traffic to the ao.com website, slightly improved conversion rates and increased number of orders. AO own website sales now account for 74.6% of total Group revenue (2013: 71.8%).

Third-party Website Sales, where the Group builds and operates third-party branded websites and fulfils orders for selected third parties and trade sales, increased by 28.5% to £79.3m during the year (2013: £61.7m), driven by higher volumes from both insurance replacement clients and branded websites.

AO also delivers products for third parties through its in-house logistics service which allows the Group to utilise its fleet more efficiently. Sales in this area increased to £18.5m (2013: £15.8m).

During the reporting period, the total number of completed orders from AO Website Sales and Third-party Website Sales increased from 763,000 to 1,066,000, an increase of 39.6%. Our Average Order Value (AOV), and Products Per Order (PPO) KPIs remained broadly consistent with the previous year at £343.87 and 1.20 respectively (2013: £339.64 and 1.19 respectively).

Gross Margin

Gross margin increased to 19.3% for the reporting period, an increase of 0.8% against the prior year. Cost of sales, which consists of product, delivery and other direct costs increased to £310.7m (2013: £224.1m) for the twelve months to 31 March 2014, an increase of 38.6%. The decrease in cost of sales as a percentage of revenue was due to higher product margin, as well as volume efficiencies realised from our delivery cost base.

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

Total Administrative Expenses for the year to 31 March 2014 increased to £66.0m (2013: £42.4m) and as a percentage of revenue increased to 17.1% (2013: 15.4%).

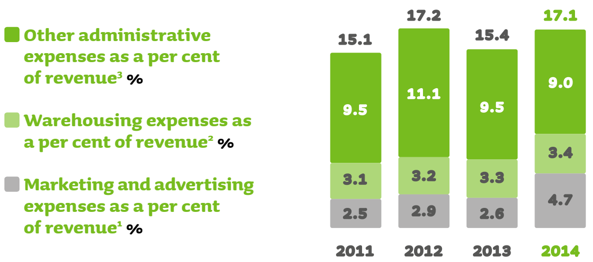
Year ended 31 March (£m)	2014	2013	Growth
Advertising and marketing	**18.2**	7.1	156.3%
% of sales	***4.7%***	*2.6%*	
Warehousing	**13.3**	9.2	44.6%
% of sales	***3.4%***	*3.3%*	
Other Admin	**34.5**	26.1	31.9%
% of sales	***9.0%***	*9.5%*	
SG&A	**66.0**	**42.4**	**55.4%**
% of sales	*17.1%*	*15.4%*	

Increases in advertising and marketing expenses were due primarily to increased advertising expenses relating to brand investment via a national television campaign (at a cost of £5.0m) and paid online advertising. The increase in paid online advertising costs arose following the rebranding to ao.com from

Appliances Online in August 2013 and the resultant reduction in ao.com's Google natural search visibility which meant that more customers arrived at the ao.com website through paid channels. Whilst we expect certain advertising costs to continue to grow during the year to 31 March 2015, we believe that as brand awareness continues to improve, more orders will be generated through unpaid and lower cost sources of customer acquisition.

Warehousing expenses were 3.4% of revenue at £13.3m (2013: £9.2m) as scale efficiencies were offset by the rollout of our Same Day Delivery offering launched in October 2013 and the additional costs associated with the three new outbases. The new outbases provide capacity to deliver additional volumes more efficiently.

Other administrative expenses increased by 31.9% to £34.5m (2013: £26.1m) following the Group's investment in its cost base to support the future growth of the business.



1 Marketing and advertising expenses divided by revenue.
2 Warehousing expenses divided by revenue.
3 Other administrative expenses divided by revenue.

Adjusted EBITDA

Adjusted EBITDA for the twelve months to 31 March 2014 was £11.2m (2013: £10.1m) representing an increase of 10.9% against the prior year period. As expected, we experienced a reduction in EBITDA margin to 2.9% (2013: 3.7%) as a result of the increased investment in our brand, temporary increases in advertising and the investment in our cost base to prepare the business for its next stage of growth.

Year ended 31 March (£m)	2014	2013
Operating (loss)/profit	**(7.2)**	8.4
Add: Exceptional items: IPO costs	***15.4***	–
Operating profit before Exceptional Items	**8.2**	8.4
Add: Depreciation and amortisation	***2.8***	*1.8*
Add: Non-cash PSP Charge	**0.2**	–
Adjusted EBITDA	**11.2**	10.1
Adjusted EBITDA as % of Sales	**2.9%**	3.7%

Exceptional Items

Total fees incurred in relation to the IPO were £19.7m, of which £15.4m has been expensed through the Income Statement as an Exceptional Item with the balance of £4.3m being charged to the Share Premium account.

Taxation

The tax charge for the year was £2.0m (2013: £1.8m). The effective rate of tax for the year was 26.8% (2013: 22.4%).

Loss/earnings per share

Basic (loss)/earnings was -2.38p (2013: 1.58p) and Adjusted EPS was 1.50p (2013: 1.58p).

Cash resources and cash flow

Year end net funds position was £48.7m (2013: £5.4m), as cash increased to £55.1m (2013: £12.2m) reflecting the receipt of net proceeds from the IPO, while total borrowings declined to £6.4m (2013: £6.9m). Surplus cash balances are held with UK-based banks, in line with the Group Treasury Policy.

The Group's cash generated from operating activities was a cash inflow of £13.6m (2013: £12.2m) and represents an operating cash flow conversion of 121% of Adjusted EBITDA (2013: 121%).

Working Capital

Year ended 31 March (£m)	2014	2013
Inventories	**15.9**	8.7
As % of COGS	***5%***	*4%*
Trade and other receivables	**33.0**	26.8
As % of Revenue	***9%***	*10%*
Trade and other payables	**(62.9)**	(44.6)
As % of COGS	***20%***	*20%*
Net Working Capital	**(14.0)**	(9.1)
Change in Net Working Capital	**(5.0)**	(3.3)

As at 31 March 2014 Inventories were £15.9m (2013: £8.7m) reflecting an increase in sales volumes and the change in our stockholding strategy as we hold more stock in order to provide customers with same-day and next-day delivery options on an increased number of SKUs and buy more product in bulk. As a result average stock days increased to 17 days (2013: 10 days).

Trade and other receivables were £33.0m as at 31 March 2014 (2013: £26.8m) reflecting an increase in accrued income in respect of commissions due on product protection plans as a result of higher retail volumes. Trade and other payables increased to £62.9m (2013: £44.6m) as manufacturers continued to extend credit on a higher volume of sales.

Capital Expenditure

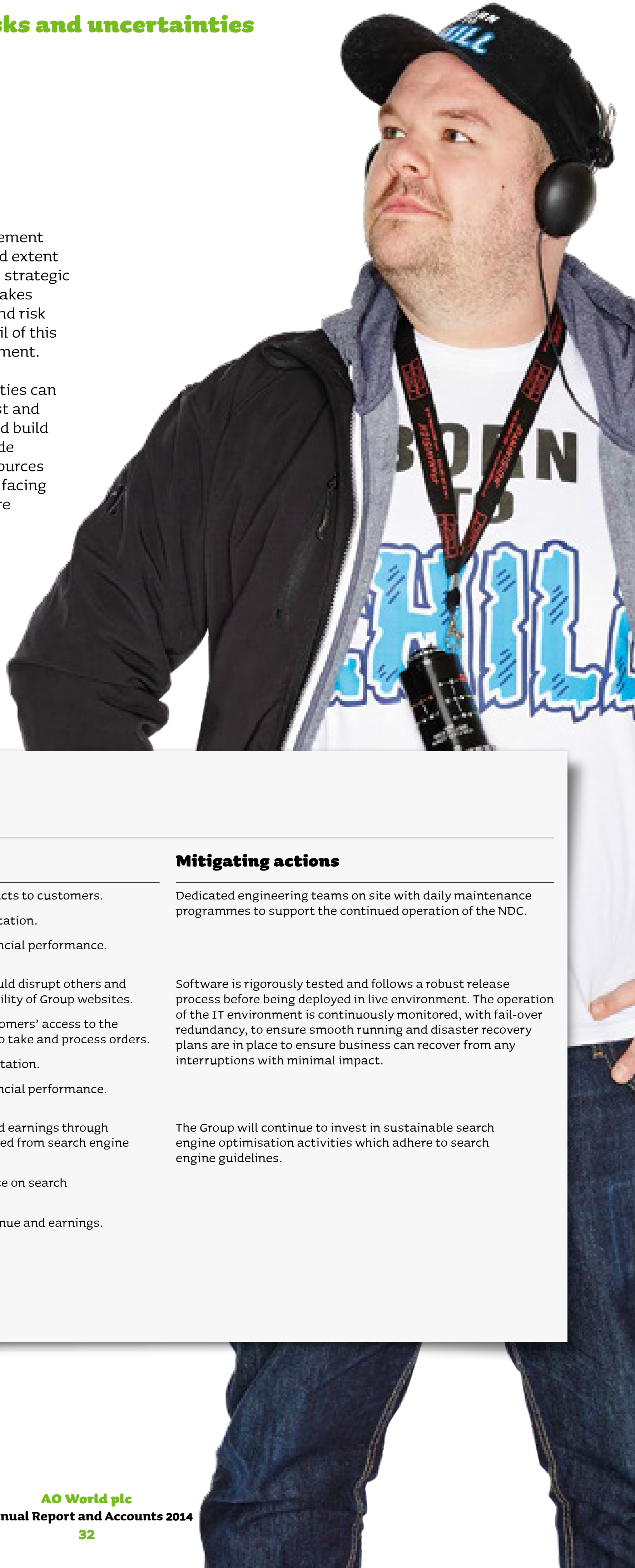
Capital expenditure for the year was £7.5m (2013: £3.3m), much of which relates to the new headquarters building which we moved into in December and additional trailers for the trucking fleet of which £3.3m (2013: £1.7m) was funded from internal cash and the balance was funded by new finance leases.

Steve Caunce
Chief Operating Officer and Chief Financial Officer

"White goods are my life."

Ewen MacIntosh features in our latest TV ads, have a watch on YouTube: www.youtube.com/watch?v=94nrxopgQuw


REAR
FRONT
Lec



Our risks and uncertainties

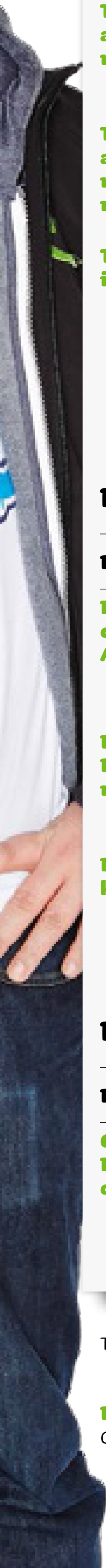
The Board takes overall responsibility for risk management with a particular focus on determining the nature and extent of significant risks it is willing to take in achieving its strategic objectives – our risk appetite. The Audit Committee takes responsibility for overseeing the effectiveness of sound risk management and internal control systems. The detail of this process is set out in our Corporate Governance Statement.

The Board is very clear that some risks and uncertainties can have significant upsides. Within this context, we trust and empower our people to take risks, make decisions and build confidence, providing a framework designed to provide reasonable, but not absolute, assurance that our resources are safeguarded and that the risks and uncertainties facing the business are being assessed, managed and, where appropriate, mitigated.

The purpose of this section of the Strategic Report is to focus on the principal risks and uncertainties to our future development, performance or position which could have an impact on our business model, strategy and resources.

Risk category – Operations

Risk	Implication	Mitigating actions
Our single national distribution centre fails to operate.	Inability to deliver products to customers. Negative impact to reputation. Negative impact on financial performance.	Dedicated engineering teams on site with daily maintenance programmes to support the continued operation of the NDC.
Our IT systems are interdependent.	Failure in one system could disrupt others and could impact the availability of Group websites. Potential impact to customers' access to the websites, or our ability to take and process orders. Negative impact on reputation. Negative impact on financial performance.	Software is rigorously tested and follows a robust release process before being deployed in live environment. The operation of the IT environment is continuously monitored, with fail-over redundancy, to ensure smooth running and disaster recovery plans are in place to ensure business can recover from any interruptions with minimal impact.
Changes to search engine algorithms.	Reduction in revenue and earnings through reduction in orders derived from search engine optimisation activities. Increased cost of/reliance on search engine marketing. Negative impact on revenue and earnings.	The Group will continue to invest in sustainable search engine optimisation activities which adhere to search engine guidelines.



Risk category – Brand and Proposition

Risk	Implication	Mitigating actions
That our brand, websites and offering do not receive wide acceptance.	Reduction in customer loyalty with existing customers and an inability to attract new customers will negatively impact revenue and earnings.	Continued investment in brand advertising including television advertising should maintain the AO brand in customers' minds. Rigorous monitoring of customer feedback through the NPS process and other quality processes to ensure that our proposition and delivery service are well received by customers.
That consumer acceptance of online retailing of MDAs might not increase.	Lower growth in, or stagnant, sales.	Continued investment and optimisation of the marketing channels to acquire new customers. Continue to develop the proposition.
That European expansion is unsuccessful.	Limitation of long-term growth.	Expansion into new geography will leverage existing expertise and experience of online retailing in the UK that has been built up over many years. Capital requirements are relatively low and investment is managed in stages such that it is not finally committed until there has been thorough consideration of likelihood of a return. Post-launch performance of the European operation will be closely monitored, as it is in the UK, to ensure corrective action can be taken in the event of deviations from expected performance.

Risk category – Resources and Relationships

Risk	Implication	Mitigating actions
Failure to maintain culture and recruit AO appropriate staff.	Reduction in customer service levels.	The Group has an employee engagement and recruitment team whose objectives are to ensure the AO culture is sustained. The Group has review, training and development programmes designed to provide the Company with engagement feedback and staff with professional and personal development.
Dependence on Executive Directors and senior management team.	Inability to deal with excessive demands of growth and/or departure.	Existing senior management are tied into the Company through attractive remuneration packages that include long-term share plans and rewarding career structures. In addition, succession plans have been developed or are being developed for members of the management team which will be regularly reviewed.
Relationships with key suppliers.	Inability to retail products through Group websites at attractive prices will adversely impact revenue and earnings. Failure to maintain good relationship with suppliers may impact our ability to provide good service to our mutual customers.	The Group continues to focus on building and maintaining strong relationships with its suppliers. Regular reviews are carried out with key suppliers to ensure all aspects of the relationship are operating appropriately.

Risk category – Regulations

Risk	Implication	Mitigating actions
Changes to UK and/or EU consumer protection or employment laws.	Regulatory changes could affect the way we market ourselves and/or sell products and open us up to legal challenge.	Regular monitoring of regulatory developments to ensure that changes are identified.

The Company's Strategic Report is set out on pages 8 to 33. Approved by the Board on 4 June 2014 and signed on its behalf by:

David Myers
Company Secretary, AO World plc

"Taking responsibility is essential throughout our business, from top to bottom"

In this section:

Chairman's introduction

Richard Rose
Non-executive Chairman

On 3 March 2014 the Company achieved an important milestone in its 14-year history with a successful listing on the London Stock Exchange. I would therefore like to welcome you to our first Corporate Governance Statement as a public limited company.

The AO business has the principles of transparency and openness at the heart of its culture. We recognise that strong Corporate Governance is crucial to our business and that sound structures and processes will support and enhance our performance for the benefit of all our stakeholders. In fact long before listing the Company had already embraced a number of The UK Corporate Governance Code principles including: my appointment as an independent Non-Executive Chairman in 2008; having a well-balanced and experienced Board; ensuring that executive remuneration was determined by a member of the Non-Executive Board; embedding a robust internal audit function throughout our business and regularly communicating with shareholders.

In preparation for the IPO, our Board was strengthened in early 2014 with the appointment of three independent Non-Executive Directors. We followed a strict selection process to recruit specific individuals with the breadth of international, industry and public company experience to help guide the Group through its next phase of development. We are therefore delighted to welcome to the Board Marisa Cassoni, Brian McBride and Rudolf Lamprecht and look forward to working with them.

We are committed to maintaining an active dialogue with all our shareholders. Further details are set out on page 47. I would like to encourage our shareholders to attend our Annual General Meeting which will be held at 10.00 am on 17 July 2014 at AO Park, 5A The Parklands, Lostock, Bolton. It will provide an excellent opportunity to meet the Executive and Non-Executive Board Directors and to visit our head office.

While the Board of AO is committed to high standards of Corporate Governance, shareholders will appreciate that as a very recently listed company it has not been possible, or necessarily relevant for all of the provisions of The UK Corporate Governance Code 2012 (the Code) to have been complied with during the reporting period. Although the Company does not comply with the Code in terms of the independence requirements of the Board and Committees' composition, the Board and its Committees' structures have been implemented effectively, with Board Committees conducting their duties rigorously and thoroughly. The Non-Executives have provided critical challenge and support to the areas of the Group which they believe are of particular importance.

Overall, I am pleased with the Board's activity and progress against the principles of the Code. We will continue to review developments in Corporate Governance best practice and seek to apply them appropriately to AO.

Richard Rose
Non-Executive Chairman
AO World plc

Introduction

This Corporate Governance Statement explains key features of the Company's governance structure and how it complies with The UK Corporate Governance Code published in 2012 by the Financial Reporting Council. This Statement also includes items required by the Listing Rules and the Disclosure Rules and Transparency Rules (DTRs). The Code is available on the Financial Reporting Council website at www.frc.org.uk.

Compliance with the 2012 Code

Prior to its listing on the London Stock Exchange in March 2014, the Company had no obligation to comply with the requirements of the Code and therefore, given the short time period from the IPO to the period end, it has not been possible, or necessarily relevant for all of the provisions of the Code to have been complied with. The Directors consider that the Company has, on listing and subsequently, complied with the provisions of the Code save as noted below:

Code Provision	Detail	Explanation of non-compliance
A.4.2	The Chairman did not hold meetings with the Non-Executive Directors without the Executive Directors present and the Non-Executive Directors, led by the Senior Independent Director, did not meet without the Chairman present to appraise the Chairman's performance.	Three new Non-Executive Directors were appointed to the Board in early 2014. In the short period of time to the end of the reporting period, it was neither practical, nor appropriate to hold such meetings. The Chairman and Senior Independent Directors intend to hold such meetings during the year to 31 March 2015.
B.1.2	Less than half of the Board, excluding the Chairman, are independent Non-Executive Directors.	As the Board has three experienced independent Non-Executive Directors the Board is satisfied that no individual will dominate its decision taking, no undue reliance will be placed on particular individuals, there will be sufficient challenge of executive management in meetings of the Board and the Board is capable of operating effectively. The composition of the Board will be continually reviewed to ensure it remains effective.
B.2.1	The Nomination Committee does not comprise a majority of independent Non-Executive Directors.	Only Brian McBride is independent while the Chairman of the Company was considered to be independent on appointment, the Code provides that thereafter the test of independence is not appropriate in relation to the Chairman. However, the Board considers that it has a strong independent non-executive component and that the continuity, experience and knowledge of Chris Hopkinson and Richard Rose should ensure that they make a significant contribution to the work of the Committee. The composition of the Committee will be continually reviewed to ensure it remains effective.
B.6.1 and B.7.2	The Board did not undertake an annual evaluation of its own performance and that of its Committees and individual Directors.	In the short period of time from IPO to the Company's year end of 31 March 2014 the Board focused on matters concerning the IPO and it was impractical and considered too early for the Board to undertake an evaluation of its own performance. At an appropriate stage in the development of the Board it is intended that an internal performance evaluation will be undertaken.
C.3.1 and D.2.1.	The Audit and Remuneration Committees do not comprise three independent Non-executive Directors.	Bill Holroyd is not considered to be independent for the purposes of the Code. The Board considers that the composition of both the Audit and Remuneration Committees have a strong independent non-executive component and that the continuity, experience and knowledge of Bill Holroyd should ensure that he makes a significant contribution to the work of the Committees and that the Committees run effectively. The composition of the Committees will be continually reviewed to ensure they remain effective.

The Listing Rules require that we state how we have applied the Main Principles set out in The UK Corporate Governance Code. This information is set out on our website at www.ao.com and the required detail on specific Code provisions is set out in this Corporate Governance Statement.

Board balance and diversity

A strong and experienced leadership team

1. Richard Rose

Chairman of the Board and Chairman of the Nomination Committee

Appointment to the Board
1 August 2008

Relevant experience
Richard has been Non-Executive Chairman of Booker Group plc since 2006, Crawshaw plc since 2007 and Anpario plc since 2005. Previously, he has held a number of positions in organisations such as AC Electrical Wholesale, where he was Chairman from 2003 to 2006 and Whittard of Chelsea plc, where he was Chief Executive Officer and then Executive Chairman from 2004 to 2006. In April 2014 Richard was appointed as Non-Executive Chairman of fashion retailer Blue Inc. Age 58.

Significant external appointments
- Anpario plc
- Booker Group plc
- Crawshaw Group plc
- Marlow Retail Limited (trading as Blue Inc)

Committee membership
Richard chairs the Nomination Committee.

2. John Roberts

Founder and Chief Executive Officer

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

Relevant experience
John is a founding Director and established the business of the Group in 2000. Having previously worked extensively in the kitchen appliance industry, he has been instrumental in using the internet as a platform to change the way in which kitchen appliances are sold in the United Kingdom. Since co-founding the Group, John has presided over the evolution of the business and led the management team which has successfully developed and expanded the Group's business during periods of challenging market conditions and with a limited capital base. He is from Bolton and is a passionate supporter of staff participation in local charitable causes. Age 40.

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

3. Steve Caunce

Chief Operating Officer and Chief Financial Officer

Appointment to the Board
13 October 2005

Relevant experience
Prior to joining AO, Steve was Finance Director with Phones 4U Limited between 2001 and 2003 and held senior positions at MyTravel Plc and Preston North End Plc. He holds a degree in Mathematics and is an associate of the Institute of Chartered Accountants of England and Wales. Age 45.

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

4. Brian McBride

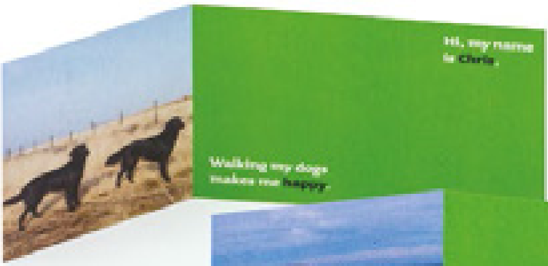
Senior Independent Non-Executive Director

Appointment to the Board
6 February 2014

Relevant experience
Brian is currently Chairman of ASOS plc and he is also a Senior Adviser with Scottish Equity Partners, Senior Non-Executive Director at Computacenter plc, Non-Executive Director on the Board of the BBC, a member of the Advisory Board of Huawei UK, the UK subsidiary of the Chinese global communications provider, a member of the Advisory Board of Numis plc, a member of the UK Government's Digital Advisory Board and a member of the Court (Governing Body) of the University of Glasgow. He has previous experience as a Non-Executive Director at Celtic Football Club plc and SThree plc. Brian holds a master's degree in Economics, History and Politics. Age 58.

Significant external appointments
- ASOS plc
- Computacenter plc

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



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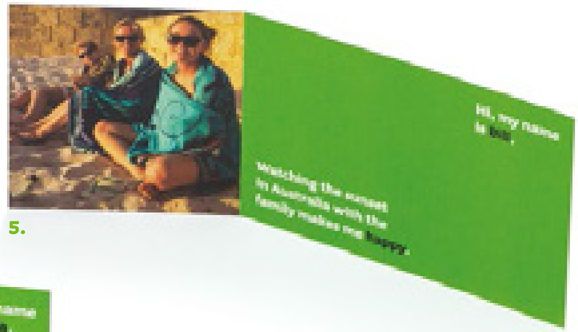

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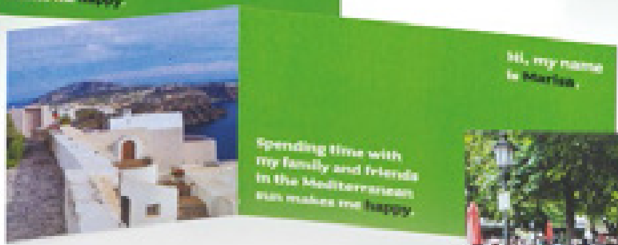

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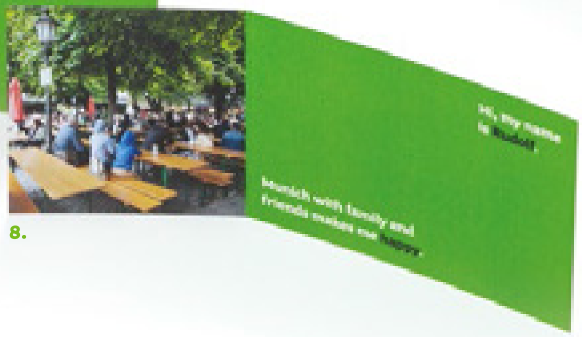

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5. Bill Holroyd

Non-Executive Director and Chairman of the Remuneration Committee

Appointment to the Board
2 August 2005
(DRL Limited 30 September 2003)

Relevant experience
Bill was formerly the Chief Executive Officer of Holroyd Meek. He was also an investor in and Chairman of Millies Cookies, which was sold to Compass Group plc in 2003, and Chairman of and investor in Positive Solutions Ltd. He is currently an investor in and Non-Executive Director of Warrington Sports Holdings Ltd and Chairman of and investor in TD4 Ltd. In addition, Bill is Chairman of Onside Youth Zones and a Trustee of Save the Family. Age 61.

Significant external appointments
– Warrington Sports Holdings Ltd
– TD4 Ltd
– Onside Youth Zones
– Save the Family

Committee membership
Bill chairs the Remuneration Committee and is a member of the Audit Committee.

6. Chris Hopkinson

Non-Executive Director

Appointment to the Board
12 December 2005

Relevant experience
Following university, Chris joined the Royal Air Force as a pilot officer and worked as an analyst for Cazenove. Chris subsequently joined Mark II, a UK distributor of kitchen and bathroom products, in 1986. He holds a degree in Economics & Computer Science and a master's degree in Logistics. Age 55.

Significant external appointments
– Better Business Support Ltd
– Clifton Trade Bathrooms Ltd

Committee membership
Chris is a member of the Nomination Committee.

7. Marisa Cassoni

Independent Non-Executive Director and Chair of the Audit Committee

Appointment to the Board
5 February 2014

Relevant experience
Marisa is a qualified ICAEW chartered accountant and finance professional with 40 years of experience and was previously Finance Director of the UK Division of Prudential Group. Between 2001 and 2006, she was Finance Director of the Post Office (subsequently Royal Mail), and between 2006 and 2012, she was Finance Director of the John Lewis Partnership plc and its subsidiaries. Marisa was a Non-Executive Director of Partnership plc and has been a Non-Executive Director of GFI Group Inc since 2005 and a Non-Executive Director of Skipton Group since 2012. Marisa holds a degree in Physics from Imperial College London and is an associate of the Institute of Chartered Accountants of England and Wales. Marisa also sits on the Economics Affairs Committee of the CBI and is a panel member of the Competition and Markets Authority. Age 62.

Significant external appointments
– Skipton Group Holdings Ltd
– GFI Group Inc

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

8. Rudolf Lamprecht

Independent Non-Executive Director

Appointment to the Board
17 January 2014

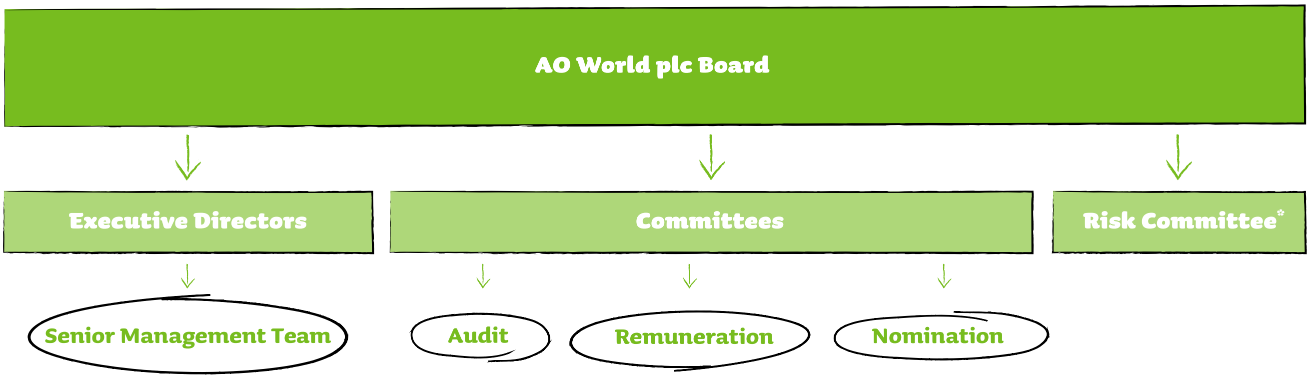
Relevant experience
In 2009, Rudi founded East-West-Connect GmbH & Co. KG and occupies the roles of both President and Chief Executive Officer. He is also currently a Non-Executive Director of Duagon AG and Fujitsu Technology Solutions (Holding) B.V. and was previously a Non-Executive Director of BSH Bosch und Siemens Hausgeräte GmbH & Co. KG, Osram Licht AG and Safe ID Solutions AG. Rudi worked for Hewlett Packard in various positions in Europe and the United States for approximately 20 years. Rudi holds a degree in Computer Science and has studied at Massachusetts Institute of Technology, the European Institute for Business Administration and Stanford University. Age 65.

Significant external appointments
– EWC East-West-Connect GmbH & Co. KG
– Duagon AG
– Fujitsu Technology Solutions (Holding) B.V.

Committee membership
Rudi is a member of the Audit Committee.

Leadership

Overview of Governance structure



* Not a formally adopted sub-committee of the Board. Further details set out on pages 44.

The Company is led and controlled by the Board. The structure and business of the Board is designed to ensure that the Directors focus on strategy, monitoring, governance and the performance of the Group. The Board is collectively responsible to shareholders for the long-term success of the Company. The Board has delegated certain responsibilities to Board Committees to assist it with discharging its duties, and delegates the detailed implementation of matters approved by the Board and the day-to-day operational aspects of the business to the Executive Directors who cascade this responsibility to the Senior Executive Team and throughout the Group. The Reports of each committee can be found on pages 43 to 57.

The Board

Role of the Board

Our Board is collectively responsible for the Group's performance and meets as often as necessary to effectively conduct its business. One Board meeting has been held in the period from 3 March 2014 to 31 March 2014 and was attended by all Directors. Nine Board meetings are currently scheduled for the year to 31 March 2015. Unscheduled supplementary meetings will also take place as and when necessary.

The Board has an annual rolling plan of items for discussion which is reviewed and adapted regularly to ensure all matters reserved to the Board, with other items as appropriate, are discussed. At each meeting, the Chief Executive Officer and Chief Operating Officer & Chief Financial Officer provide reports to the Board and senior management are also invited to attend our Board meetings to present on specific business issues. This way the Board is given the opportunity to meet with the next layer of management and gain a more in-depth understanding of key areas of the business. Meeting proceedings and any unresolved concerns expressed by any Director are minuted by the Company Secretary.

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

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

There is an established procedure for the preparation of each Board or Committee meeting which normally includes a report on current trading and detailed papers on matters where the Board will be required to make a decision or give approval. Standard agenda items include: Operations, Health and Safety, Strategy and Financial Performance.

Current composition of our Board

In preparation for the Company's listing on the Stock Exchange, in early 2014 our Board was expanded with the appointment of three independent Non-Executive Directors. This was to ensure that the correct mix of skills and experience were in place to allow our Board and its Committees to operate effectively, and to guide the Group through its next phase of development. With the exception of the three new appointees set out below, all our Directors served throughout the year.

Director	Position	Date of appointment
Marisa Cassoni[1]	Non-Executive Director	5 February 2014
Brian McBride[1,2]	Non-Executive Director	6 February 2014
Rudolf Lamprecht[1]	Non-Executive Director	17 January 2014

1 Designated as Independent.
2 Designated as Senior Non-Executive Director.

Kevin Philbin and Norman Stoller CBE CStJ DL also served as Directors of the Company during the period until their resignation prior to IPO on 25 February 2014.

As at the date of this Annual Report the Board comprises eight members: the Chairman, two Executive Directors and five Non-Executive Directors. Further details of the relevant skills and experience of the Board are set out in their biographical details set out on pages 38 and 39. The Board intends to review regularly the 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.

Division of responsibilities

The positions of our Chairman and Chief Executive Officer are not exercised by the same person, ensuring a clear division of responsibility at the head of the Company. The division of roles and responsibilities between Richard Rose and John Roberts is clearly established.

As Chairman of the Board, Richard Rose is responsible for its leadership, setting its agenda and monitoring its effectiveness. He ensures effective communication with shareholders and that the Board is aware of the view of major shareholders. He facilitates both the contribution of the Non-Executive Directors and constructive relations between the Executive and Non-Executive Directors.

John Roberts, together with Steve Caunce our Chief Operating Officer & Chief Financial Officer, is responsible for the day-to-day running of the Group, carrying out our agreed strategy and implementing specific Board decisions.

Diversity

The Company currently has one female Board member. We fully support the aims, objectives and recommendations outlined in Lord Davies' Report 'Women on Boards' and are aware of the need to increase the number of women on our Board and in senior positions throughout the Group. However, we do not consider that it is in the best interests of the Company and its shareholders to set prescriptive targets for gender on the Board and we will continue to make appointments based on merit, against objective criteria to ensure we appoint the best individual for each role. Across our business of approximately 1,350 employees, female employees represented approximately 31% and held 9% and 34% of senior managerial positions and other managerial roles in the business respectively as at 31 March 2014.

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 were adopted with effect from 3 March 2014 (on IPO) and are in line with the Companies Act 2006, allow the Board to authorise potential conflicts of interest that may arise and to impose limits or conditions, as appropriate, when giving any authorisation. Any decision of the Board to authorise a conflict of interest is only effective if it is agreed without the conflicted Directors voting or without their votes being counted. In making such a decision, the Directors must act in a way they consider in good faith will be most likely to promote the success of the Company.

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

Committees of the Board

The Board has delegated authority to its Committees to carry out certain tasks on its behalf and to ensure compliance with regulatory requirements including the Companies Act 2006, the Listing Rules, the DTRs 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. The full terms of reference for each Committee are available on the Company's website at www.ao.com/corporate and from the Company Secretary upon request.

Committee	Role and terms of reference	Membership required under terms of reference	Minimum number of meetings per year	Committee report on pages
Audit	Reviews and reports to the Board on the Group's financial reporting, internal control and risk management systems, whistleblowing, internal audit and the independence and effectiveness of the external auditors.	At least three members At least two should be independent Non-Executive Directors	Three	45 to 47
Remuneration	Responsible for all elements of the remuneration of the Executive Directors and the Chairman, the Company Secretary and Senior Management.	At least three members At least two should be independent Non-Executive Directors	Three	48 to 57
Nomination	Reviews the structure, size and composition of the Board and its Committees and makes appropriate recommendations to the Board.	At least three members At least one should be an independent Non-Executive Director	Twice	43

Effectiveness

Board evaluation and effectiveness
As outlined above, given the short period of time from the Company's IPO to the period end, the Board has not undertaken a formal and rigorous evaluation of its own performance or that of its individual Directors or the Chairman during the reporting period to 31 March 2014. At an appropriate stage in the development of the Board it is intended that a performance evaluation will be undertaken.

Going forward, it is intended that the Chairman will meet with the Non-Executive Directors at least once a year without the Executive Directors present to discuss Board balance, monitor the powers of individual Executive Directors and raise any issues between themselves as appropriate. Led by the Senior Independent Director, the Non-Executive Directors will also meet during the year without the Chairman present to appraise his performance and to discuss any other necessary matters as appropriate.

Independence
For the purposes of assessing compliance with the Code, the Board considers that Marisa Cassoni, Rudolf Lamprecht and Brian McBride are Non-Executive Directors who are independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Board also considers that Richard Rose, Chairman of the Company, was independent at the time of his appointment in August 2008. As the Board consists of the Chairman, three independent Non-Executive Directors, two Executive Directors and two Non-Executive Directors who are not considered independent by virtue of their historic involvement with the Company, the Board is aware that it does not comply with the recommendation of the Code that at least half the members of the Board, excluding the Chairman, should comprise independent Non-Executive Directors.

Having regard to the character, judgement, commitment and performance of the Board and Committees to date, the Board is satisfied that no one individual will dominate the Board's decision taking and considers that all of the Non-Executive Directors are able to provide objective challenges to management. A key objective of the Board is to ensure that its composition is sufficiently diverse and reflects a broad range of skills, knowledge and experience to enable it to meet its responsibilities. As can been seen from the biographies on pages 38 and 39 the Chairman and the Non-Executive Directors collectively have significant industry, public company and international experience which will support the Company in executing its strategy.

Director election
Following 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.

Annual General Meeting
The AGM of the Company will take place at 10.00 am on Thursday 17 July 2014 at the Company's registered office at AO Park, 5A The Parklands, Lostock, Bolton BL6 4SD. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The notice of the AGM can be found in a booklet which is being mailed out at the same time as this Report. 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.

The Chairman, the Chair of each of the Committees and both Executive Directors will be present at the AGM and will be available to answer Shareholder's questions.

Information and support available to Directors
All Board Directors have access to the Company Secretary, who advises them on governance matters. The Chairman and the Company Secretary work together to ensure that Board papers are clear, accurate, delivered in a timely manner to Directors, and of sufficient quality to enable the Board to discharge its duties. Specific business-related presentations are given by senior management when appropriate. As well as the support of the Company Secretary, there is a procedure in place for any Director to take independent professional advice at the Company's expense in the furtherance of their duties, where considered necessary, for example New Bridge Street consultants advise on remuneration matters and Deloitte LLP on audit matters.

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

In addition, the Chairman will also meet with each Director at least annually to discuss any training and development needs.

External directorships
Any external appointments or other significant commitments of the Directors require the prior approval of the Board. Details of the Directors' significant external directorships can be found in their biographies on pages 38 and 39. Since the end of the financial year under report, Richard Rose has been appointed as Non-Executive Chairman of Blue Inc. This appointment is not expected to have any significant impact on the time he commits to the Company.

While all Non-Executive Directors have external directorships, the Board is comfortable that these do not impact on the time that any Director devotes to the Company and we believe that this experience only enhances the capability of the Board. Neither John Roberts or Steve Caunce hold external directorships save for Crystalcraft Limited, a dormant company for which they receive no fee.

Board and Committee meetings and attendance
Since the date of the Company's IPO (3 March 2014) until the end of the reporting period the following Board and Committee meetings have been held:

- The Board held one meeting and all Board members attended;
- The Audit Committee held one meeting and all the members of the Committee attended;
- The Remuneration Committee held one meeting and all the members of the Committee attended;
- The Nomination Committee did not consider it necessary to meet in the short period from IPO to the period end although it has met subsequently.

Richard Rose
Chairman, Nomination Committee

"Delivering a Board with skills, knowledge and experience."

Report of the Nomination Committee

I am pleased to introduce the report of the Nomination Committee for 2013.

The members of the Nomination Committee comprise myself, Richard Rose (Chairman), Brian McBride and Chris Hopkinson, all of whom have been a member since the Nomination Committee was formed in February 2014 in anticipation of listing.

The Code recommends that the Nomination Committee is comprised of a majority of independent Non-Executive Directors. Only Brian McBride is deemed as independent as whilst I was considered to be independent on appointment, the Code provides that thereafter the test of independence is not appropriate in relation to the Chairman. Chris Hopkinson is not deemed as independent for the purposes of the Code due to his historic involvement with the Company. However, the Board considers that it has a strong independent non-executive component and that the continuity, experience and knowledge of myself and Chris enable us to make a significant contribution to the work of the Committee, ensuring the Committee is run effectively.

By invitation, the meetings of the Nomination Committee may be attended by the Chief Executive Officer and Chief Operating Officer and Chief Financial Officer.

Role of the Nomination Committee

The Committee has responsibility for nominating candidates for appointment as Directors to the Board, bearing in mind the need for diversity (including gender) consideration and a broad representation of skills across the Board.

The Nomination Committee will also make recommendations to the Board concerning the reappointment of any Non-Executive Director as he or she reaches the end of the period of their initial appointment (three years) and at appropriate intervals during their tenure. The Committee also considers and makes recommendation to the Board on the annual election and re-election of any Director by shareholders including Executive Directors and changes to senior management, after evaluating the balance of skills, knowledge and experience of each Director. Such appointments are made on merit, against objective criteria and with due regard to the benefits of diversity on the Board.

Our three new Non-Executive Directors were appointed prior to IPO and therefore before the Committee was constituted. In considering the skills required for new Non-Executive Directors, individuals with industry, public company and international experience and knowledge were specifically targeted and, as part of the recruitment process, the individuals each met the Chairman of the Board, the Chief Executive Officer and Chief Operating Officer and Chief Financial Officer. Going forward, the Company intends to use a combination of external recruitment consultants and personal referrals in making any required appointments to the Board.

Since the end of the financial year under report, I have been appointed as Non-Executive Chairman of fashion retailer Blue Inc. This appointment is not expected to have any significant impact on the time I commit to the Company.

On the recommendation of the Nomination Committee and in line with the Code, all currently appointed Directors will retire at the 2014 AGM and offer themselves for reappointment.

Diversity

The Committee will take into account a variety of factors before recommending any new appointments to the Board, including relevant skills to perform the role, experience, knowledge, ethnicity and gender.

AO endeavours to achieve appropriate diversity, including gender diversity, throughout the Company and concurs with the recommendations of Lord Davies' review. The most important priority of the Committee, however, has been and will continue to be ensuring that members of the Board should collectively possess the broad range of skills, expertise and industry knowledge, and business and other experience necessary for the effective oversight of the Group.

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

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

Richard Rose
Chairman, Nomination Committee
AO World plc

Accountability

Internal controls

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

The Board and the Audit Committee have carried out a review of the effectiveness of the system of internal controls during the year ended 31 March 2014 and for the period up to the date of approval of the consolidated financial statements contained in the Annual Report. The review covered all material controls, including financial, operational and compliance controls and risk management systems. The Board confirms that the actions it considers necessary have been, or are being taken to remedy any significant failings or weaknesses identified from its review of the system of internal control. This has involved considering the matters reported to it and developing plans and programmes that it considers are reasonable in the circumstances. The Board also confirms that it has not been advised of material weaknesses in the part of the internal control system that relates to financial reporting.

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

- **Risk management:** Risks are highlighted through a number of different reviews and culminate in a risk register, monitored by "Risk Committees" across the Group, which identify the risk area, the probability of the risk occurring, the impact if it does occur and the actions being taken to manage the risk to the desired level. All the risk registers are reviewed by senior management and will be provided quarterly to the Board and to the Audit Committee.
- **Management structure:** There is a clearly defined organisational structure throughout the Group with established lines of reporting and delegation of authority based on job responsibilities and experience. Within the businesses, senior management meetings occur regularly to allow prompt discussion of relevant business issues.
- **Financial reporting:** Monthly management accounts provide relevant, reliable and up-to-date financial and non-financial information to management and the Board. Analysis is undertaken of the differences between actual results and budgeted results on a monthly basis. Annual plans, forecasts, performance targets and long-range financial plans allow management to monitor the key business and financial activities, and the progress towards achieving the financial objectives. The annual budget is approved by the Board. The Group will report half-yearly based on a standardised reporting process. In addition, in line with the DTRs, the Company will publish interim management statements on a quarterly basis.
- **Information systems:** Information systems are developed to support the Group's long-term objectives and are managed by professionally staffed teams. Appropriate policies and procedures are in place covering all significant areas of the business.
- **Contractual commitments:** there are clearly defined policies and procedures for entering into contractual commitments. These include detailed requirements that must be completed prior to submitting proposals and/or tenders for work, both in respect of the commercial, control and risk management aspects of the obligations being entered into. Significant capital projects and acquisitions and disposals require Board approval.
- **Monitoring of controls:** the Audit Committee receives regular reports from the internal and external auditors and assures itself that the internal control environment of the Group is operating effectively. There are formal policies and procedures in place to ensure the integrity and accuracy of the accounting records and to safeguard the Group's assets. There are formal procedures by which staff can, in confidence, raise concerns about possible improprieties in financial and pensions administration and other matters – often referred to as "whistleblowing" procedures.

Marisa Cassoni
Chair, Audit Committee

"Ensuring fair, balanced and understandable results."

Report of the Audit Committee

I am pleased to have been appointed as Chair to the Audit Committee of AO at this exciting time in its development. I am looking forward to working with and leading the newly established Audit Committee which was put into place on Listing. The report below provides details of the Audit Committee and its activities.

Membership of the Audit Committee

The members of the Audit Committee comprise myself, Rudolf Lamprecht and Bill Holroyd, all of whom have been a member since the Audit Committee was formed in February 2014 in anticipation of listing. Since the Committee was established and until the end of the reporting period, the Audit Committee has met once, with all members attending.

The Code recommends that the Audit Committee should comprise at least three members, all of whom should be independent Non-Executive Directors with at least one member having recent and relevant financial experience. I am the independent Non-Executive Director considered to have recent and relevant financial experience and am pleased to confirm that all members have had extensive experience in large organisations (Directors' biographies appear on pages 38 and 39). Bill Holroyd is not regarded as an independent Non-Executive Director for the purposes of the Code and therefore the Committee is not fully compliant is this respect. However, the Board considers that the composition of the Committee has a strong independent non-executive component and that the continuity, experience and knowledge of Bill Holroyd will make a significant contribution to the work of the Committee ensuring the Committee is run effectively.

By invitation, the meetings of the Audit Committee may be attended by the Chairman, Chief Executive Officer, Chief Financial Officer, Director of Group Finance and the Head of Internal Audit. The Deloitte LLP ("Deloitte") audit engagement partner and team are also invited to attend Audit Committee meetings to ensure full communication of matters relating to the audit. Going forward, it is intended that as Chair of the Audit Committee, I will meet regularly with both the internal and external auditors.

Role of Audit Committee

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

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

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

A key responsibility of the Audit Committee is to ensure that the external audit process and audit quality are effective. We do this by relying on (i) the engagement with the Audit Committee Chair and the lead audit engagement partner which will generally be through face-to-face meetings; (ii) the reports which are brought to the Committee by the lead audit engagement partner and other senior members of the audit team; (iii) the quality of the management responses to audit queries; meetings held by the Chief Financial Officer, Director of Group Finance and the Chairman with the lead audit engagement partner which are reported to myself as Audit Chair and the Committee; and (iv) on a review of the independence and objectivity of the audit firm and also the quality of the formal audit report given by the Auditors to shareholders. Feedback is also sought from members of the finance team, the Company Secretary, and the Head of Internal Audit.

During the period since listing on 3 March 2014 until the date of this report, the Audit Committee reviewed and endorsed, prior to submission to the Board, full-year financial statements and the preliminary results announcements. We considered internal audit reports and risk management updates, agreed external and internal audit plans and approved the review of accounting policies. The internal audit annual plan is reviewed and approved by the Committee and all reports arising therefrom are reviewed and assessed, along with management's actions to findings and recommendations.

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

Significant accounting matters

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

Revenue recognition, debtor recoverability and legal risk in respect of product protection plans	The Company sells product protection plans to customers purchasing electrical appliances, on behalf of a third party (D&G), who administer the plans, collect money from the customers and pay a commission to the Company for each policy sold. The revenue recognition policy is set out in note 3 to the financial statements. Revenue recognised for the plans sold is based on a fair value calculation of commissions due over the life of the plan at each period end. There is a risk therefore that the revenues are being recognised in the incorrect period based on the weighted average calculation performed by management. There is also an associated risk around the recoverability of the receivable balance attributable to the product protection plans. Additionally, the basis upon which the Company offers and sells product protection plans could change due to a change in law or regulation or the interpretation of existing law or regulation, or the Company could be subject to claims or proceedings in relation to such production protection plans. The management team has prepared detailed Board papers setting out the key assumptions and judgments in this area. The Committee has reviewed the judgements made in this area by management and following appropriate challenge, we consider the policy and practice appropriate.
Inventory valuation, obsolescence and supplier rebate arrangements	The value of inventory has increased significantly during the year as the Company invests in its inventory holding so as to meet customer demand on the wide range of products which are available for same day and next day delivery. There are a number of risks that can have a material impact on the financial statements, including: (i) the valuation of inventory which includes an assessment of whether additional purchase discounts rebates are appropriately included within the valuation; (ii) the accounting for supplier rebates as the Group has a number of contracts with its suppliers where additional discounts can be applied based on purchase levels. The Group accrues the additional discounts by reference to the expected level of purchases. The percentage discount accrued may differ to the current run rate of purchases as the calculation takes seasonality into account. There is a risk therefore that the level of rebates provided for at the year-end could materially differ from the actual number of purchases when compared to assumptions made by management; and (iii) there is a risk that damaged or obsolete inventory is not adequately provided against and that the policy of holding refunded goods at 60% of cost is not an appropriate benchmark based on the nature of the inventory held. The Committee has reviewed the judgements made in this area by management and, after due challenge and debate, was content with the assumptions made and the judgements applied.
Accounting for IPO costs	As a result of the IPO during the year, the Company has incurred considerable legal and advisory costs and under International Accounting Standard 32: Financial Instruments; Presentation ("IAS 32") an assessment is required as to whether the costs are directly attributable to the issuing of new shares, in which case it is permissible for them to be deducted from share premium (net of tax). Non-directly attributable costs are required to be expensed directly to the income statement. The quantum of costs incurred regarding the IPO is c. £19m and as such the risk is that costs may be incorrectly attributed to the share premium account, and thus reducing the impact on the income statement. The Committee has reviewed the judgements made in this area by management and, after due challenge and debate, was content with the assumptions made and the judgements applied.

External Auditor

AO World plc is not currently a member of the FTSE 350 index, however as it expects to be included in the foreseeable future, the Committee notes that the Competition Commission recommendations state that FTSE 350 companies should put the external audit contract out to tender at least every 10 years. To avoid significant disruption, the Financial Reporting Council has provided details of transitional arrangements which would mean that as Deloitte became Auditors after 2005, we would not need to undertake a tender review until after the 2020 period end. Auditor objectivity and independence will be safeguarded through a variety of mechanisms. To ensure the external Auditor's independence, the Committee will annually review the Company's relationship with Deloitte and will assess the level of controls and processes in place to ensure the required level of independence and that the Company has an objective and professional relationship with Deloitte. The external Auditor is required to rotate the audit partner responsible for the Group audit every five years. The current audit partner was appointed for the period ended 31 March 2010. In this situation where we have become a listed entity and the Audit Engagement Partner has served four years, Ethical Standard 3 allows him to continue for not more than two more years. For the year ending 31 March 2015, the Committee has provided to the Board its recommendation to the shareholders on the reappointment of Deloitte as the Group's Auditor. During the year, Deloitte charged the Group £0.1m (2013: £0.1m) for audit and audit-related services.

Non-audit services

The Company's external Auditor may also be used to provide specialist advice where, as a result of their position as Auditor, they either must, or are best placed to, perform the work in question. A formal policy is in place in relation to the provision of non-audit services by the external Auditor to ensure that there is adequate protection of their independence and objectivity.

Fees charged by Deloitte in respect of non-audit services generally require the prior approval of the Audit Committee. A breakdown of the fees paid to Deloitte during the year is set out in note 9 to the Consolidated Financial Statements.

During the year, Deloitte charged the Group £0.655m (2013: £0.02m) for non-audit related services. The majority of these fees related to the Reporting Accountant work on the Group's IPO and accordingly related to non-recurring work. Deloitte were best placed to perform their work given their knowledge of the business.

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

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

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

Marisa Cassoni
Chair, Audit Committee
AO World plc

Shareholder Relations

The Company recognises the importance of communicating with its shareholders to ensure that its strategy and performance are understood and that it remains accountable to shareholders. During the IPO process the Company held a number of investor roadshows both in the UK and overseas. Post-IPO as part of a comprehensive investor relations programme, there will continue to be an ongoing programme of dialogue and meetings between the Executive Directors and institutional investors, fund managers and analysts. At these meetings, a wide range of relevant issues including strategy, performance, management and governance will be discussed within the constraints of information which has already been made public. The Board is aware that institutional shareholders may be in more regular contact with the Company than other shareholders, but care is exercised to ensure that any price-sensitive information is released to all shareholders, institutional and private, at the same time in accordance with the Financial Conduct Authority requirements. The Company Secretary generally deals with questions from individual shareholders with support as appropriate from the Executive Directors.

All shareholders can access announcement, investor presentations and the annual report on the Company's corporate website (www.ao.com/corporate).

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

The Board obtains feedback from its joint corporate brokers, J.P. Morgan Cazenove, Jefferies and Numis, 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.

Remuneration

Bill Holroyd
Chairman, Remuneration Committee

This report sets out details of the remuneration policy for Executive and Non-executive Directors, describes how the remuneration policy is implemented and discloses the amounts paid relating to the year ended 31 March 2014.

The Remuneration Policy Report (set out on pages 49 to 53) will be put to shareholders for approval in a binding vote at the AGM on 17 July 2014. The Annual Report on Remuneration (set out on pages 54 to 57), which describes how the policy has been implemented in the year under review and how it will be implemented for the year ahead, will be subject to an advisory vote at the AGM.

Annual Statement by the Chairman of the Remuneration Committee

Dear Shareholder,

On behalf of the Board, I am pleased to present the first Remuneration Committee Report since listing providing details of the remuneration of the Directors for the financial year 2013/14 and of our future remuneration policy.

AO has always operated a remuneration philosophy which rewards the achievement of stretching targets and that philosophy will continue, as outlined further in this report.

Remuneration policy

In the period before listing we undertook a full review of our remuneration framework to ensure post listing it was consistent with best practice, while being mindful of the need to pay no more than is necessary to retain and attract high-quality talent.

The resulting framework is simple, transparent and in keeping with the strategic and earnings-performance based objectives of the business and delivers market competitive packages to the senior executives that are aligned with shareholder interests.

Performance and reward for 2013/14

Our Company was listed on the London Stock Exchange on 3 March 2014, so there has only been one month of "life as a public company", and salaries and bonuses for 2013/14 were based on a different regime as a private company. 2014/15 will therefore be the first year in which the new policy arrangements as set out on pages 49 to 53 will apply.

Shareholder feedback

The Remuneration Committee recognises that the fostering of a close relationship with shareholders can complement the work of the Committee in developing the remuneration policy, and welcomes any feedback that you have.

Bill Holroyd
Chairman, Remuneration Committee

Policy Report

This part of the Directors' Remuneration Report sets out the remuneration policy for the Company and has been prepared in accordance with the Companies Act 2006, Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the UKLA's Listing Rules. The policy has been developed taking into account the principles of the UK Corporate Governance Code 2012.

The Policy Report will be put to a binding shareholder vote at the 2014 AGM and the policy will take formal effect from the date of approval. It is currently intended that the policy will apply for the three-year period following approval.

Role of the Remuneration Committee in setting policy

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

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

The Committee's terms of reference are available on the Company's website.

How the views of shareholders are taken into account

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

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

Consideration of employment conditions elsewhere in the Group

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

Consideration of the impact of remuneration on risk

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

Summary of our remuneration policy

The table below provides a summary of the key aspects of the Company's remuneration policy for Executive Directors.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance

Base salary	– To aid the recruitment and retention of high-calibre executives
	– To reflect experience and expertise
	– To provide an appropriate level of fixed basic income
		– Reviewed annually, effective 1 April
		– Set initially at a level required to recruit suitable executives reflecting their experience and expertise
		– Any subsequent increase influenced by:
		  – Scope of the role
		  – Experience and personal performance in the role
		  – Average change in total workforce salary
		  – Performance of the Company
		  – External economic conditions, such as inflation
		– Periodic account of practice in comparable companies (e.g. those of a similar size and complexity) taken
		– No clawback or recovery provisions apply
			– 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, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group
				– The Committee reviews the salaries of Executive Directors each year taking due account of all the factors described in how the salary policy operates

Summary of our remuneration policy (continued)

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
Annual bonus	– To reward the annual delivery of objectives relating to the business strategy	– All bonus payments are at the discretion of the Committee – Not pensionable – Payable in cash following the end of the year based on targets set at the start of the year – Targets are set and reviewed annually – Clawback provisions apply in certain circumstances (including where there has been a misstatement of accounts, an error in assessing any applicable performance condition, or in the event of misconduct on the part of the participant)	– Up to 150% of salary for all Executive Directors, dependent on performance, but a lower maximum may be operated	– Bonuses are based on performance measures with stretching targets as set and assessed by the Committee in its discretion – Financial measures (e.g. EBITDA) will represent the majority of bonus, with any other measures representing the balance – Up to 25% of bonus will be payable for achievement of a threshold level of performance – Measures and weightings may change each year to reflect any year-on-year changes to business priorities
Performance Share Plan ('PSP')	– Intended to align the long-term interests of Executives with those of shareholders – To incentivise the delivery of key strategic objectives over the longer term	– The PSP was introduced on Admission in 2014 – Awards of free performance shares may be granted annually in the form of conditional awards or nil cost options – Vesting is dependent on performance targets being met during the performance period and continued service of the Directors – A dividend equivalent provision exists which allows the Committee to pay dividends on vested shares at the time of vesting – Clawback provisions apply in certain circumstances (including where there has been a misstatement of accounts, an error in assessing any applicable performance condition, or in the event of misconduct on the part of the participant)	– Maximum limit contained within the plan rules is 200% of salary although up to 300% of salary may be made in exceptional circumstances – Normal policy awards may be made at lower levels than this	– Awards vest based on challenging targets measured over a three-year period, the majority of which will normally be based on financial performance metrics – Prior to each award the Committee will set threshold and stretch targets along with an intermediate vesting range. Details of this will be disclosed in advance in the Annual Report on Remuneration unless the targets are commercially sensitive, in which case they will be disclosed retrospectively – No more than 25% vests at threshold
Pension	– To aid recruitment and retention – To provide an appropriate level of fixed income	– Executive Directors may receive an employer's pension contribution	– Employer's defined contribution up to 12.75% of salary	– N/A
Other benefits	– To provide a competitive benefits package to aid recruitment and retention	– 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	– The value of benefits may vary from year to year depending on the cost to the Company	– N/A

Awards granted prior to the effective date

For the avoidance of doubt, in approving this Policy Report, authority is given to the Company to honour any commitments entered into previously with Directors.

Annual bonus plan and PSP policy

The Committee will operate the annual bonus plan and PSP according to the rules of each respective plan and taking into account normal market practice and the Listing Rules, including flexibility in a number of regards. While it does not intend to alter the operation of these plans frequently, the Committee retains discretion over the following areas (working within the policy detailed above):

– Who participates in the plans.
– When to make awards and payments.
– How to determine the size of an award, a payment, or when and how much of an award should vest.
– How to deal with a change of control or restructuring of the Group.
– Whether a Director is a good/bad leaver for incentive plan purposes and whether and what proportion of awards vest at the time of leaving or at the original vesting date(s).
– How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends).
– What the weighting, measures and targets should be for the annual bonus plan and PSP from year to year.

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

Choice of performance measures and approach to target setting

The performance metrics and targets that are set for the Executive Directors via the annual bonus plan and PSP are carefully selected to align closely with the Company's strategic plan and key performance indicators.

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

In terms of the long-term performance targets, PSP awards will be set at the time of each grant but will normally include a majority based on financial performance in line with our key objectives of delivering profitable growth and delivering superior returns to our shareholders. The Committee will disclose the targets for each of the Executive Directors' awards in advance in the Annual Report on Remuneration (unless the targets are commercially sensitive, in which case they will be disclosed retrospectively). The Committee will review the choice of performance measures and the appropriateness of the performance targets prior to each PSP grant and will consult with major shareholders in the event of any significant proposed change.

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

Share ownership guidelines

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

The required level is set at up to 100% of salary. Where the holding is not already attained it is required to be achieved through retention of shares or the vesting of awards (on a net of tax basis) from share plans.

Differences in remuneration policy for Executive Directors compared to other employees

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

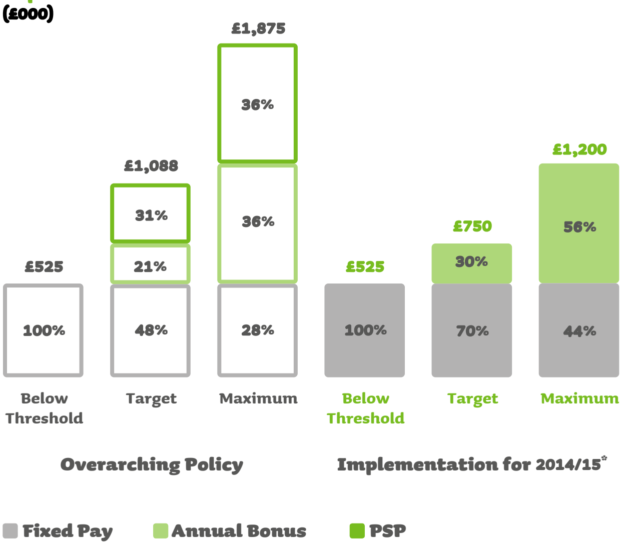
Overall, the remuneration policy for the Executive Directors is more heavily weighted towards performance-related pay than for other employees. In particular, performance-related long-term incentives are not provided outside of the most senior executive population as they are reserved for those considered to have the greatest potential to influence overall levels of performance. That said, whilst the use of the PSP is confined to the most senior managers in the Group, the Company is committed to widespread equity ownership. Accordingly, shortly after IPO, our first all-employee SAYE offer was launched, under which Executive Directors are eligible to participate on a consistent basis to all other employees.

The level of performance-related pay varies within the Group by grade of employee and is calculated by reference to the specific responsibilities of each role as appropriate.

Reward scenarios

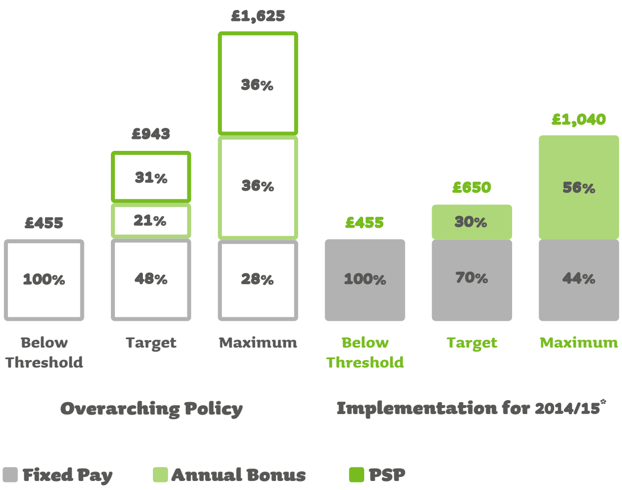
The remuneration policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The charts below illustrate how the total pay opportunities for the Executive Directors vary under three different performance scenarios: below target, on-target and maximum. Given the Remuneration Committee have agreed to the wishes of the Executive Directors to not be granted PSP awards in 2014/15 two sets of data have been presented – one to show the overarching policy (i.e. to include normal policy level PSP awards) and one to show the policy as it will be implemented for 2014/15 (i.e. to recognise that the Executive Directors will not be granted PSP awards). These charts are indicative as no assumed share price movement or dividend accrual has been included.

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



* Pursuant to the CEO's decision not to participate in the current PSP.

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



* Pursuant to the CFO's decision not to participate in the current PSP.

Assumptions:

- Below threshold = fixed pay only (i.e. latest salary, benefits and pension
- Target = fixed pay plus 33% of maximum bonus payout and 50% vesting under the PSP (assuming awards equivalent to 150% of salary are granted)
- Maximum = fixed pay plus 100% of bonus payout and 100% PSP vesting (assuming awards equivalent to 150% of salary are granted)
- Salary levels (on which other elements of the package are calculated) are based on those applying on 1 April 2014. The value of taxable benefits is based on the cost of supplying those benefits (as disclosed) for the year ending 31 March 2014 (but allowing for a car allowance of £12,000 for each Executive Director).

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

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 will be employed on a contract that can be terminated by the Company on giving no less than one year's notice, with the Executive Director required to give no less than one year's notice of termination.

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

In summary, the contractual provisions are as follows:

Provision	Detailed terms
Notice period	12 months from both the Company and the Executive Directors
Termination payment	Payment in lieu of notice of 115% of base salary, which is calculated so as to cover the value of contractual benefits and pension, normally subject to mitigation and paid monthly[1] In addition, any statutory entitlements would be paid as necessary
Change of control	There will be no enhanced provisions on a change of control

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

Annual bonus on termination

There is no contractual entitlement to annual bonus on termination. At the discretion of the Committee, in certain circumstances a pro-rata bonus may become payable at the normal payment date for the period of active service only. In all cases performance targets would apply, normally measured over the whole financial year.

PSP on termination

Any share-based entitlements granted under the Company's share plans will be determined on the basis of the relevant plan rules. In determining whether an Executive Director should be treated as a good leaver under the plan rules the Committee will take into account the performance of the individual and the reasons for their departure and in the event of this determination being made will set out its rationale in the following Annual Report on Remuneration. Awards ordinarily vest on a time pro-rata basis subject to the satisfaction of the relevant performance criteria with the balance of the awards lapsing. The Committee retains discretion to alter the basis of time pro-rating if it deems this appropriate. However, if the time pro-rating is varied from the default position, an explanation will be set out in the following Annual Report on Remuneration. For the avoidance of doubt, performance conditions will always apply to awards for good leavers, although the Committee may determine that it is appropriate to assess performance over a different period than the default three-year period.

Approach to recruitment and promotions

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

- Where new joiners or recent promotions have been given a starting salary at a discount to the mid-market level, a series of increases above those granted to the wider workforce (in percentage of salary terms) may be awarded over the proceeding few years, subject to satisfactory individual performance and development in the role.
- The policy permits PSP awards of up to 300% of salary in exceptional circumstances such as recruitment. The Committee may also offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company and shareholders. Any such additional payments would be based solely on remuneration relinquished when leaving the former employer and would reflect (as far as possible) the nature and time horizons attaching to that remuneration and the impact of any performance conditions. Replacement share awards, if used, will be granted using the Company's PSP (up to the plan limit of 300% of salary) to the extent possible. Awards may also be granted outside of the Company's existing PSP if necessary and as permitted under the Listing Rules. Shareholders will be informed of any such payments at the time of appointment.
- The maximum variable pay that could be awarded (excluding buy-out awards) is 450% (bonus of 150% of salary and PSP of 300% of salary).
- The annual bonus would operate in accordance with the terms of the approved policy, albeit with the opportunity pro-rated for the period of employment. Depending on the timing and responsibilities of the appointment it may be necessary to set different performance measures and targets in the first year.
- For an internal executive appointment, any variable pay element awarded in respect of the former role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment would continue.
- For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as appropriate.

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

Chairman and Non-Executive Directors' letters of appointment

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

Non-Executive Directors' fees

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

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	– To recruit and retain high calibre non-executives	– Fees are determined by the Board, with Non-Executive Directors abstaining from any discussion or decision in relation to their fees – Non-Executive Directors are paid an annual fee and do not participate in any of the Company's incentive arrangements or receive any pension provision – The Chairman is paid a consolidated all-inclusive fee for all Board responsibilities – The Non-Executive Directors receive a basic Board fee, with additional fees payable for chairing the Audit, Nomination and Remuneration Committees and for performing the Senior Independent Director role – The fee levels are reviewed on a periodic basis, with reference to the time commitment of the role and market levels in companies of comparable size and complexity – Non-Executive Directors shall be entitled to have reimbursed all fees that they reasonably incur in the performance of their duties	– 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

Single figure of total remuneration

The audited table below shows the aggregate emoluments earned by the Directors of the Company during the period 1 April 2013 to 31 March 2014 and those earned during the period 1 April 2012 to 31 March 2013.

		Salaries and fees £	Benefits[1] £	Bonus[2] £	Value of PSP[3] £	Pension[4] £	Total £
Chairman							
Richard Rose	2013/14	52,500	–	–	–	–	**52,500**
	2012/13	15,000	–	–	–	–	**15,000**
Executive Directors							
John Roberts	2013/14	450,000	29,930	–	–	57,375	**537,305**
	2012/13	200,000	1,532	–	–	25,000	**226,532**
Steve Caunce	2013/14	390,000	21,278	–	–	49,725	**461,003**
	2012/13	148,690	2,471	–	–	50,000	**201,161**
Non-executive Directors							
Charles (Bill) Holroyd	2013/14	34,583	–	–	–	–	**34,583**
	2012/13	15,450	–	–	–	–	**15,450**
Christopher Hopkinson	2013/14	30,000	–	–	–	–	**30,000**
	2012/13	15,450	–	–	–	–	**15,450**
Brian McBride	2013/14	8,333	–	–	–	–	**8,333**
	2012/13	–	–	–	–	–	**–**
Marisa Cassoni	2013/14	9,167	–	–	–	–	**9,167**
	2012/13	–	–	–	–	–	**–**
Rudolf Lamprecht	2013/14	7,500	–	–	–	–	**7,500**
	2012/13	–	–	–	–	–	**–**
Kevin Philbin[5]	2013/14	25,000	–	–	–	–	**25,000**
	2012/13	15,450	–	–	–	–	**15,450**
Norman Stoller CBE CStJ DL[5]	2013/14	25,000	–	–	–	–	**25,000**
	2012/13	15,450	–	–	–	–	**15,450**

1 Benefits for 2013/2014 included gym membership, medical and life assurance, plus car allowance paid in cash. In this period John Roberts received his annual £12,000 car allowance plus a further car allowance of £12,000 which was outstanding from the previous financial year. Similarly, Steve Caunce received £9,000 car allowance plus £9,000 outstanding from the previous financial year.
2 No bonus was granted to the Executive Directors in 2013/2014.
3 No long-term incentive plans were in place prior to IPO and thus no awards were eligible to vest based on performance ending in the year 2013/14.
4 Employer's pension contributions of 12.75% of salary were paid to the Executive Directors in 2013/14.
5 Each of Kevin Philbin and Norman Stoller CBE CStJ DL resigned as Directors of AO World plc on 25 February 2014.

Implementation of remuneration policy for 2014/15

Salary

The Executive Directors' salaries were reviewed on Admission and no increase was awarded. The Executive Directors will next be eligible for a salary increase on 1 April 2015. For comparison, the average salary increase provided to UK employees for 2014 was of 6%.

The current salaries as at 1 April 2014 (and those as at 1 April 2013) are as follows:

	Salary at 1 April 2013	Salary at 1 April 2014	% increase
John Roberts	£450,000	£450,000	0%
Steve Caunce	£390,000	£390,000	0%

Pension and other benefits

Executive Directors will receive an employer's pension contribution at the rate of 12.75% of base salary and benefits comprising a car allowance of £12,000 each, private family medical cover, gym membership and death in service life assurance.

Annual bonus

The operation of the bonus plan for 2014/15 will be consistent with the framework detailed in the policy section of this report. The maximum opportunity for 2014/15 will be capped at 150% of basic salary.

The measures have been selected to support the key strategic objectives of the Company. For 2014/15 two metrics will be used to determine the bonus payments of the Executive Directors. Underlying EBITDA (excluding non-recurring costs relating to major strategic projects, as agreed in advance by the Committee) will determine the notional bonus pool and 25% of that pool will be subject to an assessment of performance against key strategic milestones.

To ensure the bonus pool is fully self-funding, the EBITDA targets have been set so as to include the cost of the bonus at each level of performance. The pool will be funded at 16.7% of maximum at a threshold level of performance, at 33% of maximum for on-target performance and rising in a series of steps to 100% of maximum for significantly outperforming the Group's plans and consensus forecasts, based on the Committee's assessment of achievement against the targets set.

Once the pool has been determined a secondary measure of performance based on key strategic milestones will be assessed which may reduce the value of the pool by up to 25%. Full achievement of the strategic milestone targets will mean the pool will not reduce in value.

The Committee considers that the targets themselves, in relation to the 2014/15 financial year, are commercially sensitive and therefore plans to disclose them only on a retrospective basis. Details of the targets, performance against those targets, and any payments resulting, will be disclosed, as far as possible, in next year's Annual Report on Remuneration, save where they remain commercially sensitive.

Long-term incentives

The Committee's policy is normally to award Executive Directors PSP awards annually. However, in light of their inherent alignment with shareholders by virtue of their existing shareholdings and their stated long-term commitment to the Company, John Roberts and Steve Caunce have indicated that they do not wish to be considered for PSP awards in 2014. The Committee is satisfied that John Roberts and Steve Caunce are already sufficiently aligned with shareholders, are fully committed to the long-term success of the Company and that allowing them to not be considered for awards during 2014 is appropriate. The Committee will keep this under review.

All-employee share plans

The Board adopted a Sharesave Scheme shortly after admission which has been registered with HMRC. All employees who had completed their probationary periods were eligible to participate. Under the Sharesave Plan employees may elect to save up to £500 per month with which they will be able to purchase shares following exercise of the option with the exercise price set at 80% of market value at the date of grant.

The Executive Directors were eligible to participate in the AO Sharesave Scheme on the same basis as other employees.

Share ownership requirements

The required share ownership level for the Executive Directors for 2014/15 will be 100% of salary (which is more than being met). There are no share ownership requirements for the Non-Executive Directors.

Non-Executive Director fees

The fee structure and fee levels of the Non-Executive Directors were reviewed on Admission. The Non-Executive Directors will next be eligible for a fee increase in April 2015.

The fees payable per annum for 2014/15 are shown in the table below.

Chairman fee covering all Board duties	£130,000
Non-Executive Director basic fee	£45,000
Supplementary fees to Non-Executive Directors covering additional Board duties	
Audit Committee Chairman fee	£10,000
Remuneration Committee Chairman fee	£5,000
Nomination Committee Chairman fee	£5,000
Senior Independent Director fee	£5,000

Details of variable pay earned in 2013/14

Annual bonus payments

Performance over 2013/14 fell short of the very stretching profit targets set at the start of the year and thus no bonus was paid. As a result of the targets being set before the Company was listed they are considered to be commercially sensitive and have not been disclosed. However, the Committee intends to disclose the targets for future bonus payouts to the extent reasonable within the bounds of commercial sensitivity.

Payments to past Directors and loss of office payments

There were no payments to past Directors or loss of office payments made in the year ended 31 March 2014.

Directors' shareholdings

	Shares held beneficially[1] at 31 March 2014	Target shareholding guidelines (% of salary)	Target shareholding achieved
Richard Rose	6,599,900	100%	Yes
John Roberts	111,539,202	100%	Yes
Steve Caunce	53,114,802	N/A	N/A
Charles (Bill) Holroyd	23,041,616	N/A	N/A
Christopher Hopkinson	22,201,590	N/A	N/A
Brian McBride	52,628	N/A	N/A
Marisa Cassoni	52,628	N/A	N/A
Rudolf Lamprecht	52,628	N/A	N/A
Kevin Philbin	2,402,724	N/A	N/A
Norman Stoller CBE CStJ DL	21,421,646	N/A	N/A

1 Includes any shares held by connected persons.
2 Since 31 March 2014, the Executive Directors have gifted shares to charity: John Roberts has gifted 312,745 shares and Steve Caunce 218,922.

Percentage change in remuneration levels

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

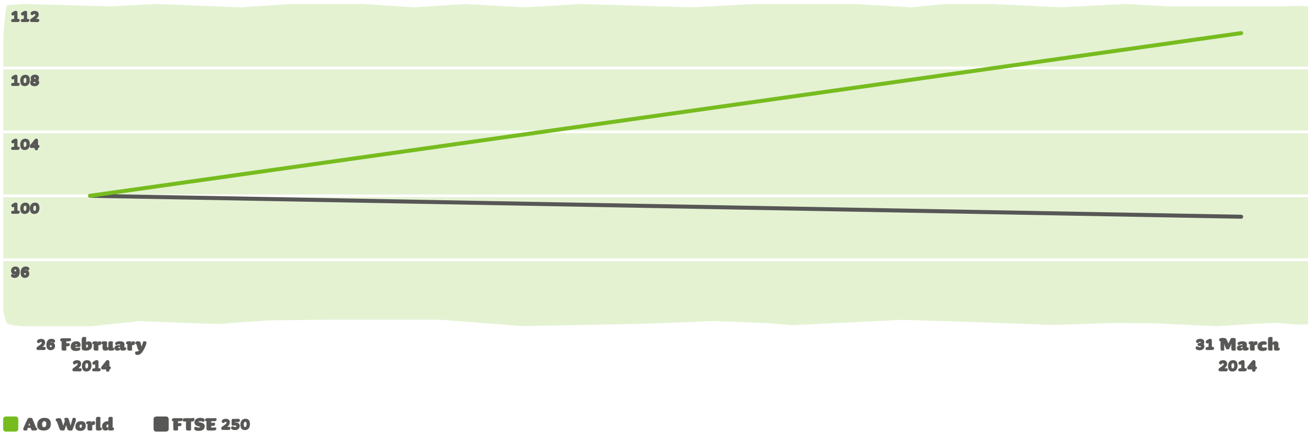
%	Chief Executive	Average per employee[1]
Salary	0%	6%
Benefits	1,854%[2]	77%
Bonus	0%	-80%

1 Reflects the average change in pay for employees employed in both the year ended 31 March 2013 and the year ended 31 March 2014.
2 The Chief Executive deferred his car allowance of £12,000 for the year 2012/2013. This was paid in 2013/2014 along with his car allowance for that year. Without such deferment, the % change would have been 33%.

Performance graph and pay table

The chart below shows the Company's TSR performance against the performance of the FTSE 250 Index from 26 February 2014 (the date on which the Company's shares were first admitted to trading on the London Stock Exchange) to 31 March 2014. This index was chosen as it represents a broad equity market index which includes companies of a broadly comparable size and complexity.

Total Shareholder Return
(Rebased)



Source: Datastream (Thomson Reuters)

The table below shows the total remuneration figure for the Chief Executive during the financial years ending 31 March 2010 to 31 March 2014. The total remuneration figure includes the annual bonus payable for performance in each of those years. No long-term incentives were eligible for vesting based on performance ending in any of those years. The annual bonus percentage shows the payout for each year as a percentage of the maximum.

	2009/10	2010/11	2011/12	2012/13	2013/14
Total remuneration (£'000)	680	292	243	227	537
Annual bonus (%)	69%	18%	0%	0%	0%
PSP vesting (%)	–	–	–	–	–

Relative importance of the spend on pay

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

	2012/13	2013/14	% change
Staff costs (£'000)	£21,588	£32,687	51%
Distributions to shareholders[1]	No distributions were made to shareholders in the year		

1 Distributions to shareholders prior to the date of listing have been excluded.

Details of Directors' service contracts and letters of appointment

Details of the service contracts and letters of appointment in place as at 31 March 2014 for Directors are as follows:

	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 3 years from date of letter subject to notice	3	3	05/02/2014
Steve Caunce	14/02/2014	continuous employment until terminated by either party	12	12	13/10/2005
Charles (Bill) Holroyd	14/02/2014	initial term of 3 years from date of letter subject to notice	3	3	30/09/2003
Christopher Hopkinson	14/02/2014	initial term of 3 years from date of letter subject to notice	3	3	12/12/2005
Rudolf Lamprecht	17/02/2014	initial term of 3 years from date of letter subject to notice	3	3	17/01/2014
Brian McBride	17/02/2014	initial term of 3 years from date of letter subject to notice	3	3	06/02/2014
John Roberts	14/02/2014	continuous employment until terminated by either party	12	12	19/04/2000
Richard Rose	14/02/2014	initial term of 3 years from date of letter subject to notice	3	3	01/08/2008

External appointments

No fees were received by Executive Directors for external appointments during the year ended 31 March 2014.

Remuneration Committee membership

The members of the Committee are Bill Holroyd (chairman), Brian McBride and Marisa Cassoni. The responsibilities of the Committee are set out in the Corporate Governance section of the Annual Report on page 41. The Executive Directors may be invited to attend meetings to assist the Committee in its deliberations as appropriate. The Committee may also invite other members of the management team to assist as appropriate. No person is present during any discussion relating to their own remuneration or is involved in deciding their own remuneration.

The UK Corporate Governance Code recommends that the Remuneration Committee comprises at least three members who should all be independent non-executives. Currently, the Remuneration Committee comprises two members who are independent Non-executive Directors (Marisa Cassoni and Brian McBride) and Bill Holroyd, who chairs the Committee. Although Mr Holroyd's non-independence means that the constitution of the Committee does not comply with the requirements of the UK Corporate Governance Code, the Board considers that it has a strong independent non-executive component and that the continuity, experience and knowledge of Bill Holroyd should ensure that he makes a significant contribution to the work of the Committee. However, it will continue to keep the matter under review.

Advisers to the Committee

New Bridge Street (NBS) provides advice in relation to remuneration and share plans both for Executive Directors and the wider senior management population and was appointed by the Committee. In addition, NBS provides advice in relation to the fees of the Non-Executive Directors and the Chairman.

NBS are signatories to the Remuneration Consultants Group Code of Conduct and any advice provided by them is governed by that code. NBS's terms of engagement are available on request from the Company Secretary. NBS is a trading name of Aon Hewitt Limited (an Aon plc company) which, other than acting as independent consultant to the Committee, provided no further services to the Company during the year. The Committee is committed to regularly reviewing the external advisor relationship and is comfortable that NBS's advice remains objective and independent. For the year under review NBS's total fees charged were £59,993 plus VAT, the large majority of which was in relation to advice pertaining to the initial public offering.

Shareholder feedback

During the IPO process, the views of potential shareholders were canvassed and taken into account when formulating the Directors' remuneration policy.

Audited information

The Group's Auditor, Deloitte, has audited the information contained in the Annual Report on Remuneration set out on pages 54 to 57.

This report has been approved on behalf of the Board by:

Bill Holroyd
Chairman, Remuneration Committee
AO World plc
4 June 2014

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 2014.

Statutory Information

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

Amendment of the Articles	Directors' Report (page 59)
Appointment and replacement of Directors	Directors' Report (page 58)
Board of Directors	Corporate Governance Statement (page 38 and 39)
Change of control	Directors' Report (page 60)
Community	Strategic Report; Corporate Social Responsibility (page 24)
Directors' indemnities	Directors' Report (page 60)
Directors' interests	Remuneration Report (page 55)
Directors' responsibility statement	Directors' Report (page 61)
Disclosure of information to Auditors	Directors' Report (page 61)
Employee involvement	Strategic Report; Corporate Social Responsibility (page 24)
Employees with disabilities	Strategic Report; Corporate Social Responsibility (page 24)
Future developments of the business	Strategic Report
Going concern	Directors' Report (page 60)
Greenhouse gas emissions	Corporate Social Responsibility (page 25)
Independent Auditors	Directors' Report (page 61)
Results and dividends	Directors' Report (page 60)
Political donations	Directors' Report (page 60)
Post-balance sheet events	Directors' Report (page 60)
Powers for the Company to issue or buy back its shares	Directors' Report (page 59)
Powers of the Directors	Corporate Governance Statement and Directors' Report (page 59)
Research and development activities	Directors' Report (page 60)
Restrictions on transfer of securities	Directors' Report (page 59)
Rights attaching to shares	Directors' Report (page 59)
Risk management	Strategic Report (pages 32, 33 and 44) and note 32 to the consolidated financial statements
Share capital	Directors' Report (page 59)
Significant related party agreements	Note 33 to the consolidated financial statements
Significant shareholders	Directors' Report (page 60)
Statement of corporate governance	Corporate Governance Statement
Voting rights	Directors' Report (page 59)

Management Report

This Directors' Report, on pages 58 to 61, together with the Strategic Report on pages 8 to 33, form the Management report for the purposes of DTR 4.1.5R.

The Strategic Report

The Strategic Report, which can be found on pages 8 to 33, sets out the development and performance of the Group's business during the financial year, the position of the Group at the end of the year and a description of the principal risks and uncertainties which is set out on pages 32 to 33.

UK Corporate Governance Code

The Company's statement on corporate governance can be found in the Statement of Corporate Governance, the Audit Committee Report, the Nomination Committee Report and the Directors' Remuneration Report on pages 36 to 57. The Corporate Governance Report, the Audit Committee Report and the Nomination Committee Report form part of this Directors' Report and are incorporated into it by reference.

Appointment and replacement of Directors

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

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

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

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

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

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

For further details of our Directors please refer to pages 38 and 39.

Amendment of the Articles

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

Share capital and control

The Company's issued share capital comprises of ordinary shares of 0.25p each which are listed on the London Stock Exchange (LSE: AO.L). The ISIN of the shares is GB00BJTNFH41. As at 31 March 2014, the issued share capital of the Company was £1,052,632 comprising 421,052,631 ordinary shares of 0.25p each.

Details of the issued share capital of the Company, together with movements in the issued share capital during the year can be found in note 27 to the Financial Statements on page 81. All the information detailed in note 27 on pages 81 and 82 forms part of this Directors' Report and is incorporated into it by reference.

Details of employee share schemes are provided in note 29 to the financial statements on page 82.

At the Annual General Meeting of the Company to be held on 17 July 2014 the Directors will seek authority from shareholders to allot shares in the capital of the Company up to a maximum nominal amount of £701,754.39 (280,701,756 shares (representing approximately 66% of the Company's issued ordinary share capital)) of which 140,350,878 shares (representing approximately 33% of the Company's issued ordinary share capital (excluding treasury shares) can only be allotted pursuant to a rights issue.

Authority to purchase own shares

The Directors will seek authority from shareholders at the forthcoming Annual General Meeting for the Company to purchase, in the market, up to a maximum of 42,105,263 of its own ordinary shares either to be cancelled or retained as treasury shares. The Directors will only use this power after careful consideration, taking into account the financial resources of the Company, the Company's share price and future funding opportunities. The Directors will also take into account the effects on earnings per share and the interests of shareholders generally.

Rights attaching to shares

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

No shareholder holds shares in the Company which carry special rights with regard to control of the Company. There are no shares relating to an employee share scheme which have rights with regard to control of the Company that are not exercisable directly and solely by the employees, other than in the case of the AO Sharesave Scheme where share interests of a participant in such scheme can be exercised by the personal representatives of a deceased participant in accordance with the Scheme rules.

Voting rights

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

Restrictions on transfer of securities

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

(1) in certificated form which is not fully paid provided that if the share is listed on the Official List of the UK Listing Authority such refusal does not prevent dealings in the shares from taking place on an open and proper basis; or
(2) in certificated form (whether fully paid or not) unless the instrument of transfer (a) is lodged, duly stamped, at the Office or at such other place as the Directors may appoint and (except in the case of a transfer by a financial institution where a certificate has not been issued in respect of the share) is accompanied by the certificate for the share to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; (b) is in respect of only one class of share and (c) is in favour of not more than four transferees;
(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;
(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 and the AO Sharesave Scheme, rights are not transferable (other than to a participant's personal representatives in the event of death).

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

Change of control

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

Save in respect of the Company's share schemes, there are no significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control following a takeover bid.

2014 Annual General Meeting

The Annual General Meeting will be held on 10.00 am on 17 July 2014 at AO Park, 5A The Parklands, Lostock, Bolton BL6 4SD. The Notice of Meeting which sets out the resolutions to be proposed at the forthcoming AGM is enclosed with this Annual Report. The Notice specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes will be counted and the numbers for, against or withheld in relation to each resolution will be announced at the Annual General Meeting and published on the Company's website.

Interests in voting rights

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

Shareholder	Number of ordinary shares/voting rights notified	Percentage of voting rights over ordinary shares of 0.25p each
John Roberts	111,220,109	26.42%
Steve Caunce	52,889,532	12.56%
Generation Investment Management LLP	24,189,418	5.74%
Julie Holroyd	22,687,476	5.39%
The London & Amsterdam Trust Company Ltd	22,320,000	5.30%
Chris Hopkinson	21,850,713	5.19%
N K Stoller	21,421,646	5.09%
Baron Capital Group, Inc, BAMCO, Inc, Baron Capital Management, Inc, Ronald Baron	22,951,020/ 21,326,020	5.06%
Odey Asset Management LLP	16,775,029 (plus contracts for difference 4,409,263)	5.03%

Results and dividends

The Group's and Company's audited financial statements for the year are set out on pages 66 to 91.

A dividend of £1,890,092 was paid on 19 July 2013 and a dividend of £918,417 was paid on 8 November 2013.

Post-balance sheet events

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

Research and development

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

Indemnities and insurance

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

Environmental

Information on the Group's greenhouse gas emissions is set out in the Corporate Social Responsibility section on page 25 and forms part of this report by reference.

Political donations

During the year, no political donations were made.

External branches

The Group had no registered external branches during the reporting period. However, it is anticipated that a German branch will be established in the near future as the Company executes its strategy on international expansion.

Going concern

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 8 to 33. The financial position of the Company and its cash flows are described in the CFO/COO's Operational Review on pages 26 to 29. 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.

The Company has considerable financial resources following the issue of new shares as part of the IPO; combined with this it has strong free cash flow generation and low capital expenditure requirements, deals with a range of suppliers with which it has good relations and has no economic dependence on particular customers.

In making their assessment of going concern, the Directors considered the Board-approved budget, the three-year rolling financial plan and cash-flow forecast.

After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Financial instruments

Details of the financial risk management objectives and policies of the Group, including hedging policies and exposure of the entity to price risk, credit risk, liquidity risk and cash flow risk are given on pages 83 to 86 in note 32 to the consolidated financial statements.

Independent Auditor

The Company's Auditor, Deloitte LLP, have indicated their willingness to continue their role as the Company's Auditor. A resolution to re-appoint Deloitte LLP as Auditor of the Company and to authorise the Board to determine its remuneration will be proposed at the 2014 AGM.

Disclosure of information to Auditor

Each of the Directors has confirmed that:

(i) so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and

(ii) the Director has taken all the steps that he/she ought to have taken as a Director to make him/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

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

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under Company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting 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;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This statement has been given in accordance with IFRS accounting standards.

Approved by the Board and signed on its behalf

David Myers
Company Secretary
AO World plc
4 June 2014

“Value is the output of the other stuff we do”

In this section:

Opinion on financial statements of AO World plc

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 2014 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

The financial statements comprise the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated cash flow statement and the related notes 1 to 34 for the Consolidated financial statements and the parent company balance sheet and related notes 1 to 11 for the parent company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going concern

As required by the Listing Rules we have reviewed the Directors' statement on page 60 that the Group is a going concern.

We confirm that:
- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

For each of the risks described, our work has included evaluating the design of the Group's controls intended to address those risks and determining whether the controls exist and are being used by the entity.

Risk	How the scope of our audit responded to the risk
Product protection plans	
The Group sells product protection plans to customers purchasing electrical appliances, on behalf of a third party (Domestic & General Services Limited (D&G)), who, without recourse to the Group, administer the plans, collect money from the customers and pay a commission to the Group for each policy sold over the life of the plan. Revenue recognised in the year for the plans sold in the year is based on a fair value calculation of commissions due over the expected life of the plan. The expected life of the plan is profiled based on historical cancellation data. There is a risk therefore that the revenues are being recognised at the incorrect value and in the incorrect period. There is an associated risk around the recoverability of the receivable balance attributable to the product protection plans. There is a risk that a change in the interpretation of the existing law or regulation could differ from the current management view of the nature of product protection plans. This could result in plans being considered as insurance contracts and accordingly the plans would be regulated under the Financial Services Markets Act ('FSMA'). See critical accounting judgements and key sources of estimation uncertainty on page 75.	We agreed the key inputs to the fair value calculation (which are plan cancellations and commission receipts) to third-party documentation. This involved agreeing: – a sample of plan cancellations within the D&G cancellation statements to the fair value calculation; and – a sample of commission receipts to D&G statements and bank statements. We compared the forecast cancellation rates over the expected life of the plans to the historical cancellation data. We also benchmarked the discount rate that the Group had used against an external market rate for a medium-term monetary asset. Our data specialists rebuilt the warranty cancellation curve from source data and used specialist tools to examine the integrity of the formulae used to calculate the fair value of the revenue and receivable balance. We also engaged our financial services experts to: – review the extent to which the Group has established a basis that these products are not insurance contracts by reviewing the legal opinion received in respect of this matter; and – listen to a sample of sales calls and review the promotional material to consider the risk of the potential mis-selling of these products as insurance contracts.

Risk	How the scope of our audit responded to the risk
Inventory	
There are a number of risks that can have a material impact on the inventory balance in the financial statements: – the book valuation of inventory which should include the purchase cost of inventory net of supplier rebates; and – provision requirements for slow-moving, obsolete, or damaged inventory as a result of the investment in inventory in the period. See critical accounting judgements and key sources of estimation uncertainty on page 75.	We tested the cost of inventory by reference to a sample of supplier invoice costs and recalculated the amount of rebate that has been absorbed into the valuation of inventory. We assessed the risk around provisioning requirements by reviewing any stock losses made during the financial year and considering post year end sales to identify any further sales made at a loss. As part of this consideration, we also compared the volume of inventory held at period end to historical sales volumes to identify any potential provisioning requirements.
Supplier rebate agreements	
The Group has a number of rebate agreements with its suppliers that are based on the volume of purchases during the calendar year multiplied by an agreed rebate percentage scale (which can vary based on purchase levels). At the end of the financial year, the Group accrues the rebate debtor owed by reference to the percentage rebate at the expected level of purchases for the full calendar year. The percentage accrued at the Group's financial year end may differ to the percentage achieved for the 2014 calendar year given the estimate of forecast purchases is made early in the calendar year.	We inspected the key rebate agreements and assessed the criteria for recognition of the rebates on the balance sheet based on the contracted rebate percentage and the volumes of purchases forecast. We confirmed current purchase levels of inventory items and assessed forecast purchases of inventory items against historical trends to confirm the forecast volumes are consistent with the Group's business plan. The calculation was corroborated with the buying team. We agreed a sample of rebates received to credit notes received from the suppliers.
Accounting for costs associated with the Initial Public Offering (IPO)	
As a result of the IPO during the year, the Group incurred considerable legal and advisory costs. Under International According Standard 32: Financial Instruments; Presentation ('IAS 32') an assessment is required as to whether the costs are directly attributable to the issuance of new shares, in which case it is permissible for them to be deducted from share premium. Non-directly attributable costs are required to be expensed directly to the income statement. Costs incurred regarding the IPO amounted to £19.7m (see note 10) and as such the risk is that costs may be incorrectly attributed to the share premium account, reducing the impact on the income statement.	We inspected a sample of invoices and contracts relating to the IPO to confirm the nature of the services provided and reviewed the amount charged against the share premium account and against the income statement to assess whether the treatment is in accordance with IAS 32.

The Audit Committee's consideration of these risks is set out on page 46.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £392,000, which is 5% of pre-tax profit before exceptional items. Pre-tax loss has been normalised by adjusting for the IPO costs (disclosed as exceptional items) as these represent non-recurring items.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £8,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Given the nature of the Group's corporate structure, where all evidence relating to each component is compiled at the Group's head office, the Senior Statutory Auditor led an audit covering 100% of the Group's trading components and accordingly audit coverage represented 100% of the Group's total assets, revenue and loss before tax.

The Group's only two trading subsidiaries are AO Retail Limited and Expert Logistics Limited. Our audit work within both entities was executed at levels of materiality applicable to each individual entity which were lower than Group materiality.

At the parent entity level we also tested the consolidation process.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement on page 61, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Damian Sanders BA ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
4 June 2014

AO World plc
Consolidated statement of comprehensive income

For the year ended 31 March 2014

	Note	2014 £000	Restated for IFRS 2013 £000 (see note 34)
Continuing operations			
Revenue	5	**384,918**	274,909
Cost of sales		**(310,741)**	(224,108)
Gross profit		**74,177**	50,801
Administrative expenses	7	**(65,976)**	(42,438)
Operating profit before exceptional items		**8,201**	8,363
Exceptional items	10	**(15,441)**	–
Operating (loss)/profit	8	**(7,240)**	8,363
Finance income	12	**80**	43
Finance costs	13	**(391)**	(259)
(Loss)/profit before tax		**(7,551)**	8,147
Tax	14	**(2,022)**	(1,824)
(Loss)/profit for the year being total comprehensive (loss)/income		**(9,573)**	6,323
(Loss)/earnings per share (pence per share)			
Basic and diluted earnings per share (in pence per share)	16	**(2.38)**	1.58

AO World plc
Consolidated statement of financial position

As at 31 March 2014

	Note	2014 £000	Restated for IFRS 2013 £000 (see note 34)	Restated for IFRS 2012 £000 (see note 34)
Non-current assets				
Intangible assets	17	**12,830**	12,587	12,196
Property, plant and equipment	18	**11,409**	6,949	6,359
Trade and other receivables	21	**11,255**	7,909	4,774
Deferred tax asset	23	**575**	298	605
		36,069	27,743	23,934
Current assets				
Inventories	20	**15,881**	8,708	4,688
Trade and other receivables	21	**21,711**	18,916	13,049
Cash and bank balances		**55,050**	12,210	2,903
		92,642	39,834	20,640
Total assets		**128,711**	67,577	44,574
Current liabilities				
Trade and other payables	25	**(62,918)**	(44,604)	(28,246)
Current tax liabilities		**(1,146)**	(753)	–
Borrowings	22	**(1,996)**	(3,100)	(2,336)
Provisions	26	**(209)**	(856)	(1,708)
		(66,269)	(49,313)	(32,290)
Net current assets/(liabilities)		**26,373**	(9,479)	(11,650)
Non-current liabilities				
Borrowings	22	**(4,403)**	(3,758)	(4,101)
Total liabilities		**(70,672)**	(53,071)	(36,391)
Net assets		**58,039**	14,506	8,183
Equity				
Share capital	27	**1,053**	31	31
Merger reserve	28	**4,368**	5,337	5,337
Capital redemption reserve	28	**(1,068)**	(1,068)	(1,068)
Share premium account	28	**55,665**	–	–
Share-based payments reserve	28	**195**	–	–
Retained (losses)/earnings		**(2,174)**	10,206	3,883
Total equity		**58,039**	14,506	8,183

The financial statements of AO World plc, registered number 05525751 on pages 68 to 91 were approved by the Board of Directors and authorised for issue on 4 June 2014. They were signed on its behalf by:

John Roberts
Director
AO World plc

Steve Caunce
Director
AO World plc

AO World plc
Consolidated statement of changes in equity
As at 31 March 2014

	Share capital £000	Merger reserve £000	Capital redemption reserve £000	Share premium account £000	Retained (losses)/ earnings £000	Share-based payments reserve £000	Total £000
Balance at 1 April 2012*	31	5,337	(1,068)	–	3,883	–	8,183
Total comprehensive income for the year	–	–	–	–	6,323	–	6,323
Balance at 31 March 2013*	31	5,337	(1,068)	–	10,206	–	14,506
Total comprehensive loss for the year	–	–	–	–	(9,573)	–	(9,573)
Issue of share capital (net of expenses)	1,022	–	–	55,665	–	–	56,687
Share-based payments charge	–	–	–	–	–	195	195
Dividends	–	–	–	–	(2,807)	–	(2,807)
Expenses incurred as a result of bonus issue	–	(969)	–	–	–	–	(969)
Balance at 31 March 2014	**1,053**	**4,368**	**(1,068)**	**55,665**	**(2,174)**	**195**	**58,039**

* Restated for IFRS

AO World plc
Consolidated statement of cash flows

For the year ended 31 March 2014

	Note	2014 £000	Restated for IFRS 2013 £000 (see note 34)
Cash flows from operating activities			
(Loss)/profit for the year		**(9,573)**	6,323
Adjustments for:			
Depreciation and amortisation		**2,796**	1,779
Finance income	12	**(80)**	(43)
Finance costs	13	**391**	259
Loss on disposal of property, plant and equipment	8	**–**	310
Taxation charge		**2,022**	1,824
Exceptional items	8 & 10	**15,441**	–
Share-based payment charge	8	**195**	–
Operating cash flows before movement in working capital		**11,192**	10,452
Increase in inventories		**(7,173)**	(4,020)
Increase in trade and other receivables		**(6,141)**	(9,002)
Increase in trade and other payables		**18,314**	16,358
Decrease in provisions		**(647)**	(852)
		4,353	2,484
Taxation paid		**(1,906)**	(764)
Cash generated from operating activities		**13,639**	12,172
Cash flows from investing activities			
Interest received	12	**80**	43
Proceeds from sale of property, plant and equipment		**–**	128
Acquisition of property, plant and equipment		**(2,788)**	(1,348)
Acquisition of intangible assets		**(493)**	(391)
Cash used in investing activities		**(3,201)**	(1,568)
Cash flows from financing activities			
Proceeds from new borrowings		**–**	416
Interest paid	13	**(391)**	(259)
Repayment of preference shares		**(1,010)**	(252)
Repayment of shareholder loan		**(269)**	(449)
Repayment of borrowings		**(1,627)**	–
Payment of finance lease liabilities		**(1,771)**	(753)
Dividends paid	15	**(2,807)**	–
Net proceeds from issue of new shares		**40,277**	–
Net cash received from/(used in) financing activities		**32,402**	(1,297)
Net increase in cash		**42,840**	9,307
Cash and cash equivalents at beginning of year		**12,210**	2,903
Cash and cash equivalents at end of year		**55,050**	12,210

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

AO World plc is a public limited company and is incorporated in the United Kingdom under the Companies Act. The Company's ordinary shares are traded on the London Stock Exchange. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 March 2014.

The address of the registered office is given on page 92. 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 33.

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

2. Adoption of new and revised Standards

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), and as such comply with Article 4 of the EU IAS regulation.

The accounting policies set out in note 3 have been applied in preparing these financial statements and comparative information and in the preparation of an opening IFRS statement of financial position at 1 April 2012, refer to note 34.

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (generally accepted accounting practice in the UK (UK GAAP)). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Group's financial position, financial performance and cash flows is set out in note 34 to the consolidated financial statements.

There are no new endorsed standards, amendments to standards and interpretations that are not yet effective for the year ended 31 March 2014 and which will have a significant impact on the information reported by the Group in future years. The impact of amendments to IAS 36, IAS 39, IFRS 10, IFRS 11, IFRS 12 and IFRS 13 is not significant.

The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed by the European Union and require adoption by the Group in future reporting years, this includes IFRS 7, IFRS 9 and improvements to IFRS 2010-2012 and IFRIC interpretation 21.

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

IFRS 9	*Financial Instruments*
IAS 27 (amendments)	*Investment Entities*
IAS 36 (amendments)	*Recoverable Amount Disclosures for Non-Financial Assets*
IAS 39 (amendments)	*Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC Interpretation 21	*Levies*

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future years, except as that IFRS 9 will impact both the measurement and disclosures of Financial Instruments.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these Standards until a detailed review has been completed.

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 included using the acquisition method of accounting. Under this method the consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of cash flows include the results and cash flows of subsidiaries from the date of acquisition.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. This takes into consideration the proceeds received from the Group's IPO in March 2014. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' Report on page 60.

Financial instruments

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

Financial assets and liabilities

Financial assets and liabilities comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recorded at fair value which is estimated to be equivalent to book value, less any impairment. Further information is included within the revenue recognition policy and note 4, critical accounting judgements and key sources of estimation uncertainty. A provision for bad and doubtful debt is made when there is objective evidence that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Bad debts are written off when identified.

For other receivables arising from commission receivable for sales of product protection plans, measurement is at fair value. Any gain or loss on remeasurement of fair value is recognised immediately in consolidated statement of comprehensive income.

Trade and other payables

Trade and other payables are recorded at fair value which is estimated to be equivalent to book value.

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

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and are not subject to significant risk of change in value.

Financial liabilities and equity components

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and in conjunction with the application of IFRS. 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.

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 cash-generating units 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 income statement on the basis stated below over the estimated useful lives of each asset. The estimated useful lives are as follows:

Domain names and software	5 years straight-line

Amortisation methods, useful lives and residual values are reviewed at each balance sheet date.

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under 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 and fittings	Between 3 and 8 years reducing balance
Motor vehicles	2 to 10 years straight-line
Computer equipment	4 years straight-line
Office equipment	5 years reducing balance or over the life of the lease to which the assets relate
Leasehold property	Amortised on a straight-line basis over the life of the lease

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 or, where shorter, over the term of the relevant lease.

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 income.

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.

Leases

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, each determined at the inception of the lease and depreciated over their estimated useful lives or the lease term if shorter. Finance charges are charged to income over the year of the lease in proportion to the capital element outstanding.

Rentals payable under operating leases are charged to income on a straight-line basis over the fixed term of the lease. Benefits received or receivable as an incentive to enter into an operating lease are also spread straight-line over the lease term.

Impairment of tangible and intangible assets

At each balance sheet 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.

3. Significant accounting policies (continued)

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 cash-generating units ("CGU") expected to benefit from synergies of the combination.

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

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

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

Employee benefits

The Group operates a defined contribution pension scheme. A defined contribution scheme is a post-employment benefit plan under which the Company 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.

Revenue recognition

Revenue represents the value of goods and services delivered to the customers during the year, net of value added tax. Revenue is recognised on orders received when the goods have been delivered to customers. At this point the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group has no ongoing performance obligations;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Commissions receivable for sales of product protection plans for which the Group acts as an agent are included within revenue based on the estimated fair value of future commissions receivable over the life of the product protection plan. Revenue is recognised on the basis that the Group has fulfilled its obligations to the customer. The fair value calculation takes into consideration the length of the plan and the historical rate of customer attrition. See note 32.

Finance income and costs

Finance costs comprise interest payable and finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Finance income comprises interest receivable on funds invested.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income 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 balance sheet date, and any adjustment for items of income or expense that are taxable or deductible in other years or that are never taxable or deductible.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (other than in a business combination) to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Exceptional items

The Group presents on the face of the income statement, those material items of income and expense which, because of the nature and expected infrequency of events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior years and to assess better trends in financial performance.

Share-based payments

The cost of share-based payment transactions with employees is measured by reference to the fair value of the equity instruments at the date on which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

Fair value is determined by an external valuer using an appropriate pricing model (see note 29). In valuing equity-settled transactions, no account is taken of any service and performance (vesting) conditions, other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market vesting condition or a non-vesting condition, which are treated as vesting irrespective of whether or not the market vesting condition or non-vesting condition is satisfied, provided that all service and non-market vesting conditions are satisfied.

At each balance sheet 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 an instrument subject to a market condition or a non-vesting condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the terms of the original award continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled (including when a non-vesting condition within the control of the entity or employee is not met), it is treated as if it 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.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant and are reviewed on an ongoing basis. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information becomes available.

The most critical accounting policies in determining the financial condition and results of the Group are those requiring the greatest degree of subjective or complex judgements. These relate to the revenue recognition of product protection plans, inventory valuation and the valuation of goodwill, and are set out below.

Revenue recognition of product protection plans

Revenue recognised in respect of commissions receivable for the sale of product protection plans is recognised at fair value, when the Group obtains the right to consideration as a result of performance of its contractual obligations (acting as an agent for a third party). Revenue in any one year therefore represents the fair value of the commission due on the plans sold, which management can estimate reliably based upon the length of the policies and the historical rate of customer attrition. Reliance on historical data assumes that current and future experience will follow past trends. The Directors consider that the quantity and quality of data available provides an appropriate proxy for current trends.

Commission receivable depends for certain transactions on customer behaviour after the point of sale. Assumptions are therefore required, particularly in relation to levels of customer default within the contract period, expected levels of customer spend, and customer behaviour beyond the initial contract period. Such assumptions are based on extensive historical evidence, and provision is made for the risk of potential changes in customer behaviour, but they are nonetheless inherently uncertain. Changes in estimates recognised as an increase or decrease to revenue may be made, where for example more reliable information is available, and any such changes are required to be recognised in the income statement.

Inventory valuation

Inventories are valued 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. The provision represents the difference between the cost of inventory and its estimated net realisable value, based on ageing. Calculation of these provisions requires judgements to be made which include forecast consumer demand, the promotional, competitive and economic environment and inventory loss trends.

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 17. 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.

5. Revenue

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

	2014 £000	2013 £000
Own website sales	**287,109**	197,440
Third-party website sales and trade sales	**79,323**	61,693
Third-party logistics services	**18,486**	15,776
	384,918	274,909

6. Operating segments

The Group has one reportable segment, online retailing of major domestic appliances derived solely from the UK.

The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Executive Directors.

Internal management reports are reviewed by the Executive Directors on a monthly basis, including revenue information by sales channel. Such revenue information alone does not constitute sufficient information upon which to base resource allocation decisions.

Performance of the segment is assessed based on a number of financial and non-financial KPIs as well as on EBITDA.

The Group is not reliant on a major customer or group of customers.

As the Group only has one reportable segment, all segmented information is provided by the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity and the Consolidated statement of cash flows.

7. Administrative expenses

	2014 £000	2013 £000
Marketing and advertising expenses	**18,186**	7,131
Warehousing expenses	**13,304**	9,172
Other administrative expenses	**34,486**	26,135
	65,976	42,438

8. Operating (loss)/profit for the year

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

	2014 £000	2013 £000
Depreciation of:		
Owned assets	**1,284**	1,008
Assets held under finance leases	**1,262**	771
Amortisation	**250**	–
Operating lease expenses of:		
Plant and machinery	**3,476**	2,647
Other assets	**2,254**	2,323
Loss on disposal of property, plant and equipment	**–**	310
Exceptional items	**15,441**	–
Staff costs (see note 11)	**32,375**	21,589

Adjusted EBITDA

The Group has calculated adjusted EBITDA by adding back those material items of income and expense which, because of the nature and expected infrequency of event giving rise to them, merit separate presentation to allow shareholders to better understand the financial performance of the Group in the year.

	2014 £000	2013 £000
Operating (loss)/profit	**(7,240)**	8,363
Add: Depreciation	**2,546**	1,779
Add: Amortisation	**250**	–
Add: Share-based payment charge	**195**	–
EBITDA	**(4,249)**	10,142
Add: Professional fees in relation to IPO	**15,441**	–
Adjusted EBITDA	**11,192**	10,142

9. Auditor's remuneration

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

	2014 £000	2013 £000
Fees payable to the Company's Auditor and their associates for the audit of the Company's annual accounts	**20**	9
Fees payable to the Company's Auditor and their associates for other services to the Group		
– the audit of the Company's subsidiaries	**75**	44
Total audit fees	**95**	53
Non-audit fees		
– other services relating to taxation	**4**	–
– IPO reporting accountant services	**651**	20
Non-audit fee	**655**	20
Total Auditor's remuneration	**750**	73

Details of the Company's policy on the use of auditors for non-audit services, the reasons why the Auditor was used rather than another supplier and how the Auditor's independence and objectivity was safeguarded are set out in the Audit Committee Report on page 47. No services were provided on a contingent fee basis.

In 2014, fees payable to the Auditor for other services are in respect of work required for the Group to complete its IPO. Deloitte were selected to undertake this work after consideration of the impact this may have on their independence, which it was concluded would not be impinged by undertaking the work. A further consideration in the decision was that, given their prior knowledge of the Group's activities and the nature of the work undertaken, Deloitte were best placed to carry out the work, taking into account general efficiency and cost effectiveness. Fees of this type are ad hoc in nature and occur in respect of major events. Any such further occurrence will require Audit Committee approval.

10. Exceptional items

Non-recurring IPO costs

In March 2014, AO World plc floated on the London Stock Exchange. Non-recurring IPO costs totalled £19.7m of which £15.4m was charged to the income statement and £4.3m was charged to the share premium account as being directly related to newly issued shares (see note 28).

11. Staff costs

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

	2014 Number	2013 Number
Sales, marketing and distribution	**1,186**	827
Directors (Executive and Non-executive)	**7**	7
	1,193	834

Their aggregate remuneration comprised:

	2014 £000	2013 £000
Wages and salaries	**29,067**	19,423
Social security costs	**2,793**	1,818
Contributions to defined contribution plans (see note 31)	**515**	348
	32,375	21,589

12. Finance income

	2014 £000	2013 £000
Bank interest	**80**	43
	80	43

13. Finance costs

	2014 £000	2013 £000
Interest on borrowings	**100**	81
Interest on obligations under finance leases	**291**	178
	391	259

14. Tax

	Year ended 2014 £000	Year ended 2013 £000
Corporation tax:		
Current year	**2,281**	1,517
Adjustments in respect of prior years	**18**	–
	2,299	1,517
Deferred tax (see note 23)	**(277)**	307
	2,022	1,824

Corporation tax is calculated at 23% (2013: 24%) of the estimated taxable (loss)/profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the (loss)/profit in the income statement as follows:

	Year ended 2014 £000	Year ended 2013 £000
(Loss)/profit before tax on continuing operations	**(7,551)**	8,147
Tax at the UK corporation tax rate of 23% (2013: 24%)	**(1,737)**	1,955
Ineligible expenses	**3,702**	70
Additional deduction for R&D expenditure	**–**	(40)
Adjustments in respect of prior periods	**13**	(185)
Impact of difference in current and deferred tax rates	**44**	24
Tax expense for the year	**2,022**	1,824

15. Dividends

	2014 £000	2013 £000
Dividends declared and paid during the period		
Interim dividend for 2014 of 280.7p (2013: £nil) per "G" share	**2,807**	–
Proposed final dividend for 2014 of £nil (2013: £nil) per share	**–**	–

The Directors do not propose a dividend for the year ended 31 March 2014.

"G" shares were a class of ordinary shares in existence prior to the capital restructuring at IPO. Accordingly, at the time the dividend was approved and paid, this was only payable to shareholders of "G" ordinary shares.

16. (Loss)/earnings per share

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

(Loss)/earnings

	2014 £000	2013 £000
(Loss)/earnings for the purposes of basic, diluted and adjusted earnings per share being (loss)/profit for the year	**(9,573)**	6,323
Exceptional items (net of tax)	**15,441**	–
Share-based payment charge (net of tax)	**156**	–
Adjusted earnings	**6,024**	6,323
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**401,672,675**	400,000,000
(Loss)/earnings per share (pence per share)		
Basic and diluted (loss)/earnings per share (in pence per share)	**(2.38)**	1.58
Adjusted earnings per share (in pence per share)	**1.50**	1.58

Given the changes in capital structure prior to the IPO, the weighted average number of shares for 2013 is based on the shares in issue immediately pre IPO as per the requirements of IAS 33: Earnings per share.

17. Intangible assets

	Domain names £000	Software £000	Goodwill £000	Total £000
Cost				
At 1 April 2011	–	–	12,196	12,196
Additions	–	–	–	–
At 31 March 2012	–	–	12,196	12,196
Additions	391	–	–	391
At 31 March 2013	391	–	12,196	12,587
Additions	206	287	–	493
At 31 March 2014	597	287	12,196	13,080
Amortisation				
At 1 April 2011, 31 March 2012 and 31 March 2013	–	–	–	–
Charge for the year	65	185	–	250
At 31 March 2014	65	185	–	250
Carrying amount				
At 31 March 2014	532	102	12,196	12,830
At 31 March 2013	391	–	12,196	12,587
At 1 April 2011 and 31 March 2012	–	–	12,196	12,196

Domain name costs and software

Additions in the year relate to domain name acquisition costs and software. The amortisation period for domain names is five years straight line.

Software is amortised on a straight-line basis over a period of five years.

Impairment of goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to one cash-generating unit, which is also the operating segment of the Group.

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 2014. The recoverable amount of the cash-generating unit has been determined based on the value in use calculations using cash flow projections based on financial budgets and projections approved by the Board covering a three-year period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to this cash-generating unit. The discount rate applied is 12.5%.

The key assumptions upon which management have based their cash flow projections are sales growth rates, selling prices, selling costs and discount rates.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years and extrapolates cash flows for the following years up until year 10 based on an estimated growth rate of 1%. This rate does not exceed the average long-term growth rate for the market.

Sensitivity to changes in assumptions

Sensitivity analysis has been completed on key assumptions in isolation, and the headroom taken is significant. This indicates that the value in use will be equal to its carrying amount following a reduction in EBITDA of 95%. Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

18. Property, plant and equipment

	Property alterations £000	Fixtures and fittings £000	Motor vehicles £000	Computer and office equipment £000	Total £000
Cost or valuation					
At 1 April 2011	116	213	148	3,644	4,121
Additions	27	218	2,547	2,924	5,716
Disposals	–	–	(251)	–	(251)
At 31 March 2012	143	431	2,444	6,568	9,586
Additions	50	327	1,530	988	2,895
Disposals	(75)	(133)	(629)	(1,289)	(2,126)
At 31 March 2013	118	625	3,345	6,267	10,355
Additions	2,106	713	1,551	2,636	7,006
Disposals	(159)	(288)	(35)	(6)	(488)
At 31 March 2014	2,065	1,050	4,861	8,897	16,873
Accumulated depreciation and impairment					
At 1 April 2011	28	75	51	1,934	2,088
Charge for the year	24	38	257	841	1,160
Disposals	–	–	(21)	–	(21)
At 31 March 2012	52	113	287	2,775	3,227
Charge for the year	14	55	586	1,124	1,779
Disposals	(55)	(15)	(568)	(962)	(1,600)
At 31 March 2013	11	153	305	2,937	3,406
Charge for the year	297	256	872	1,121	2,546
Disposals	(159)	(288)	(35)	(6)	(488)
At 31 March 2014	149	121	1,142	4,052	5,464
Carrying amount					
At 31 March 2014	1,916	929	3,719	4,845	11,409
At 31 March 2013	107	472	3,040	3,330	6,949
At 31 March 2012	91	318	2,157	3,793	6,359
At 1 April 2011	88	138	97	1,710	2,033

At 31 March 2014 the net carrying amount of finance leased plant and machinery was £6,500,899 (2013: £3,855,066). The leased equipment secures lease obligations (see note 24).

19. Subsidiaries

The Group consists of the parent company, AO World plc, incorporated in the UK and a number of subsidiaries held directly by AO World plc, which are incorporated in the UK.

The table below shows details of the wholly owned subsidiaries of the Group.

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by AO World plc	Principal activity
AO Retail Limited (formerly known as DRL Limited)	United Kingdom	100%	Retail
Expert Logistics Limited	United Kingdom	100%	Logistics and transport
Worry Free Limited	United Kingdom	100%	Dormant
Elekdirect Limited (formerly known as Dallas Acquisitions Limited)	United Kingdom	100%	Dormant
Appliances Online Limited	United Kingdom	100%	Dormant
AO Deutschland Limited (formerly known as DRL Warranty Services Limited)	United Kingdom	100%	Dormant
AO Limited	United Kingdom	100%	Dormant

20. Inventories

	2014 £000	2013 £000	2012 £000
Finished goods	**15,881**	8,708	4,688

21. Trade and other receivables

	2014 £000	2013 £000	2012 £000
Trade receivables	**6,294**	6,457	2,534
Accrued income (see note 32)	**18,551**	12,867	9,281
Other debtors and prepayments	**8,075**	7,426	6,008
Amount due from related parties	**46**	18	–
Directors' loan account	**–**	57	–
	32,966	26,825	17,823

The trade and other receivables are classified as:

	2014 £000	2013 £000	2012 £000
Non-current assets	**11,255**	7,909	4,774
Current assets	**21,711**	18,916	13,049
	32,966	26,825	17,823

IFRS 7 disclosures are included in note 32. Accrued income relates to expected future commission payments in respect of product protection plans, discounted at 5%.

22. Borrowings

	2014 £000	2013 £000	2012 £000
Unsecured borrowing at amortised cost			
Loans from shareholders	**–**	269	719
Redeemable cumulative preference shares	**–**	1,010	1,262
	–	1,279	1,981
Secured borrowing at amortised cost			
Invoice discounting loan	**287**	1,913	1,498
Finance lease liabilities (see note 24)	**6,112**	3,666	2,958
	6,399	5,579	4,456
Total borrowings	**6,399**	6,858	6,437
Amount due for settlement within 12 months	**1,996**	3,100	2,336
Amount due for settlement after 12 months	**4,403**	3,758	4,101
Total borrowings	**6,399**	6,858	6,437

Finance leases relate primarily to certain fixtures and fittings and motor vehicles where lease terms are five years. The effective borrowing rate on individual leases ranges between 7.64% and 32.02%. Interest rates are fixed at the contract date and all leases are on a fixed repayment basis with no contingent rental payment arrangements.

23. Deferred tax

The following is the asset recognised by the Group and movements thereon during the current and prior reporting period.

	Share options £000	Accelerated tax depreciation £000	Tax losses £000	Total £000
At 1 April 2012	–	(41)	646	605
Credit/(charge) to profit or loss	–	59	(366)	(307)
At 31 March 2013	–	18	280	298
Credit to profit or loss	39	28	213	280
Effect of change in tax rate income statement	–	(3)	–	(3)
At 31 March 2014	39	43	493	575

24. Obligations under finance leases

	Minimum lease payments		
	2014 £000	2013 £000	2012 £000
Amounts payable under finance leases:			
Within one year	**1,709**	1,187	838
In the second to fifth years inclusive	**4,403**	2,479	2,120
	6,112	3,666	2,958

	Present value of minimum lease payments		
	2014 £000	2013 £000	2012 £000
Amounts payable under finance leases:			
Within one year	**1,709**	992	686
In the second to fifth years inclusive	**4,403**	2,225	1,896
	6,112	3,217	2,582

25. Trade and other payables

	2014 £000	2013 £000	2012 £000
Trade payables	**45,006**	32,771	21,691
Non-trade payables and accrued expenses	**17,662**	11,811	6,555
Amounts owed to related parties	**250**	22	–
	62,918	44,604	28,246

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 58 days (2013: 47 days).

The Directors consider that the carrying amount of trade payables approximates to their fair value.

26. Provisions

	2014 £000	2013 £000	2012 £000
Dilapidations provision	**209**	746	375
Restructuring provision	**–**	110	1,333
	209	856	1,708

	Dilapidations provision £000	Restructuring provision £000	Total £000
At 1 April 2012	375	1,333	1,708
Provisions charged in the year	425	106	531
Utilised in the year	(54)	(1,329)	(1,383)
At 31 March 2013	746	110	856
Provisions charged in the year	160	–	160
Utilised in the year	–	(110)	(110)
Released during the year	(697)	–	(697)
At 31 March 2014	**209**	**–**	**209**

The dilapidations provision is accrued over the life of assets held under operating leases where the Group is liable to return the assets to their original state at the end of the lease. The dilapidations provision is expected to be utilised within the next year.

The restructuring provision in the prior period relates to site closure and dual-running costs. There are no further costs to be incurred, and as such the above position is final.

27. Share capital

	2014 £000	2013 £000	2012 £000
Issued and fully paid:			
Allotted, called up and fully paid, ordinary shares of £0.0025 each	**1,053**	–	–
A ordinary shares of £0.01 each	**–**	3	3
B ordinary shares of £0.01 each	**–**	3	3
C ordinary shares of £0.01 each	**–**	3	3
D ordinary shares of £0.01 each	**–**	4	4
E ordinary shares of £0.01 each	**–**	4	4
F ordinary shares of £0.01 each	**–**	14	14
G ordinary shares of £0.01 each	**–**	–	–
H ordinary shares of £0.01 each	**–**	–	–
Redeemable preference shares of £1.00 each *(with a redemption price of £2 each)*	**–**	1,010	1,262
	1,053	1,041	1,293
Shares classified as liabilities	**–**	1,010	1,262
Shares classified in shareholders' funds	**1,053**	31	31

	Number 000	Value £000
In issue at 1 April 2012 and 1 April 2013 (Ordinary shares of £0.01 each)	3,077	31
Bonus issue on A to F shares of £0.01 each (see (a) below)	4,113	41
Bonus issue on G to H shares of £0.01 each (see (b) below)	74,548	745
Further bonus issue to facilitate sub-division of £0.01 each (see (c) below)	18,262	183
Reclassification into ordinary shares of £0.01 each and sub-division to ordinary shares of £0.0025 each (creating an extra 300 million shares) (see (d) below)	300,000*	–
Issue of new ordinary shares on admission to London Stock Exchange (see (e) below)	21,053	53
In issue at 31 March 2014 (Ordinary shares of £0.0025 each)	421,053	1,053

* No new shares issued

Ordinary shares

(a) On 14 February 2014 the issued share capital of the Company was increased from £30,771 to £71,900 by the creation and issue of the following numbers of shares in the respective classes on a pro rata basis:
(1) 446,567 "A" ordinary shares of £0.01 each;
(2) 413,955 "B" ordinary shares of £0.01 each;
(3) 394,113 "C" ordinary shares of £0.01 each;
(4) 354,182 "D" ordinary shares of £0.01 each; and
(5) 2,504,092 "F" ordinary shares of £0.01 each.

(b) On 25 February 2014 the share capital of the Company was increased from £71,900 to £817,384 by the creation and issue of the following numbers of shares in the respective classes on a pro rata basis:
(1) 44,731,026 "G" ordinary shares of £0.01 each; and
(2) 29,817,350 "H" ordinary shares of £0.01 each.

(c) On 3 March 2014 a bonus issue of 18,261,591 ordinary shares to increase the Company's issued share capital to £1m, such shares to be issued pro rata to shareholders' holdings of ordinary shares.

(d) On 3 March 2014 the "A", "B", "C", "D", "E", "F", "G" and "H" classes of shares were reclassified into a single class of ordinary shares; the subdivision of the ordinary shares was approved so that each ordinary share of £0.01 each was sub-divided into four ordinary shares of £0.0025 each.

(e) On 3 March 2014 the issue and allotment of 21,052,631 new ordinary shares as part of, and pursuant to the terms of the IPO, was authorised.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. The ordinary shares have no rights of redemption. Each share ranks pari passu on a winding up or sale of the Company.

Redeemable preference shares

On 31 May 2013 the Company converted 287,666 preference shares of £1 each, with a redemption premium of £1, into a loan for £575,333. Interest of £nil accrued on the loan throughout the period and the loan was settled on 31 December 2013.

27. Share capital (continued)

On 8 April 2013 the Company redeemed and cancelled 217,233 preference shares of £1 each, with a redemption premium of £1 for a consideration of £434,467. On 31 January 2013 the Company redeemed and cancelled 126,000 preference shares of £1 each for a consideration of £252,000.

Dividends

A dividend of £1,888,092 was paid on 19 July 2013 and a dividend of £918,417 was paid on 8 November 2013 (2013: £nil). See note 15.

28. Other reserves

	Share-based payments reserve £000	Share premium account £000	Merger reserve £000	Capital redemption reserve £000	Total £000
Balance at 1 April 2012 and 1 April 2013	–	–	5,337	(1,068)	4,269
Premium arising on issue of equity shares	–	59,947	–	–	59,947
Expenses of issue of equity shares	–	(4,282)	–	–	(4,282)
Share-based payment charge	195	–	–	–	195
Expenses incurred as a result of bonus issue	–	–	(969)	–	(969)
Balance at 31 March 2014	195	55,665	4,368	(1,068)	59,160

29. Share-based payments

Performance Share Plan (referred to in this section as the LTIP)

The awards under the LTIP have been made to senior employees. The vesting of awards under the LTIP is subject to the attainment of performance conditions as described in the Directors' Remuneration Report on page 50.

For 2014, two thirds of the LTIP is based on Total Shareholder Return (TSR) performance measured against the price per share offered to investors under the terms of the flotation.

	Basic EPS growth required over the three-year performance period
Threshold (33% vesting)	66%
Threshold (66% vesting)	150%
Maximum (100% vesting)	200%

The remaining third of the awards granted under this plan vest depending on EPS. As per IFRS 2, these grants have been valued using a Black-Scholes model.

	Relative TSR performance against the comparator group over the three-year performance period
Threshold (25% vesting)	33%
Threshold (50% vesting)	66%
Maximum (100% vesting)	100%

The awards vest on a straight-line basis between each threshold in all cases.

	2014 No. of options	**2014 WAEP(£)***	2013 No. of options	2013 WAEP(£)*
Outstanding at the beginning of the year	**–**	**–**	–	–
Granted during the year	**4,210,504**	**–**	–	–
Outstanding at the end of the year	**4,210,504**	**–**	–	–

* Weighted Average Exercise Price

The fair value of the share options granted under the LTIP scheme which are dependent on TSR performance is estimated as at the date of grant using the Monte Carlo model. The following table gives the assumptions made during the year ended 31 March 2014:

For options granted on 3 March 2014	
Risk-free rate	0.76%
Expected volatility	16.25%
Expected dividend yield	0%
Option life	3 years

The fair value of the share options granted under the LTIP scheme which are dependent on EPS performance is estimated as at the date of grant using the Black-Scholes model. The following table gives the assumptions made during the year ended 31 March 2014:

For options granted on 3 March 2014	
Risk-free rate	0.00%
Expected volatility	N/A
Expected dividend yield	0.00%
Option life	3 years

The weighted average fair value of options granted during the year was £1.81 (2013: nil).

30. Operating lease arrangements

Non-cancellable operating lease rentals are payable as follows:

	2014 £000	2013 £000
Within one year	**6,928**	4,180
In the second to fifth years inclusive	**20,846**	15,709
After five years	**21,809**	13,229
	49,583	33,118

The Group leases an office building and a number of warehouse facilities under operating leases.

During the period to 31 March 2014 £5,729,981 (2013: £4,969,862) was recognised as an expense in the income statement in respect of operating leases.

31. Retirement benefit schemes

Defined contribution schemes

The Group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £514,521 (2013: £348,335).

Contributions totalling £69,409 (2013: £86,107) were payable to the scheme at the end of the year and are included in creditors.

32. 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 21 and 25, respectively. The categories of financial assets and liabilities and their related accounting policy are set out in note 3.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount.

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 the statement of financial position.

Fair values

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	2014 Carrying amount £000	**2014 Fair value £000**	2013 Carrying amount £000	2013 Fair value £000
Financial assets designated as fair value through profit or loss				
Accrued income (note 21)	**18,551**	**18,551**	12,867	12,867
Loans and receivables				
Cash and cash equivalents	**55,050**	**55,050**	12,210	12,210
Other loans and receivables (note 21)	**6,340**	**6,340**	6,532	6,532
Total financial assets	**79,941**	**79,941**	31,609	31,609
Financial liabilities measured at amortised cost				
Trade and other payables (note 25)	**(45,256)**	**(45,256)**	(32,793)	(32,793)
Borrowings (note 22)	**(6,399)**	**(6,399)**	(6,858)	(6,791)
Total financial liabilities	**(51,655)**	**(51,655)**	(39,651)	(39,584)
Total financial instruments	**28,286**	**28,286**	(8,042)	(7,975)

Fair value hierarchy

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value.

- 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 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets designated at fair value through profit and loss				
Accrued income				
At 31 March 2014	–	–	18,551	18,551
At 31 March 2013	–	–	12,867	12,867

32. Financial instruments (continued)

Accrued income represents the expected future commission payments in respect of production protection plans. The fair value calculation takes into consideration the following unobservable data:

- length of individual plans;
- historical rate of customer attrition; and
- contractually agreed margins.

There has been no change to the fair valuation methodology adopted in the year ended 31 March 2014.

b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, with a maximum exposure equal to the book value of these assets.

The Group's receivable balance primarily comprises accrued income representing the expected future commission payments in relation to the product protection plans sold by the Group on behalf of one customer. The Directors have assessed and considered the credit risk in respect of this amount and do not consider it to be of significance. The Group's trade receivable balances comprise a number of individually small amounts from unrelated customers, operating within the same industry but over a number of geographical areas. Concentration of risk is therefore limited. Sales to retail customers are made predominantly in cash or via major credit cards. It is Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. New credit customers are assessed using an external rating report which is used to establish a credit limit. Such limits are reviewed periodically on both a proactive and reactive basis, for example, when a customer wishes to place an order in excess of their existing credit limit. Receivable balances are monitored regularly with the result that the Group's exposure to bad debts is not significant. Management therefore believe that there is no further credit risk provision required in excess of the normal provision for doubtful receivables.

Exposure to credit risk

The maximum exposure to credit risk at the balance sheet date by class of financial instrument was:

	2014 £000	2013 £000
Other receivables	**18,551**	12,867
Other loans and receivables	**6,340**	6,457
	24,891	19,324

Credit quality of financial assets and impairment losses

The ageing of trade receivables at the balance sheet date was:

	Gross £000	Net £000
Not past due	4,791	4,791
Past due 0-30 days	1,413	1,413
Past due 31-120 days	44	44
More than 120 days	92	92
At 31 March 2014	**6,340**	**6,340**
Not past due	3,236	3,236
Past due 0-30 days	1,971	1,971
Past due 31-120 days	1,109	1,109
More than 120 days	141	141
At 31 March 2013	**6,457**	**6,457**

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

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2014 £000	2013 £000
Balance at beginning of period	**–**	(200)
Impairment loss reversed	**–**	200
Balance at end of period	**–**	–

The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

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 £000	Contractual cash flows £000	Within 1 year £000	Between 1 and 5 years £000	In more than 5 years £000
Non-derivative financial liabilities					
Finance lease liabilities	6,112	7,390	762	6,628	–
Invoice discounting loan	287	287	287	–	–
Trade and other payables	59,447	59,447	59,447	–	–
At 31 March 2014	**65,846**	**67,124**	**60,496**	**6,628**	**–**

	Carrying amount £000	Contractual cash flows £000	Within 1 year £000	Between 1 and 5 years £000	In more than 5 years £000
Non-derivative financial liabilities					
Finance lease liabilities	3,666	4,099	453	3,646	–
Invoice discounting loan	1,914	1,914	1,914	–	–
Loans from Directors	269	269	–	–	269
Redeemable preference shares	1,010	1,010	–	1,010	–
Trade and other payables	45,357	45,357	45,357	–	–
At 31 March 2013	**52,216**	**52,649**	**47,724**	**4,656**	**269**

32. 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.

Foreign currency risk

The Group and Company have no exposure to foreign currency risk.

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 balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

	2014 £000	2013 £000
Fixed rate instruments		
Finance lease liabilities	**6,112**	3,666
Variable rate instruments		
Invoice discounting facility	**287**	1,914
	6,399	5,580

Interest on drawn amounts on the facility is payable at LIBOR plus a margin of 2.25% (2013: 2.25%) subject to a minimum of the actual three-month LIBOR rate. A utilisation fee of 0.1% (2013: 0.12%) is payable on drawings greater than £750 and on gross sales turnover subject to an annual minimum of £12,000 (2013: £25,000).

Sensitivity analysis

A change of 1 basis point in interest rates at the balance sheet date would have decreased equity and profit or loss by £3,000 (2013: £19,000). This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates.

e) Capital management

It is the Group's policy to maintain an appropriate equity capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The capital structure of the Group consists of the net cash (borrowings disclosed in note 22) and equity of the Group as disclosed in notes 27 and 28. The Group is not subject to any externally imposed capital requirements.

The Board has delegated responsibility for routine capital expenditure to the management of the business. All significant expenditure is approved by the Board.

The Group considers the manner in which funds are distributed to shareholders by assessing the performance of the business, the level of available net funds and the short to medium-term strategic plans concerning future capital spend as well as the need to meet banking covenants and borrowing ratios. Such assessment will influence the level of dividends payable as well as consideration from time to time of market purchases of the Group's own shares.

33. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its related parties are disclosed below.

Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	Sale of goods and services		Purchase of goods and services	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Atticus LLP	**–**	–	**535**	43
Mark Two Distributors Ltd	**8**	–	**23**	89
Re-Gen (Logistics) Limited	**881**	907	**–**	–
ElectroSwitch Limited	**–**	–	**30**	40
Booker Limited	**–**	–	**121**	13

The following amounts were outstanding at the balance sheet date:

	Amounts owed by related parties		Amounts owed to related parties	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Atticus LLP	**–**	–	**250**	7
Re-Gen (Logistics) Limited	**46**	18	**–**	–
Booker Limited	**–**	–	**–**	15

Atticus LLP is a partnership in which K Philbin (a Director) has an interest. K Philbin resigned as a director of AO World plc and its subsidiaries on 25 February 2014. Accordingly at this date, Atticus was no longer a related party.

Mark Two Distributors Limited, is a Company in which C Hopkinson (a Director) had an interest during the reporting period.

Re-Gen (Logistics) Limited is a Company which J Roberts' (a Director) close family has an interest in.

ElectroSwitch Limited is a Company which R Rose (a Director) has an interest in.

Booker Limited is a Company which R Rose (a Director) has an interest in.

The Company consigned its inventory of imperfect units recovered from customers to Re-Gen (Logistics) Limited (trading as Elekdirect) for onward resale. At the time of resale Re-Gen purchased the units from the Group at a price equal to consignment value plus 50% of the proceeds above consignment value. Otherwise sales of goods to related parties were made at the Group's usual list prices. Purchases were made at market price. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Loans to related parties

John Roberts, a Director, had an unsecured 0% loan outstanding during the year. The amount of the liability including interest to the Company at the beginning of the year was £nil, the maximum during the year was £456,900. Interest charged during the year amounted to £nil. During the year £456,900 was repaid. At the balance sheet date the amount due from John Roberts was £nil (2013: £56,900).

Transactions with Directors and key management personnel

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

	2014 £000	2013 £000
Key management emoluments including social security costs	**2,128**	1,734
Awards granted under a long-term incentive plan	**146**	–
Company contributions to money purchase plans	**190**	141
	2,464	1,875

Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 54 to 57.

34. Explanation of transition to Adopted IFRSs

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out in note 3 have been applied in preparing these financial statements and comparative information and in the preparation of an opening IFRS statement of financial position at 1 April 2012.

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (generally accepted accounting practice in the UK (UK GAAP)). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity

		1 April 2012			**31 March 2013**		
	Note	UK GAAP £000	Effect of transition to Adopted IFRSs £000	Adopted IFRSs £000	**UK GAAP £000**	**Effect of transition to Adopted IFRSs £000**	**Adopted IFRSs £000**
Non-current assets							
Property, plant and equipment	a	6,359	–	6,359	**7,339**	**(390)**	**6,949**
Intangible assets	a, b	9,153	3,043	12,196	**8,541**	**4,046**	**12,587**
Trade and other receivables	c	–	4,774	4,774	**–**	**7,909**	**7,909**
Deferred tax assets		442	163	605	**18**	**280**	**298**
		15,954	7,980	23,934	**15,898**	**11,845**	**27,743**
Current assets							
Inventories		4,688	–	4,688	**8,708**	**–**	**8,708**
Trade and other receivables	c	18,933	(5,884)	13,049	**28,142**	**(9,226)**	**18,916**
Cash and cash equivalents		2,903	–	2,903	**12,210**	**–**	**12,210**
		26,524	(5,884)	20,640	**49,060**	**(9,226)**	**39,834**
Total assets		42,478	2,096	44,574	**64,958**	**2,619**	**67,577**
Current liabilities							
Borrowings		(2,352)	16	(2,336)	**(2,956)**	**(144)**	**(3,100)**
Trade and other payables		(29,954)	1,708	(28,246)	**(44,604)**	**–**	**(44,604)**
Current tax liabilities		–	–	–	**(753)**	**–**	**(753)**
Provisions		–	(1,708)	(1,708)	**(856)**	**–**	**(856)**
		(32,306)	16	(32,290)	**(49,169)**	**(144)**	**(49,313)**
Net current (liabilities)		(5,782)	(5,868)	(11,650)	**(109)**	**(9,370)**	**(9,479)**
Non-current liabilities							
Borrowings		(4,363)	262	(4,101)	**(3,776)**	**18**	**(3,758)**
Total liabilities		(36,669)	278	(36,391)	**(52,945)**	**(126)**	**(53,071)**
Net assets		5,809	2,374	8,183	**12,013**	**2,493**	**14,506**
Equity attributable to equity holders of the parent							
Share capital		31	–	31	**31**	**–**	**31**
Merger reserve		5,337	–	5,337	**5,337**	**–**	**5,337**
Capital redemption reserve		(1,068)	–	(1,068)	**(1,068)**	**–**	**(1,068)**
Retained earnings		1,509	2,374	3,883	**7,713**	**2,493**	**10,206**
		5,809	2,374	8,183	**12,013**	**2,493**	**14,506**

Notes to the reconciliation of equity

(a) Under Adopted IFRSs, domain names and website developments costs are recognised as intangibles, rather than property, plant and equipment, and amortised over their useful economic life. As such, the carrying value of domain names is reclassified from property, plant and equipment to intangibles.

(b) Under Adopted IFRSs the accounting policy for goodwill is such that goodwill is not amortised but is tested annually for impairment. As such, the carrying value of goodwill was restored to the value upon initial recognition at 20 March 2007, removing all accumulated amortisation, and assessed for impairment at each following period end until the opening statement of financial position date of 1 April 2012. No impairment was deemed necessary.

(c) Under Adopted IFRSs, management considered it appropriate to show separately the trade and other receivables due in more than one year in the statement of financial position. The adjustment represents the amount of other receivables in respect of product protection plans (see note 3) which are due in more than one year. The IFRS restatement also includes the discounting of the receivables balance. In continuing to give due consideration to the implementation of applicable International Financial Reporting Standards (IFRSs) for the first time, the above entry reflects an appropriate refinement to receivables and revenue.

Reconciliation of profit for the year ended 31 March 2013

	UK GAAP £000	Effect of transition to Adopted IFRSs £000	**Adopted IFRSs £000**
Revenue	275,493	(584)	**274,909**
Cost of sales	(224,108)	–	**(224,108)**
Gross profit	51,385	(584)	**50,801**
Administrative expenses	(42,438)	–	**(42,438)**
Amortisation	(613)	613	**–**
Operating profit	8,334	29	**8,363**
Finance income	43	–	**43**
Finance costs	(259)	–	**(259)**
Net financing expense	(216)	–	**(216)**
Profit before tax	8,118	29	**8,147**
Taxation	(1,941)	117	**(1,824)**
Profit for the year	6,177	146	**6,323**

Notes to the reconciliation of profit

As noted in the *Reconciliation of equity*, under Adopted IFRSs the accounting policy for goodwill is such that goodwill is not amortised but is tested annually for impairment. As such, the amortisation charge was removed from the consolidated statement of comprehensive income for the year. The IFRS restatement also includes the discounting of the receivables balance. In continuing to give due consideration to the implementation of applicable International Financial Reporting Standards (IFRSs) for the first time, the above entry reflects an appropriate refinement to receivables and revenue.

Explanation of material adjustments to the statement of cash flows for the period ended 31 March 2013

There are no material differences between the statement of cash flows presented under Adopted IFRSs and the cash flow statement presented under UK GAAP.

AO World plc
Company balance sheet
As at 31 March 2014

	Note	2014 £000	2013 £000
Fixed assets			
Investment in subsidiaries	3	**10,454**	10,454
Deferred tax asset	4	**39**	–
		10,493	10,454
Current assets			
Trade and other receivables	5	**44,670**	3
Cash and bank balances		**134**	–
		44,804	3
Total assets		**55,297**	10,457
Current liabilities			
Trade and other payables	6	**(5,778)**	(2,139)
		(5,778)	(2,139)
Non-current liabilities			
Preference shares	7	**–**	(1,010)
Directors' loans		**–**	(269)
		–	(1,279)
Total liabilities		**(5,778)**	(3,418)
Net assets		**49,519**	7,039
Equity			
Share capital	8	**1,053**	31
Share premium	8	**55,665**	–
Merger reserve	9	**4,368**	5,337
Capital redemption reserve	9	**(1,068)**	(1,068)
Retained (losses)/earnings	10	**(10,499)**	2,739
		49,519	7,039

The financial statements of AO World plc, registered number 05525751 were approved by the Board of Directors and authorised for issue on 4 June 2014. They were signed on its behalf by:

John Roberts
Director
AO World plc

Steve Caunce
Director
AO World plc

AO World plc
Notes to the Company financial statements
For the year ended 31 March 2014

1. Significant accounting policies
The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice).

No profit and loss account is presented by the Company as permitted by section 408 of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis except for the remeasurement of certain financial instruments to fair value. The principal accounting policies adopted are the same as those set out in note 3 to the consolidated financial statements except as noted below.

Investments
Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

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

3. Subsidiaries
Details of the Company's subsidiaries at 31 March 2014 are as follows:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %
AO Retail Limited (formerly known as DRL Limited)	United Kingdom	100%	100%
Expert Logistics Limited	United Kingdom	100%	100%
Worry Free Limited	United Kingdom	100%	100%
DRL Warranty Services Limited	United Kingdom	100%	100%
Elekdirect Limited (formerly known as Dallas Acquisitions Limited)	United Kingdom	100%	100%
Appliances Online Limited	United Kingdom	100%	100%
AO Deutschland Limited (formerly known as DRL Warranty Services Limited)	United Kingdom	100%	100%
AO Limited	United Kingdom	100%	100%

The investments in subsidiaries are all stated at cost.

4. Deferred tax
The following is the asset recognised by the Group and movements thereon during the current and prior reporting period.

	Share options £000	Total £000
At 1 April 2012 and 31 March 2013	–	–
Charge to profit or loss	39	39
At 31 March 2014	**39**	**39**

5. Trade and other receivables

	2014 £000	2013 £000
Amounts owed by Group undertakings	**44,670**	–
	44,670	–

6. Trade payables and other payables

	2014 £000	2013 £000
Trade payables	**1,001**	–
Non-trade payables and accrued expenses	**4,527**	–
Amounts owed to Group undertakings	**–**	2,139
Amounts owed to related parties	**250**	–
	5,778	2,139

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

7. Non-current liabilities
The movements on these items are disclosed in note 22 to the consolidated financial statements.

8. Share capital and share premium account
The movements on these items are disclosed in notes 27 and 28 to the consolidated financial statements.

9. Other reserves
The movements in the reserve are disclosed in note 28 to the consolidated financial statements.

10. Retained (losses)/earnings

	£000
Balance at 1 April 2012	**2,915**
Net loss for the year	(176)
Balance at 31 March 2013	2,739
Dividends paid	**(2,807)**
Net loss for the year	(10,626)
Share-based payment charge	195
Balance at 31 March 2014	**(10,499)**

11. Related parties
The Company has taken advantage of the exemption under FRS 8 not to disclose transactions and balances with other Group companies.

Trading transactions
During the year, the Company entered into the following transactions with related parties who are not members of the Group:

	Purchase of goods and services	
	2014 £000	2013 £000
Atticus LLP	**394**	–
ElectroSwitch Limited	**30**	40

An amount owed of £250,000 (2013: £nil) was outstanding at the year end to Atticus LLP.

Atticus LLP is a partnership in which K Philbin (a Director) has an interest. K Philbin resigned as a Director of AO World plc and its subsidiaries on 25 February 2014. Accordingly at this date, Atticus was no longer a related party.

ElectroSwitch Limited is a company which R Rose (a Director) has an interest in.

For our shareholders' information

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Enquiring about your shareholding
If you want to ask, or need any information, about your shareholding, please contact our registrar (see contact details in the opposite column). Alternatively, if you have internet access, you can access the Group's shareholder portal via www.aoshareportal.com where you can view and manage all aspects of your shareholding securely.

Investor relations website
The investor relations section of our website, www.ao.com/corporate, provides further information for anyone interested in AO. In addition to the Annual Report and share price, Company announcements including the full year results announcements and associated presentations are also published there.

Share dealing service
You can buy or sell the Company's shares in a simple and convenient way via the Capita share dealing service either online (www.capitadeal.com) or by telephone (0871 664 0364). Calls cost 10p per minute plus network extras. Lines are open 8.00 am to 4.30 pm Monday-Friday.

Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or sell shares in the Company. Shareholders in any doubt about what action to take are recommended to seek financial advice from an independent financial advisor authorised by the Financial Services and Markets Act 2000.

Cautionary note regarding forward-looking statements
Certain statements made in this report are forward-looking statements. Such statements are based on current expectations and assumptions and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results expressed or implied in these forward-looking statements. They appear in a number of places throughout this Report and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, amongst other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the business. Persons receiving this Report should not place undue reliance on forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, AO does not undertake to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

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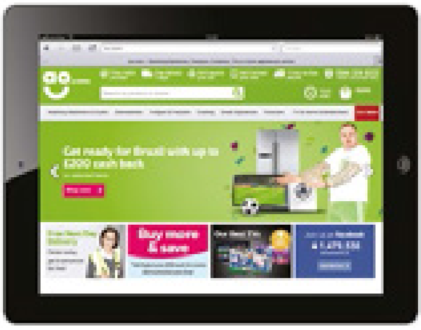

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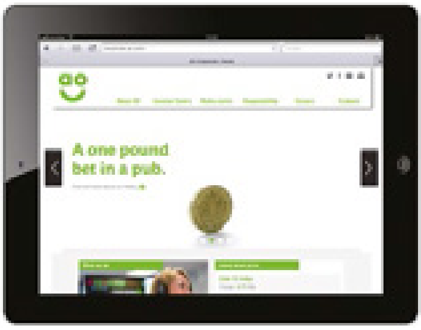

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