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By receiving or accessing the attached document, you will be deemed to have represented to AO World plc (the “**Company**”), each of the Selling Shareholders (as defined in the attached document) and each of Jefferies International Limited, J.P. Morgan Securities plc, which conducts its UK investment banking activities as J.P. Morgan Cazenove, and Numis Securities Limited (collectively, the “**Banks**”) that you are an institutional investor to whom delivery of the attached document can lawfully be made.

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Prospectus





A copy of this document, which comprises a prospectus (the “**Prospectus**”) relating to AO World plc (the “**Company**” or “**AO**”), prepared in accordance with the prospectus rules of the Financial Conduct Authority (“**FCA**”) made pursuant to section 73A of the Financial Services and Markets Act 2000, as amended (“**FSMA**”), has been filed with the FCA and made available to the public in accordance with Rule 3.2 of the Prospectus Rules. This document has been approved as a prospectus by the FCA under section 87A of the FSMA.

Applications have been made to the FCA and to the London Stock Exchange for all of the Ordinary Shares, currently in issue and to be issued pursuant to the Offer described in this document, to be admitted to the premium listing segment of the Official List of the FCA and to trading on the London Stock Exchange plc’s (“**London Stock Exchange**”) main market for listed securities. Admission to the Official List, together with admission to the London Stock Exchange’s main market for listed securities, constitutes admission to official listing on a regulated market (together, “**Admission**”). As at the date of this document, no Ordinary Shares are admitted to trading on a regulated market. Conditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange at 8.00am (London time) on 26 February 2014. It is expected that Admission will become effective and that unconditional dealings on the London Stock Exchange in the Ordinary Shares will commence at 8.00am (London time) on 3 March 2014. Any dealings in the Ordinary Shares before the commencement of unconditional dealings will be on a “when issued” basis and of no effect if Admission does not take place, and such dealings will be at the sole risk of the parties concerned. No application has been, or is currently intended to be, made for such Ordinary Shares to be admitted to listing or dealt with on any other stock exchange.

Prospective investors should read the whole of this document and, in particular, Part II (*Risk Factors*) on pages 15 to 31 for a discussion of certain risks and other factors that should be considered in connection with any investment in the Ordinary Shares.



AO WORLD PLC

(incorporated and registered in England and Wales under the Companies Act 1985 with registered number 05525751)

**Offer of 148,465,511 Ordinary Shares of 0.25p each at an Offer Price
of 285p per Ordinary Share and
admission to the premium listing segment of the Official List
and to trading on the main market of the London Stock Exchange**

Joint Global Co-ordinator, Joint Sponsor
and Joint Bookrunner

Jefferies

Joint Global Co-ordinator, Joint Sponsor
and Joint Bookrunner

J.P. Morgan Cazenove

Joint Bookrunner

Numis Securities

Financial Adviser

Rothschild

EXPECTED ORDINARY SHARE CAPITAL IMMEDIATELY FOLLOWING ADMISSION

Issued and fully paid

Number
421,052,631

Nominal value
£0.0025

The Company intends to issue 21,052,631 new Ordinary Shares (“**New Ordinary Shares**”) under the Offer and the Selling Shareholders intend to sell in aggregate 127,412,880 existing Ordinary Shares (“**Existing Ordinary Shares**”) under the Offer (the New Ordinary Shares and the Existing Ordinary Shares, together the “**Offer Shares**”). In addition, in connection with the Offer, the Over-allotment Selling Shareholders (as defined in Part XVI (*Definitions*)) have granted the Stabilising Manager (as defined in Part XVI (*Definitions*)) an option (the “**Over-allotment Option**”) pursuant to which the Stabilising Manager may require the Over-allotment Selling Shareholders to sell at the Offer Price in aggregate up to 22,269,826 Ordinary Shares (the “**Over-allotment Shares**”), which represent 15 per cent. of the total number of Ordinary Shares comprised in the Offer.

The Offer Shares will, upon Admission, rank *pari passu* in all respects with each other and with all Ordinary Shares then in issue, and will rank in full for all dividends and other distributions declared, made or paid in respect of the Ordinary Shares following Admission.

NOTICE TO OVERSEAS SHAREHOLDERS

The distribution of this document and the offer, issue and sale of the Ordinary Shares in certain jurisdictions may be restricted by law, and therefore, persons into whose possession this document may come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. No action has been or will be taken by the Company, Jefferies International Limited (“**Jefferies**”), J.P. Morgan Securities plc, which conducts its UK investment banking activities as J.P. Morgan Cazenove (“**J.P. Morgan Cazenove**”), Numis Securities Limited (“**Numis**”) or N M Rothschild & Sons Limited (“**Rothschild**”) that would permit possession or distribution of this document or any other material relating to the Ordinary Shares in any country or jurisdiction where action for that purpose is required, other than in the United Kingdom. This document does not constitute an offer of, or the solicitation of an offer to buy or subscribe for, Ordinary Shares in any jurisdiction to whom or in which such offer or solicitation is unlawful and, in particular, is not for distribution in or into Japan or South Africa.

The Ordinary Shares have not been and will not be registered under the applicable securities laws of Japan or South Africa and, subject to certain exceptions, may not be offered or sold, directly or indirectly, in or into Japan or South Africa or to any person resident in Japan or South Africa.

The Ordinary Shares have not been and will not be registered under the US Securities Act of 1933 (the “**Securities Act**”), or with any securities regulatory authority of any state of the United States, and may not be offered or sold, directly or indirectly, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state of the United States. The Offer Shares are being offered and sold (i) outside the United States in reliance on Regulation S under the Securities Act (“**Regulation S**”) and (ii) in the United States only to persons the sellers reasonably believe to be “qualified institutional buyers” (“**QIBs**”) as defined in Rule 144A under the Securities Act (“**Rule 144A**”) in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act. Prospective investors are hereby notified that the sellers of the Ordinary Shares may be relying upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Neither the US Securities and Exchange Commission, nor any securities regulatory authority of any state of the United States, has approved the Ordinary Shares or passed upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offence in the United States.

The offer and sale of Ordinary Shares in Canada will only be made in the Provinces of Ontario and Québec or to residents thereof and not in, or to the residents of, any other Province or Territory of Canada. Such offers and sales will be made only under exemptions from the requirement to file a prospectus with the Ontario Securities Commission and/or the Autorité des marchés financiers and will be made only by authorised dealer representatives of the dealers that are properly registered under the laws of the Provinces of Ontario and/or Québec or, alternatively, are entitled to rely on exemptions from the dealer registration requirements in the Provinces of Ontario and/or Québec.

This document is not a prospectus under the Corporations Act 2001 (Cth) Australia (the “**Corporations Act**”) and has not been lodged with or been the subject of notification to the Australian Securities and Investments Commission. Accordingly, the Ordinary Shares may not be offered, issued, sold or distributed in Australia by any person other than by way of or pursuant to an offer or invitation that does not need disclosure to investors under Part 6D.2 of the Corporations Act.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE INVESTOR, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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PART I SUMMARY

Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A—E (A.1—E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and Issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and Issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of “not applicable”.

<i>Section A—Introduction and Warnings</i>		
A.1	Introduction and warnings	<p>This summary should be read as an introduction to and in conjunction with the full text of this document, including the documents incorporated herein by reference.</p> <p>Any decision to invest in the transferable securities should be based on consideration of the prospectus as a whole by the investor.</p> <p>Where a claim relating to the information contained in a prospectus is brought before a court within the EEA, the plaintiff investor might, under the national legislation of the EEA States, have to bear the costs of translating the prospectus before the legal proceedings are initiated.</p> <p>Civil liability attaches to those persons who are responsible for the summary, including any translations of the summary, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of the prospectus or it does not provide, when read together with other parts of the prospectus, key information in order to aid investors when considering whether to consider an offer further as set out in section 90(12) of the Financial Services and Markets Act 2000.</p>
A.2	Consent for intermediaries	Not applicable; no consent is given for the use of this document for any resale or final placement of securities by financial intermediaries.
<i>Section B—Issuer</i>		
B.1	Legal and commercial name	AO World plc.
B.2	Domicile, legal form, applicable legislation and country of incorporation	The Company is a public limited company, incorporated in England and Wales with registered number 05525751 and its registered office in England. The Company operates under the Companies Act.
B.3	Key factors of the Company’s current operations and principal activities	AO is the United Kingdom’s leading online retailer of major domestic appliances measured by 2012 market share according to the OC&C Report. AO sources, sells and delivers major domestic appliances, including washing machines, washer dryers, tumble dryers, dishwashers, refrigerators, freezers, ovens, range cookers and microwaves, as well as a range of small domestic appliances, including vacuums, floor cleaners, coffee machines, mixers and food processors. AO’s sales activities are focused primarily on sales of appliances through the Group’s own branded websites, principally AO.com. AO’s sales also include third-party branded website sales, where the Group builds and operates third-party branded websites and sources and delivers appliances to fulfil customer orders generated through these websites, and trade sales, where the Group fulfils orders generated by third-party retailers and product protection plan providers by sourcing and delivering appliances.

		<p>The Group also offers ancillary services to its AO website and third-party branded website customers, including delivery, installation, removal and recycling services and sales of third-party product protection plans.</p> <p>In addition to sales of appliances and ancillary services, the Group also provides logistics services to third-party clients. These logistics services relate primarily to the delivery of major domestic appliances not procured by the Group on behalf of such clients, although the Group also provides delivery services for smaller domestic appliances and other consumer goods.</p>
B.4a	Significant recent trends affecting the Company and its industry	<p>UK major domestic appliances market of over £3 billion</p> <p>The market for major domestic appliances in the United Kingdom in 2012 comprised sales of approximately 13 million units with a total sales value (including VAT) of approximately £3.2 billion, according to the OC&C Report. The market for ancillary services in the United Kingdom (including delivery, installation, removal and recycling services and sales of product protection plans) was approximately £0.4 billion (including VAT) in 2012, according to the OC&C Report. The largest product segment of the UK major domestic appliances market was laundry appliances with sales value (including VAT) of approximately £1.1 billion, closely followed by refrigeration and cooking appliances, each with sales value (including VAT) of approximately £0.8 billion in 2012, according to the OC&C Report. Dishwashers and microwaves represented smaller segments of the market, each with sales value (including VAT) of approximately £0.2 billion in 2012, according to the OC&C Report. The market for major domestic appliances in the UK is projected in the OC&C Report to grow to a total sales value (including VAT) of approximately £3.4 billion in 2016.</p> <p>The UK market for major domestic appliances is characterised by high product penetration rates and long product lifespans and, accordingly, most purchases of major domestic appliances are replacements or upgrades. On average, UK households replace a major domestic appliance after 6.6 years, according to the OC&C Report. Increases in UK residential property transactions and new housing construction have historically been a significant driver of sales volumes. For example, many consumers purchase major domestic appliances when renovating a kitchen, which often occurs when a consumer is planning to sell, or has just purchased, a residential property. Another driver of sales volumes has historically been changes in UK gross domestic product and consumer confidence as, during periods of economic recession, consumers may seek to postpone the purchase of higher priced products and, accordingly, only purchase major domestic appliances when required to replace a non-functioning appliance.</p> <p>According to the OC&C Report, sales volumes of major domestic appliances in the United Kingdom declined from approximately 14.5 million units sold in 2007 to approximately 12.6 million units sold in 2009, and then stabilised between 2009 and 2012, with sales of approximately 13.0 million units, 13.1 million units and 13.0 million units in 2010, 2011 and 2012, respectively. In terms of sales value, the UK market for major domestic appliances declined in value between 2007 and 2009, but grew at a compound annual growth rate of 2.3 per cent. from 2009 to 2012, according to the OC&C Report. Average sales prices of major domestic appliances in the United Kingdom increased across all product categories between 2007 and 2010,</p>

	<p>driven by input cost inflation and exchange rate pressures translating through to retail prices. Since 2010, prices have flattened due to competitive price pressures and price transparency.</p> <p>The OC&C Report projects limited growth in prices of major domestic appliances in the United Kingdom from 2013 to 2016 as retailers continue to compete aggressively on prices. The OC&C Report projects growth in the UK overall market for major domestic appliances of approximately 2 per cent. per annum from 2013 to 2016 as the OC&C Report does not project significant growth in UK residential property transactions or gross domestic product to occur during that period. The UK Office for Budget Responsibility forecasts in a December 2013 paper that UK gross domestic product will grow by 2.4 per cent., 2.2 per cent., and 2.6 per cent. in 2014, 2015 and 2016, respectively. According to an HM Revenue and Customs report published in January 2014, UK residential property transactions increased by 5.4 per cent. in 2012 and are estimated to have increased by 15.6 per cent. in 2013.</p> <p>Major market shift to online retailing</p> <p>AO believes that the characteristics of major domestic appliances make them well suited for online purchasing and that the following factors have driven the growth of the online market in the United Kingdom for major domestic appliances:</p> <ul style="list-style-type: none"> • major domestic appliances are not “take-home-today” products as they typically require home delivery and usually cannot be taken home immediately after an in-store purchase—online retailers are able to provide flexible delivery options to meet the needs of different types of customers; • due to the large size and high shipping and storage costs of many major domestic appliances, traditional in-store retailers typically stock limited ranges in-store, so purchasing online typically gives consumers a wider choice of products as larger selections can be displayed and demonstrated; • major domestic appliances are “known-value” products as they are typically branded and have clear specifications, which allows consumers to buy from the retailer that offers the best price, added extras or service quality, and online retailers often are able to match the lowest prices in the market and generally have lower overhead costs than traditional in-store retailers; and • major domestic appliances have relatively high purchase prices and long lifespans; as a result, consumers may take time to consider a potential purchase, and online retailers allow consumers to research and compare products online—for example, through comparisons of product specifications and product reviews. By comparison to the amount of information generally available online, the in-store experience for product researching can be limited as in-store product displays often provide only basic technical specifications and in-store sales representatives may have difficulty handling more detailed queries or offering advice on low turnover products. <p>Since 2010, the market for major domestic appliances in the United Kingdom has been characterised by growth of major online specialist retailers, such as AO, which have increased their share of sales value from approximately 7 per cent. of the UK overall market in 2010 to approximately 11 per cent. in 2012, according to the OC&C Report.</p>
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		<p>Some traditional in-store retailers have exited the UK market and certain of the remaining retailers are rationalising their in-store propositions and focusing on growing their online channels. Online sales of major domestic appliances comprised approximately 34 per cent. by value of the UK overall market in 2012, with online sales value (including VAT) of approximately £1.1 billion, according to the OC&C Report. AO believes the growth of the online market in the United Kingdom for major domestic appliances has been driven by a number of factors, including increases in confidence in online retailers generally as consumers continue to build their experience with shopping online and the development of mobile commerce on smartphones and tablets.</p> <p>The OC&C Report projects that the online channel will continue to increase its share of total sales of major domestic appliances in the United Kingdom, rising to approximately 52 per cent. of the UK overall market by value, with online sales value (including VAT) of approximately £1.8 billion in 2016.</p>																		
B.5	Description of the Group	The Company is the holding company of the Group and has seven wholly owned subsidiaries. The Group's key operational subsidiaries are DRL Limited and Expert Logistics Limited.																		
B.6	Interests in the Company and voting rights	<p>As at 25 February 2014, being the latest practicable date prior to publication of this Prospectus (the "Latest Practicable Date"), insofar as is known to the Company, the following persons had an interest which represented 3 per cent. or more of the voting share capital of the Company (assuming that a proposed share capital re-organisation and certain intended pre-Admission transfers have taken place and taking into account the number of Existing Ordinary Shares to be sold, and the number of New Ordinary Shares to be issued, in connection with the Offer and assuming that the Over-allotment Option has not been exercised):</p> <table> <tr> <th><u>Shareholder</u></th><th><u>Number of Ordinary Shares held (as at the Latest Practicable Date)</u></th><th><u>Percentage of enlarged issued share capital</u></th></tr> <tr> <td>John Roberts</td><td>120,557,140</td><td>28.6</td></tr> <tr> <td>Steve Counce</td><td>57,405,536</td><td>13.6</td></tr> <tr> <td>Christopher Hopkinson</td><td>24,881,728</td><td>5.9</td></tr> <tr> <td>Norman Stoller</td><td>24,375,215</td><td>5.8</td></tr> <tr> <td>Julie Holroyd</td><td>22,687,476</td><td>5.4</td></tr> </table> <p>So far as the Company is aware, no person or persons, directly or indirectly, jointly or severally, own or exercise or could exercise control over the Company.</p> <p>There are no differences between the voting rights enjoyed by the described above and those enjoyed by any other holder of Ordinary Shares.</p>	<u>Shareholder</u>	<u>Number of Ordinary Shares held (as at the Latest Practicable Date)</u>	<u>Percentage of enlarged issued share capital</u>	John Roberts	120,557,140	28.6	Steve Counce	57,405,536	13.6	Christopher Hopkinson	24,881,728	5.9	Norman Stoller	24,375,215	5.8	Julie Holroyd	22,687,476	5.4
<u>Shareholder</u>	<u>Number of Ordinary Shares held (as at the Latest Practicable Date)</u>	<u>Percentage of enlarged issued share capital</u>																		
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Norman Stoller	24,375,215	5.8																		
Julie Holroyd	22,687,476	5.4																		
B.7	Selected historical financial information	The selected historical financial information set forth below relates to the Group for the years ended 31 March 2011, 2012 and 2013 and the nine months ended 31 December 2012 and 2013. The income statement, balance sheet and cash flow data have been extracted without material adjustment from the Group's historical financial information prepared in accordance with IFRS. The income statement and cash flow data for the nine months ended 31 December 2012 are unaudited.																		

Consolidated income statement					
	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£ million	£ million	£ million	£ million	£ million
Revenue	164.1	209.4	275.5	197.0	281.1
Cost of sales	(135.5)	(174.8)	(224.1)	(161.1)	(227.3)
Gross profit	28.6	34.6	51.4	35.9	53.8
Administrative expenses . .	(24.7)	(36.1)	(42.4)	(29.2)	(49.0)
Operating profit/(loss) . . .	3.8	(1.6)	8.9	6.7	4.7
Net finance costs	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Profit/(Loss) before tax . .	3.7	(1.7)	8.7	6.5	4.5
Taxation (charge)/credit on ordinary activities . . .	(1.0)	0.3	(1.9)	(1.5)	(1.4)
Profit/(loss) for the year/ period attributable to equity shareholders	2.6	(1.4)	6.8	5.0	3.2
Consolidated statement of financial position					
	As at 31 March			As at 31 December	
	2011	2012	2013	2013	
	£ million	£ million	£ million	£ million	
Non-current assets					
Property, plant and equipment	2.0	6.4	6.9		11.4
Intangible assets	12.2	12.2	12.6		12.7
Trade and other receivables	4.9	5.6	9.3		9.8
Deferred tax assets	0.1	0.4	0.0		0.0
	19.3	24.6	28.9		33.9
Current assets					
Inventories	3.7	4.7	8.7		21.1
Trade and other receivables	9.8	13.0	18.9		22.5
Cash and cash equivalents	4.1	2.9	12.2		3.8
	17.7	20.6	39.8		47.4
Total assets	36.9	45.2	68.7		81.2
Current liabilities					
Borrowings	(1.6)	(2.3)	(3.1)		(4.4)
Trade and other payables	(21.0)	(28.2)	(44.6)		(54.9)
Current tax liabilities . . .	(0.0)	–	(0.8)		(1.1)
Provisions	–	(1.7)	(0.9)		(0.9)
	(22.6)	(32.3)	(49.3)		(61.4)
Net current liabilities . .	(4.9)	(11.7)	(9.5)		(14.0)
Non-current liabilities					
Borrowings	(3.1)	(4.1)	(3.8)		(3.9)
	(3.1)	(4.1)	(3.8)		(3.9)
Total liabilities	(25.7)	(36.4)	(53.1)		(65.3)
Net assets	11.3	8.8	15.6		16.0
Equity					
Share capital	0.0	0.0	0.0		0.0
Share premium	5.4	4.3	4.3		4.3
Retained earnings	5.9	4.5	11.3		11.7
Total equity	11.3	8.8	15.6		16.0

		Consolidated statement of cash flows					
		Year ended 31 March			Nine months ended 31 December		
		2011	2012	2013	2012	2013	
		£ million	£ million	£ million	£ million	£ million	
	Cash flows from operating activities						
	Profit/(loss) for the year/period . .	2.6	(1.4)	6.8	5.0	3.2	
	<i>Adjustments for:</i>						
	Depreciation and amortisation . . .	0.5	1.2	1.8	1.3	2.0	
	Finance income	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	
	Finance costs	0.1	0.1	0.3	0.2	0.2	
	Loss on disposal of property, plant and equipment	–	0.1	0.3	0.2	–	
	Taxation charge/(credit)	1.0	(0.3)	1.9	1.5	1.4	
	Operating cash flows before movement in working capital . .	4.4	(0.3)	11.0	8.1	6.7	
	Increase in inventories	(0.0)	(1.0)	(4.0)	(4.1)	(12.4)	
	Increase in trade and other receivables	(7.3)	(3.9)	(9.6)	(7.1)	(4.2)	
	Increase in trade and other payables	4.5	7.3	16.4	7.7	10.3	
	Increase/(decrease) in provisions .	–	1.7	(0.9)	(1.0)	(0.0)	
		<u>(2.8)</u>	<u>4.1</u>	<u>1.9</u>	<u>(4.5)</u>	<u>(6.1)</u>	
	Taxation paid	–	(0.0)	(0.7)	–	(1.0)	
	Cash generated from operating activities	1.5	3.8	12.2	3.6	(0.4)	
	Cash flows from investing activities						
	Proceeds from sale of property, plant and equipment	–	–	0.1	0.1	–	
	Acquisition of property, plant and equipment	(1.3)	(2.5)	(1.3)	(1.3)	(3.2)	
	Acquisition of intangible assets . .	–	–	(0.4)	–	(0.1)	
	Cash used in investing activities .	(1.3)	(2.5)	(1.6)	(1.1)	(3.3)	
	Cash flows from financing activities						
	Proceeds from new borrowings . .	1.5	0.7	0.4	0.3	0.4	
	Repurchase of own shares	–	(1.1)	–	–	–	
	Interest paid	(0.1)	(0.1)	(0.3)	(0.2)	(0.2)	
	Repayment of preference shares .	(1.4)	(1.8)	(0.3)	–	(1.0)	
	Repayment of shareholder loan . .	–	–	(0.5)	(0.4)	(0.3)	
	Payment of finance lease liabilities	(0.1)	(0.2)	(0.8)	(0.5)	(0.8)	
	Dividends paid	–	–	–	–	(2.8)	
	Net cash used in financing activities	(0.2)	(2.5)	(1.3)	(0.9)	(4.8)	
	Net (decrease)/increase in cash . .	(0.0)	(1.2)	9.3	1.6	(8.4)	
	Cash and cash equivalents at beginning of year/period	4.2	4.1	2.9	2.9	12.2	
	Cash and cash equivalents at end of year/period	4.1	2.9	12.2	4.5	3.8	

		<p>Certain significant changes to the Group's financial condition and results of operations occurred during the years ended 31 March 2011, 2012 and 2013 and the nine months ended 31 December 2012 and 2013.</p> <ul style="list-style-type: none"> <p><i>Increasing revenue and AO website sales:</i> The Group's revenue increased from £164.1 million for the year ended 31 March 2011 to £275.5 million for the year ended 31 March 2013, a compound annual growth rate of 29.6 per cent. The Group's revenue increased from £197.0 million for the nine months ended 31 December 2012 to £281.1 million for the nine months ended 31 December 2013, an increase of 42.7 per cent.</p> <p>The increases in revenue over the periods were due primarily to increases in AO website sales. AO website sales increased from £76.1 million for the year ended 31 March 2011 to £198.0 million for the year ended 31 March 2013, a compound annual growth rate of 61.3 per cent. AO website sales increased from £141.9 million for the nine months ended 31 December 2012 to £206.3 million for the nine months ended 31 December 2013, an increase of 45.4 per cent. AO website sales represented 46.4 per cent., 69.3 per cent., 71.9 per cent. and 73.4 per cent. of revenue for the years ended 31 March 2011, 2012 and 2013 and the nine months ended 31 December 2013, respectively.</p> <p><i>Significant capital expenditure and exceptional costs in the year ended 31 March 2012:</i> The Group had a profit/(loss) for the year attributable to equity shareholders of £2.6 million, £(1.4) million and £6.8 million for the years ended 31 March 2011, 2012 and 2013, respectively. The Group had a profit for the period attributable to equity shareholders of £5.0 million and £3.2 million for the nine months ended 31 December 2012 and 2013, respectively.</p> <p>In the year ended 31 March 2012, the Group made significant capital expenditures, including in respect of the relocation of the Group's delivery and logistics services from Radcliffe to a single national distribution centre in Crewe, the opening of a customer service call centre in Manchester and the restructuring of the Group's delivery fleet. AO believes that these capital projects increased the Group's warehouse capacity and storage space, improved the Group's ability to handle increased volumes of customer service calls and improved the efficiency of the Group's delivery network. In connection with these capital projects, the Group recorded exceptional costs before tax of £2.8 million, which impacted the Group's results for the year ended 31 March 2012. During the period the Group's delivery and logistics services were being relocated, the Group also incurred additional operating expenses in order to maintain the quality of its customer service, and these expenses also impacted the Group's results.</p> <p>There has been no significant change in the financial or trading position of the Group since 31 December 2013.</p>
B.8	Selected unaudited pro forma financial information	<p>The unaudited pro forma statement of net assets set out below has been prepared to illustrate the effect of the Offer on the Group's net assets as if the Offer had taken place on 31 December 2013. This unaudited pro forma statement of net assets has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results. The unaudited pro forma statement of net assets is compiled on the basis set out below from the IFRS consolidated balance sheet of the</p>

		<p>Company as at 31 December 2013. It may not, therefore, give a true picture of the Group’s financial position or results nor is it indicative of the results that may, or may not, be expected to be achieved in the future. The unaudited pro forma financial information has been prepared on the basis set out in the notes below and in accordance with Annex II to the Prospectus Directive Regulation.</p> <table><tr><th></th><th>As at 31 December 2013⁽¹⁾</th><th>Adjustments Offer Proceeds⁽²⁾</th><th>Unaudited pro forma total^{(3),(4)}</th></tr><tr><th></th><th>£ million</th><th>£ million</th><th>£ million</th></tr><tr><td>Non-current assets</td><td></td><td></td><td></td></tr><tr><td>Property, plant and equipment . .</td><td>11.4</td><td>–</td><td>11.4</td></tr><tr><td>Intangible assets</td><td>12.7</td><td>–</td><td>12.7</td></tr><tr><td>Trade and other receivables</td><td>9.8</td><td>–</td><td>9.8</td></tr><tr><td></td><td><u>33.9</u></td><td><u>–</u></td><td><u>33.9</u></td></tr><tr><td>Current assets</td><td></td><td></td><td></td></tr><tr><td>Inventories</td><td>21.1</td><td>–</td><td>21.1</td></tr><tr><td>Trade and other receivables</td><td>22.5</td><td>–</td><td>22.5</td></tr><tr><td>Cash and cash equivalents</td><td>3.8</td><td>40.9</td><td>44.7</td></tr><tr><td></td><td><u>47.4</u></td><td><u>40.9</u></td><td><u>88.3</u></td></tr><tr><td>Total assets</td><td><u>81.2</u></td><td><u>40.9</u></td><td><u>122.2</u></td></tr><tr><td>Current liabilities</td><td></td><td></td><td></td></tr><tr><td>Borrowings</td><td>(4.4)</td><td>–</td><td>(4.4)</td></tr><tr><td>Trade and other payables</td><td>(54.9)</td><td>–</td><td>(54.9)</td></tr><tr><td>Tax payable</td><td>(1.1)</td><td>–</td><td>(1.1)</td></tr><tr><td>Provisions</td><td>(0.9)</td><td>–</td><td>(0.9)</td></tr><tr><td></td><td><u>(61.4)</u></td><td><u>–</u></td><td><u>(61.4)</u></td></tr><tr><td>Net current assets/(liabilities) . . .</td><td><u>(14.0)</u></td><td><u>40.9</u></td><td><u>26.9</u></td></tr><tr><td>Non-current liabilities</td><td></td><td></td><td></td></tr><tr><td>Borrowings</td><td>(3.9)</td><td>–</td><td>(3.9)</td></tr><tr><td></td><td><u>(3.9)</u></td><td><u>–</u></td><td><u>(3.9)</u></td></tr><tr><td>Total liabilities</td><td><u>(65.3)</u></td><td><u>–</u></td><td><u>(65.3)</u></td></tr><tr><td>Net assets</td><td><u>16.0</u></td><td><u>40.9</u></td><td><u>56.9</u></td></tr></table> <p>(1) The financial information has been extracted, without material adjustments, from the Group’s historical financial information prepared in accordance with IFRS.</p> <p>(2) Adjustments to reflect the net proceeds of the Offer receivable by the Group of £40.9 million, being gross proceeds of £60.0 million less estimated fees and expenses of £19.1 million (exclusive of VAT).</p> <p>(3) The unaudited pro forma statement of net assets does not constitute a financial statement within the meaning of section 434 of the Companies Act 2006.</p> <p>(4) The unaudited pro forma statement of net assets does not reflect any trading or other transaction undertaken by the Group since 31 December 2013.</p>		As at 31 December 2013 ⁽¹⁾	Adjustments Offer Proceeds ⁽²⁾	Unaudited pro forma total ^{(3),(4)}		£ million	£ million	£ million	Non-current assets				Property, plant and equipment . .	11.4	–	11.4	Intangible assets	12.7	–	12.7	Trade and other receivables	9.8	–	9.8		<u>33.9</u>	<u>–</u>	<u>33.9</u>	Current assets				Inventories	21.1	–	21.1	Trade and other receivables	22.5	–	22.5	Cash and cash equivalents	3.8	40.9	44.7		<u>47.4</u>	<u>40.9</u>	<u>88.3</u>	Total assets	<u>81.2</u>	<u>40.9</u>	<u>122.2</u>	Current liabilities				Borrowings	(4.4)	–	(4.4)	Trade and other payables	(54.9)	–	(54.9)	Tax payable	(1.1)	–	(1.1)	Provisions	(0.9)	–	(0.9)		<u>(61.4)</u>	<u>–</u>	<u>(61.4)</u>	Net current assets/(liabilities) . . .	<u>(14.0)</u>	<u>40.9</u>	<u>26.9</u>	Non-current liabilities				Borrowings	(3.9)	–	(3.9)		<u>(3.9)</u>	<u>–</u>	<u>(3.9)</u>	Total liabilities	<u>(65.3)</u>	<u>–</u>	<u>(65.3)</u>	Net assets	<u>16.0</u>	<u>40.9</u>	<u>56.9</u>
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B.9	Profit forecast or estimate	Not applicable; no profit forecast or estimate is included in this document.																																																																																																				
B.10	Nature of any qualifications in audit report	Not applicable; no qualifications are included in any audit report on the historical financial information included in this document.																																																																																																				
B.11	Explanation in respect of insufficient working capital	Not applicable; the Company is of the opinion that, taking into account the proceeds of the Offer, the Group has sufficient working capital for its present requirements, that is, for at least twelve months following the date of publication of this document.																																																																																																				

<i>Section C—Securities</i>		
C.1	Type and class of securities being offered and admitted to trading	The Offer comprises Ordinary Shares in the capital of the Company. When admitted to trading, the Ordinary Shares will be registered with ISIN GB00BJTNFH41.
C.2	Currency	The Ordinary Shares are denominated in pounds sterling (“ GBP ” or “ £ ”).
C.3	Issued share capital	The issued share capital of the Company immediately following Admission will comprise 421,052,631 Ordinary Shares each with a nominal value of £0.0025 in issue (all of which will be fully paid or credited as fully paid).
C.4	Rights attached to the Ordinary Shares	<p>The Ordinary Shares rank equally in all respects and have the following rights attaching to them:</p> <ul style="list-style-type: none"> • on a show of hands at a general meeting every member present in person has one vote and every proxy or representative present who has been duly appointed by a member entitled to vote has one vote; and on a poll every member (whether present in person or by proxy or representative) has one vote per Ordinary Share; • the right to receive dividends on a <i>pari passu</i> basis; and • if the Company is wound up, with the sanction of a special resolution and any other sanction required by law and subject to the Companies Act, the liquidator may divide among the members in specie the whole or any part of the assets of the Company, and for that purpose may value any assets and determine how the division shall be carried out as between the members or different classes of members.
C.5	Restrictions on free transferability of the securities	There are no restrictions on the free transferability of the Ordinary Shares set out in the constitutional documents of the Company.
C.6	Admission to trading on regulated market	Applications have been made to (i) the FCA for admission of the Ordinary Shares to the premium listing segment of the Official List and (ii) the London Stock Exchange for admission of the Ordinary Shares to trading on the main market for listed securities operated by the London Stock Exchange. It is expected that conditional dealings in the Ordinary Shares will commence at 8.00am on 26 February 2014 with Admission becoming effective no later than 8.00am on 3 March 2014. No application has been, or is currently intended to be, made for the Ordinary Shares to be admitted to listing or dealt in on any other stock exchange.
C.7	Dividend policy	The Offer Shares will rank in full for dividends or other distributions declared, made or paid in respect of Ordinary Shares after Admission. The Company intends to retain any earnings to support the growth and development of its business and, therefore, does not anticipate paying dividends in the foreseeable future.
<i>Section D—Risks</i>		
D.1	Key information on the key risks that are specific to the Company or its industry	<ul style="list-style-type: none"> • The Group’s brands, websites and product offerings may not receive positive market recognition and wide acceptance. The Group is reliant on its natural search result rankings and paid advertising as it has low overall brand awareness and recall. Any failure by the Group to offer high quality products, excellent customer service and reliable delivery, or any negative publicity regarding the Group, could damage its reputation and brands and result in the loss of customer confidence and a reduction in purchases.

		<ul style="list-style-type: none"> • The Group's business depends entirely on a single national distribution centre (the "NDC"). The NDC may suffer prolonged power or equipment failures, failures in its IT systems or networks or damage from fires, floods, other disasters or other unforeseen events which may not be covered by or may exceed the Group's insurance coverage. The complete destruction of the NDC through a single catastrophic event, such as a fire, would have a material adverse impact on the operation of the Group's business for a significant period of time. • The Group may fail to maintain its culture, or may be unable to attract, train, motivate and retain qualified personnel, which may cause the quality of its services to deteriorate and may adversely affect its brands and customer loyalty. • Changes to search engines' algorithms or terms of services could cause the Group's websites to be excluded from or ranked lower in natural search results. If the Group is unable to recognise and adapt quickly to such changes, the Group could suffer a significant decrease in traffic to its websites and, in turn, conversion rates and revenue. • The Group may experience a significant increase in the cost of, or become more reliant on, search engine marketing. As the importance of online advertising increases and competition to be ranked higher in purchased listings intensifies, the cost of search engine marketing generally increases. As a result of the rebranding to AO.com from Appliances Online in August 2013, AO.com has experienced a reduction in its Google natural search visibility, which has increased the Group's reliance on search engine marketing. • The Group's IT systems are interdependent and a failure in one system may disrupt the efficiency and functioning of the Group's operations and prevent the Group from capturing and processing customer orders. Any failure of the internet generally, or any failure of existing or future computer or communication systems or software systems, could impair the value of orders, the processing and storage of data and the day-to-day management of the Group's business. • The Group's growth may place significant demands on the Group's management and infrastructure and compromise the Group's customer service levels. The Group may be unable to accommodate a substantial increase in customer orders, or to maintain customer services levels while accommodating any such increase. • The Group is dependent on its Executive Directors, as they play a key role in maintaining the Group's culture and in setting the Group's strategic direction. The unexpected departure or loss of either of its Executive Directors could have a material adverse effect on the Group. • The Group sells product protection plans on behalf of D&G Services Limited on the basis that such plans are not regulated contracts of insurance. If the product protection plans were deemed to be regulated contracts of insurance, it would be necessary for the Group to make significant changes to the manner in which it sells product protection plans and the financial terms of such arrangements may be less attractive to the Group. In addition, the
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		<p>Group and/or its officers and management could be subject to regulatory or other claims and proceedings in relation to the sale of the product protection plans.</p> <ul style="list-style-type: none"> • The Group is subject to various UK and EU consumer protection and other laws and regulations that apply to the way it sells products. The Group's call centre employees have a significant degree of discretion about what they say to prospective buyers. Any failure to provide prospective product protection plan buyers with full, accurate and not misleading information about the plans could constitute unfair commercial practices under UK law and regulation, could expose the Group to consumer complaints or legal or regulatory or other claims and/or proceedings, and/or require the Group to modify or cease certain marketing or sales activities for, or the basis upon which it sells, product protection plans. • The online market for major domestic appliances in the United Kingdom is relatively new and rapidly evolving and the Group's success will depend to a substantial extent on the willingness of consumers to increase their use of online services as a method of buying major domestic appliances. Demand for online purchases of major domestic appliances in the United Kingdom may not increase compared to current levels, or the Group may be unable to adapt effectively to developments in consumer behaviour or preferences in connection with online retailing. • Competition could adversely affect prices and demand for the Group's products and decrease its market share. Many of the Group's competitors have financial resources substantially greater than those of the Group. The size and established nature of the Group's competitors could result in the Group losing market share if online sales become increasingly important to major domestic appliances retailers and its competitors invest heavily in their online operations. • The Group is subject to risks relating to the receipt and processing of online payments. The Group pays interchange and other fees for the processing of credit and debit card payments, which may increase over time and raise operating costs and lower margins. If the Group fails to comply with relevant rules or requirements relating to processing payments, it may be subject to fines or higher transactions fees and in extreme cases may lose its ability to accept credit or debit card payments from customers. The Group has experienced and expects to continue to experience instances of fraud where, for example, a user of the Group's websites uses a stolen credit or debit card number to complete a transaction. • The Group's efforts to enter into new business areas may not be successful or achieved in a cost-effective or timely manner. Any such expansion of the Group's business that is not favourably received by consumers could damage the Group's reputation and brands. • Any expansion into markets outside the United Kingdom would expose the Group to a variety of risks, including different regulatory requirements, complications with staffing and managing foreign operations, variations in consumer behaviour and fluctuations in currency exchange rates. The Group's management has limited experience with the legal and regulatory regimes of jurisdictions
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		<p>other than the United Kingdom. The Group may be unable to foster and maintain its culture in connection with any expansion of its operations into markets outside the United Kingdom. Markets outside the United Kingdom, and in particular online markets for major domestic appliances, may not develop as quickly as anticipated, or at all.</p>
D.3	Key information on the key risks that are specific to the Ordinary Shares	<ul style="list-style-type: none"> • The Directors and other Selling Shareholders will retain a significant interest in the Company and their interests may conflict with those of other Shareholders. In particular, the significant interest retained by the Directors and other Selling Shareholders may have the effect of delaying or preventing an acquisition or other change in control of the Company. • Future sales or issues of Ordinary Shares, or the possibility or perception of such future sales or issues, may affect the confidence of the market in the Ordinary Shares and cause the market price of the Ordinary Shares to fall. • There can be no assurance that an active trading market for the Ordinary Shares will develop or, if developed, that it will be maintained or that the market price of the Ordinary Shares will not decline below the Offer Price.
Section E—Offer		
E.1	Total net proceeds and estimate of total expenses	<p>The Company expects to receive net proceeds of approximately £40.9 million, after estimated total expenses of approximately £19.1 million.</p> <p>The Selling Shareholders expect to receive net proceeds of approximately £348.6 million, after estimated total expenses of approximately £14.5 million.</p> <p>No expenses will be charged to investors by the Company or the Selling Shareholders.</p>
E.2a	Reasons for the Offer and use of proceeds	<p>The Directors believe that the Offer will provide additional capital to support the growth of the Group, with benefits including the enhancement of its service capability and product offering, potential European expansion, a reduction of exposure to third-party credit insurer sentiment and an ability to secure improved commercial terms from suppliers. The Offer will provide the Selling Shareholders with a partial realisation of their investment in the Company.</p> <p>The Company intends to use the net proceeds it receives from the Offer for general corporate purposes, including for additional working capital to support growth in the business following Admission.</p>
E.3	Terms and conditions of the Offer	<p>The Offer comprises an offer of:</p> <ul style="list-style-type: none"> • 21,052,631 New Ordinary Shares to be issued by the Company; and • 127,412,880 Existing Ordinary Shares to be sold by the Selling Shareholders. <p>Under the Offer, all Offer Shares will be sold at the Offer Price, which has been determined by the Company and the Selling Shareholders in consultation with the Joint Bookrunners. A number of factors have been considered in deciding the Offer Price and the basis of allocation under the Offer, including the level and nature of demand for Offer Shares and the objective of encouraging the development of an orderly after-market in the Ordinary Shares.</p>

E.6	Amount and percentage of dilution	21,052,631 New Ordinary Shares will be issued pursuant to the Offer. The Ordinary Shares other than the New Ordinary Shares will represent 95.0 per cent. of the total issued Ordinary Shares immediately following Admission.
E.7	Estimated expenses charged to investor	Not applicable; no expenses will be charged to the investor by the Company or the Selling Shareholders in respect of the Offer.

PART II

RISK FACTORS

An investment in the Ordinary Shares is subject to a number of risks. Prospective investors should consider the following risks and uncertainties together with all the other information set out in this document prior to making any investment decision. If any of the following risks were to materialise, the Group's business, financial condition, results of operations and prospects could be materially adversely affected and the value of the Ordinary Shares could decline. The risks and uncertainties described below are not the only ones the Group faces. Additional risks and uncertainties not presently known to AO or that AO currently deems immaterial may also have a material adverse effect on the Group's business, financial condition, results of operations and prospects and could negatively affect the price of the Ordinary Shares. Investors could lose all or part of their investment.

Prospective investors should carefully consider whether an investment in the Ordinary Shares is suitable for them in light of the information in this document and their personal circumstances.

Prospective investors should note that the risks relating to the Group, its industry, and the Ordinary Shares summarised in the section of this document headed "Summary" are the risks that AO believes to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Ordinary Shares. However, as the risks which the Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this document headed "Summary" but also, amongst other things, the risks and uncertainties described below.

1. RISKS RELATING TO THE GROUP

1.1 *The Group's brands, websites and product offerings may not receive positive market recognition and wide acceptance.*

Developing and maintaining the reputation of, and value associated with, the Group's brands (in particular, AO.com) is of central importance to the success of the Group. Brand identity is a critical factor in retaining existing and attracting new customers. The Group is reliant on its natural search result rankings and paid advertising as it has low overall brand awareness and recall relative to traditional in-store retailers and some other major online specialist retailers in the United Kingdom. The Group has expended and will continue to expend time and resources on marketing and customer relations, but its marketing efforts and other promotional activities may not achieve the desired results.

Promotion and enhancement of the Group's brands is expected to depend on the Group's success in providing a positive customer experience for buying major domestic appliances. Any failure by the Group to offer high quality products across a range of appliance manufacturers and price points, excellent customer service and efficient and reliable delivery could damage its reputation and brands and result in the loss of customer confidence and a reduction in purchases. Unfavourable publicity concerning the Group or the industry could also damage the Group's brands.

Maintaining and enhancing the number of customer visits to, and the number of orders on, the Group's websites is critical to the Group's success. Factors important to maintaining and increasing the number of orders on the Group's websites include the Group's ability to:

- maintain a convenient and reliable user experience as consumer preferences evolve and as the Group expands into new product categories, business lines and markets;
- provide excellent customer service;
- offer a broad range of products at competitive prices;
- develop and manage new and existing technologies and sales channels, including smartphones and tablets;
- increase awareness of its brands and websites through marketing and promotional activities;
- increase purchases from repeat customers;
- assure its customers of the security of its websites for online purchases; and
- assure the efficiency, reliability and service quality of its delivery and logistics operations.

Any failure to properly manage these factors could negatively affect the Group's brands and reputation, its ability to attract and retain customers and the level of its sales, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.2 The Group's business depends entirely on a single national distribution centre.

The Group operates from a single national distribution centre and warehouse (the "NDC") located in Crewe in northwest England. All of the Group's stock is held at the NDC, with stock transported to stockless outbases for delivery to customers or, in some cases, delivered directly to customers from the NDC. The Group's business is therefore dependent on the continued efficient operation of the NDC and the ability of the NDC to continue to satisfy customer orders, including any increase in the number of customer orders. Any disruption to the NDC's efficient operation may therefore have a material adverse effect on the Group's business, financial condition and results of operations.

The NDC may suffer prolonged power or equipment failures, failures in its information technology ("IT") systems or networks or damage from fires, floods, other disasters or other unforeseen events which may not be covered by or may exceed the Group's insurance coverage. Damage resulting from any of these events may cause significant disruption to the Group's operations and take considerable time to repair. The direct effect of any such event and a prolonged period before rectification could have a material adverse effect on the Group's business, financial condition and results of operations. Moreover, the complete destruction of the NDC through a single catastrophic event, such as a fire, would have a material adverse impact on the operation of the Group's business for a significant period of time.

In addition, AO leases (rather than owns) the NDC pursuant to a 15-year lease agreement that is scheduled to expire in November 2026. AO could inadvertently breach the terms of the lease through the day-to-day operation of its business. Any breach of the terms of the lease on which the NDC is held could result, if not waived or deemed waived by the landlord, in the early termination of the lease.

1.3 The Group may fail to maintain its culture, or may be unable to attract, train, motivate and retain suitably qualified personnel.

AO believes that the Group has a strong culture and that its culture has helped the Group to attract high quality personnel, maintain a high retention rate of key staff and create a work force that is dedicated to delivering high quality customer service. If the Group fails to maintain its culture, the quality of its services may deteriorate and its brands and customer loyalty may be adversely affected.

The Group is reliant on its staff for the management, operation, development, maintenance, repair and upgrading of its business, operations and systems. The Group must regularly train its employees so that they have up-to-date knowledge of various aspects of the Group's operations and motivate its employees to meet the Group's requirement to provide customers with high quality service. If the Group fails to provide adequate training to its employees, or if the Group fails to motivate its employees, this could have a material adverse effect on the Group's reputation, business, financial condition, results of operations and prospects.

The Group's ability to attract, train, motivate and retain suitably qualified and experienced staff is important for the Group's on-going success. The Group may be unable to attract and retain sufficient personnel of the right calibre or may incur significant additional costs to attract and retain personnel, which may have a material adverse effect on the Group's business, financial condition and results of operations.

As at 31 December 2013, approximately 190 employees of the Group were members of a union. Although the Group has no history of labour unrest, there can be no assurance that labour disputes or work stoppages will not occur in the future. Any significant disagreements between the Group and its employees could disrupt the Group's operations and increase its operating costs, which could have a material adverse effect on the Group's business, financial condition and results of operations.

1.4 Changes to search engines' algorithms or terms of services could cause the Group's websites to be excluded from or ranked lower in natural search results.

A significant number of the Group's customers access the Group's websites by clicking on a link contained in search engines' "natural" listings (i.e., listings not dependent on advertising or other payments). Transactions effected by these customers generate higher gross margins for the Group as there are minimal associated direct costs, although the Group does incur indirect costs in the form of advertising expenses.

Search engines typically do not accept payments to rank websites in their natural listings and instead rely on algorithms to determine which websites are included in the results of a search query.

The Group endeavours to enhance the relevancy of the Group's websites to common consumer search queries and thereby improve the rankings of the Group's websites in natural listings, a process known as search engine optimisation ("SEO"). Search engines frequently modify their algorithms and ranking criteria to prevent their natural listings from being manipulated, which could impair the Group's SEO activities. These algorithms and ranking criteria may be confidential or proprietary information, and the Group may not have complete information on the methods used to rank its websites. If the Group is unable to recognise and adapt quickly to such modifications in search engine algorithms, or if the effectiveness of the Group's SEO activities is affected for any other reason, the Group could suffer a significant decrease in traffic to its websites and, in turn, conversion rates and revenue.

As part of their terms of service, search engines may also prohibit the use of any software, process or service which sends automated queries to determine the ranking of a website or webpage (an important tool in developing successful SEO techniques), or the use of particular methods deemed by the search engine to be manipulative or deceptive. A violation of a search engine's terms of services may result in a website's exclusion from that search engine's natural listings. If a search engine were to modify its terms of service or interpret existing or modified terms of service in a manner such that the Group's SEO practices were deemed to violate such terms, the Group's websites could be excluded from the search engine's natural listings. Such an exclusion could significantly affect the Group's ability to direct higher margin customer traffic to the Group's websites and materially adversely affect the Group's business, financial condition, results of operations and prospects.

1.5 The Group may experience a significant increase in the cost of, or become more reliant on, search engine marketing.

In the nine months ended 31 December 2013, a significant proportion of the Group's revenues were attributable to customers who accessed the Group's websites by clicking on links that the Group paid to list on search engines' results pages. In order to place these listings with a search engine, the Group frequently places a very large number of bids on key words at a certain cost per click that the Group pays to the search engine. Under the bidding system, the order in which websites appear in a search engine's paid search results is determined by a combination of the price bid by the website and the historical and expected rate at which consumers click through to the website. Bids on generic search terms (such as "washing machine") are typically higher cost, whereas bids on branded search terms (such as "AO.com") are typically lower cost. The click-through rate is, in turn, influenced by the strength of the website's brand and the popularity of the website.

As the importance of online advertising increases and competition to be ranked higher in purchased listings intensifies, the cost of search engine marketing generally increases. Moreover, if the Group were to suffer negative publicity or if its market share were to decline, or if any other factor impacted its brand or reputation, it might have to submit higher bids in order to purchase certain key words on a search engine to offset a reduction in its click-through rate. As a result of the rebranding to AO.com from Appliances Online in August 2013, AO.com has experienced a reduction in its Google natural search visibility, which has increased the Group's reliance on search engine marketing. There can be no assurance that AO.com's natural search visibility will improve in a timely manner or at all.

Any increase in the cost of or in the Group's reliance on search engine marketing, or any decrease in the effectiveness of the Group's search engine marketing, could have a material adverse effect on the Group's business, financial condition and results of operations.

1.6 The Group's IT systems are interdependent and a failure in one system may disrupt the efficiency and functioning of the Group's operations.

The Group's business model relies on the integration of its websites, the NDC, the stockless outbases and the order fulfilment and delivery operations. The Group is therefore reliant on numerous systems to manage the entire process from the receipt and processing of goods at the NDC to the delivery of these goods to customers. The different IT systems are interdependent and a failure of any of the core IT systems may result in failures of other IT systems, which in turn could prevent the Group from capturing customer orders on the Group's websites or processing customer orders through the NDC.

The Group relies to a significant degree on the efficient and uninterrupted operation of its computer and communications systems and those of third parties, including the internet generally. Customer access to the Group's websites and the speed with which a customer navigates and makes purchases on the websites affects the sales of the Group and the attractiveness of its services. Any failure of the internet generally, or any failure of existing or future computer or communication systems or software systems, could impair the value of orders, the processing and storage of data and the day-to-day management of the Group's business. While the Group has disaster recovery and business continuity contingency plans, it has not conducted a full-scale disaster recovery test and no assurance can be given that, if a serious disaster occurred that affected the Group's business, systems or operations, such plans would be sufficient to enable the Group to continue or recommence trading without loss of business.

Furthermore, the Group has, from time to time, experienced operational "bugs" in its systems and technologies which have resulted in order errors such as incorrect items and delays in deliveries. The Group expects operational "bugs" to continue to occur from time to time due to a combination of one or more of the following: electro-mechanical equipment failures, computer server or system failures, network outages, software performance problems, human error and power failures. As at the date of this document, the operational "bugs" that the Group has experienced have not had a material impact on the Group's financial condition or results of operations and the Group attempts to deploy its systems and technologies in a quality controlled manner with the aim of reducing the occurrence of such operational "bugs". There can be no assurance, however, that the Group will not experience an increase in the frequency or severity of such operational "bugs" in the future.

The efficient operation of the Group's business systems and IT is critical to attracting and retaining customers. If the Group is unable to meet customer demand or service expectations due to the occurrence of one or more of the aforementioned issues, the Group's business, financial condition and results of operations may be materially adversely affected.

1.7 *Many of the Group's suppliers rely on credit insurance to protect their receivables and any changes to, or withdrawals of, such credit insurance may lead the Group's suppliers to seek to reduce their credit exposure to the Group.*

The Group's business is dependent on the sale of major domestic appliances supplied to it by third parties. AO believes that the Group's third-party suppliers have traditionally taken out credit insurance to protect their receivables against the risk of bad debt, insolvency or protracted default of their buyers, including the Group. Credit levels available to the Group's suppliers remain dependent on the general economic environment and the Group's financial position.

If there is a significant decrease in the availability, or the withdrawal in its entirety, of credit insurance to the Group's suppliers, and such suppliers are unwilling or unable to take credit risk themselves or find alternative credit sources, they may choose to take actions to reduce their credit exposure to the Group, including seeking to change their credit terms or refusing to contract with the Group. Any such actions could have a material adverse effect on the Group's cash position and lead to an increase in the Group's indebtedness, which could have a material adverse effect on its business, financial condition and results of operations.

1.8 *Economic conditions and other factors outside of the Group's control could adversely affect demand for major domestic appliances.*

The Group generates its revenue primarily from the sale of major domestic appliances and the provision of ancillary services, such as delivery, installation, removal and recycling services and sales of third-party product protection plans, to customers in the United Kingdom. For the year ended 31 March 2013 and the nine months ended 31 December 2013, 94.3 per cent. and 94.5 per cent. of the Group's revenue, respectively, was derived from AO website sales and third-party website sales and trade sales, which primarily include sales of major domestic appliances and the provision of ancillary services. Accordingly, the Group's financial performance is dependent on demand for major domestic appliances and ancillary services. Drivers of sales volumes of major domestic appliances in the United Kingdom historically have included increases in UK residential property transactions and appliance replacement cycles and, to a lesser extent, changes in UK gross domestic product. A number of other factors including, but not limited to, availability and cost of credit, interest rates, taxation, consumer confidence and debt levels, availability and cost of mortgage financing, retail trends and unemployment levels could also affect demand for major domestic appliances in the United Kingdom and the Group's operating and financial performance.

Adverse conditions in or sustained uncertainty in the UK housing market or the UK economy could adversely affect consumer spending on major domestic appliances, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In addition, the UK online market for major domestic appliances is relatively new and rapidly evolving. The Group's business and prospects must, therefore, be considered in light of the risks and difficulties the Group encounters operating in the relatively new and rapidly evolving UK online major domestic appliances market.

1.9 The Group's growth may place significant demands on the Group's management and infrastructure and compromise the Group's customer service levels.

The Group has experienced significant revenue growth in recent periods. The Group had revenue of £164.1 million, £209.4 million and £275.5 million for the years ended 31 March 2011, 2012 and 2013, respectively, and £197.0 million and £281.1 million for the nine months ended 31 December 2012 and 2013, respectively. Such growth rates may not be sustainable and may decrease or reverse in the future. The growth of the Group's business to date has placed, and any future growth is expected to continue to place, significant demands on the Group's management and its operational and financial infrastructure. As the Group's operations grow further, it will need to continue to improve and upgrade its systems and infrastructure. Such expansion will require the Group to commit substantial management, operational and other resources in advance of any increase in the size of the business, with no assurance that the volume of business will increase.

Continued growth could strain the Group's ability to maintain reliable service levels for its customers; attract, train, motivate and retain employees; and develop and improve its operational, financial and management controls. In addition, the Group's business and IT systems may be unable to accommodate a significant increase in the number of customers or orders as the NDC begins to operate at or near capacity. If the Group is unable to accommodate a substantial increase in customer orders, or to maintain customer services levels while accommodating any such increase, the Group's business, financial condition, results of operations and prospects may be materially adversely affected.

1.10 The Group is dependent on its Executive Directors.

The Group depends upon the continued services and performance of its Executive Directors. The Executive Directors, amongst other things, play a key role in maintaining the Group's culture and in setting the Group's strategic direction. The unexpected departure or loss of either of its Executive Directors could have a material adverse effect on the business, financial condition and results of operations of the Group, and there can be no assurance that the Group will be able to attract or retain suitable replacements for such Executive Directors in a timely manner or at all. The Group may also incur significant additional costs in recruiting and retaining suitable replacements.

1.11 The basis upon which the Group 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 Group could be subject to claims or proceedings in relation to such product protection plans.

The Group's business involves offering and arranging the sale of product protection plans, as agent of D&G Services Limited ("D&G"), to customers of the Group in relation to major domestic appliances purchased by such customers. The Group offers and sells product protection plans on behalf of D&G on the basis that such plans are not contracts of insurance. If the Group's sales communications and product literature do not comply with applicable law and regulatory guidance there is a risk that the product protection plans could be treated as contracts of insurance. No member of the Group is authorised by the FCA for the purposes of arranging the sale of contracts of insurance to customers or advising customers with respect to contracts of insurance and no member of the Group is an "appointed representative" of D&G or any of its affiliates. Extended warranty plans have been, currently are and are expected to continue to be subject to regulatory scrutiny by the FCA, and the FCA may require changes to the manner in which such plans are offered and sold. In addition, there have been recent court proceedings (not involving the Group or any products offered or sold by the Group) in which the UK Supreme Court upheld a lower court decision that the particular extended warranty plans for consumer goods sold by the defendants in that case were "contracts of insurance".

There can be no assurance that a regulatory or judicial body will not in the future treat the product protection plans sold by the Group as regulated contracts of insurance. In addition, new or additional law

or regulation in this area may be adopted which changes the regulatory treatment of the product protection plans. If the product protection plans were deemed to be contracts of insurance, the Group would have to make significant changes to the manner in which it offers and sells product protection plans, such as requiring the Group to be either authorised to offer and sell contracts of insurance or appointed as a representative of an authorised entity. The financial terms of such arrangements may be less attractive to the Group. In addition, the Group and/or its officers and management could be subject to regulatory, consumer or other claims and proceedings in relation to the sale of the product protection plans. Any such actions, changes or proceedings could have a material adverse effect on the Group's reputation, business, financial condition and results of operations.

1.12 The Group is subject to various consumer protection and other laws and regulations, any breach or alleged breach of which could give rise to regulatory or third-party proceedings and/or could require the Group to change the basis on which it markets or sells its products.

The Group is subject to various UK and EU consumer protection and other laws and regulations that apply to the way it sells products. The Group, acting as an agent for D&G, offers product protection plans to customers of the Group. In common with the other ancillary services that the Group offers to customers purchasing appliances, the sale of such product protection plans generates incremental gross profit for the Group in addition to any gross profit generated from the sale of the related appliances. The Group maintains an outbound sales team of approximately 100 employees in its Manchester customer service call centre, who, as part of their role, market and sell these product protection plans to consumers. The Group's call centre employees have a significant degree of discretion about what they say to prospective buyers. The Group regularly reviews its sales processes and practices to monitor compliance with applicable laws and regulations, and from time to time amends such processes and practices and takes such other actions, including staff training, as it considers necessary or appropriate and intends to continue to do so. The Group has recently undertaken a programme to improve and update the processes, procedures and sales practices of its call centre employees.

Any failure to provide prospective product protection plan buyers with full, accurate and not misleading information about the plans and nature of the potential benefits (in sales communications and product literature), could constitute unfair commercial practices under UK law and regulation, could expose the Group to consumer complaints or legal or regulatory or other claims and/or proceedings, and/or require the Group to modify or cease certain marketing or sales activities for, or the basis upon which it sells, product protection plans. Any such developments could have a material adverse effect on the Group's reputation, business, financial condition and results of operations.

1.13 Consumer acceptance of online retailing of major domestic appliances may not be sustained or improve, and the Group may be unable to adapt effectively to changes in consumer behaviour or preferences in connection with online retailing.

The Group has no physical locations where its customers can purchase goods. It relies primarily on sales through its own branded websites (principally, AO.com), which accounted for 71.9 per cent. and 73.4 per cent. of the Group's revenue for the year ended 31 March 2013 and for the nine months ended 31 December 2013, respectively. Although the OC&C Report projects that the online segment of the UK major domestic appliances market will continue to grow, the online market for major domestic appliances in the United Kingdom is nevertheless relatively new and rapidly evolving. The Group's success will depend to a substantial extent on the willingness of consumers to increase their use of online services as a method of buying major domestic appliances. The Group's success will also depend on the Group's ability to effectively adapt to changes in consumer behaviour or preferences in connection with online retailing—for example, developments in connection with mobile commerce on smartphones and tablets. If demand for online purchases of major domestic appliances in the United Kingdom does not increase compared to current levels and consumer acceptance does not increase in line with AO's expectations, or if the Group is unable to adapt effectively to developments in consumer behaviour or preferences in connection with online retailing, the Group's business, financial condition, results of operations and prospects could be materially adversely affected.

1.14 Competition could adversely affect prices and demand for the Group's products and decrease its market share.

The UK retail market for major domestic appliances is highly competitive. Consumers have many choices of retailers of major domestic appliances, including major electrical retailers, major generalist retailers, major online specialist retailers, supermarkets and smaller independent retailers. The Group's competitors

include Currys, John Lewis, Argos and Appliances Direct, many of whom currently have financial resources substantially greater than those of the Group. Many of these retailers also have brands that are more widely recognised by consumers throughout the United Kingdom than the Group's brands. The size and established nature of the Group's competitors could result in the Group losing market share if online sales become increasingly important to major domestic appliances retailers and its competitors invest heavily in their online operations. The Group's competitors may also merge or form strategic partnerships, which could increase competition for the Group.

The Group primarily competes on the basis of factors such as quality and range of products, price, product availability, product information, convenience, delivery options and service. If the Group fails to compete effectively in any one of these areas, it may lose existing customers and fail to attract new customers.

In addition, the Group may be materially adversely affected by the entrance of new competitors in the online major domestic appliances market. The growth of the Group's business in recent years has shown that, despite major domestic appliances retailing being a mature market in the United Kingdom, the barriers to entry into the UK online major domestic appliances market are not insurmountable.

Competitive pressures from one or more of the Group's competitors or the Group's inability to adapt effectively and quickly to a changing competitive landscape could affect its prices, its margins and demand for the Group's products and related services, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.15 New technologies or other restrictions could compromise the Group's ability to aggregate online pricing data, which could disrupt the Group's pricing strategy.

The Group seeks to offer products at competitive prices. AO.com's prices across all of its stock keeping units ("SKUs") are refreshed regularly and are set by reference to a basket of prices offered by a wide range of competitors, with the lowest price from within that basket being used to set the AO.com price, subject to a minimum margin requirement.

In connection with the Group's pricing strategy, the Group uses data aggregation technologies to search for and extract pricing data from the websites of its competitors for a wide range of SKUs. The terms and conditions of service of third-party websites may prohibit the use of any automated process or service, such as a "spider", "meta-searching" or the periodic caching of information stored on the website, as a condition to accessing the website and extracting information from it. Data aggregation technologies consume bandwidth and server cycles from the websites being searched, which may increase a non-consenting third party's costs of operating a website. A non-consenting third party could seek an injunction to restrain the Group from accessing its website in addition to bringing a claim for damages. Websites are increasingly deploying a range of technical measures to prevent data aggregation techniques. As these technologies develop and become more widespread, they may affect the Group's ability to collect pricing data quickly and accurately and thereby reduce the competitiveness of the prices offered by the Group. It may not be possible for the Group to circumvent such technological measures. Any such new technologies or other restrictions that compromise the Group's ability to aggregate online pricing data could disrupt the Group's pricing strategy, which could have a material adverse effect on the Group's business, financial condition and results of operations.

1.16 The Group may face online security breaches and service disruptions due to hacking and vandalism.

The Group relies on third-party encryption and authentication technology to provide the security necessary to effect the secure transmission of information from its customers, such as credit or debit card numbers. The Group cannot guarantee absolute protection against unauthorised attempts to access its IT systems, including malicious third-party applications that may interfere with or exploit security flaws in its products and services. Viruses, worms and other malicious software programmes could, amongst other things, jeopardise the security of information stored in a user's computer or in the Group's computer systems or attempt to change the internet experience of users by interfering with the Group's ability to connect with its users. Groups of hackers may also act in a coordinated manner to launch denial of service attacks or other coordinated attacks that may cause the Group's websites or other systems to experience service outages or other interruptions. As at the date of this document, the Group has not experienced any significant online security breaches or service disruptions due to hacking or vandalism and the Group takes measures designed to prevent the occurrence of such breaches and disruptions. If, however, any compromise in the Group's security measures were to occur, or if the Group's websites or other systems

were to experience service outages or other interruptions, the Group's reputation may be harmed and its business, financial condition and results of operations may be materially adversely affected.

In addition, there can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments will not result in a compromise or breach of the processes used by the Group to protect customer transaction data. If any such compromise or breach were to occur, it could have a material adverse effect on the Group's reputation, business, financial condition and results of operations.

The Group also processes personal data, some of which may be sensitive, as part of its business. There is a risk that such data could become public if there were a security breach in respect of such data and, if one were to occur, the Group could face liability under data protection laws and lose the goodwill of its customers, which may have a material adverse effect on the Group's reputation, business, financial condition, results of operations and prospects.

1.17 The Group may not be able to deliver products to its customers.

The Group is subject to the risks associated with its ability to provide delivery services. In particular, the business is entirely reliant on deliveries by road: from suppliers to the NDC, from the NDC to the stockless outbases and from the stockless outbases or the NDC to customers. As a result, the Group is exposed to traffic congestion, road works, congestion charging and inclement weather, particularly snow, all of which could render deliveries difficult or even impossible. For example, some of the Group's deliveries were delayed or cancelled during the period from November 2010 to January 2011 as a result of occurrences of heavy snow during that period. As a result of such delays and cancellations, the Group incurred significant additional costs, including increases in delivery costs, traffic accidents and damage to appliances. Any significant interruption to the Group's delivery of products may have a material adverse effect on the Group's reputation, business, financial condition and results of operations.

1.18 The Group is subject to risks relating to the receipt and processing of online payments.

The Group's customers may choose from a range of payment methods, including credit cards, debit cards and PayPal accounts. If the Group offers new payment options to its customers, it may be subject to additional regulations and compliance requirements. The Group pays interchange and other fees for the processing of credit and debit card payments, which may increase over time and raise operating costs and lower margins. The Group relies on third parties to provide payment processing services, and if these companies become unwilling or unable to provide these services or increase the costs of providing such services, the Group's operations may be disrupted and its operating costs could increase. The Group is also subject to payment card association operating rules, certification requirements, Payment Card Industry Data Security Standards and rules governing electronic funds transfers, which could change or be reinterpreted to make them difficult or impossible to comply with. If the Group fails to comply with these rules or requirements, it may be subject to fines or higher transactions fees and in extreme cases may lose its ability to accept credit or debit card payments from customers, process electronic funds transfers or facilitate other types of online payments. In addition, the Group has experienced and expects to continue to experience instances of fraud where, for example, a user of the Group's websites uses a stolen credit or debit card number to complete a transaction. Although the Group screens transactions and attempts to identify and reject fraudulent transactions, there can be no assurance that the Group's fraud detection systems will be effective in protecting the Group against significant fraud. Where fraudulent transactions occur, the Group is liable to repay the relevant credit or debit card company and the Group may have no effective redress against the perpetrator of the fraudulent transaction.

Any significant failure of the Group's payment processing or fraud detection systems, whether caused by a systems failure or otherwise, will adversely affect the Group's revenue in the short term and may result in the loss of customers or in damage to the Group's reputation, which may have a material adverse effect on the Group's business, financial condition and results of operations.

1.19 The Group may face unexpected increases in operating and other expenses, which may reduce the Group's profitability.

The Group's operating and other expenses could increase without a corresponding increase in revenue. Factors which could increase operating and other expenses include unforeseen increases in:

- fuel costs, which increase the costs of deliveries;

- new vehicle costs relating to the delivery fleet;
- payroll expenses (for example, due to increases in the minimum wage or National Insurance);
- costs associated with the Group's independent contractor two-person delivery teams;
- advertising costs;
- costs associated with the Company being listed;
- rental costs under property or vehicle leases;
- business rates;
- costs of products from the Group's suppliers due to input cost inflation and exchange rate pressures translating through to higher manufacturers' prices which the Group cannot fully pass on to customers or to any deterioration in the Group's relationships with its suppliers or reductions in supplier credit limits;
- interest rates affecting the cost of the Group's vehicle and equipment leases;
- property taxes and other statutory charges;
- insurance premiums;
- tax charges; and
- the rate of general inflation,

together with changes in laws, regulations or government policies (including those relating to health and safety, financial services, planning and environmental compliance) which increase the costs of compliance with such laws, regulations or policies.

To the extent that such increases in operating and other expenses exceed or are not in line with increases in the Group's revenue, the Group's profitability will be reduced and any such reduction could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.20 *The Group may be adversely affected by an increase in governmental regulation of the internet or online retailing.*

The application or modification of existing laws or regulations, or the adoption of new laws and regulations relating to the internet and online retail operations, could adversely affect the manner in which the Group currently conducts its business. The law of the internet remains largely unsettled, even in areas where there has been some legislative action. In addition, the growth and development of the market for online retail may lead to more stringent customer protection laws which may impose additional burdens on the Group and increase its costs of business, all of which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.21 *The Group's efforts to enter into new business areas may not be successful.*

The Group may seek to expand its business by expanding the breadth of products offered or by offering new services to its customers. The Group may be unable to expand its business in these ways in a cost-effective or timely manner. Furthermore, any such expansion of the Group's business that is not favourably received by consumers could damage the Group's reputation and brands.

Any such expansion of the Group's business would also be likely to require significant additional investment, together with operations and resources, which could strain the Group's management, financial and operational resources. The lack of market acceptance of such efforts or the Group's inability to generate satisfactory revenue from expanded products or services to offset their costs could have a material adverse effect on the Group's business, financial condition and results of operations.

1.22 *The Group's expansion into new jurisdictions may not be successful.*

The Group may explore expansion opportunities in new markets in Europe. AO is initially reviewing, and has taken preliminary steps in respect of, expansion opportunities in Germany and is considering establishing a presence there. In the longer term, AO may consider expansion opportunities in other markets in Europe.

Any expansion into markets outside the United Kingdom would expose the Group to a variety of risks, including different regulatory requirements, complications with staffing and managing foreign operations, variations in consumer behaviour, fluctuations in currency exchange rates, potential political and economic instability, potential difficulties in enforcing contracts and intellectual property rights, the potential for higher rates of fraud and adverse tax consequences. The Group's management has limited experience with the legal and regulatory regimes of jurisdictions other than the United Kingdom and their consequences for the Group's business. Moreover, the Group may be unable to foster and maintain its culture in connection with any expansion of its operations into markets outside the United Kingdom.

There is also a risk that markets outside the United Kingdom, and in particular online markets for major domestic appliances, may not develop as quickly as anticipated, or at all. The development of such markets is subject to political, social, regulatory and economic forces beyond the Group's control. The Group's estimates of the potential future traffic and conversion rates in new geographic markets are based on a variety of assumptions which may prove to be inaccurate. To the extent that the Group overestimates the potential of a new geographic market, incorrectly judges the timing of the development of a new geographic market or fails to anticipate the differences between a new geographic market and the United Kingdom, the Group's attempt to expand into new geographic markets may be unsuccessful and may have a material adverse effect on the Group's business, financial condition and results of operations.

1.23 Any attempts by the Group to expand through merger and acquisition activity, or through joint ventures or other collaborative activities, may be unsuccessful.

The Group may seek to expand through mergers and acquisitions. In identifying potential merger and acquisition targets, the Group would endeavour to ensure appropriate due diligence is carried out, but acquisitions would necessarily leave the Group exposed, at least to some degree, to any operational failings of the target company and potentially to overpaying for any such target. Any payment for such target company with Ordinary Shares could dilute the interests of Shareholders.

Merger and acquisition activity, including the difficulties involved in integrating companies, businesses or assets, may divert financial and management resources from the Group's core business, which could have a material adverse effect on the Group's culture, reputation, business, financial condition, results of operations and prospects. In addition, there can be no assurance that any mergers or acquisitions will successfully achieve their aims.

In addition, the Group may expand through joint ventures and other collaborative activities with third parties. Participation in joint projects contains an inherent risk in their management and it can be difficult to guarantee the achievement of joint goals. Similarly, cooperating in this way with third parties may require the Group to rely on its partners to help achieve its aims and maintain the Group's reputation.

Joint ventures, including the difficulties involved in integrating companies, businesses or assets, may divert financial and management resources from the Group's core business, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.24 The Group may be unable to manage its inventory levels effectively.

The Group must maintain sufficient inventory levels to operate its business successfully. However, the Group must also avoid accumulation of excess inventory as it seeks to minimise out-of-stock levels and maintain in-stock levels across all product categories. The Group holds bulk stock of high volume SKUs in the NDC in Crewe, whereas it holds lower volume SKUs in stock in small quantities or orders such SKUs from suppliers on a just-in-time basis. If the Group does not accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory, its inventory levels will not be appropriate and may result in lost sales and a reduction in the efficiency of the Group's operations, which may have a material adverse effect on the Group's business, financial condition and results of operations.

1.25 The Group may not keep pace with new technological developments.

The Group's success depends in part upon its ability to store, retrieve, process and manage substantial amounts of information. To achieve its strategic objectives and remain competitive, the Group must continue to develop and enhance its information systems. This may require the acquisition of equipment and software and the development, either internally or through independent consultants, of new proprietary software. No assurance can be given that the Group will be able to continue to design, develop, implement or utilise, in a cost-effective manner, information systems that provide the capabilities necessary

for the Group to compete effectively. Any failure to adapt to technological developments could mean that the Group fails to capture what may become an increasingly important part of the UK online market for major domestic appliances and may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.26 The Group may not have adequate protection for its intellectual property rights.

The Group's business and IT systems and other key proprietary intellectual property generally are not protected by patents or registered design rights, which means the Group generally cannot preclude or inhibit competitors from entering the same market if they develop the same or similar technology independently. The Group is therefore particularly reliant on copyright, trade secret protection and confidentiality and license agreements with its employees, customers, suppliers, consultants and others to protect its intellectual property rights. Although the Group has taken steps consistent with industry practice to reduce these risks, such steps may be inadequate.

In addition, third parties may independently discover the Group's trade secrets and proprietary information or systems, and, in such cases, the Group may not be able to rely on any intellectual property rights to prevent the use of such trade secrets, information or systems by such parties, which may allow such parties to use such trade secrets, information or systems when competing against the Group. Costly and time-consuming litigation could be necessary to determine and enforce the scope of the Group's proprietary rights and the outcome of such litigation could not be guaranteed. Failure to prevent the use of such secrets, information or systems by such third parties could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.27 The Group is required to comply with health and safety laws and regulations.

A violation of health and safety laws or regulations relating to the Group's operations or a failure to comply with the instructions of the relevant health and safety authorities could lead to, amongst other things, negative publicity and reputational damage, fines, costly compliance procedures and, in extreme circumstances, a temporary shutdown of all or part of the Group's business. Such violations could, therefore, have a material adverse effect on the Group's business, financial condition and results of operations.

1.28 The Group relies on independent contractors to make deliveries.

The Group utilises independent contractors to make substantially all of its deliveries of domestic appliances to the Group's customers, using vehicles leased by the Group. As independent contractors, however, members of the Group's two-person delivery teams may choose to provide delivery or related services to other companies outside of the Group, or may choose to cease making deliveries for the Group at any time. If the Group lost a significant number of its independent contractor delivery teams and was unable to recruit a sufficient number of qualified replacement delivery teams in a timely manner, the Group's ability to make deliveries would be materially adversely affected. In addition, AO believes that the Group's independent contractor delivery teams understand and follow the Group's customer service policies and principles and that the nature of the relationship between the Group and its independent contractor delivery teams includes an element of risk and reward sharing whereby the delivery teams are incentivised to provide higher quality service. Any change to the nature of the relationship between the Group and the delivery teams whereby the delivery teams become employees could increase the overall cost of providing delivery services and may reduce the incentives to the delivery teams, and thus may affect levels of service quality. Any prolonged or significant interruption to the Group's ability to deliver products in a manner satisfactory to its customers, or any increase in the cost or deterioration in the quality of the delivery services provided by the Group to its customers, could have a material adverse effect on the Group's reputation, business, financial condition, results of operations and prospects.

The status of the members of the Group's two-person delivery teams as independent contractors could be subject to challenge by members of the delivery teams in order to assert claims to certain statutory rights, such as the right to receive a redundancy payment upon termination in certain circumstances. A claim by a delivery team member could be brought before an employment tribunal, which, if it decided in favour of the delivery team member, could award compensation to the delivery team member depending on the nature of the claim and the tribunal's findings. In addition, if the delivery team members were deemed to be employees of the Group or a Group company, the Group could face additional tax obligations in respect of national insurance contributions, potentially including obligations in respect of prior periods.

Any change to the status of the Group's independent contractor delivery team members, as well as any awards of compensation or additional tax obligations, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.29 *The Group relies on third-party suppliers for its products.*

The Group purchases products from a wide range of UK and non-UK third-party product suppliers, including a limited number of large global manufacturers whose products account for a substantial proportion of the Group's sales. In the nine months ended 31 December 2013, 80.4 per cent. of the Group's revenue was derived from sales of products manufactured by five suppliers:

- Indesit, which manufactures Indesit and Hotpoint branded goods;
- Beko, which manufactures Beko branded goods;
- Bosch, which manufactures Bosch, Neff and Siemens branded goods;
- Samsung, which manufactures Samsung branded goods; and
- Electrolux, which manufactures Electrolux, Zanussi-Electrolux and AEG-Electrolux branded goods.

The Group's business depends on its ability to source a range of products from well-recognised brands on commercially reasonable terms. The relationships between the Group and its suppliers generally are not based on long-term supply contracts and typically permit termination without cause upon notice of a few weeks or months. In some instances, the relationship between the Group and a supplier is not set out in a written agreement. The Group's suppliers may cease selling products to the Group on terms acceptable to it, fail to deliver sufficient quantities of products in a timely manner, encounter financial difficulties, terminate their relationship with the Group and enter into agreements with the Group's competitors or experience raw material or labour shortages or increases in raw material or labour costs. The Group's suppliers may also choose to take actions to reduce their credit exposure to the Group, including by seeking to change their credit terms or refusing to contract with the Group. See "*Many of the Group's suppliers rely on credit insurance to protect their receivables and any changes to, or withdrawals of, such credit insurance may lead the Group's suppliers to seek to reduce their credit exposure to the Group*" above. Agreements with the Group's suppliers do not typically establish a fixed price for products and prices are negotiated on a regular basis by the Group's purchasing team. As a result, the Group may be subject to price increases based on changes in its suppliers' businesses, cost structures or other factors.

The Group's supply of major domestic appliances can also be materially adversely affected by a number of other factors, including, amongst other things:

- potential economic and political instability in countries where its suppliers are located;
- increases in shipping or other transportation costs;
- manufacturing and transportation delays and interruptions, whether as a result of natural disasters, industrial action in the supply chain or other factors;
- supplier compliance with applicable laws, including labour and environmental laws;
- adverse fluctuations in currency exchange rates; and
- changes in UK and foreign laws affecting the importation and taxation of goods, including duties, tariffs and quotas, or changes in the enforcement of those laws.

Any disruption to the availability or supply of products to the Group or any deterioration to the terms on which products are supplied to the Group could materially adversely affect its business, financial condition and results of operations.

1.30 *The Group will incur capital and operating expenses in connection with any expansion in the Group's business in coming years and such expenses may be higher than budgeted.*

Any expansion in the Group's business in coming years will require the Group to incur capital and operating expenses, including:

- costs associated with adding new stockless outbases and, in the longer term, creating additional warehouse capacity in the form of satellite stock storage bases adjacent to the NDC, including site

preparation and external works, professional fees, building and related fit-out costs, IT costs and the costs of plant and machinery;

- increased vehicle costs as the Group expands its delivery fleet; and
- increased staff costs as headcount grows to meet the demands of the expanded business.

The Group's longer term capital needs will be dependent on the actual cost of any expansion in the Group's business, which may exceed those anticipated or budgeted for by the Group. In the longer term, to fund any expansion in the Group's business, the Group may need to raise capital in addition to that currently anticipated to be raised through the Offer. Any additional equity fundraising in the capital markets may be dilutive for Shareholders and any debt financing may require the Group to agree to restrictive covenants and limit its operational and financial flexibility and ability to pay potential future dividends. There can be no assurance that the Group will be able to secure additional financing in relation to its longer term capital needs on terms acceptable to it or at all. If the Group is unable to satisfy its longer term capital needs, this may have a material adverse effect on the Group's business, financial condition and results of operations.

1.31 The Group's third-party branded website and trade clients could terminate their relationships with the Group.

In addition to sales of appliances through the Group's own branded websites (principally, AO.com), AO's sales also include third-party branded website sales, where the Group builds and operates third-party branded websites and sources and delivers appliances to fulfil customer orders generated through these websites, and trade sales, where the Group fulfils orders generated by third-party retailers and product protection plan providers by sourcing and delivering appliances. The Group had revenue from third-party branded website and trade sales of £59.4 million for the nine months ended 31 December 2013 and £61.7 million for the year ended 31 March 2013. The relationships between the Group and its third-party branded website and trade clients generally are not based on long-term contracts and typically permit termination without cause upon notice of between six months and one year. In some instances, the relationship between the Group and a third-party branded website or trade client is not set out in a written agreement. The Group's third-party branded website and trade clients could terminate their relationships with the Group and enter into agreements with the Group's competitors, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.32 The Group is dependent on relationships with other third-party suppliers and service providers.

In addition to its relationships with key product suppliers and third-party branded website and trade clients, the Group is also dependent on relationships with a range of other third-party suppliers, service providers, landlords and distributors. For example, the Group subcontracts the delivery of some small domestic appliances to DPD, a third-party delivery service which utilises single-person delivery teams as opposed to the two-person delivery teams utilised by the Group.

AO is also dependent upon the manufacturers, suppliers and maintenance providers of its delivery vehicles and its machinery, including the machinery used within the NDC and its stockless outbases. For example, the Group has long-term contracts with Mercedes for the leasing of its delivery vehicles. The termination or non-renewal of these contracts or any deterioration of either of these relationships could materially adversely affect the Group's operations and there can be no assurance that any alternative arrangement would be as satisfactory as the existing arrangements.

Any reduction in availability or level of service offered by these providers could restrict the ability of the Group to conduct its business and thereby materially adversely affect its business, financial condition and results of operations.

1.33 The Group may suffer if taxation rates or law change.

Changes in taxation rates or law, or misinterpretation of the law or any failure to manage tax risks adequately could result in increased charges, financial loss, including penalties, and reputational damage, which may have a material adverse effect on the Group's business, financial condition and results of operations.

Products sold by the Group are subject to varying types of taxes, including VAT. The level of VAT and other taxes can be changed by the UK government at very short notice. A material change in the level of

taxes levied on these products could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.34 *The Group may face increased environmental costs.*

Environmental sustainability is likely to be of continuing importance to governments, regulators and other interested or influential bodies. There may be changes to existing legislation or regulation or the introduction of new legislation, regulation or government policies or practice, which could adversely affect the Group's operations and conduct of its business, particularly in relation to the use of energy, emission charges and the delivery of major domestic appliances. If there is a change to environmental legislation there may be a decrease in demand for the Group's products and services, or an increase in the Group's costs, which may materially adversely affect the Group's business, financial condition and results of operations.

1.35 *The Group may be liable for the cost of repairing or replacing appliances under the Sale of Goods Act.*

The sale of appliances to consumers is subject to the Sale of Goods Act 1979 (the "SGA") and other consumer rights legislation. Pursuant to the SGA, the Group may be held liable for the cost of repairing or replacing any appliance that the Group sells which does not meet the express terms of the contract for sale or the implied terms of satisfactory quality, fitness for purpose or correspondence with description. Any claims that a customer may have against the manufacturer of the appliance or under a warranty sold by the manufacturer or a third party are in addition to the rights that the customer has against the seller under the SGA. Accordingly, a customer who has purchased an appliance from the Group that allegedly does not meet an express or implied contractual term may choose to bring a claim against the Group as the seller of the appliance and, in particular, customers may choose to bring such a claim in circumstances where the manufacturer has entered administration or become insolvent. For example, when Baumatic entered administration in October 2013, the Group experienced an increase in customer complaints and claims in connection with Baumatic appliances and the Group incurred significant additional costs in resolving such complaints and claims. Any similar financial difficulties for one or more of the Group's suppliers could cause the Group to experience an increase in customer complaints and claims, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.36 *The Group may face product recalls and product liability claims.*

The sale of major domestic appliances involves the risk of injury to the Group's customers or other persons and damage to property, as well as the costs of replacing appliances. While AO believes that the Group's facilities and operations comply in all material respects with all applicable laws and regulations, the actual or alleged sale of defective products by the Group could result in product recalls or product liability claims, the settlement or outcome of which could have a material adverse effect on the Group's reputation, business, financial condition, results of operations and prospects.

Even if an event causing a product recall proves to be unfounded or if a product liability claim against the Group is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that the products sold by the Group caused injury or damage, or any product recall or allegation that the products sold by the Group were defective, could adversely affect both the Group's reputation with existing and potential new customers and the Group's corporate and brand image. Any such event could, therefore, have a material adverse effect on the Group's reputation, business, financial condition, results of operations and prospects.

1.37 *The Group is subject to strict regulations applicable to the delivery and recycling of major domestic appliances and any changes to existing regulation or the introduction of new regulation may increase the Group's costs.*

The Group's distribution and logistics operations are subject to strict regulations, including but not limited to, the UK government's Waste Electronic and Electrical Equipment ("WEEE") directive and regulations applicable to the delivery of major domestic appliances. For example, the Group is subject to regulations governing the number of hours that drivers can work on consecutive days and, as a result, the Group may not have enough drivers available to work during periods of very high demand or adverse weather conditions. Regulations also govern the weight limits of the loads each trailer and delivery vehicle can take. For instance, all of the Group's double-decker trucking trailers are limited to a loaded weight of 44 tonnes, which affects the operational efficiency of the Group's delivery infrastructure.

Modification of existing legislation or regulation, or the introduction of new legislative or regulatory initiatives may require the Group to make changes to its existing operations and increase the Group's compliance costs, which could have a material adverse effect on the Group's business, financial condition and results of operations.

1.38 *The Group relies on its stockless outbases to deliver orders to customers.*

The Group transports stock from the NDC to its stockless outbases where appliances are loaded onto delivery vehicles for delivery to customers. The delivery of each order is typically allocated to one of the Group's eight stockless outbases based on the delivery location. Although deliveries can be made to customers directly from the NDC or from a neighbouring outbase (provided that delivery teams and delivery vehicles are available), such deliveries are unlikely to be as economical as deliveries from the designated stockless outbase. Therefore, any disruption to the efficient operation of a stockless outbase may affect the ability of the Group to deliver products to certain customers, or to do so economically, which could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, a stockless outbase may suffer prolonged power or equipment failures or damage from fires, floods, other natural disasters or other unforeseen events which may not be covered by or may be in excess of the Group's insurance coverage and may cause significant disruption to the Group's operations. Damage resulting from any such events may also take considerable time to repair.

AO leases (rather than owns) the stockless outbases. AO could inadvertently breach the terms of such leases through the day-to-day operation of its business. Any breach of the terms of a lease on which a stockless outbase is held could result, if not waived or deemed waived by the relevant landlord, in the early termination of the lease.

The prolonged shutdown of a stockless outbase or the early termination of a lease on which a stockless outbase is held (or the shutdown of, or early termination of the lease relating to, a number of stockless outbases) could have a material adverse effect on the Group's business, financial condition and results of operations.

As delivery volumes increase, the Group will seek to develop new stockless outbases in order to increase the capacity and efficiency of its distribution and logistics operations. To the extent the Group is unable to develop new stockless outbases, for example, if it is unable to find suitable sites in which to locate them, the Group's expansion plans will be materially adversely affected.

2. RISKS RELATING TO THE OFFER AND THE ORDINARY SHARES

2.1 *The Directors and Major Selling Shareholders will retain a significant interest in the Company and their interests may conflict with those of other Shareholders.*

At Admission, and prior to any exercise of the Over-allotment Option, the Directors and Major Selling Shareholders and their connected persons are expected to own collectively approximately 63.3 per cent. of the share capital of the Company, of which John Roberts and Steve Caunce are expected to own approximately 28.6 per cent. and 13.6 per cent., respectively. Accordingly, these Shareholders may be in a position to influence the outcome of matters relating to the Company, including appointments to the Board and the approval of significant transactions, including change of control transactions. The interests of these Shareholders may be different from the interests of the Company or the other Shareholders. In particular, this control may have the effect of making certain transactions more difficult without the support of the Directors and Major Selling Shareholders, and may have the effect of delaying or preventing an acquisition or other change in control of the Company. If the Directors' and Major Selling Shareholders' interests were to conflict with those of other Shareholders, it may have a material adverse effect on the value of the Ordinary Shares and the Group's business, financial condition, results of operations and prospects.

Full details of the Directors' and Selling Shareholders' shareholdings are set out in paragraphs 6.2 and 11 of Part XV (*Additional Information*).

2.2 *Future sales or issues of Ordinary Shares, or the possibility or perception of such future sales or issues, may affect the market price of the Ordinary Shares.*

Following Admission, sales by any Shareholders or issues by the Company of Ordinary Shares may significantly reduce the Company's share price. Subject to certain limited exceptions, the Directors and Selling Shareholders will be prevented from selling Ordinary Shares held by them for a period of 360 and 180 days, respectively, following Admission. Similarly, the Company will be restricted, subject to certain limited exceptions, for 180 days from Admission from issuing Ordinary Shares. On the expiry of these periods, the Company may issue Ordinary Shares and the Directors and relevant Shareholders will be free (subject to applicable law) to sell the Ordinary Shares held by them. The potentially increased supply of Ordinary Shares on the market may have a material adverse effect on the market price of the Ordinary Shares.

Similarly, sales of additional Ordinary Shares by the Directors or significant Shareholders and issues of additional Ordinary Shares by the Company may affect the confidence of the market in the Ordinary Shares and cause the market price of the Ordinary Shares to fall.

2.3 *An active or liquid market for the Ordinary Shares may not develop.*

Prior to the Offer, there has been no public trading market for the Ordinary Shares. The Offer Price will be agreed between the Joint Global Co-ordinators, the Company and the Selling Shareholders and may not be indicative of the market price for the Ordinary Shares following Admission. Although the Company has applied to the UK Listing Authority for admission to the premium listing segment of the Official List and for admission to trading on the London Stock Exchange's main market for listed securities, there can be no assurance that an active trading market for the Ordinary Shares will develop or, if developed, that it will be maintained. The failure to develop an active trading market may affect the liquidity of the Ordinary Shares and the Company cannot assure Shareholders that the market price of the Ordinary Shares will not decline below the Offer Price. Consequently, investors may have difficulty selling their Ordinary Shares or may not be able to sell their Ordinary Shares at or above the Offer Price.

2.4 *The market price of the Ordinary Shares may be volatile, which could cause the value of an investment in the Ordinary Shares to decline.*

Following Admission, the trading price of the Ordinary Shares may be subject to wide fluctuations in response to many factors, including those referred to in this section, as well as stock market fluctuations and general economic conditions that may materially adversely affect the market price of the Ordinary Shares. Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them. In addition, the market price of the Ordinary Shares may prove to be highly volatile. The market price of the Ordinary Shares may fluctuate significantly in response to a number of factors, some of which are beyond the Company's control, including:

- variations in operating results in the Group's reporting periods;
- any shortfall in revenue or net profit or any increase in losses from the levels expected by market analysts or Shareholders;
- increases in capital expenditure compared to expectations;
- failure to make efficiency improvements;
- changes in financial estimates by securities analysts;
- changes in market valuations of similar companies;
- announcements by the Group of significant contract gains or losses, acquisitions, strategic alliances, joint ventures, new initiatives, new products or new product ranges;
- regulatory matters;
- additions or departures of key personnel; and
- future issues or sales of Ordinary Shares.

Any or all of these events could result in material fluctuations in the price of the Ordinary Shares and investors may lose part or all of their investment in the Ordinary Shares.

The Offer Price might not be indicative of prices that will prevail in the trading market and investors may not be able to resell the Ordinary Shares at or above the price paid.

A public perception that the Company is an internet, e-commerce or technology company may result in the price of the Ordinary Shares moving in line with other shares in companies of this nature. Traditionally, the share prices of internet, e-commerce and technology companies have tended to be more volatile than share prices of companies operating in other industries.

2.5 Future issues of Ordinary Shares may dilute the holdings of Shareholders.

Other than the proposed offering of Ordinary Shares, the Company has no current plans for an offering of Ordinary Shares and, as described above, will be unable to do so for a fixed period after Admission (subject to certain limited exceptions). It is possible, however, that the Company may decide to offer additional Ordinary Shares in the future, either to raise capital or for other purposes. Subject to any applicable statutory pre-emption rights, any future issues of Ordinary Shares may have a dilutive effect on the holdings of Shareholders and could have a material adverse effect on the market price of Ordinary Shares as a whole.

2.6 An investment in Ordinary Shares by an investor whose principal currency is not sterling may be affected by exchange rate fluctuations.

The Ordinary Shares are, and any dividends to be paid in respect of them will be, denominated in sterling. An investment in Ordinary Shares by an investor whose principal currency is not sterling exposes the investor to foreign currency exchange rate risk. Any depreciation of sterling in relation to such foreign currency will reduce the value of the investment in the Ordinary Shares or any dividends in relation to such foreign currency.

2.7 The rights, including the pre-emptive rights, of US and other non-UK holders of Ordinary Shares may be limited or not capable of exercise, which could have a material adverse effect on the Group's business as well as on the liquidity and price of the Ordinary Shares.

The Group could undertake future equity issues that could have a material adverse effect on the market price of the Ordinary Shares and may reduce the percentage ownership and voting interests of Shareholders. Moreover, the Group may issue new shares that have rights, preferences or privileges senior to those of the Ordinary Shares.

In the case of certain increases in the Company's share capital, the existing holders of the Ordinary Shares generally would be entitled to pre-emption rights pursuant to the Companies Act 2006 unless such rights have been waived by a special resolution of the Shareholders at a general meeting or, in certain circumstances, pursuant to the Articles. Holders of Ordinary Shares outside the United Kingdom may not be able to exercise their pre-emption rights in respect of Ordinary Shares unless exemptions from any overseas securities law requirements are available and the Company decides to comply with local law and regulations. In particular, US holders of the Ordinary Shares may not be able to exercise pre-emption rights unless the Ordinary Shares or other securities issued by the Company are registered under the Securities Act or an exemption from the registration requirements is available. The Company cannot assure prospective investors that any exemption from such overseas securities law requirements would be available to enable US and other non-UK holders to exercise such pre-emption rights or, if available, that the Company will utilise any such exemption.

PART III

IMPORTANT INFORMATION

1. NOTICE TO PROSPECTIVE INVESTORS

Jefferies and J.P. Morgan Cazenove have been appointed as Joint Global Co-ordinators, Joint Sponsors and Joint Bookrunners in connection with the Offer. Numis has been appointed as Joint Bookrunner in connection with the Offer. Rothschild has been appointed as Financial Adviser to the Company in connection with the Offer. Jefferies and Numis, each of which is authorised and regulated by the FCA in the United Kingdom, and J.P. Morgan Cazenove and Rothschild, each of which is authorised by the Prudential Regulation Authority (“PRA”) and regulated by the FCA and PRA in the United Kingdom, are acting exclusively for the Company and no one else in connection with the Offer, will not regard any other person (whether or not a recipient of this document) as a client in relation to the Offer, and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients or for providing advice in relation to the Offer or any other matter referred to herein.

Apart from the responsibilities and liabilities, if any, which may be imposed on Jefferies, J.P. Morgan Cazenove, Numis and Rothschild by the FSMA or the regulatory regime established thereunder, none of Jefferies, J.P. Morgan Cazenove, Numis nor Rothschild accepts any responsibility whatsoever, and makes no representation or warranty, express or implied, in relation to the contents of this Prospectus, including its accuracy, completeness or for any other statement made or purported to be made by it or on behalf of it, the Company, the Directors, the Selling Shareholders or any other person, in connection with the Company, the Ordinary Shares, the Selling Shareholders or the Offer, and nothing in this Prospectus shall be relied upon as a promise or representation in this respect, whether as to the past or the future. Each of Jefferies, J.P. Morgan Cazenove, Numis and Rothschild accordingly disclaims all and any liability whatsoever, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement.

In connection with the Offer, the Underwriters and any of their respective affiliates acting as investors for their own accounts may subscribe for or purchase Offer Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in the Offer Shares, any other securities of the Company or other related investments in connection with the Offer or otherwise. Accordingly, references in this Prospectus to the Offer Shares being issued, offered, subscribed, sold, purchased or otherwise dealt with should be read as including any issue, offer or sale to, or subscription, purchase or dealing by, the Underwriters or any of them and any of their affiliates acting as an investor for its or their own account(s). The Underwriters do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Prospective investors should rely solely on the information contained in this Prospectus (and any supplementary prospectus produced to supplement the information contained in this Prospectus) when making a decision as to whether to purchase Offer Shares. No person has been authorised to give any information or make any representation other than those contained in this document and, if given or made, such information or representation must not be relied upon as having been so authorised by the Company, the Directors, Jefferies, J.P. Morgan Cazenove, Numis or Rothschild. In particular, the content of the Group’s websites do not form part of this document and prospective investors should not rely on such content. Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G(1) of the FSMA and Rule 3.4 of the Prospectus Rules, neither the delivery of this Prospectus nor any issue or sale made under this Prospectus shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or of the Company and its subsidiaries taken as a whole since the date of this Prospectus or that the information contained herein is correct as at any time subsequent to its date.

Without prejudice to any legal or regulatory obligation on the Company to publish a supplementary prospectus, neither the delivery of this document, nor Admission, shall under any circumstances create any implication that there has been no change in the affairs of the Company or the Group since the date of this document or that the information contained herein is correct at any time subsequent to the date of this document.

The contents of this document should not be construed as legal, business or tax advice. Each prospective investor should consult his, her or its own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice.

Investors in the Offer shall be deemed to have made certain representations, warranties, undertakings, agreements and acknowledgements. See paragraph 10.4 of Part XIII (*Details of the Offer*) of this document.

2. FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements regarding the financial condition, results of operations, cash flows, dividends, financing plans, business strategies, operating efficiencies, budgets, capital and other expenditures, competitive positions, growth opportunities, plans and objectives of management and other matters relating to the Group. Statements in this document that are not historical facts are hereby identified as “forward-looking statements”. In some instances, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms “projects”, “forecasts”, “anticipates”, “expects”, “believes”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology. Such forward-looking statements, including, without limitation, those relating to the future business prospects, revenue, liquidity, capital needs, in each case relating to the Group wherever they occur in this document, are necessarily based on assumptions reflecting the views of the Company, involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements and speak only as at the respective dates on which they are made.

Important factors which may cause actual results to differ include, but are not limited to, those described in the Part II (*Risk Factors*) of this document.

Save as required by law, or by the Listing Rules, the Prospectus Rules or the Disclosure Rules and Transparency Rules, the Company undertakes no obligation to release publicly the results of any revisions to any forward-looking statements in this document that may occur due to any change in the Company’s expectations or to reflect events or circumstances after the date of this document.

3. MARKET AND INDUSTRY DATA

All references to market data, industry statistics and forecasts and other information in this document consist of estimates based on data and reports compiled by industry professionals, organisations, analysts, publicly available information or the Company’s own knowledge of its sales and markets. The third-party data used herein includes statistical and market information reproduced from a report dated 4 October 2013 prepared by OC&C Services Limited (“**OC&C**”) at the request of the Group (the “**OC&C Report**”). The third party data used herein also includes information sourced from the UK Office for Budget Responsibility and HM Revenue and Customs.

The Company confirms that information sourced from a third party has been accurately reproduced, and as far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. In addition, in many cases the Company has made statements in this document regarding its industry and its position in the industry based on industry forecasts, market research and internal surveys as well as its own experience.

4. PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless stated otherwise, financial information relating to the Group for the nine month periods ended 31 December 2012 and 2013 and for the financial years ended 31 March 2011, 2012 and 2013 has been extracted without material adjustment from the financial information in Part XI (*Historical Financial Information*), which has been prepared in accordance with International Financial Reporting Standards as adopted by the European Commission for use in the European Union (“**IFRS**”).

Unless stated otherwise, the information in this document assumes that the share capital re-organisation described in paragraph 4.2 of Part XV (*Additional Information*) has taken place and that the Over-allotment Option is not exercised.

All references to “pounds”, “pounds sterling”, “sterling”, “£”, “pence”, and “p” are to the lawful currency of the United Kingdom. The Group prepares its financial statements in pounds sterling.

Percentages in tables have been rounded and accordingly may not add up to 100 per cent. Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

This Prospectus contains certain unaudited supplementary measures of the Group's performance that are not required by, or presented in accordance with, IFRS or generally accepted accounting principles ("GAAP") in the United Kingdom, including the following:

EBITDA

The Company calculates "**EBITDA**" (earnings before interest, taxes, depreciation and amortisation) by adding depreciation and amortisation to operating profit/(loss), in each case to be determined in accordance with IFRS. EBITDA and the related ratios presented in this Prospectus are unaudited supplementary measures of the Group's performance and liquidity that are not required by, or presented in accordance with, IFRS or UK GAAP. Furthermore, EBITDA is not a measure of the Group's financial performance or liquidity under IFRS or UK GAAP and should not be considered as an alternative to gross profit, operating profit/(loss) or any other performance measures derived in accordance with IFRS or UK GAAP or as an alternative to cash flow from operating activities as a measure of the Group's liquidity. EBITDA may not be indicative of the Group's historical operating results, nor is it meant to be predictive of future results. The EBITDA figures for the years ended 31 March 2011, 2012 and 2013 and the nine months ended 31 December 2012 and 2013 included in this Prospectus have been derived from the historical financial information contained in Part XI (*Historical Financial Information*). Where information has been derived, it has been calculated by adding together and/or subtracting figures which are extracted without material adjustment either from the income statements that appear in Part XI (*Historical Financial Information*) or the notes thereto. For a reconciliation of the Group's EBITDA to operating profit/(loss) for the years ended 31 March 2011, 2012 and 2013 and the nine months ended 31 December 2012 and 2013, see Part IX (*Operating and Financial Review*).

The Company has presented these unaudited supplementary measures because they are used by the Group in managing its business. In addition, the Company believes that EBITDA is commonly reported by comparable businesses and used by securities analysts, investors and other parties in comparing the performance of businesses on a consistent basis without regard to interest, taxes, depreciation or amortisation, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred) or other non-operating factors. EBITDA as presented herein may not, however, be comparable to similarly titled measures disclosed by other companies. Prospective investors should not consider these non-GAAP measures in isolation or as a substitute for operating profit/(loss) as determined by IFRS or UK GAAP, or as an indicator of the Group's operating performance or of cash flows from operating activities as determined by IFRS or UK GAAP. Prospective investors should not use this measure as a substitute for the analysis of the Company's results as reported in the income statement or cash flow statement.

Some of the limitations of EBITDA as a measure are:

- it does not reflect the Group's cash expenditures or future requirements for capital expenditure on contractual commitments;
- it does not reflect changes in, or cash requirements for, the Group's working capital needs;
- it does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, in respect of any borrowings;
- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often have to be replaced in the future, and EBITDA measures do not reflect any cash requirements for such replacements; and
- other companies in the Group's industry may calculate EBITDA measures differently than the Group does, limiting their usefulness as a comparative measure.

Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to the Group to invest in the growth of its business. The Company compensates for these limitations by relying primarily on the Group's IFRS results and using EBITDA only as a supplementary measure of performance. Accordingly, undue reliance should not be placed on the EBITDA data contained in this document.

Adjusted EBITDA

The Company calculates "**Adjusted EBITDA**" by adding certain items to EBITDA, as described below. Adjusted EBITDA and the related ratios presented in this Prospectus are unaudited supplementary

measures of the Group's performance and liquidity that are not required by, or presented in accordance with, IFRS or UK GAAP. For a reconciliation of the Group's Adjusted EBITDA to operating profit/(loss) for the years ended 31 March 2011, 2012 and 2013 and the nine months ended 31 December 2012 and 2013, see Part IX (*Operating and Financial Review*).

For the year ended 31 March 2012, the Group had exceptional costs totalling £2.8 million relating to specifically identifiable costs of the relocation of the Group's delivery and logistics services from Radcliffe to the NDC in Crewe, the opening of a customer service call centre in Manchester and the restructuring of the Group's delivery fleet, including the write off of onerous property and vehicle leases, the write off of fixed assets no longer required, redundancy costs and dual running costs. For the nine months ended 31 December 2013, the Group recorded professional fees in relation to initial public offering of £1.4 million, which related to specifically identifiable costs incurred during the period relating to the Group's proposed initial public offering. As the Company does not expect these historical costs to recur in future periods, the Company believes these costs may not be indicative of the Group's future operating performance. Adjusted EBITDA does not, however, reflect deductions, additions or other adjustments to historical items other than those stated, even if such items would have a material effect on the Group's reported results of operations.

As an analytical tool, Adjusted EBITDA is subject to all of the limitations applicable to EBITDA. Furthermore, while the individual elements of the costs are not expected to recur in future periods, prospective investors should be aware that the Group may incur other costs that could have a significant impact on the Group's results in future periods. Prospective investors should evaluate each adjustment and the underlying rationale for making such an adjustment. Prospective investors should not consider Adjusted EBITDA in isolation or as a substitute for operating profit/(loss) as determined by IFRS or UK GAAP, or as an indicator of the Group's operating performance or of cash flows from operating activities as determined by IFRS or UK GAAP. Prospective investors should not use this measure as a substitute for the analysis of the Company's results as reported in the income statement or cash flow statement. Accordingly, undue reliance should not be placed on the Adjusted EBITDA data contained in this document.

5. DEFINITIONS

Certain terms used in this document, including capitalised terms and certain technical terms, are defined and explained in Part XVI (*Definitions*).

Reference to any statute or statutory provision includes a reference to that statute or statutory provision as from time to time amended, extended or re-enacted.

6. STABILISATION

In connection with the Offer, the Stabilising Manager, or any of its affiliates or agents, may over-allot or effect other transactions with a view to supporting, stabilising or maintaining the market price of the Ordinary Shares at a level which might not otherwise prevail in the open market. Such transactions may be effected on the London Stock Exchange or otherwise. There will be no obligation on the Stabilising Manager or any of its affiliates or agents to effect any stabilising transactions and there is no assurance that any stabilising transactions will be undertaken. Such stabilising transactions, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Save as required by law, the Stabilising Manager does not intend to disclose the extent of any over-allotments of Ordinary Shares made or stabilisation transactions conducted in connection with the Offer.

Further details regarding stabilisation are set out in paragraphs 20.1 and 20.3 of Part XV (*Additional Information*).

7. AVAILABLE INFORMATION FOR INVESTORS IN THE UNITED STATES

The Company has agreed that, for so long as any Ordinary Shares remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or 15(d) of the US Securities Exchange Act of 1934 (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, provide to any holder or beneficial owner of these restricted securities or prospective investor designated by such holder or beneficial owner, in each case upon the request of such holder, beneficial owner or prospective investor, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

8. ENFORCEMENT OF JUDGMENTS

The Company is a public company incorporated under the laws of England and Wales. The Directors are citizens or residents of countries other than the United States, and all or substantially all of the assets of such persons and the Company are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon the Company or such persons, or to enforce outside of the United States judgments obtained against the Company or such persons in the United States, including without limitation judgments based upon the civil liability provisions of the US federal securities laws or the laws of any state or territory within the United States. In addition, an award or awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in the United Kingdom. Investors may also have difficulties enforcing, in original actions brought in courts in jurisdictions outside the United States, liabilities under US securities laws.

PART IV
DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors

Richard Rose	Non-Executive Chairman
John Roberts	Chief Executive Officer
Stephen (Steve) Caunce	Chief Financial Officer & Chief Operating Officer
Charles (Bill) Holroyd	Non-Executive Director
Christopher Hopkinson	Non-Executive Director
Marisa Cassoni	Independent Non-Executive Director
Rudolf Lamprecht	Independent Non-Executive Director
Brian McBride	Senior Independent Non-Executive Director

Company Secretary

David Myers

Registered Office and Directors' Business Addresses

Unit 5A, The Parklands, Lostock, Bolton, BL6 4SD

Joint Sponsor, Joint Global Co-ordinator and Joint Bookrunner

Jefferies International Limited
Vintners Place
68 Upper Thames Street
London EC4V 3BJ

Joint Sponsor, Joint Global Co-ordinator and Joint Bookrunner

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP

Joint Bookrunner

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Financial Adviser to the Company

N M Rothschild & Sons Limited
New Court
St Swithin's Lane
London EC4N 8AL

Legal Advisers to the Company as to English law and US law

Herbert Smith Freehills LLP
Exchange House
Primrose Street
London EC2A 2EG

Legal Advisers to the Joint Sponsors, Joint Global Co-ordinators and Joint Bookrunners as to English law and US law

Simmons & Simmons LLP
CityPoint
One Ropemaker Street
London EC2Y 9SS

Auditor and Reporting Accountant

Deloitte LLP
2 New Street Square
London EC4A 3BZ

Registrar

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

PART V

EXPECTED TIMETABLE OF PRINCIPAL EVENTS AND OFFER STATISTICS

Expected Timetable of Principal Events

All references to time in this document are to the time in London, United Kingdom, unless otherwise stated. Each of the times and dates in the table below are indicative only and may be subject to change.

	<u>Date</u>
Announcement of Offer Price	7.00am on 26 February
Commencement of conditional dealings on London Stock Exchange	8.00am on 26 February
Prospectus published	26 February
Admission and commencement of unconditional dealings in Ordinary Shares on London Stock Exchange	8.00am on 3 March
CREST accounts credited in respect of the Offer Shares	3 March

It should be noted that if Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.

Offer Statistics

Offer Price (per Ordinary Share)	285p
Number of Ordinary Shares in issue immediately prior to Admission ⁽¹⁾	400,000,000
Number of New Ordinary Shares to be issued by the Company pursuant to the Offer	21,052,631
Percentage of the Company's issued share capital to be issued pursuant to the Offer ⁽¹⁾	5.3%
Number of Existing Ordinary Shares to be offered by the Selling Shareholders pursuant to the Offer ⁽²⁾	127,412,880
Number of Ordinary Shares subject to the Over-allotment Option	22,269,826
Number of Ordinary Shares in issue following Admission	421,052,631
Expected market capitalisation of the Company ⁽³⁾	£1,200 million
Estimated net proceeds of the Offer receivable by the Company ⁽⁴⁾	£40.9 million
Estimated net proceeds of the Offer receivable by the Selling Shareholders ^{(2),(5)}	£348.6 million

(1) Assuming the share capital re-organisation described in paragraph 4.2 of Part XV (*Additional Information*) has taken place.

(2) Assuming the Over-allotment Option is not exercised.

(3) Based on the Offer Price. The market capitalisation of the Company at any given time will depend on the market price of the Ordinary Shares at that time. There can be no assurance that the market price of an Ordinary Share will equal or exceed the Offer Price.

(4) After deduction of the estimated commissions, fees and expenses of the Offer payable by the Company, expected to be approximately £19.1 million.

(5) After deduction of the estimated commissions, fees and expenses of the Offer payable by the Selling Shareholders, expected to be approximately £14.5 million.

PART VI

INFORMATION ON THE COMPANY AND THE GROUP

1. INTRODUCTION

AO is the United Kingdom's leading online retailer of major domestic appliances measured by 2012 market share according to the OC&C Report. AO's mission statement is to "redefine retailing through a devotion to happiness and amazing customer service". AO aims to fulfil its mission through its commitment to five customer promises: (1) to ensure all its people, from its online team to its delivery teams, are passionate about delivering exceptional service; (2) to offer competitive pricing and its "price match promise"; (3) to offer straightforward terms and conditions and make clear commitments to customers; (4) to offer an excellent end-to-end retail experience by providing customers with relevant tools and information; and (5) to amaze customers with a flexible and personal approach.

AO sources, sells and delivers major domestic appliances, including washing machines, washer dryers, tumble dryers, dishwashers, refrigerators, freezers, ovens, range cookers and microwaves, as well as a range of small domestic appliances, including vacuums, floor cleaners, coffee machines, mixers and food processors. AO's sales activities are focused primarily on sales of appliances through the Group's own branded websites, principally AO.com. AO's sales also include third-party branded website sales, where the Group builds and operates third-party branded websites and sources and delivers appliances to fulfil customer orders generated through these websites, and trade sales, where the Group fulfils orders generated by third-party retailers and product protection plan providers by sourcing and delivering appliances. The Group also offers ancillary services to its AO website and third-party branded website customers, including delivery, installation, removal and recycling services and sales of third-party product protection plans.

In addition to sales of appliances and ancillary services, the Group also provides logistics services to third-party clients. These logistics services relate primarily to the delivery of major domestic appliances not procured by the Group on behalf of such clients, although the Group also provides delivery services for smaller domestic appliances and other consumer goods.

In 2012, AO had a share of approximately 24 per cent. of the online market for major domestic appliances in the United Kingdom, of which approximately 19 per cent. represented AO website sales, according to the OC&C Report.

The Group's revenue increased from £164.1 million for the year ended 31 March 2011 to £275.5 million for the year ended 31 March 2013, a compound annual growth rate of 29.6 per cent. In the year ended 31 March 2013, the Group had approximately 763,000 orders. The Group's revenue increased from £197.0 million for the nine months ended 31 December 2012 to £281.1 million for the nine months ended 31 December 2013, an increase of 42.7 per cent. In the nine months ended 31 December 2013, the Group had approximately 766,000 orders.

2. MARKET OVERVIEW

2.1 UK major domestic appliances market of over £3 billion

The market for major domestic appliances in the United Kingdom in 2012 comprised sales of approximately 13 million units with a total sales value (including VAT) of approximately £3.2 billion, according to the OC&C Report. The market for ancillary services in the United Kingdom (including delivery, installation, removal and recycling services and sales of product protection plans) was approximately £0.4 billion (including VAT) in 2012, according to the OC&C Report. The largest product segment of the UK major domestic appliances market was laundry appliances with sales value (including VAT) of approximately £1.1 billion, closely followed by refrigeration and cooking appliances, each with sales value (including VAT) of approximately £0.8 billion in 2012, according to the OC&C Report. Dishwashers and microwaves represented smaller segments of the market, each with sales value (including VAT) of approximately £0.2 billion in 2012, according to the OC&C Report. The market for major domestic appliances in the UK is projected in the OC&C Report to grow to a total sales value (including VAT) of approximately £3.4 billion in 2016.

The UK market for major domestic appliances is characterised by high product penetration rates and long product lifespans and, accordingly, most purchases of major domestic appliances are replacements or upgrades. On average, UK households replace a major domestic appliance after 6.6 years, according to the

OC&C Report. Increases in UK residential property transactions and new housing construction have historically been a significant driver of sales volumes. For example, many consumers purchase major domestic appliances when renovating a kitchen, which often occurs when a consumer is planning to sell, or has just purchased, a residential property. Another driver of sales volumes has historically been changes in UK gross domestic product and consumer confidence as, during periods of economic recession, consumers may seek to postpone the purchase of higher priced products and, accordingly, only purchase major domestic appliances when required to replace a non-functioning appliance.

According to the OC&C Report, sales volumes of major domestic appliances in the United Kingdom declined from approximately 14.5 million units sold in 2007 to approximately 12.6 million units sold in 2009, and then stabilised between 2009 and 2012, with sales of approximately 13.0 million units, 13.1 million units and 13.0 million units in 2010, 2011 and 2012, respectively. In terms of sales value, the UK market for major domestic appliances declined in value between 2007 and 2009, but grew at a compound annual growth rate of 2.3 per cent. from 2009 to 2012, according to the OC&C Report. Average sales prices of major domestic appliances in the United Kingdom increased across all product categories between 2007 and 2010, driven by input cost inflation and exchange rate pressures translating through to retail prices. Since 2010, prices have flattened due to competitive price pressures and price transparency.

The OC&C Report projects limited growth in prices of major domestic appliances in the United Kingdom from 2013 to 2016 as retailers continue to compete aggressively on prices. The OC&C Report projects growth in the UK overall market for major domestic appliances of approximately 2 per cent. per annum from 2013 to 2016 as the OC&C Report does not project significant growth in UK residential property transactions or gross domestic product to occur during that period. The UK Office for Budget Responsibility forecasts in a December 2013 paper that UK gross domestic product will grow by 2.4 per cent., 2.2 per cent. and 2.6 per cent. in 2014, 2015 and 2016, respectively. According to an HM Revenue and Customs report published in January 2014, UK residential property transactions increased by 5.4 per cent. in 2012 and are estimated to have increased by 15.6 per cent. in 2013.

2.2 Major market shift to online retailing in the UK major domestic appliances market

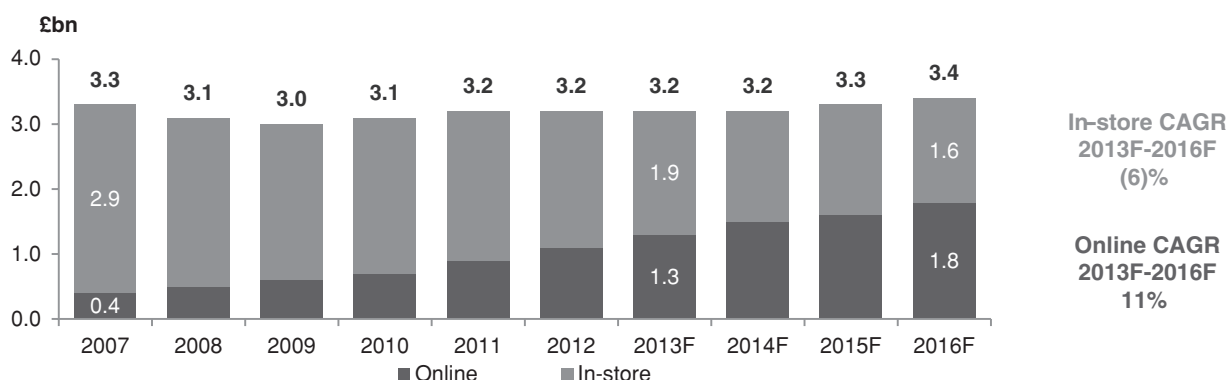
AO believes that the characteristics of major domestic appliances make them well suited for online purchasing and that the following factors have driven the growth of the online market in the United Kingdom for major domestic appliances:

- major domestic appliances are not “take-home-today” products as they typically require home delivery and usually cannot be taken home immediately after an in-store purchase—online retailers are able to provide flexible delivery options to meet the needs of different types of customers;
- due to the large size and high shipping and storage costs of many major domestic appliances, traditional in-store retailers typically stock limited ranges in-store, so purchasing online typically gives consumers a wider choice of products as larger selections can be displayed and demonstrated;
- major domestic appliances are “known-value” products as they are typically branded and have clear specifications, which allows consumers to buy from the retailer that offers the best price, added extras or service quality, and online retailers often are able to match the lowest prices in the market and generally have lower overhead costs than traditional in-store retailers; and
- major domestic appliances have relatively high purchase prices and long lifespans; as a result, consumers may take time to consider a potential purchase, and online retailers allow consumers to research and compare products online—for example, through comparisons of product specifications and product reviews. By comparison to the amount of information generally available online, the in-store experience for product researching can be limited as in-store product displays often provide only basic technical specifications and in-store sales representatives may have difficulty handling more detailed queries or offering advice on low turnover products.

Since 2010, the market for major domestic appliances in the United Kingdom has been characterised by growth of major online specialist retailers, such as AO, which have increased their share of sales value from approximately 7 per cent. of the UK overall market in 2010 to approximately 11 per cent. in 2012, according to the OC&C Report. Some traditional in-store retailers have exited the UK market and certain of the remaining retailers are rationalising their in-store propositions and focusing on growing their online channels. Online sales of major domestic appliances comprised approximately 34 per cent. by value of the UK overall market in 2012, with online sales value (including VAT) of approximately £1.1 billion, according to the OC&C Report. AO believes the growth of the online market in the United Kingdom for

major domestic appliances has been driven by a number of factors, including increases in confidence in online retailers generally as consumers continue to build their experience with shopping online and the development of mobile commerce on smartphones and tablets.

The OC&C Report projects that the online channel will continue to increase its share of total sales of major domestic appliances in the United Kingdom, rising to approximately 52 per cent. of the UK overall market by value, with online sales value (including VAT) of approximately £1.8 billion in 2016.



Source: OC&C Report. Market size data include VAT.

The OC&C Report notes that a number of possible factors could cause the online channel to grow more quickly than forecast, resulting in a larger share of the UK overall market in 2016, including potential structural changes in the market—for example, an accelerated shift to the online channel by additional traditional in-store retailers—and potential further changes in consumer purchasing behaviour in connection with the development of mobile commerce—for example, showrooming, where a consumer researches appliances online on a smartphone while browsing in-store and then purchases through whichever channel offers the best price, added extras or service quality.

2.3 Other UK markets

The market for small domestic appliances in the United Kingdom in 2012 comprised sales of approximately 33.5 million units with a total sales value (including VAT) of approximately £1.6 billion, according to the OC&C Report. The OC&C Report projects that the UK overall market for small domestic appliances will grow from approximately £1.6 billion in 2013 to approximately £1.8 billion in 2016, a compound annual growth rate of 4 per cent.

The market for televisions in the United Kingdom in 2012 comprised sales of approximately 11.5 million units with a total sales value (including VAT) of approximately £4.6 billion, according to the OC&C Report. The OC&C Report projects that the UK overall market for televisions will decline from approximately £4.3 billion in 2013 to approximately £3.7 billion in 2016.

2.4 Other European markets

The below table presents summary market information for the major domestic appliances, small domestic appliances and television markets in certain other European jurisdictions.

	MDA market size ⁽¹⁾	MDA online penetration ⁽²⁾	SDA market size ⁽¹⁾	Television market size ⁽¹⁾
	£ billion	%	£ billion	£ billion
Austria	0.6	18	0.3	0.4
Belgium	0.8	8	0.3	0.4
Czech Republic	0.4	22	0.1	0.2
Denmark	0.6	24	0.2	0.4
France	4.5	25	2.3	2.2
Germany	6.6	14	2.4	4.8
Netherlands	1.2	24	0.5	0.5
Poland	0.9	10	0.3	1.0
Sweden	0.9	13	0.3	0.5
Switzerland	0.5	10	0.2	0.3

(1) Source: OC&C Report, referencing Euromonitor International. Market size data are for 2012 and include VAT. The market data for the European markets shown in this table may not have been prepared on the same basis as that used by OC&C in connection with the UK market data included elsewhere in this Prospectus.

(2) Source: OC&C Report. Major domestic appliances online penetration rates are estimates for 2013.

3. STRENGTHS OF THE GROUP

AO believes the competitive strengths described below provide the Group with advantages over other retailers of major domestic appliances in the United Kingdom, whether online or in-store. AO also believes that these competitive advantages create barriers to entry for other online retailers and that its business model would be difficult to replicate on a large scale in the short to medium term.

3.1 Market leader in growing UK online market for major domestic appliances

AO had the largest market share of the UK online market for major domestic appliances in 2012, according to the OC&C Report. In 2012, AO had a share of approximately 24 per cent. of the online market for major domestic appliances in the United Kingdom, of which approximately 19 per cent. represented AO website sales, according to the OC&C Report. Between 2010 and 2012, AO was the fastest growing retailer of major domestic appliances, gaining approximately 4 per cent. share of the overall market for major domestic appliances in the United Kingdom, according to the OC&C Report.

The online market for major domestic appliances in the United Kingdom grew from sales value (including VAT) of approximately £0.7 billion in 2010 to approximately £1.1 billion in 2012, a compound annual growth rate of 25 per cent, according to the OC&C Report. AO website sales increased from £76.1 million for the year ended 31 March 2011 to £198.0 million for the year ended 31 March 2013, a compound annual growth rate of 61.3 per cent. The OC&C Report projects that the online market for major domestic appliances in the United Kingdom will grow from sales value (including VAT) of approximately £1.1 billion in 2012 to approximately £1.8 billion in 2016, a compound annual growth rate of 13 per cent. As the UK online market leader for major domestic appliances, AO believes that the Group is well positioned to benefit from further growth in the UK online market for major domestic appliances.

3.2 Market-leading customer proposition and focus on customer service

AO believes it has developed a market-leading customer proposition in online major domestic appliances retailing in the United Kingdom. AO offers its customers approximately 4,100 SKUs from over 30 appliance brands across a range of price points, competitive pricing with a “price match promise” and delivery, product installation, removal and recycling services seven days a week. AO seeks to maintain high levels of product availability and offers, for approximately 80 per cent. of SKUs and a majority of UK postcodes, same-day delivery for orders placed before noon and next-day delivery for orders placed before midnight. AO believes that it offers same-day and next-day delivery options on a significantly broader range of SKUs than its key competitors.

AO believes that its online platform, which includes detailed technical information, customer reviews and detailed product and price comparison tools, surpasses in many respects the in-store environment for

product researching and purchasing. AO has an in-house video production facility with animation capabilities that produces video reviews of appliances that customers can access on AO.com. AO uses the video reviews to provide detailed general and technical advice regarding the products the Group offers to customers. AO believes that its video reviews bring the products it offers “to life” for customers, provide a level of quality and consistency which is not present in a traditional in-store retail setting and give customers access to detailed product information and commentary on a wide variety of appliances.

AO’s online platform also features “Top 5” product recommendations across all product categories. AO chooses the products it features as “Top 5” products based on customer value for money, consistent volume availability, core technologies/key features, vendor promotions and customer reviews.

AO prides itself on delivering excellent customer service and has achieved high customer satisfaction levels. Prior to its rebranding as AO.com, when asked, “On a scale of 0-10 (with 10 being most likely), how likely is it that you would recommend Appliances Online to a friend or colleague?”, 85 per cent. of the 2,146 Appliances Online customers surveyed for the OC&C Report in April 2013 responded “9” or “10” and 93 per cent. said they were likely to purchase their next major domestic appliance from Appliances Online. Customers surveyed for the OC&C Report rated Appliances Online highly in terms of low prices, products in stock, wide range of products, delivery options/service and product information. As at the date of this document, AO has a rating of 4.9 out of 5 on Google Shopping and over 1.4 million Facebook followers.

AO believes that the strength of its customer offering will encourage existing customers to make additional purchases. AO also believes that, because customer feedback is generally widely available online, AO’s high customer satisfaction levels will enable AO to continue to attract new customers.

3.3 Specialist in-house delivery and logistics services enabling an integrated end-to-end retail experience with structural advantages over competitors

A key consideration for many purchasers of major domestic appliances is delivery of the product, including delivery fees, options, speed and reliability. The Group’s specialist in-house delivery and logistics service enables the Group to offer flexible and reliable delivery, seven days a week, to nearly all mainland UK postcodes. The Group’s customers can choose from a range of delivery options, including free standard delivery and, for approximately 80 per cent. of SKUs and a majority of UK postcodes, same-day delivery for orders placed before noon and next-day delivery for orders placed before midnight. AO also offers a choice of morning, lunch, afternoon or evening delivery times. Customers are also able to track their orders on the Group’s websites. In addition, the Group offers a full suite of services to its AO website and third-party branded website customers, including delivery, installation, removal and recycling services for major domestic appliances.

Unlike many of its competitors that rely on third-party delivery and logistics services, the Group benefits from control over its entire distribution chain and therefore the customer experience from the online purchase of an appliance through to its delivery, enabling it to improve the services it offers to customers while controlling and reducing delivery costs. For example, AO’s end-to-end retail experience enables it to offer Sunday delivery at no additional cost to the customer. The Group has also maintained high delivery to promise rates (96.3 per cent. and 98.2 per cent. for the year ended 31 March 2013 and the nine months ended 31 December 2013, respectively), as well as very low levels of product damage (0.12 per cent. of products damaged on delivery for the 40 weeks ending 3 January 2014) as part of its commitment to providing excellent customer service and to operational efficiency.

AO believes that the standard of service provided by the Group’s in-house delivery service is crucial, particularly given that delivery teams are typically the only face-to-face interaction that customers have with the Group.

3.4 Strong track record of revenue growth, profitability and cash generation

The Group’s revenue increased from £164.1 million for the year ended 31 March 2011 to £275.5 million for the year ended 31 March 2013, a compound annual growth rate of 29.6 per cent. The Group’s revenue increased from £197.0 million for the nine months ended 31 December 2012 to £281.1 million for the nine months ended 31 December 2013, an increase of 42.7 per cent.

The Group’s profit for the year attributable to equity shareholders increased from £2.6 million for the year ended 31 March 2011 to £6.8 million for the year ended 31 March 2013, a compound annual growth rate of

60.4 per cent. The Group's profit for the period attributable to equity shareholders was £5.0 million for the nine months ended 31 December 2012 and £3.2 million for the nine months ended 31 December 2013.

The Group's EBITDA increased from £4.4 million for the year ended 31 March 2011 to £10.7 million for the year ended 31 March 2013, a compound annual growth rate of 57.0 per cent. The Group's EBITDA was £7.9 million and £6.7 million for the nine months ended 31 December 2012 and 2013, respectively. The Group's EBITDA margin (calculated as EBITDA divided by revenue) was 3.9 per cent. and 2.4 per cent. for the year ended 31 March 2013 and the nine months ended 31 December 2013, respectively.

AO believes that the Group's track record of revenue growth, profitability and cash generation provides the Group with a strong foundation to pursue its future strategy and to further grow its business.

3.5 Experienced and entrepreneurial management team and strong culture with high employee engagement levels and dedication to delivering high quality customer service

The Group benefits from an experienced and entrepreneurial management team that has successfully developed and expanded the Group's business during periods of challenging market conditions and with a limited capital base, which AO believes demonstrates the ability of the management team to guide the Group as it continues to pursue its strategy of organic growth through customer focus, technical innovation and growing brand awareness. John Roberts, the Company's Chief Executive Officer, co-founded the Company in 2000 and Steve Caunce, the Company's Chief Financial Officer and Chief Operating Officer, joined in 2005. They work closely with a team of six senior managers who oversee the delivery and logistics, information technology, finance, marketing, operations and purchasing functions. The Executive Directors and senior management collectively have over 150 years of experience in the retail industry.

AO believes that happy employees are more engaged and require less management. In 2013, DRL Limited, a subsidiary of the Company, was ranked fourth in the Sunday Times "100 Best Companies" list of the best UK mid-sized companies to work for, rising from fifth in 2012. In connection with the Sunday Times' Employee Engagement Survey 2013, 97 per cent. of DRL Limited's employees participating in the survey agreed with the statement, "I am excited about where this organisation is going", and 94 per cent. agreed with the statement, "This organisation is run on strong values/principles". AO believes the Group has a strong culture and that its culture has helped the Group to attract high quality personnel, to maintain a high retention rate of key staff and to create a work force that is dedicated to delivering high quality customer service. AO seeks to empower its customer-facing staff with tools to resolve customer service issues in a timely and effective manner with few layers of supervision, which AO believes leads to an improved customer experience at a lower cost.

4. OBJECTIVES AND STRATEGIES OF THE GROUP

4.1 Build on market-leading customer proposition and increase AO.com's share of UK online market for major domestic appliances

AO intends to continue to make improvements in the functionality and content of the Group's websites to facilitate product research and enhance the customer experience, to maintain and expand its product range and to continue to offer value for money to customers through competitive pricing and its "price match promise". For example, AO intends to increase the number of in-house video reviews of appliances on its websites to provide customers with detailed product information and commentary on a wider range of appliances. AO also intends to continue to invest in enhancing its customer service and its delivery, installation, removal and recycling services to better serve its customers. For example, AO recently expanded the range of services offered to AO.com customers in certain UK postcodes to include premium installation services, such as gas appliance installation services and installation services for certain appliances which require hardwiring or other more complicated installations. In addition, the planned recruitment of additional employees within AO's in-house IT team is expected to facilitate the continued development and improvement of the software and systems that the Group uses for order management and delivery.

AO believes that increasing smartphone and tablet traffic to AO.com represents a significant opportunity for the Group, as smartphones and tablets currently have lower conversion rates in comparison to desktop and laptop computers. The Group had total sessions from smartphones and tablets of 0.2 million and 0.5 million in September 2012 and 2013, respectively. In order to position the Group to take advantage of increases in smartphone and tablet traffic to AO.com, AO intends to further refine AO.com for access via smartphones and tablets. AO believes that smartphone and tablet session-to-order conversion rates should

improve following such refinements to AO.com and as UK consumers generally become more experienced and comfortable with mobile commerce.

AO recently hired additional staff to focus on opportunities to tailor the Group's services and websites to provide customers with an individualised experience. For example, AO uses information about a customer's past purchases to provide intelligent self-service options when a customer calls the Group's customer service call centre. Over time, AO aims to develop additional internal systems and capacities that will help the Group to offer customers an improved, individualised experience. The Group aims to increase traffic to AO.com from email, which accounted for 3.5 per cent. of total sessions in the year ended 31 March 2013, by introducing targeted emails that highlight products and offers that may be of particular relevance to a given individual based on that individual's past purchases or past interaction with the Group's websites. Moreover, AO believes that in some cases it may be able to harness information regarding its past experience with a different customer to improve the experience of another customer. For example, if a delivery has failed to a particular postcode due to an access issue, the Group may be able to use that information to ask appropriate questions of another customer located in the same area to reduce the chance of an unsuccessful delivery. AO expects that such actions will improve the experiences of individual customers, which AO believes will help the Group to attract new customers and to encourage existing customers to make additional purchases.

AO believes that continuing to build on its market-leading customer proposition should enable the Group to increase AO.com's share of, and to benefit from further growth in, the UK online market for major domestic appliances.

4.2 Increase brand awareness

AO aims to increase brand awareness among UK consumers of the Group's own branded websites, in particular AO.com. AO's success to date has been achieved despite its low brand awareness among UK consumers. Prior to its rebranding as AO.com in August 2013, only 2 per cent. of UK consumers surveyed for the OC&C Report in March 2013 spontaneously identified Appliances Online in response to the question, "At the very beginning of the purchase process, which retailers came to mind when thinking of purchasing your large domestic appliance?".

AO is expanding its targeted marketing activities, including Facebook community activity and SEO to increase brand awareness and lower per unit customer acquisition costs. AO also seeks to increase brand awareness by attracting repeat customers and being accessible to new customers. AO plans to continue evolving its social media content to engage customers and promote brand awareness. AO commenced a national television advertising campaign in August 2013 and has budgeted £5.4 million in expenditure for the campaign for the year ended 31 March 2014. AO expects these actions to strengthen customer loyalty and brand profile. In December 2013, following its rebranding and the commencement of the national advertising campaign in August 2013, 6 per cent. of UK consumers in a survey commissioned by AO spontaneously identified AO.com or Appliances Online in response to the question, "Off the top of your head can you think of any companies that sell major kitchen appliances?".

4.3 Expand the range of products and services

AO intends to expand the range of products and services that it offers to customers. With regard to products, AO recently expanded the product range offered on AO.com to include certain small domestic appliances, including vacuums, floor cleaners, coffee machines, mixers and food processors. The OC&C Report projects that the UK overall market for small domestic appliances will grow from approximately £1.6 billion in 2013 to approximately £1.8 billion in 2016, a compound annual growth rate of 4 per cent. AO is also evaluating the possibility of selling other large appliances, such as televisions. The UK overall market for televisions in 2013 comprised sales of approximately 11.4 million units with a total sales value (including VAT) of approximately £4.3 billion, according to the OC&C Report. AO believes that the characteristics of the UK market for televisions (and, in particular, large televisions) would complement the Group's strengths, including providing two-person delivery and installation services, and that the Group could expand its product range to include televisions with limited additional investment.

With regard to services, AO recently expanded the range of services AO.com offers by adding, for approximately 80 per cent. of SKUs, same-day delivery options to a majority of UK postcodes for orders placed before noon and by introducing for certain UK postcodes premium installation services, such as gas appliance installation services and installation services for certain appliances which require hardwiring or

other more complicated installations. In the appropriate circumstances, AO may also offer installation services for a broader range of products.

AO believes that additional products and services represent significant growth opportunities for the Group and that its infrastructure and brand are able to support such growth opportunities.

4.4 Explore European expansion opportunities

AO may explore expansion opportunities in new markets in Europe. AO intends to evaluate expansion opportunities based on a number of criteria, including but not limited to, market demand and size, supply chain structure, internet penetration, competition, logistic feasibility, cost efficiencies and expected margins.

AO is initially reviewing, and has taken preliminary steps in respect of, expansion opportunities in Germany and is considering establishing a presence there. The overall market for major domestic appliances in Germany in 2012 amounted to total sales value (including VAT) of approximately £6.6 billion, with online sales of major domestic appliances comprising approximately 13 per cent. by value, according to the OC&C Report. AO believes that the German market for major domestic appliances exhibits similar characteristics to the UK market of approximately five years ago and that the Group could potentially utilise its experience and supplier relationships in the UK major domestic appliances market in connection with any expansion into Germany.

In the longer term, AO may consider expansion opportunities in other markets in Europe, focusing initially on markets adjacent to Germany.

AO views continuing to make improvements to its customer proposition, taking steps to increase brand awareness and expanding the range of products and services as near term strategies. AO views exploring European expansion opportunities as a medium to long term strategy. AO believes its near term strategies will not require substantial additional capital expenditure and intends to use cash generated from operations to fund any such expenditure.

5. HISTORY OF THE GROUP

The Group was co-founded in 2000 as an online appliances retailer by John Roberts, the Chief Executive Officer of the Company. In 2000, buying a major domestic appliance typically involved a number of steps, including a trip by the customer to the shops, an order placed in-store by the customer, an order placed by the store with the manufacturer, the delivery by the manufacturer to the store and the delivery by the store to the customer. Having previously worked in the kitchen appliance industry, Mr Roberts believed this model was inefficient and offered consumers little choice, and decided to use the internet as a platform for changing the way in which kitchen appliances were sold. Appliances Online, the Group's first e-commerce website, was launched in 2000 and Appliance Deals was launched in 2001.

In 2003, the Group began offering services to third-party retailers. These services were the operation of third-party branded websites on behalf of third-party retailers, the supply and delivery of products to their customers and the provision of customer support. Historically, the Group provided such services to Sainsbury's and Marks and Spencer. As at the date of this document, the Group provides such services to, amongst others, B&Q, Boots, Empire Direct, House of Fraser, Iceland, Next and Screwfix.

DRL Holdings Limited was incorporated in 2005 and became the holding company of the Group in 2007. Steve Caunce, the Company's Chief Financial Officer and Chief Operating Officer, joined the Group in 2005.

The Group acquired a Manchester-based distribution company, Expert Logistics Limited, from Iceland Frozen Foods Limited in 2009. This gave the Group control over its distribution, improving the services that it could offer to customers.

In 2013, the Group re-launched Appliances Online as AO.com. DRL Holdings Limited was re-registered and renamed as AO World plc in 2014.

6. OPERATIONS

The Group's principal business is sourcing, selling and delivering major domestic appliances, including washing machines, washer dryers, tumble dryers, dishwashers, refrigerators, freezers, ovens, range cookers and microwaves, as well as a range of small domestic appliances, including vacuums, floor cleaners, coffee

machines, mixers and food processors, in the United Kingdom. In the year ended 31 March 2013, the Group had approximately 763,000 orders, of which approximately 588,000 orders were in connection with AO website sales (which include sales related to the Group's own branded websites that are completed through the Group's customer service call centres) and approximately 175,000 orders were in connection with third-party branded website sales (which include sales related to third-party branded websites that are completed through the Group's customer service call centres) and trade sales. In the nine months ended 31 December 2013, the Group had approximately 766,000 orders, of which approximately 603,000 orders were in connection with AO website sales and approximately 163,000 orders were in connection with third-party branded website sales and trade sales. The Group also offers ancillary services to its AO website and third-party branded website customers, including delivery, installation, removal and recycling services and sales of third-party product protection plans. The Group had revenue from AO website sales, including ancillary services, of £198.0 million for the year ended 31 March 2013 and £206.3 million for the nine months ended 31 December 2013. The Group had revenue from third-party branded website sales and trade sales, including ancillary services, of £61.7 million for the year ended 31 March 2013 and £59.4 million for the nine months ended 31 December 2013. The Group also provides logistics services to third-parties who sell goods not procured by the Group. The Group had revenue from third-party logistics services of £15.8 million for the year ended 31 March 2013 and £15.4 million for the nine months ended 31 December 2013.

The following table sets out the Group's revenue for the years ended 31 March 2011, 2012 and 2013 and the nine months ended 31 December 2012 and 2013:

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£ million	£ million	£ million	£ million	£ million
AO website sales	76.1	145.0	198.0	141.9	206.3
Third-party branded website sales and trade sales . .	75.5	51.7	61.7	43.4	59.4
Third-party logistics services	12.4	12.6	15.8	11.7	15.4
Revenue	164.1	209.4	275.5	197.0	281.1

6.1 AO website sales

AO.com

AO operates primarily through its innovative direct-to-consumer retail website, AO.com. AO believes that a number of features of the website make it an attractive and helpful website for customers, including:

- easy search and navigation functionality, including displaying products by type of appliance, with the option to search by brand, price, fit type (built-in or free-standing), size, colour, features, standard warranty terms, delivery options, customer rating, energy rating and promotions;
- detailed technical information (including product specifications, cost to run per year, noise level and energy rating) and video reviews of products;
- customer reviews and “Top 5” product recommendations across all product categories;
- detailed product and price comparison tools;
- a “Questions & Answers” function, which gives customers the option to have questions answered by AO's team of product experts, other customers and/or manufacturers;
- an option for customers to track the status of their orders in real time; and
- a buying guide and glossary for each type of appliance to help customers understand an appliance's features.

AO is focused on delivering excellent customer service and regularly looks for ways to improve, grow and lead the retail market for major domestic appliances. AO believes these features provide customers with more consistent and better information than a traditional in-store sales experience and help to improve customer satisfaction and increase sales.

In addition to its easy-to-use web platform, AO believes its high levels of customer satisfaction are attributable in part to its market-leading customer proposition, which include:

- a broad range of products, brands and price points, in line with leading online specialist retailers and ahead of general multichannel retailers;
- flexible delivery options, including free standard delivery (two or more days following sale) seven days a week, next-day delivery (at an additional cost) for approximately 80 per cent. of SKUs to a majority of UK postcodes for orders placed before midnight, same-day delivery (at an additional cost) for approximately 80 per cent. of SKUs to a majority of UK postcodes for orders placed before noon and a choice of morning, lunch, afternoon or evening delivery times (at an additional cost);
- a straightforward “price match promise”, pursuant to which AO will price match for a customer who finds an online retailer (other than an auction site) offering a better price for the same product, after taking into account any delivery charges applied by the competitor;
- a 10-day “no fuss” returns policy, which allows customers to return their appliance within 10 days of purchase for any reason by selecting a collection date that suits them; and
- a UK-based customer service call centre, which is open seven days a week from 8.00am to 10.00pm and through which a customer can quickly speak to a representative.

AO prides itself on delivering excellent customer service and has achieved high customer satisfaction levels. Prior to its rebranding as AO.com, when asked, “On a scale of 0-10 (with 10 being most likely), how likely is it that you would recommend Appliances Online to a friend or colleague?”, 85 per cent. of the 2,146 Appliances Online customers surveyed for the OC&C Report in April 2013 responded “9” or “10”. Customers surveyed for the OC&C Report rated Appliances Online highly in terms of low prices, products in stock, wide range of products, delivery options/service and product information. AO has been rated highly across different socio-demographic groups, which AO believes demonstrates that its customer proposition appeals to a wide range of consumers. As at the date of this document, AO also has a rating of 4.9 out of 5 on Google Shopping and over 1.4 million Facebook followers. AO believes that the demographic profile of the followers of AO’s Facebook page mirrors AO’s current customer base.

High levels of customer satisfaction have translated into strong customer loyalty, with 93 per cent. of the 2,146 Appliances Online customers surveyed for the OC&C Report in April 2013 saying they were likely to purchase their next major domestic appliance from Appliances Online. AO has experienced strong growth in repeat customers, both in absolute terms and as a proportion of AO.com orders, in recent periods. Repeat customers (defined as customers who had made a previous purchase from AO.com or Appliances Online using the same email address) accounted for 14.4 per cent. of AO.com orders for the year ended 31 March 2011, compared to 18.8 per cent. for the year ended 31 March 2012 and 25.2 per cent. for the year ended 31 March 2013. Repeat customers accounted for 24.9 per cent. of AO.com orders for the nine months ended 31 December 2012, compared to 29.3 per cent. for the nine months ended 31 December 2013.

For the year ended 31 March 2013, the Group had revenue of £198.0 million from AO website sales. For the nine months ended 31 December 2013, the Group had revenue of £206.3 million from AO website sales.

Appliance Deals

Appliance Deals (www.appliancedeals.co.uk) is a second own branded website operated by the Group and was launched in 2001 as the sister website to AO.com. The Appliance Deals website features many of the same offers as the AO.com website and historically was used primarily as a proof-of-concept, trial platform. Appliance Deals accounted for approximately 4 per cent. of AO website sales for the year ended 31 March 2013 and less than 2 per cent. for the nine months ended 31 December 2013.

Appliance Reviews

In 2010, the Group launched Appliance Reviews (www.appliance-reviews.co.uk) with the objective of aggregating all of the reviews across its websites. The Appliance Reviews website has evolved to include video reviews produced by an in-house video facility, user generated videos and images, price comparisons and an option to have questions answered by AO’s team of product experts, other customers and manufacturers. The website features video reviews of approximately 1,900 products.

6.2 Third-party branded website sales and trade sales

In addition to sales of major domestic appliances to customers through the AO websites, the Group also sells 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 the Group developing and operating the third-party branded website and sourcing and delivering appliances to fulfil customer orders generated through the third-party branded website. Sourcing, sales, pricing, delivery and some marketing are all fulfilled by the Group, with the Group paying sales commissions to the third-party retailer under whose name the website is branded. As at the date of this document, AO operates third-party branded websites under the brand names of, amongst others, B&Q, Boots, Empire Direct, House of Fraser, Iceland, Next and Screwfix.

Trade sales are business-to-business sales and relate to the fulfilment of appliance orders generated by third-party retailers, where the third-party retailer sells directly to its customers but sources the product and delivery to the customer from the Group. As at the date of this document, AO provides such trade sales services to JD Williams and Shop Direct. Trade sales also include sales of replacement appliances to product protection plan providers, including D&G, where the Group sources and delivers the appliance directly to the product protection plan holder.

The Group had revenue from third-party branded website sales and trade sales of £61.7 million for the year ended 31 March 2013 and £59.4 million for the nine months ended 31 December 2013.

6.3 Third-party logistics services

In addition to sales of appliances and ancillary services, the Group also provides logistics services to third parties who sell goods not procured by the Group. These logistics services relate primarily to the delivery of major domestic appliances on behalf of such third parties, although the Group also provides delivery services for small domestic appliances and certain other consumer goods, such as exercise equipment. The Group had revenue from logistics services to third-party clients of £15.8 million for the year ended 31 March 2013 and £15.4 million for the nine months ended 31 December 2013.

6.4 Product offering and pricing

The Group offers products from over 30 appliance brands and approximately 4,100 SKUs. Bulk stock of high volume SKUs are held in the NDC in Crewe, whereas lower volume SKUs are held in stock in small quantities or ordered from suppliers on a just-in-time basis. The Group takes a strategic approach to holding stock and in some cases has SKUs available for sale even when the manufacturer does not (e.g., due to seasonal manufacturing interruptions or for some medium and lower volume SKUs that are not produced consistently by manufacturers).

The Group seeks to offer products across a broad range of price points. The Group's prices across all of its SKUs are refreshed twice a day (excluding weekends). A basket of prices offered by a wide range of competitors is used as a benchmark and the lowest price from within the basket is used to set the AO.com price, subject to a minimum margin requirement.

The Group also sets prices for the third-party branded websites that it operates. The Group uses the same methodology for third-party branded websites, but typically a smaller basket of competitor prices is used, with a focus on major competitors and excluding smaller independent retailers. The Group retains control over product pricing and all aspects of order fulfilment for its third-party branded website clients.

Trade sales prices are agreed with clients and, in many cases, are not benchmarked against the consumer market. The selling prices reflect the product costs, plus a margin per SKU, which reflects delivery costs and a profit element.

6.5 Delivery and logistics services

The Group specialises in two-person delivery services. Two-person delivery services refer to a delivery team that consists of at least two people—i.e., a second person in addition to the driver. Two-person delivery teams are commonly used for the delivery of major domestic appliances, which are often too bulky to be handled by a single delivery person. The Group also offers delivery, installation, removal and recycling services to its AO website and third-party branded website customers. AO believes that the Group's specialist in-house delivery and logistics services enable it to provide an integrated end-to-end retail

experience by giving the Group control over its entire distribution chain and therefore the customer experience from the online purchase of an appliance through to its delivery.

The Group also provides logistics services to a variety of third-party clients. These logistics services relate primarily to the delivery of major domestic appliances on behalf of such clients, although the Group also provides delivery services for smaller domestic appliances and other consumer goods.

6.5.1 Services on offer

Through the AO.com website, the Group offers a number of delivery options to its customers, including:

- free standard delivery seven days a week (two or more days following an order);
- next-day delivery (at an additional cost) for approximately 80 per cent. of SKUs to a majority of UK postcodes for orders placed before midnight;
- same-day delivery (at an additional cost) for approximately 80 per cent. of SKUs to a majority of UK postcodes for orders placed before noon; and
- choose your delivery slot (at an additional cost), which allows customers to choose one of four delivery time slots (morning, lunch, afternoon or evening).

Products are delivered to nearly all mainland UK postcodes. The Group subcontracts product delivery to third parties in some cases—for example, for some remote locations and for some small domestic appliances.

Product installation services are available to the Group's customers for many appliances. Installations are typically performed by the two-person delivery team upon delivery and customers requiring such services pay the Group a fee. The Group also subcontracts product installation to third parties in some cases—for example, for some remote locations.

The Group also offers product removal and recycling services, where the Group takes away and disposes of the customers' old appliances in compliance with the WEEE directive. Removal and recycling services are available for most appliance types and customers requiring such services pay the Group a fee.

In addition, the Group provides logistics services to third-party branded website customers and trade clients, as well as major appliance manufacturers, including Electrolux, Bosch, LG, Glen Dimplex Home Appliances, Hoover and Beko. The logistics services provided by the Group include backhaul services for the Group's product suppliers, where the Group uses otherwise unutilised double-decker trunking trailers that are returning from the Group's stockless outbases to transport appliances from the supplier to the Group's NDC. As the Group's suppliers would otherwise be obligated to deliver the appliances to the Group's NDC, the Group receives fees from the suppliers in exchange for providing backhaul services.

6.5.2 NDC and stockless outbases

The Group stores inventory at its 360,000 square foot NDC in Crewe, with stock transported to stockless outbases and loaded onto delivery vehicles for delivery to customers. Some deliveries are also made directly from the NDC. Outbases are currently located (from north to south) in Larkhall, Spennymoor,

Garforth, Yaxley, Potters Bar, Avonmouth, Croydon and Exeter. The map below illustrates the location of the NDC and the current outbases.



The Group's stockless outbases are strategically positioned in order to maximise the efficiency of the delivery fleet. The opening of additional outbases in recent periods has enabled each outbase to serve a smaller area, thereby increasing the efficiency of deliveries and making the Group less reliant on any single stockless outbase. For example, prior to the opening of the Croydon outbase, only one outbase serviced the London area, which often resulted in inefficient deliveries being made to customers directly from the NDC. AO intends to add additional stockless outbases to its existing network as required to accommodate increases in sales volumes. Additional stockless outbases can be set up and operational within as little as three months and generally involve initial set up expenses of approximately £150,000 to £250,000.

6.5.3 Delivery fleet and two-person delivery teams

The Group operates its own national delivery fleet, with deliveries being made by independent contractor delivery teams using the Group's vehicles. In January 2014, the Group's delivery fleet comprised 98 double-decker trunking trailers and 24 tractor units (which haul the double-decker trunking trailers) used for transporting appliances from the NDC to the stockless outbases, as well as 219 delivery vehicles used for delivery from the outbases (or directly from the NDC) to customers. The Group leases the vehicles in its delivery fleet. The double-decker trunking trailers and tractor units are on finance leases from a variety of providers, whereas the delivery vehicles are on operating leases. The double-decker trunking trailers have been designed to the Group's specifications to increase capacity and reduce loading times. AO adds vehicles to the Group's fleet as required to accommodate increases in sales volumes, with seasonal and other short-term peaks being filled through short-term hire of additional vehicles.

The Group utilises independent contractor delivery teams to make substantially all of its deliveries to customers. The Group provides vehicles, uniforms and the handheld terminals that the delivery teams use to process delivery confirmations. Vehicle, product and customer property damage is the responsibility of the delivery team leader. The performance of each delivery team is monitored regularly and scored against a scorecard that reflects the Group's high customer service standards. High performing delivery teams are given priority in the allocation of work, whereas underperforming delivery teams are issued with improvement notices and given a timeframe in which to improve or have their contracts terminated. AO believes that the nature of the relationship between the Group and its delivery teams includes an element of risk and reward sharing whereby the delivery teams are incentivised to provide higher quality service.

The Group subcontracts to third parties product deliveries in the Scottish Highlands, the Scottish Islands, the Channel Islands, the Isle of Man and Northern Ireland. In addition, some small appliance deliveries are fulfilled by DPD, a third-party delivery service which utilises single-person delivery teams as opposed to the two-person delivery teams utilised by the Group.

6.5.4 Efficiency improvements and cost reduction measures

The Group has implemented a number of measures to increase efficiency and reduce delivery costs. The Group's delivery and logistics services were relocated from Radcliffe to a single NDC in Crewe in February 2012 and the delivery fleet was replaced starting from January 2011, both of which significantly increased the Group's logistics capacity. The move to the NDC in Crewe increased storage capacity through a significant increase in floor space and the introduction of a more efficient racking system. In addition, the strategic opening of stockless outbases in Spennymoor, Garforth, Croydon and Exeter allowed for bulk stock transfers from the NDC to these outbases and more efficient delivery routing, thereby reducing delivery team fees, fuel and delivery vehicle repair costs. The introduction of the double-decker trunking trailers starting from January 2011 to transport bulk stock between the NDC and the outbases has also increased the number of units each tractor unit can transport, thereby reducing average delivery costs.

AO believes that the NDC has the capacity to distribute up to five times the unit volumes distributed by the Group in the year ended 31 March 2013, subject to limited additional capital expenditures to expand the Group's delivery fleet, establish additional stockless outbases and create additional warehouse capacity in the form of satellite stock storage bases adjacent to the NDC.

6.6 Product protection plan sales

The Group, acting as an agent for D&G, offers product protection plans to AO website and third-party branded website customers. The Group's outbound sales team in the Manchester customer service call centre typically offers product protection plans to customers at two points during the product lifecycle: (i) immediately prior to delivery and (ii) one month before the manufacturer's warranty is due to expire. Although appliances sold by the Group typically come with 12-month manufacturer warranties that provide protection against faults, the manufacturer warranties typically do not protect against damage caused by accidents or wear and tear. Customers can purchase product protection plans that provide protection against faults beyond the 12-month period typically covered by manufacturer warranties, or that protect against damage caused by accidents or wear and tear. Customers pay a fixed fee per month to D&G until they cancel the product protection plan and the Group receives a commission from D&G on each product protection plan it has sold whilst the product protection plan remains active. D&G administers the product protection plans, bearing the risk of product failure, and can source any replacement appliances from the Group.

The Group has guidelines with regard to call handling and customer communication to which all staff are required to adhere. The Group offers and sells product protection plans on behalf of D&G on the basis that such plans are not contracts of insurance. See *"The basis upon which the Group 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 Group could be subject to claims or proceedings in relation to such product protection plans"* and *"The Group is subject to various consumer protection and other laws and regulations, any breach or alleged breach of which could give rise to regulatory or third-party proceedings and/or could require the Group to change the basis on which it markets or sells its products"* in the section of this document headed Part II (Risk Factors).

6.7 Relationships with suppliers and sourcing of products

The Group purchases its products directly from appliance manufacturers, with the Group's purchasing teams managing the relationships with its suppliers. In the nine months ended 31 December 2013, 80.4 per cent. of the Group's revenue was derived from sales of products manufactured by five suppliers:

- Indesit, which manufactures Indesit and Hotpoint branded goods;
- Beko, which manufactures Beko branded goods;
- Bosch, which manufactures Bosch, Neff and Siemens branded goods;
- Samsung, which manufactures Samsung branded goods; and
- Electrolux, which manufactures Electrolux, Zanussi-Electrolux and AEG-Electrolux branded goods.

While supplier concentration is high, AO believes it is in line with the overall market shares of these suppliers and that there is a strong interdependence between the Group and its suppliers. The Group's contracts with suppliers are reviewed and renewed annually on a rolling basis. The product prices of

suppliers are not contractually fixed and are negotiated on a regular basis by the Group's purchasing team. The Group also negotiates volume, advertising and promotional discounts.

AO believes it has strong relationships with its suppliers, which include all significant manufacturers that supply the UK major domestic appliances market. Many of these relationships have been in place for many years. AO believes that its collaborative approach has enabled the Group to build long-term, trusted and mutually beneficial relationships with its suppliers. AO believes that its suppliers benefit from its compelling customer proposition, including detailed technical information and helpful video reviews on its websites, and from the Group offering a wide range of appliances, including some higher end, lower volume products that traditional in-store retailers may not stock or display in-store. Moreover, the Group offers backhaul services to its suppliers, where the Group uses otherwise unutilised double-decker trunking trailers that are returning from the Group's stockless outbases to transport appliances from the supplier to the Group's NDC at less cost to the supplier than the supplier would otherwise incur to deliver the appliances to the NDC.

AO intends to continue to develop and strengthen its relationships with its suppliers. AO believes these relationships also are strategically important to its suppliers and that the Group will become increasingly valued by its suppliers as the Group grows its customer base and sales volumes. AO intends to continue to leverage the Group's relationships with its suppliers to offer a comprehensive range of products and to negotiate favourable terms of trade, including exclusive deals, volume discounts and promotional discounts for products featured in the Group's promotions, such as the Group's "Top 5" product recommendations.

6.8 Marketing

AO's marketing activities focus on increasing brand awareness and customer acquisition. Marketing activities principally relate to the promotion of the AO.com website, although the Group also undertakes online marketing activity for the Appliance Deals website and certain third-party branded websites.

6.8.1 Brand awareness

AO seeks to optimise its marketing spend to increase brand awareness. AO has historically used paid online advertising and e-mail campaigns to increase its brand profile. AO intends to expand its targeted marketing activities, including television advertising and online search visibility optimisation, to increase brand awareness. AO commenced a national television advertising campaign in August 2013, having undertaken a regional trial over six weeks in April, May and June 2013. The national television advertising campaign and regional television trial were complemented by outdoor advertising. The regional television trial led to improved conversion rates and sales contribution for the region during and after the trial period and AO believes the national television advertising campaign will increase brand awareness. AO has budgeted £5.4 million in expenditure on its national television advertising campaign for the year ended 31 March 2014.

AO believes that the Group has developed significant expertise in the relatively new and growing area of social media. AO believes social media has contributed significantly to AO's growing brand visibility, with over 1.4 million Facebook followers as at the date of this document. AO's Facebook page was launched on 24 June 2009 and a Facebook community was established in April 2012. AO engages in various activities designed to improve engagement through its Facebook community, including competitions and giveaways. AO believes that the Facebook community represents a significant asset to AO's business in terms of brand awareness and customer acquisition. AO plans to continue evolving its social media content to engage customers and promote its brand.

6.8.2 Customer acquisitions

The Group's customer acquisitions come from the following principal sources:

- paid online advertising, including whereby search engine providers are paid to display sponsored links to the Group's websites at the top of search results for certain key words, including branded search terms (such as "AO" or "AO.com"), which are lower cost (AO refers to such searches as branded searches), and generic search terms (such as "washing machine"), which are higher cost;
- customers being directed to the Group's websites by the natural search results of search engines, such as Google;

- customers typing the URL of one of the Group's websites (e.g., "AO.com") directly into an internet browser's address bar;
- customers being directed to the Group's websites through social media, such as clicking on a link on AO's Facebook page, or through emails;
- customers being directed to the Group's websites through price comparison websites such as PriceRunner; and
- paid offline advertising.

Increasing brand awareness has led to a shift to unpaid and lower cost sources of customer acquisitions, such as natural and branded search results, and lower per unit customer acquisition costs between the year ended 31 March 2011 and the nine months ended 31 December 2013. Approximately 64.6 per cent., 59.5 per cent. and 48.1 per cent. of AO.com orders in the years ended 31 March 2011, 2012 and 2013, respectively, and 48.0 per cent. and 47.3 per cent. in the nine months ended 31 December 2012 and 2013, respectively, were generated through paid marketing channels. As a result of the rebranding to AO.com from Appliances Online in August 2013, AO.com has experienced a reduction in its Google natural search visibility, with 2.9 per cent. of total sessions generated from natural search results in the fourth quarter of 2013, as compared to 22.1 per cent., 22.7 per cent. and 16.2 per cent. in the first, second and third quarters of 2013, respectively. AO believes that the impact of the rebranding will reduce over time as consumers become more familiar with the AO.com brand. AO believes that, as brand awareness improves, more total sessions and orders will be generated through unpaid and lower cost sources of customer acquisitions.

Repeat customers are a key driver of unpaid customer acquisitions and branded searches. Repeat customers (defined as customers who had made a previous purchase from AO.com or Appliances Online using the same email address) accounted for 25.2 per cent. of AO.com orders for the year ended 31 March 2013 and 29.3 per cent. for the nine months ended 31 December 2013.

AO has a dedicated in-house SEO team which uses a variety of techniques to attempt to increase the rankings of the AO.com website in search engines' natural search results. These techniques are based on factors that search engines take into account when ranking websites, and include optimising the use of tags and keywords within each webpage, building links with other websites, tagging videos and images and using descriptive natural language URLs and site maps. Despite the Group's best efforts, there can be no assurance that the Group's SEO activities will be successful in improving or maintaining the natural search rankings of the Group's websites. See *"Changes to search engines' algorithms or terms of services could cause the Group's websites to be excluded from or ranked lower in natural search results"* in the section of this document headed Part II (*Risk Factors*).

AO recently hired additional staff to focus on opportunities to tailor the Group's services and websites to provide customers with an individualised experience. For example, AO uses information about a customer's past purchases to provide intelligent self-service options when a customer calls the Group's customer service call centre. Over time, AO aims to develop additional internal systems and capacities that will help the Group to offer customers an improved, individualised experience. The Group aims to increase traffic to AO.com from email, which accounted for 3.5 per cent. of total sessions in the year ended 31 March 2013, by introducing targeted emails that highlight products and offers that may be of particular relevance to a given individual based on that individual's past purchases or past interaction with the Group's websites. AO expects that such actions will improve the experiences of individual customers, which AO believes will help the Group to attract new customers and to encourage existing customers to make additional purchases.

6.8.3 Marketing for third-party branded website clients

AO also undertakes marketing activity (primarily paid online advertising) for certain of its third-party branded website clients, including Boots and Next. Although AO bears the costs of such marketing activity, AO pays a lower commission rate to third-party branded website clients on whose behalf it conducts such marketing activity.

6.9 Video production

AO has an in-house video production facility with animation capabilities that produces video reviews of appliances that customers can access on AO.com and the Appliance Reviews website. As at the date of this document, the Group's video production facility is comprised of three studios and a small team of

presenters. AO uses the video reviews to provide detailed general and technical advice regarding the products the Group offers to customers. AO believes that its video reviews bring the products it offers to life for customers, provide a level of quality and consistency which is not present in a traditional in-store retail setting and give customers access to detailed product information and commentary on a wide variety of appliances. AO intends to increase the number of video reviews of appliances on its websites to provide customers with detailed product information and commentary on a wider range of appliances.

7. CUSTOMER SERVICE

AO seeks to offer an excellent end-to-end retail experience by ensuring that its staff enjoy what they do and are friendly and enthusiastic. AO seeks to empower its customer-facing staff with tools to resolve customer service issues in a timely and effective manner with few layers of supervision, which AO believes leads to an improved customer experience at a lower cost.

The Group monitors calls and other interactions between customers and the Group's customer service agents for quality and training purposes. The performance of each customer service agent is monitored regularly and scored against a quality monitoring matrix that reflects the Group's high customer service standards. Each customer service agent has a variable element of pay that is based on, amongst other things, his or her scores on the quality monitoring matrix. Any coaching or training needs are assessed periodically so that any required areas of improvement can be addressed.

The Group regularly collects and monitors customer feedback as part of its commitment to providing excellent customer service and to delivering on its promises to customers. On inbound customer calls, customers are asked to participate in a survey to rate the service they have received and the Group also conducts outbound call surveys of random samples of customers. In particular, the Group tracks its net promoter score (customers who answer "9" or "10" in response to the question, "On a scale of 0-10 (with 10 being most likely), how likely is it that you would recommend AO to a friend or colleague?") and the number of contacts per order, with the Group generally having experienced increases in its net promoter score and decreases in the number of contacts per order in recent periods.

Customer service agents flag information regarding customer complaints or potential complaints for review by the Group's in-house quality assurance team. The complaint is then investigated and the customer is typically contacted in an attempt to resolve the problem on an individual basis. The quality assurance team also collaborates with other departments across the Group's business to identify the root causes of any recurring customer service issues and to design and implement any required improvements.

The Group also has an in-house manufacturer service team which has the sole aim of improving the service provided to AO's customers by the Group's suppliers after a sale of an appliance has been completed. The manufacturer service team handles any complaints received from customers regarding the after sales service provided by a manufacturer and liaises with the manufacturer to help resolve the customer complaint. The manufacturer service team monitors the performance of each supplier using several metrics (e.g., first-time fix rates, which measures whether the supplier successfully fixed or replaced a faulty appliance on its first attempt) and meets with each supplier periodically to review the supplier's performance and to agree action plans to implement any required improvements.

Since 2011, the Group has invested £1.2 million in telecommunication systems to help the Group's customer service teams deliver outstanding customer service. The Group's customer service call centres are located in Manchester, Bolton and Crewe.

The Manchester customer service call centre houses the Group's outbound sales team for product protection plans, which the Group sells to AO website and third-party branded website customers as agent of D&G. The Manchester customer service call centre comprised approximately 150 employees as at 31 December 2013.

The Bolton customer service call centre houses AO's inbound sales and customer service teams, which comprised approximately 200 employees as at 31 December 2013. The Bolton customer service team is responsible for answering customer queries in connection with AO website and third-party branded website sales and providing after sales care and delivery team support. The inbound sales team handles appliance and product protection plan sales to the extent that customers call the Group to purchase appliances or product protection plans.

The Crewe customer service call centre houses the third-party logistics customer service team, which comprised approximately 31 employees as at 31 December 2013. The Crewe customer service team responds to customer queries in connection with the Group's third-party delivery services.

8. COMPETITION

The UK retail market for major domestic appliances is highly competitive. Customers have many choices of retailers of major domestic appliances and the Group competes on the basis of factors such as quality of products, products in stock, prices, product information, convenience and delivery options and service. The Group's competitors include:

- major electrical retailers, such as Currys, which collectively represented approximately 39 per cent. of the UK overall major domestic appliances market in 2012 according to the OC&C Report;
- major generalist retailers, such as Argos and John Lewis, which collectively represented approximately 17 per cent. of the UK overall major domestic appliances market in 2012 according to the OC&C Report;
- major online specialist retailers, such as Shop Direct, which collectively represented approximately 11 per cent. of the UK overall major domestic appliances market in 2012 according to the OC&C Report;
- supermarkets, such as Asda, Sainsbury's and Tesco, which collectively represented approximately 3 per cent. of the UK overall major domestic appliances market in 2012 according to the OC&C Report; and
- other retailers including smaller independent retailers, which collectively represented approximately 29 per cent. of the UK overall major domestic appliances market in 2012 according to the OC&C Report. Euronics, a European electronics group the members of which are independent retailers, represented approximately 40 per cent. of independent retailers in 2012 according to the OC&C Report.

The business models of the Group's competitors vary from fully outsourced propositions where the retailer only provides a platform for third parties to list major domestic appliances for sale, to partially insourced propositions where the retailer manages traffic on a website and takes orders but outsources the processing and/or fulfilment of such orders, to fully insourced propositions where the retailer handles the entire process from customer acquisition to taking, processing and fulfilling orders and providing post-sale services. AO believes that its fully insourced, online proposition provides the Group with structural advantages over many of its competitors by allowing AO to control the customer experience from order to delivery and by allowing AO to maintain a lower fixed cost base as compared to traditional in-store retailers and other competitors with significant store-based assets.

In 2012, AO had a share of approximately 24 per cent. of the online market for major domestic appliances in the United Kingdom, of which approximately 19 per cent. represented AO website sales and approximately 5 per cent. represented third-party branded website sales, according to the OC&C Report. AO had a share of approximately 8 per cent. of the overall market for major domestic appliances in the United Kingdom in 2012, according to the OC&C Report. By comparison, Currys had a share of approximately 26 per cent. of the UK overall market (approximately 11 per cent. of the online market) and John Lewis had a share of approximately 9 per cent. of the UK overall market (approximately 13 per cent. of the online market), according to the OC&C Report. Comet, which went into administration in late 2012, had a share of approximately 11 per cent. of the UK overall market (approximately 5 per cent. online) in 2012, according to the OC&C Report.

Between 2010 and 2012, AO was the fastest growing retailer of major domestic appliances in the United Kingdom, gaining approximately 4.1 per cent. share of the UK overall market for major domestic appliances, according to the OC&C Report. During the same period, Currys and John Lewis gained approximately 1.5 per cent. and 1.8 per cent. shares of the UK overall market, respectively, whereas independent retailers experienced a decline in market share, according to the OC&C Report.

9. INFORMATION TECHNOLOGY

9.1 Information technology systems

Innovation in IT has characterised AO's development since its launch in 2000. AO has a dedicated in-house IT team and expects to use increasingly less off-the-shelf third-party IT products. The key IT systems that AO's in-house IT team has developed or customised provide solutions to problems for which off-the-shelf third-party products either do not exist or are inadequate to meet the demands of the Group's business.

AO's in-house IT team has written entire software packages, such as the Group's order management system and the software for the delivery team handheld terminals. AO's in-house IT team aims to continually improve the Group's IT systems and regularly communicates directly with the staff using the systems so that it can more effectively tailor the systems to the Group's specific needs. Accordingly, IT research and development are an important element of AO's strategy.

AO has developed its IT systems in order to provide an improved customer experience, greater internal efficiencies and a resilient, agile and scalable IT infrastructure. This includes, amongst other things, improvements to the AO.com website to provide faster end-user response times across all major internet browser types. The AO.com website also has been customised to facilitate access from smartphones and tablets. In addition, AO uses customised software to predict order patterns to ensure that it reorders products automatically if stock is low. AO also uses customised software to facilitate real-time pricing and product updates. As a result, AO is able to compare prices among key competitors regularly as part its commitment to offer competitive prices.

Key systems in use throughout the Group's business are internally hosted and managed, with the exception of the web platform (including the AO.com website and various third-party branded websites), which is hosted by a third-party data centre in Slough. AO's key IT systems include:

- a bespoke, in-house developed order management system. Some of the main elements of the order management system's functionality include receiving and processing sales orders from both web and phone sales channels; interfacing with third-party payment processing companies; calculating delivery charges; managing order fulfilment, including through stock reservations for in-stock items or placing orders directly with suppliers; interfacing with the Group's warehouse management system in terms of delivery data; and managing customer communications, including dispatch information;
- a warehouse management system. Whilst the warehouse management system is a third-party provided product, AO's in-house IT team has performed significant in-house customisation work and intends to replace the entire source code with in-house developed code in 2014. The warehouse management system is used for processing AO's customer orders, as well as sales orders and logistics for third parties. Sales orders, stock availability information and customer delivery data are automatically interfaced between the warehouse management system and the order management system;
- a delivery routing suite and delivery team handheld terminals. The software package for the handheld terminals was developed in-house and is used by the delivery teams to process delivery confirmations; and
- a call centre software package. The call centre software package is used by the customer service teams, the outbound product protection plan sales teams and the inbound sales teams.

AO believes that its existing IT infrastructure has the capacity to handle up to eight times package throughput, credit card transactions, website visits, inbound calls and outbound calls.

9.2 Resilience and disaster recovery

AO has implemented various measures to maintain the resilience of its IT systems and to facilitate recovery in the event of a disaster. The Group's key web platform servers are hosted by an external data centre in Slough, with certain components replicated by a secondary data centre in Milton Keynes. Both data centres feature various operational protection mechanisms, including automatic fire suppression technology and multiple back-up power generators.

Of the key in-house hosted systems, the order management system application servers are currently hosted in a single location in Bolton, but backup tapes are taken off-site on a daily basis to the Group's video studio location approximately twelve miles away, where they are stored in a fire proof safe. The underlying database is replicated between Bolton and Crewe in real time, allowing for recovery in the event of a

disaster at one location. The warehouse management system production server is based in Crewe, with a disaster recovery server in Bolton. The system is replicated between Crewe and Bolton in real time and backup tapes are also taken off-site on a daily basis. With regard to server resilience, there are multiple load-balanced order management system application servers and the underlying database servers are clustered for redundancy.

10. INTELLECTUAL PROPERTY

The Group relies on a combination of trade mark, copyright, trade secret protection and confidentiality and licence agreements with its employees, customers, suppliers and others to protect its intellectual property rights. As at the date of this document, the Group has registered domain names for all of its websites, including *AO.com*, *AO.co.uk*, *www.appliancedeals.co.uk*, *www.appliance-reviews.co.uk*, *www.drllimited.co.uk* and *www.expertlogistics.co.uk*, and has registered certain of its trade marks in the United Kingdom.

In addition to the protection of its intellectual property, the Group is also focused on ensuring that it does not infringe the intellectual property rights of others. Despite the Group's best efforts, there can be no assurance that third parties will not infringe or misappropriate the Group's intellectual property rights or that the Group will not infringe or misappropriate the intellectual property rights of others. See "*The Group may not have adequate protection for its intellectual property rights*" in the section of this document headed Part II (*Risk Factors*).

11. EMPLOYEES

AO's employees are key to its business. The following table sets out the Group's total number of employees as at the dates indicated and the areas of its business in which they were employed:

	As at 31 March			As at 31 December
	2011	2012	2013	2013
Logistics and delivery	198	367	409	520
Customer service call centre sales, support and after sales care	117	182	238	339
Other staff	200	256	303	388
Total	515	805	950	1,247

AO believes its culture, vision and values define its business. In 2013, DRL Limited, a subsidiary of the Company, was ranked fourth in the Sunday Times "100 Best Companies" list of the best UK mid-sized companies to work for, rising from fifth in 2012. In connection with the Sunday Times' Employee Engagement Survey 2013, 97 per cent. of DRL Limited's employees participating in the survey agreed with the statement, "I am excited about where this organisation is going", and 94 per cent. agreed with the statement, "This organisation is run on strong values/principles". AO believes the Group has a strong culture and that its culture has helped the Group to hire high quality personnel, maintain a high retention rate of key staff and create a work force that is dedicated to delivering high quality customer service.

To incentivise and reward its employees, AO operates two cash bonus schemes and pays commission-based remuneration. The first bonus scheme applies to the Executive Directors and Senior Managers, who are eligible to receive a percentage of their base salary dependent on the Group's achievement of certain financial targets. Further details on this bonus scheme are set out in paragraph 8.1.3 of Part XV (*Additional Information*). The second bonus scheme applies to approximately 20 managers across the business, who receive bonuses of up to £15,000, dependent on performance. Many other employees receive commission-based remuneration on a weekly or monthly basis. AO has also adopted new employee share schemes to be operated following Admission. Further details on these share schemes are set out in paragraph 9 of Part XV (*Additional Information*).

12. FACILITIES

AO operates from twelve leasehold properties located in the United Kingdom: a head office in Bolton, incorporating all administrative and central facilities and a customer service call centre; a 360,000 square foot national distribution centre in Crewe; eight stockless outbases in Larkhall, Spennymoor, Garforth, Yaxley, Potters Bar, Avonmouth, Croydon and Exeter; a video production studio in Bolton; and an outbound product protection plan customer service call centre in Manchester.

13. INSURANCE

AO believes its insurance coverage is in line with industry practice. The Group carries insurance (subject to policy limits and exclusions) for the following types of liability:

- computer insurance;
- directors' and officers' liability;
- employer's liability;
- goods in transit;
- key person insurance;
- material damage and business interruption;
- motor fleet;
- product liability;
- public liability; and
- travel insurance.

In line with industry practice, the Group leaves some business risks uninsured, including loss of profit or revenue and consequential business losses arising from operational disruptions.

PART VII

DIRECTORS, SENIOR MANAGERS AND CORPORATE GOVERNANCE

1. DIRECTORS

The Directors of the Company as at the date of this document and their respective roles are set out below:

Name	Position
Richard Rose	Non-Executive Chairman
John Roberts	Chief Executive Officer
Stephen (Steve) Caunce	Chief Financial Officer & Chief Operating Officer
Charles (Bill) Holroyd CBE DL	Non-Executive Director
Christopher Hopkinson	Non-Executive Director
Marisa Cassoni	Independent Non-Executive Director
Rudolf Lamprecht	Independent Non-Executive Director
Brian McBride	Senior Independent Non-Executive Director

Richard Rose, (58), Non-Executive Chairman

Richard Rose was appointed to the Group as Non-Executive Chairman of the Company in August 2008. He has been Non-Executive Chairman of Booker Group plc since 2006, Crawshaw plc since 2007 and Anpario plc since 2005. Prior to this, he 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.

John Roberts, (40), Chief Executive Officer

John Roberts co-founded 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, Mr Roberts 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.

Steve Caunce, (45), Chief Financial Officer & Chief Operating Officer

Steve Caunce joined the Group in September 2005. Previously he was Finance Director with Phones 4U Limited between 2001 and 2003 and has held senior positions at Mytravel Plc and Preston North End Plc. Mr Caunce holds a degree in Mathematics and is an associate of the Institute of Chartered Accountants of England and Wales.

Charles (Bill) Holroyd CBE DL, (61), Non-Executive Director

Charles (Bill) Holroyd was appointed as a Non-Executive Director of the Company in August 2005, having joined the Group as a Non-Executive Director of DRL Limited, a subsidiary of the Company, in 2003. He was formerly the Chief Executive Officer of Holroyd Meek Ltd, which was sold to Booker Group plc in 1995. Mr Holroyd 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, of which Aegon plc acquired a 60 per cent. shareholding in 2002 and the remaining 40 per cent. shareholding in 2005. 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, Mr Holroyd is Chairman of Onside Youth Zones and a Trustee of Save the Family.

Christopher Hopkinson, (54), Non-Executive Director

Christopher Hopkinson has been a Non-Executive Director since December 2005. Following university he joined the Royal Air Force as a pilot officer and worked as an analyst for Cazenove. Mr Hopkinson 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.

Marisa Cassoni, (62), Non-Executive Director

Marisa Cassoni was appointed to the board as an independent Non-Executive Director of the Company in February 2014. She is a 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. Ms Cassoni 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. Ms Cassoni holds a degree in Physics from Imperial College London and is an associate of the Institute of Chartered Accountants of England and Wales.

Rudolf Lamprecht, (65), Non-Executive Director

Rudolf Lamprecht was appointed to the board as an independent Non-Executive Director of the Company in January 2014. In 2009, Mr Lamprecht 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.

Mr Lamprecht worked for Hewlett Packard in various positions in Europe and the United States for approximately 20 years. In 1998, he joined Siemens AG as President of the Information and Communication Products Group and in 2000 he became a member of the Managing Board of Siemens AG, before joining its Corporate Executive Committee in 2004. During 2008 and 2009, Mr Lamprecht was Executive Advisor to the CEO of Siemens AG. He was a Director of Nokia Siemens Networks from 2007 until 2010. Mr Lamprecht holds a degree in Computer Science and has studied at Massachusetts Institute of Technology, the European Institute for Business Administration and Stanford University.

Brian McBride, (58), Senior Independent Non-Executive Director

Brian McBride was appointed to the board as an independent Non-Executive Director of the Company in February 2014. In 2012, Mr McBride was appointed 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 STthree plc. Mr McBride holds a master's degree in Economics, History and Politics.

Further information on the Directors, including the companies of which each of the Directors has been a director at any time in the past five years, is set out from paragraphs 6 to 8 of Part XV (*Additional Information*).

The business address for each of the Directors is Unit 5A, the Parklands, Lostock, Bolton, BL6 4SD.

2. SENIOR MANAGERS

The following comprise the Company's Senior Managers:

<u>Name</u>	<u>Position</u>
David Ashwell	Managing Director, Expert Logistics
John Crowther	Director of IT
Mark Higgins	Director of Group Finance
Andrew Kirkcaldy	Director of Marketing
Kevin Monk	Director of Operations
David Wilkinson	Purchasing Director

David Ashwell, (46), Managing Director, Expert Logistics

David Ashwell joined Expert Logistics as Managing Director in June 2006, when it was owned by Iceland Foods Ltd, and has remained in this role since Expert Logistics was acquired by the Company in 2009. From 2001 to February 2005, Mr Ashwell was Head of Store Development at Iceland Foods Ltd and from February 2005 to June 2006, he was Head of Appliance Division.

John Crowther, (45), Director of IT

John Crowther joined the Group as Director of IT in December 2007. From October 1998 to December 2001, Mr Crowther was Technical Director at MHG Systems Ltd and from January 2002 to October 2007, he was Head of Information Technology at Dextra Solutions Ltd. Prior to that, Mr Crowther was Head of IT for Lidl Uk GmbH from March 1996 to September 1998.

Mark Higgins, (36), Director of Group Finance

Mark Higgins joined the Group as Director of Group Finance in July 2011. From 2005 to September 2008, Mr Higgins was Finance Manager at 20:20 Mobile Group Ltd and from September 2008 to July 2011 he was Head of Finance—Utilities at Enterprise plc. Mr Higgins holds a degree in Mathematics & Accounting and is an associate member of the Chartered Institute of Management Accountants.

Andrew Kirkcaldy, (31), Director of Marketing

Andrew Kirkcaldy joined the Group as Commercial Manager (PPC Manager) in March 2008. In September 2008, Mr Kirkcaldy was appointed Online Marketing Manager and in April 2011, he was appointed Director of Marketing. From October 2007 to February 2008 he was an Information Technology Recruitment Consultant at Venture Resource Management Ltd. Mr Kirkcaldy holds a degree in Business Information Technology.

Kevin Monk, (32), Director of Operations

Kevin Monk joined the Group in November 2004. From August 2007 to October 2009, Mr Monk was Commercial Operations Manager and from October 2009 to April 2011, he was Head of Operations. He was appointed Director of Operations in April 2011. Mr Monk holds a degree in Information Technology and is an associate member of the Chartered Institute of Management Accountants.

David Wilkinson, (62), Purchasing Director

David Wilkinson joined the Group as Purchasing Director in 2003. From 1993 to 2003, Mr Wilkinson was Managing Director of Teknik Appliances Ltd, a company that he founded and which was acquired by Moben Kitchens Ltd in 1998.

The business address for each of the Senior Managers is Unit 5A, the Parklands, Lostock, Bolton, BL6 4SD.

3. DIRECTORS' AND SENIOR MANAGERS' INTERESTS

Details of the interests of each Director and Senior Manager in the voting rights of the Company, together with what their respective interests are expected to be immediately following Admission, are set out in paragraph 6.2 of Part XV (*Additional Information*).

4. CORPORATE GOVERNANCE

The Board is committed to the highest standards of corporate governance. Other than as set out in this paragraph 4, (a) on Admission the Board will comply, and (b) from Admission intends to continue to comply, with the UK Corporate Governance Code, which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. The Board also intends to take account of institutional shareholder and governance rules and guidance on disclosure and shareholder authorisation.

The UK Corporate Governance Code recommends that at least half the members of the board of directors, excluding the chairman, should comprise non-executive directors determined by the board to be independent. For the purposes of assessing compliance with the UK Corporate Governance 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 judgment, notwithstanding the arrangements further described in paragraph 6.2 of Part XV (*Additional Information*). The Board also considers that the 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 regarded as independent for the purposes of the UK Corporate

Governance Code by virtue of their historic involvement with the Company, the Company does not comply with this recommendation of the UK Corporate Governance Code. As the Board will have three experienced independent non-executive directors as well as a chairman (who was independent on appointment), the Board is satisfied that no individual will dominate the Board's 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 will be capable of operating effectively from Admission.

The Company intends to become fully compliant with the UK Corporate Governance Code in the medium term. The Company also intends that each of the Directors will stand for re-election on an annual basis.

The senior independent director is Brian McBride, who will serve as an additional point of contact for shareholders should they feel that their concerns are not being addressed through the normal channels. Brian McBride is, furthermore, available to fellow non-executive directors, either individually or collectively, should they wish to discuss matters of concern in a forum that does not include the executive directors.

The Board has established three principal committees, the Audit Committee, the Remuneration Committee and the Nomination Committee which will take effect following Admission.

Following Admission, the members of each committee will be as follows:

	<u>Chairman</u>	<u>Members</u>
Audit Committee	Marisa Cassoni	Marisa Cassoni, Bill Holroyd, Rudolf Lamprecht
Remuneration Committee .	Bill Holroyd	Bill Holroyd, Brian McBride, Marisa Cassoni
Nomination Committee . . .	Richard Rose	Richard Rose, Brian McBride, Chris Hopkinson

Audit Committee

The responsibilities of the Audit Committee will include monitoring the integrity of the Company's results and financial statements, reviewing the effectiveness of the Company's internal controls and risk management systems, reviewing the effectiveness of the Company's internal audit function and assessing the independence and objectivity of the external auditors and ensure their co-ordination with the internal audit function.

The terms of reference of the Audit Committee state that the Audit Committee shall meet as frequently as the Audit Committee deems appropriate, and in any event not less than three times a year. The quorum for meetings of the Audit Committee will be two members. The Audit Committee shall meet the external auditor at least once a year, without management being present, to discuss the auditor's remit and any issues arising out of the audit. The terms of reference of the Audit Committee also set out the authority of the Audit Committee to investigate any matter within its terms of reference.

The UK Corporate Governance Code recommends that an Audit Committee is established which is comprised of at least three members, all of whom should be independent non-executive directors and at least one of whom should have recent and relevant financial experience. The chairman of the Audit Committee should be an independent non-executive director and shall not be the chairman of the Company. The chairman of the Audit Committee is Marisa Cassoni, who the Board considers has recent and relevant financial experience. As at the date of the Prospectus, the Audit Committee comprises two members who are independent non-executive directors (Marisa Cassoni and Rudolf Lamprecht) and Bill Holroyd, who is not regarded as independent for the purposes of the UK Corporate Governance Code. Although 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.

Remuneration Committee

The Remuneration Committee will be responsible for all elements of the remuneration of the executive directors and the chairman and for recommending and monitoring the structure and level of remuneration for senior management of the Group.

The terms of reference of the Remuneration Committee state that the Remuneration Committee shall meet as frequently as the Remuneration Committee deems appropriate, and in any event not less than

three times a year. The quorum for meetings of the Remuneration Committee will be two members. The terms of reference of the Remuneration Committee also set out the authority of the Remuneration Committee to investigate any matter within its terms of reference.

The UK Corporate Governance Code recommends that the Remuneration Committee comprises at least three members who should all be independent non-executive directors (and may include the chairman of the Company if he was considered independent upon his appointment). The chairman of the Remuneration Committee should not be the chairman of the Company. As at the date of the Prospectus, 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 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.

Nomination Committee

The Nomination Committee will be responsible for all aspects of the appointment of directors of the Company and for regularly reviewing the structure, size and composition of the Board (including evaluating the balance of skills, knowledge, independence and experience of the Board), giving full consideration to succession planning and leading the process for appointments to the Board and making recommendations to the Board.

The terms of reference state that the Nomination Committee shall meet as often as the Nomination Committee deems appropriate, and in any event not less than twice a year. The quorum for meetings of the Nomination Committee will be two members, one of whom must be an independent non-executive director. The terms of reference of the Remuneration Committee also set out the authority of the Remuneration Committee to investigate any matter within its terms of reference.

The UK Corporate Governance Code recommends that a Nomination Committee is established which is comprised of a majority of independent non-executive directors. As only one of the members of the nomination committee (Brian McBride) is independent, the Company does not comply with the UK Corporate Governance Code in this respect (whilst the chairman of the Company was considered to be independent on appointment, the UK Corporate Governance Code provides that thereafter the test of independence is not appropriate in relation to the chairman). The chairman or an independent non-executive director should chair the Nomination Committee, but the chairman should not chair the Nomination Committee when it is dealing with the appointment of a successor to the chairmanship. The chairman of the Nomination Committee is Richard Rose. Although 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 Chris Hopkinson and Richard Rose should ensure that they make a significant contribution to the work of the committee.

5. MODEL CODE

Following Admission, the Company intends to comply with a code of securities dealings in relation to the Ordinary Shares which is consistent with the Model Code. This code will apply to the Directors and relevant employees of the Group.

PART VIII
SELECTED FINANCIAL AND OTHER INFORMATION

The following is a summary of the Group's selected financial and other information for the periods indicated. The income statement, balance sheet and cash flow data have been extracted without material adjustment from, and is qualified in its entirety by reference to, the financial information in Part XI (Historical Financial Information). The summary should be read in conjunction with that section and with Part IX (Operating and Financial Review). Investors are advised to read the whole of this document and not rely on the information summarised in this Part VIII (Selected Financial and Other Information).

Consolidated income statement

The table below sets out the consolidated income statements of the Group for the years ended 31 March 2011, 2012 and 2013 and the nine months ended 31 December 2012 and 2013. The income statement data for the nine months ended 31 December 2012 are unaudited.

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£ million	£ million	£ million	£ million	£ million
Revenue	164.1	209.4	275.5	197.0	281.1
Cost of sales	(135.5)	(174.8)	(224.1)	(161.1)	(227.3)
Gross profit	28.6	34.6	51.4	35.9	53.8
Administrative expenses	(24.7)	(36.1)	(42.4)	(29.2)	(49.0)
Operating profit/(loss)	3.8	(1.6)	8.9	6.7	4.7
Net financing expense	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Profit/(Loss) before tax	3.7	(1.7)	8.7	6.5	4.5
Taxation (charge)/credit on ordinary activities	(1.0)	0.3	(1.9)	(1.5)	(1.4)
Profit/(loss) for the year/period attributable to equity shareholders	2.6	(1.4)	6.8	5.0	3.2

Consolidated statement of financial position

The table below sets out the consolidated balance sheets of the Group as at 31 March 2011, 2012 and 2013 and 31 December 2013.

	As at 31 March			As at
	2011	2012	2013	31 December
	£ million	£ million	£ million	2013
				£ million
Non-current assets				
Property, plant and equipment	2.0	6.4	6.9	11.4
Intangible assets	12.2	12.2	12.6	12.7
Trade and other receivables	4.9	5.6	9.3	9.8
Deferred tax assets	0.1	0.4	0.0	0.0
	<u>19.3</u>	<u>24.6</u>	<u>28.9</u>	<u>33.9</u>
Current assets				
Inventories	3.7	4.7	8.7	21.1
Trade and other receivables	9.8	13.0	18.9	22.5
Cash and cash equivalents	4.1	2.9	12.2	3.8
	<u>17.7</u>	<u>20.6</u>	<u>39.8</u>	<u>47.4</u>
Total assets	<u>36.9</u>	<u>45.2</u>	<u>68.7</u>	<u>81.2</u>
Current liabilities				
Borrowings	(1.6)	(2.3)	(3.1)	(4.4)
Trade and other payables	(21.0)	(28.2)	(44.6)	(54.9)
Current tax liabilities	(0.0)	–	(0.8)	(1.1)
Provisions	–	(1.7)	(0.9)	(0.9)
	<u>(22.6)</u>	<u>(32.3)</u>	<u>(49.3)</u>	<u>(61.4)</u>
Net current liabilities	<u>(4.9)</u>	<u>(11.7)</u>	<u>(9.5)</u>	<u>(14.0)</u>
Non-current liabilities				
Borrowings	(3.1)	(4.1)	(3.8)	(3.9)
	<u>(3.1)</u>	<u>(4.1)</u>	<u>(3.8)</u>	<u>(3.9)</u>
Total liabilities	<u>(25.7)</u>	<u>(36.4)</u>	<u>(53.1)</u>	<u>(65.3)</u>
Net assets	<u>11.3</u>	<u>8.8</u>	<u>15.6</u>	<u>16.0</u>
Equity attributable to equity holders of the parent				
Share capital	0.0	0.0	0.0	0.0
Share premium	5.4	4.3	4.3	4.3
Retained earnings	5.9	4.5	11.3	11.7
Total equity	<u>11.3</u>	<u>8.8</u>	<u>15.6</u>	<u>16.0</u>

Consolidated statement of cash flows

The table below sets out the consolidated statements of cash flows of the Group for the years ended 31 March 2011, 2012 and 2013 and the nine months ended 31 December 2012 and 2013. The cash flow data for the nine months ended 31 December 2012 are unaudited.

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£ million	£ million	£ million	£ million	£ million
Cash flows from operating activities					
Profit/(loss) for the year/period	2.6	(1.4)	6.8	5.0	3.2
<i>Adjustments for:</i>					
Depreciation and amortisation	0.5	1.2	1.8	1.3	2.0
Finance income	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Finance costs	0.1	0.1	0.3	0.2	0.2
Loss on disposal of property, plant and equipment . . .	–	0.1	0.3	0.2	–
Taxation charge/(credit)	1.0	(0.3)	1.9	1.5	1.4
Operating cash flows before movement in working capital	4.4	(0.3)	11.0	8.1	6.7
Increase in inventories	(0.0)	(1.0)	(4.0)	(4.1)	(12.4)
Increase in trade and other receivables	(7.3)	(3.9)	(9.6)	(7.1)	(4.2)
Increase in trade and other payables	4.5	7.3	16.4	7.7	10.3
Increase/(decrease) in provisions	–	1.7	(0.9)	(1.0)	0.0
	(2.8)	4.1	1.9	(4.5)	(6.1)
Taxation paid	–	(0.0)	(0.7)	–	(1.0)
Cash generated from operating activities	1.5	3.8	12.2	3.6	(0.4)
Cash flows from investing activities					
Proceeds from sale of property, Plant and equipment .	–	–	0.1	0.1	–
Acquisition of property, plant and equipment	(1.3)	(2.5)	(1.3)	(1.3)	(3.2)
Acquisition of intangible assets	–	–	(0.4)	–	(0.1)
Cash used in investing activities	(1.3)	(2.5)	(1.6)	(1.1)	(3.3)
Cash flows from financing activities					
Proceeds from new borrowings	1.5	0.7	0.4	0.3	0.4
Repurchase of own shares	–	(1.1)	–	–	–
Interest paid	(0.1)	(0.1)	(0.3)	(0.2)	(0.2)
Repayment of preference shares	(1.4)	(1.8)	(0.3)	–	(1.0)
Repayment of shareholder loan	–	–	(0.4)	(0.4)	(0.3)
Payment of finance lease liabilities	(0.1)	(0.2)	(0.8)	(0.5)	(0.8)
Dividends paid	–	–	–	–	(2.8)
Net cash used in financing activities	(0.2)	(2.5)	(1.3)	(0.9)	(4.8)
Net (decrease)/increase in cash	(0.0)	(1.2)	9.3	1.6	(8.4)
Cash and cash equivalents at beginning of year/period	4.2	4.1	2.9	2.9	12.2
Cash and cash equivalents at end of year/period	4.1	2.9	12.2	4.5	3.8

Key performance indicators

The following table sets out a summary of selected unaudited key performance indicators for the Group's business for the years ended 31 March 2011, 2012, and 2013, and for the nine months ended 31 December 2012 and 2013.

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
Number of orders (000) ⁽¹⁾	426	580	763	537	766
Products per order ⁽²⁾	1.17	1.18	1.19	1.19	1.19
Average order value (£) ⁽³⁾	356.31	339.32	340.42	344.93	346.93
Total sessions (000) ⁽⁴⁾	6,731	11,803	17,422	12,013	17,308
Conversion rate (%) ⁽⁵⁾	2.7	3.6	3.3	3.4	3.5
Deliver to promise rate (%) ⁽⁶⁾	95.3	96.8	96.3	96.4	98.2
Marketing and advertising expenses as a per cent. of revenue (%) ⁽⁷⁾	2.5	2.9	2.6	2.5	4.6
Warehousing expenses as a per cent. of revenue (%) ⁽⁸⁾	3.1	3.2	3.3	3.2	3.4
Other administrative expenses as a per cent. of revenue (%) ⁽⁹⁾	9.5	11.1	9.5	9.1	9.5

- (1) Total number of orders taken to completion in connection with AO website sales and third-party branded website sales and trade sales.
- (2) Total number of units sold in connection with AO website sales and third-party branded website sales and trade sales divided by total number of orders.
- (3) The sum of AO website sales and third-party branded website sales and trade sales divided by total number of orders.
- (4) The number of occasions the AO.com website has been visited.
- (5) Total number of orders taken to completion in connection with AO website sales divided by total sessions.
- (6) 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.
- (7) Marketing and advertising expenses divided by revenue.
- (8) Warehousing expenses divided by revenue.
- (9) Other administrative expenses divided by revenue.

PART IX

OPERATING AND FINANCIAL REVIEW

The following operating and financial review is intended to present management's perspective on the operating performance and financial condition of the Group during the period under review. The discussion and analysis in this Part IX should be read in conjunction with Part VIII (Selected Financial Information) and Part XI (Historical Financial Information).

The consolidated financial statements and the related notes for the years ended and as at 31 March 2011, 2012 and 2013, and for the nine months ended and as at 31 December 2012 and 2013, have been prepared in accordance with International Financial Reporting Standards as adopted by the European Commission for use in the European Union.

Unless stated otherwise, all financial information in this Part IX that relates to the Group for the years ended and as at 31 March 2011, 2012, and 2013, and for the nine months ended and as at 31 December 2013, has been reported on by the Group's auditors. For the avoidance of doubt, such financial information relating to the Group does not include certain key performance indicators relating to the Group, even where such key performance indicators include certain financial metrics. Such key performance indicators which are not audited include, without limitation, number of orders, products per order, average order value, total sessions, conversion rate, deliver to promise rate, marketing and advertising expenses as a per cent. of revenue, warehousing expenses as a per cent. of revenue and other administrative expenses as a per cent. of revenue.

Certain figures contained in this Part IX, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, (i) the sum or percentage change of the numbers may not conform exactly with the total figure given and (ii) the sum of the numbers in a column in certain tables may not conform exactly with the total figure given for that column or row.

This discussion and analysis contains forward-looking statements that are subject to known and unknown risks and uncertainties. Actual results and the timing of events could differ materially from those expressed or implied by such forward-looking statements as a result of various factors, including those described below and summarised in Part II (Risk Factors) and Part III (Important Information—Forward-Looking Statements).

1. OVERVIEW

AO is the United Kingdom's leading online retailer of major domestic appliances measured by 2012 market share according to the OC&C Report. AO sources, sells and delivers major domestic appliances, including washing machines, washer dryers, tumble dryers, dishwashers, refrigerators, freezers, ovens, range cookers and microwaves, as well as a range of small domestic appliances, including vacuums, floor cleaners, coffee machines, mixers and food processors.

In 2012, AO had a share of approximately 24 per cent. of the online market for major domestic appliances in the United Kingdom, of which approximately 19 per cent. represented AO website sales, according to the OC&C Report.

For the year ended 31 March 2013, the Group had revenue of £275.5 million, including £198.0 million of revenue from AO website sales, £61.7 million of revenue from third-party branded website sales and trade sales and £15.8 million of revenue from third-party logistics services, and for the nine months ended 31 December 2013, the Group had revenue of £281.1 million, including £206.3 million of revenue from AO website sales, £59.4 million of revenue from third-party branded website sales and trade sales and £15.4 million of revenue from third-party logistics services.

The Group had approximately 426,000 orders, 580,000 orders and 763,000 orders (including in connection with AO website sales and third-party branded website sales and trade sales) for the years ended 31 March 2011, 2012 and 2013, respectively, and approximately 537,000 orders and 766,000 orders for the nine months ended 31 December 2012 and 2013, respectively.

The following table sets out a summary of the Group's revenue, operating profit/(loss), EBITDA and Adjusted EBITDA for the years ended 31 March 2011, 2012, and 2013 and for the nine months ended 31 December 2012 and 2013:

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£ million	£ million	£ million	£ million	£ million
Revenue	164.1	209.4	275.5	197.0	281.1
Operating profit/(loss)	3.8	(1.6)	8.9	6.7	4.7
EBITDA ⁽¹⁾	4.4	(0.4)	10.7	7.9	6.7
Adjusted EBITDA ⁽²⁾	4.4	2.3	10.7	7.9	8.1

- (1) EBITDA means earnings before interest, taxes, depreciation and amortisation and is calculated by the Group by adding depreciation and amortisation to operating profit/(loss), in each case to be determined in accordance with IFRS. EBITDA is an unaudited supplementary measure of the Group's performance that is not required by, or presented in accordance with, IFRS or UK GAAP.
- (2) Adjusted EBITDA is an unaudited supplementary measure of the Group's performance that is not required by, or presented in accordance with, IFRS or UK GAAP. The Group calculates Adjusted EBITDA by adding certain items to EBITDA, as shown below. The following table presents a reconciliation of Adjusted EBITDA and EBITDA to operating profit/(loss) for the periods indicated:

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£ million	£ million	£ million	£ million	£ million
Profit/(loss) for year/period attributable to equity shareholders	2.6	(1.4)	6.8	5.0	3.2
Add: Taxation (charge)/credit on ordinary activities	1.0	(0.3)	1.9	1.5	1.4
Profit/(loss) before tax	3.7	(1.7)	8.7	6.5	4.5
Add: Net finance costs	0.1	0.1	0.2	0.2	0.2
Operating profit/(loss)	3.8	(1.6)	8.9	6.7	4.7
Add: Depreciation	0.5	1.2	1.8	1.3	2.0
Add: Amortisation	—	—	—	—	0.0
EBITDA	4.4	(0.4)	10.7	7.9	6.7
Add: Exceptional costs	—	2.8 ⁽³⁾	—	—	—
Add: Professional fees in relation to initial public offering	—	—	—	—	1.4 ⁽⁴⁾
Adjusted EBITDA	4.4	2.3	10.7	7.9	8.1

- (3) For the year ended 31 March 2012, the Group had exceptional costs totalling £2.8 million, including £1.4 million included in cost of sales and £1.3 million included in administrative expenses, relating to specifically identifiable costs of the relocation of the Group's delivery and logistics services from Radcliffe to the NDC in Crewe, the opening of a customer service call centre in Manchester and the restructuring of the Group's delivery fleet, including the write off of onerous property and vehicle leases, the write off of fixed assets no longer required, redundancy costs and dual running costs.
- (4) For the nine months ended 31 December 2013, the Group recorded professional fees in relation to initial public offering of £1.4 million, which related to specifically identifiable costs incurred during the period relating to the Group's proposed initial public offering.

The following table sets out a summary of selected unaudited key performance indicators for the Group's business for the years ended 31 March 2011, 2012, and 2013, and for the nine months ended 31 December 2012 and 2013:

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
Number of orders (000) ⁽¹⁾	426	580	763	537	766
Products per order ⁽²⁾	1.17	1.18	1.19	1.19	1.19
Average order value (£) ⁽³⁾	356.31	339.32	340.42	344.93	346.93
Total sessions (000) ⁽⁴⁾	6,731	11,803	17,422	12,013	17,308
Conversion rate (%) ⁽⁵⁾	2.7	3.6	3.3	3.4	3.5
Deliver to promise rate (%) ⁽⁶⁾	95.3	96.8	96.3	96.4	98.2
Marketing and advertising expenses as a per cent. of revenue (%) ⁽⁷⁾	2.5	2.9	2.6	2.5	4.6
Warehousing expenses as a per cent. of revenue (%) ⁽⁸⁾	3.1	3.2	3.3	3.2	3.4
Other administrative expenses as a per cent. of revenue (%) ⁽⁹⁾	9.5	11.1	9.5	9.1	9.5

- (1) Total number of orders taken to completion in connection with AO website sales and third-party branded website sales and trade sales.
- (2) Total number of units sold in connection with AO website sales and third-party branded website sales and trade sales divided by total number of orders.
- (3) The sum of AO website sales and third-party branded website sales and trade sales divided by total number of orders.
- (4) The number of occasions the AO.com website has been visited.
- (5) Total number of orders taken to completion in connection with AO website sales divided by total sessions.
- (6) 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.
- (7) Marketing and advertising expenses divided by revenue.
- (8) Warehousing expenses divided by revenue.
- (9) Other administrative expenses divided by revenue.

2. SIGNIFICANT FACTORS AFFECTING FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Group's operating and financial results during the periods under review have been affected by a number of factors, including the factors discussed below. The factors discussed below have materially influenced the Group's financial condition and results of operations during the periods under review and certain of these factors are expected to continue to influence the Group's financial condition and results of operations in future periods.

2.1 Growth in the online segment of the UK overall market for major domestic appliances

The total market for major domestic appliances in the United Kingdom has remained relatively stable during the past three years, and generated total sales value (including VAT) of approximately £3.1 billion in 2010 and approximately £3.2 billion in 2012, according to the OC&C Report. During the same period, the online portion of sales of major domestic appliances in the United Kingdom grew from sales value (including VAT) of approximately £0.7 billion in 2010 to approximately £1.1 billion in 2012, a compound annual growth rate of 25 per cent., according to the OC&C Report.

The Group's revenue increased from £164.1 million for the year ended 31 March 2011 to £275.5 million for the year ended 31 March 2013, a compound annual growth rate of 29.6 per cent. During the same period, AO website sales increased from £76.1 million to £198.0 million, a compound annual growth rate of 61.3 per cent. The Group's revenue increased from £197.0 million for the nine months ended 31 December 2012 to £281.1 million for the nine months ended 31 December 2013, an increase of 42.7 per cent. During the same period, AO website sales increased from £141.9 million to £206.3 million, an increase of 45.4 per cent. In addition to the migration to online purchasing forecast by the OC&C Report, AO expects the Group to continue to increase its share in the online channel.

The OC&C Report projects that the total market for major domestic appliances in the United Kingdom will grow from sales value (including VAT) of approximately £3.2 billion in 2012 to approximately £3.4 billion in 2016. During the same period, the online market share for major domestic appliances is forecast by the OC&C Report to grow from sales value (including VAT) of approximately £1.1 billion to approximately £1.8 billion, or 52 per cent. of the total sales value of major domestic appliances in the United Kingdom.

2.2 Increasing numbers of orders

The Group has experienced an increase in the number of orders in each of the last three fiscal years and in the nine months ended 31 December 2013. The Group had approximately 426,000 orders, 580,000 orders and 763,000 orders for the years ended 31 March 2011, 2012 and 2013, respectively, and approximately 537,000 orders and 766,000 orders for the nine months ended 31 December 2012 and 2013, respectively. The Group has also experienced an increase in the number of products per order in recent periods, with 1.17, 1.18 and 1.19 products per order for the years ended 31 March 2011, 2012 and 2013, respectively, and 1.19 and 1.19 products per order for the nine months ended 31 December 2012 and 2013, respectively. Increases in the number of products per order generally reduce the delivery cost per unit sold and thereby have a positive impact on margin per unit.

The Group has handled these increases in numbers of orders while at the same time transforming its infrastructure such that further increases in numbers of orders can be fulfilled at a lower incremental cost per unit.

AO believes that, since the establishment of the new NDC in 2012, the Group will be able to address expected increases in order numbers in the near term by making only limited additional capital expenditures to expand the Group's delivery fleet and establish additional stockless outbases.

AO commenced a national television advertising campaign for AO.com in August 2013, which AO believes increased brand awareness among UK consumers, resulted in increased traffic to the AO.com website, improved conversion rates and increased numbers of orders. AO intends to continue with television advertising and has budgeted £5.4 million in expenditure on its national television advertising campaign for the year ended 31 March 2014, of which £3.0 million had been spent as at 31 December 2013.

2.3 Increasing orders from repeat customers

AO has implemented and continues to implement a strategy for attracting repeat customers by aiming to provide an excellent customer experience, which AO believes improves customer loyalty. During the periods under review, AO experienced increased customer loyalty as demonstrated by the propensity of customers to purchase additional products after their first purchase. Repeat customers (defined as customers who had made a previous purchase from AO.com or Appliances Online using the same email address) accounted for 14.4 per cent. of AO.com orders for the year ended 31 March 2011, compared to 18.8 per cent. for the year ended 31 March 2012 and 25.2 per cent. for the year ended 31 March 2013. Repeat customers accounted for 24.9 per cent. of AO.com orders for the nine months ended 31 December 2012, compared to 29.3 per cent. for the nine months ended 31 December 2013. The percentage of total customers that are repeat customers has increased notwithstanding growth in new customers during these periods.

Repeat customers are a key driver of customer acquisitions from unpaid and lower cost sources, such as natural and branded search results, thereby lowering the Group's per unit customer acquisition costs. During the periods under review, the Group has also focused on the acquisition of new customers through, for example, incurring increased marketing and advertising expenses in connection with television advertising. The Group's cost per customer acquisition (defined as marketing and advertising expenses divided by number of orders) was £9.49 per order, £10.50 per order and £9.35 per order for the years ended 31 March 2011, 2012 and 2013, respectively. The Group's cost per customer acquisition was £9.30 per order and £16.79 per order for the nine months ended 31 December 2012 and 2013, respectively. During the nine months ended 31 December 2013, the Group incurred costs of £1.4 million in connection with an initial trial television advertising campaign in the Granada region of northwest England in order to estimate the potential return on an investment in television advertising and costs of £3.0 million in connection with its subsequent national television advertising campaign.

2.4 Increasing AO website sales

The Group has experienced increases in revenue and orders from AO website sales in each of the last three fiscal years and in the nine months ended 31 December 2013:

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
AO website sales (£ million)	76.1	145.0	198.0	141.9	206.3
Third-party branded website sales and trade sales (£ million)	75.5	51.7	61.7	43.4	59.4
AO website sales as a percentage of total revenue (%)	46.4	69.3	71.9	72.1	73.4
Third-party branded website sales and trade sales as a percentage of total revenue (%)	46.0	24.7	22.4	22.0	21.1
Number of orders in connection with AO website sales (000)	217	435	588	416	603
Number of orders in connection with third-party branded website sales and trade sales (000)	209	145	175	121	163

AO believes that the increases in revenue and orders from AO website sales in recent periods have made the Group less reliant on its relationships with its third-party branded website clients and AO expects that AO website sales will continue to constitute an increasing percentage of the Group's revenue in future periods. AO does not intend to focus on acquiring new third-party branded website clients in future periods.

2.5 Significant capital expenditure and exceptional costs in the year ended 31 March 2012

In the year ended 31 March 2012, the Group made significant capital expenditures, including in respect of the relocation of the Group's delivery and logistics services from Radcliffe to the NDC in Crewe, the opening of a customer service call centre in Manchester and the restructuring of the Group's delivery fleet. AO believes that these capital projects increased the Group's warehouse capacity and storage space, improved the Group's ability to handle increased volumes of customer service calls and improved the efficiency of the Group's delivery network.

In connection with these capital projects, the Group recorded exceptional costs before tax of £2.8 million, including £1.4 million included in cost of sales and £1.3 million included in administrative expenses, which impacted the Group's results for the year ended 31 March 2012. Excluding such exceptional costs, for the year ended 31 March 2012 the Group would have had a gross profit of £36.0 million, an operating profit of £1.2 million and a profit for the year attributable to equity shareholders of £1.4 million (as compared to a gross profit of £34.6 million, an operating loss of £1.6 million and a loss for the year attributable to equity shareholders of £1.4 million). During the period the Group's delivery and logistics services were being relocated, the Group also incurred additional operating expenses in order to maintain the quality of its customer service, and these expenses also impacted the Group's results.

2.6 Supplier relationships

The Group's purchasing team buys its products for resale directly from UK subsidiaries of the product manufacturers. The costs to the Group of these products is determined at the point of order based upon the suppliers' prevailing selling prices after taking into consideration certain agreed discounts, allowances and rebates, such as prompt payment and promotional discounts. Furthermore, the Group agrees volume targets with certain suppliers and receives retrospectively additional purchase discounts based on the achievement of those volume targets.

As the quantity of products purchased by the Group has increased, the Group has been able to purchase a larger portion of its SKUs in bulk, where stock is delivered directly to the Group upon its arrival in the United Kingdom, rather than being delivered first to a supplier warehouse. Products purchased in this manner may benefit from additional discounts as the supplier does not have the costs of handling or storing the products in its own warehouse. In addition, the Group has held, and expects to continue to hold, larger quantities of certain SKUs in inventory in order to provide customers with same-day and next-day delivery options on an increased range of products and to improve the availability of certain products. AO believes that the Group maintains excellent relationships with, and is amongst the largest

customers of, the top five suppliers to the UK market for major domestic appliances and that the Group has received very competitive pricing from such suppliers in recent periods.

2.7 Price competition

The market for major domestic appliances in the United Kingdom is competitive, and the growth of online retailers has led to an increase in such competition. The online market is susceptible to price competition as the internet allows for greater price transparency across comparable products and, as traditional in-store retailers have entered the online market, they also compete with online retailers in terms of the prices for their products. Online retailers often offer price discounts in response to promotional activities which results in additional price competition in the online market.

According to the OC&C Report, since 2010, average sales prices of major domestic appliances in the United Kingdom have been largely flat due to competitive price pressures and price transparency. The OC&C Report forecasts that price competition is likely to continue and price growth is expected to remain limited as retailers of major domestic appliances in the United Kingdom, including online retailers, continue to compete aggressively. AO does not anticipate increases in prices for the majority of its products in the short to medium term.

3. RECENT DEVELOPMENTS, CURRENT TRADING AND PROSPECTS

In the period since 31 December 2013, the Group has continued to trade in line with management expectations.

4. DESCRIPTION OF KEY INCOME STATEMENT ITEMS

Revenue consists of (i) AO website sales (which include sales related to the Group's own branded websites that are completed through the Group's customer service call centres); (ii) third-party branded website sales (which include sales related to third-party branded websites that are completed through the Group's customer service call centres) and trade sales; and (iii) third-party logistics services.

Cost of sales consists of product, delivery (including two-person delivery team compensation and all costs relating to the trunking and delivery fleet, including fuel, operating and maintenance costs) and other direct costs.

Administrative expenses consist of warehouse, advertising and marketing, and other administrative costs.

Net finance costs consist of finance income and finance costs. Finance income is comprised of bank interest. Finance costs are comprised of interest on borrowings, interest on finance leases and interest on preference shares.

5. RESULTS OF OPERATIONS

5.1 Analysis of results of operations for the nine months ended 31 December 2012 and 2013

The following table sets out the Group's consolidated income statement for the nine months ended 31 December 2012 and 2013:

	Nine months ended 31 December			
	2012	Per cent. of revenue	2013	Per cent. of revenue
	£ million		£ million	
AO website sales	141.9	72.1	206.3	73.4
Third-party branded website sales and trade sales	43.4	22.0	59.4	21.1
Third-party logistics services	11.7	5.9	15.4	5.5
Revenue	197.0	100.0	281.1	100.0
Cost of Sales	(161.1)	(81.8)	(227.3)	(80.9)
Gross profit	35.9	18.2	53.8	19.1
Marketing and advertising expenses	(5.0)	(2.5)	(12.9)	(4.6)
Warehousing expenses	(6.3)	(3.2)	(9.6)	(3.4)
Other administrative expenses	(17.9)	(9.1)	(26.6)	(9.5)
Administrative expenses	(29.2)	(14.8)	(49.0)	(17.4)
Operating profit/(loss)	6.7	3.4	4.7	1.7
Net finance costs	(0.2)	(0.1)	(0.2)	(0.1)
Profit/(loss) before tax	6.5	3.3	4.5	1.6
Taxation (charge)/credit on ordinary activities	(1.5)	(0.7)	(1.4)	(0.5)
Profit/(loss) for the period attributable to equity shareholders	5.0	2.6	3.2	1.1

Revenue

Revenue increased from £197.0 million for the nine months ended 31 December 2012 to £281.1 million for the nine months ended 31 December 2013, an increase of 42.7 per cent., due primarily to an increase in AO website sales.

Number of orders increased from approximately 537,000 orders for the nine months ended 31 December 2012 to approximately 766,000 orders for the nine months ended 31 December 2013, an increase of 42.6 per cent., and average order value increased from £344.93 for the nine months ended 31 December 2012 to £346.93 for the nine months ended 31 December 2013, an increase of 0.6 per cent.

	Nine months ended 31 December			
	2012	Per cent. of revenue	2013	Per cent. of revenue
	£ million		£ million	
AO website sales	141.9	72.1	206.3	73.4
Third-party branded website sales and trade sales	43.4	22.0	59.4	21.1
Third-party logistics services	11.7	5.9	15.4	5.5
Revenue	197.0	100.0	281.1	100.0

AO website sales

AO website sales increased from £141.9 million for the nine months ended 31 December 2012 to £206.3 million for the nine months ended 31 December 2013, an increase of 45.4 per cent. AO believes that the increase in AO website sales was driven by the strength of AO.com's customer proposition and the Group's focus on customer service, which enabled AO.com to attract new customers and encouraged existing customers to make additional purchases. In addition, AO commenced a national television advertising campaign for AO.com in August 2013, which AO believes increased brand awareness among UK consumers, resulted in increased traffic to the AO.com website, improved conversion rates and increased numbers of orders.

Number of orders in connection with AO website sales increased from approximately 416,000 orders for the nine months ended 31 December 2012 to approximately 603,000 orders for the nine months ended 31 December 2013, an increase of 45.0 per cent.

Third-party branded website sales and trade sales

Third-party branded website sales and trade sales increased from £43.4 million for the nine months ended 31 December 2012 to £59.4 million for the nine months ended 31 December 2013, an increase of 36.9 per cent. The increase in third-party branded website sales and trade sales was due primarily to the commencement of sales of replacement appliances to trade clients in April 2012.

Number of orders in connection with third-party branded website sales and trade sales increased from approximately 121,000 orders for the nine months ended 31 December 2012 to approximately 163,000 orders for the nine months ended 31 December 2013, an increase of 34.7 per cent.

Third-party logistics services

Revenue from third-party logistics services increased from £11.7 million for the nine months ended 31 December 2012 to £15.4 million for the nine months ended 31 December 2013, an increase of 31.7 per cent. The increase in revenue from third-party logistics services was due primarily to an increase in volume.

Cost of Sales

Cost of sales increased from £161.1 million for the nine months ended 31 December 2012 to £227.3 million for the nine months ended 31 December 2013, an increase of 41.1 per cent. Cost of sales as a percentage of revenue decreased from 81.8 per cent. for the nine months ended 31 December 2012 to 80.9 per cent. for the nine months ended 31 December 2013. The decrease in cost of sales as a percentage of revenue was due primarily to improved pricing from the Group's suppliers, as well as efficiencies built into the delivery cost base resulting from the additional outbases that were opened during the period.

Gross Profit

Gross profit increased from £35.9 million for the nine months ended 31 December 2012 to £53.8 million for the nine months ended 31 December 2013, an increase of 49.9 per cent. Gross margin, calculated as gross profit divided by revenue, was 18.2 per cent. for the nine months ended 31 December 2012 compared to 19.1 per cent. for the nine months ended 31 December 2013.

Administrative expenses

Administrative expenses as a percentage of revenue increased from 14.8 per cent. for the nine months ended 31 December 2012 to 17.4 per cent. for the nine months ended 31 December 2013. The increase in administrative expenses as a percentage of revenue was due primarily to an increase in other administrative expenses, as well as an increase in marketing and advertising expenses.

	Nine months ended 31 December			
	2012	Per cent. of revenue	2013	Per cent. of revenue
	£ million		£ million	
Marketing and advertising expenses	(5.0)	(2.5)	(12.9)	(4.6)
Warehousing expenses	(6.3)	(3.2)	(9.6)	(3.4)
Other administrative expenses	(17.9)	(9.1)	(26.6)	(9.5)
Administrative expenses	(29.2)	(14.8)	(49.0)	(17.4)

Marketing and advertising expenses

Marketing and advertising expenses increased from £5.0 million for the nine months ended 31 December 2012 to £12.9 million for the nine months ended 31 December 2013, an increase of 158 per cent. Marketing and advertising expenses as a percentage of revenue were 2.5 per cent. and 4.6 per cent. for the nine months ended 31 December 2012 and 2013, respectively. The increase in marketing and advertising expenses was due primarily to increased advertising expenses relating to television and paid online advertising.

During the nine months ended 31 December 2013, the Group launched an initial trial television advertising campaign in the Granada region of northwest England in order to estimate the potential return on an investment in television advertising. The Group incurred costs of £1.4 million in connection with the regional trial campaign, which involved more intensive advertising in the region than the Group intends to engage in on a national level. Following the regional trial campaign, the Group launched a national television advertising campaign that incurred costs of £3.0 million during the nine months ended 31 December 2013.

As a result of the rebranding to AO.com from Appliances Online in August 2013, AO.com has experienced a reduction in its Google natural search visibility, which resulted in more customers arriving at the AO.com website through paid channels and thereby increased the Group's marketing and advertising expenses for the nine months ended 31 December 2013. AO believes that, as brand awareness improves, more total sessions and orders will be generated through unpaid and lower cost sources of customer acquisitions.

Warehousing expenses

Warehousing expenses increased from £6.3 million for the nine months ended 31 December 2012 to £9.6 million for the nine months ended 31 December 2013, an increase of 52.4 per cent. Warehousing expenses as a percentage of revenue were 3.2 per cent. and 3.4 per cent. for the nine months ended 31 December 2012 and 2013, respectively. The increase in warehousing expenses was due primarily to costs associated with an increased number of stockless outbases, as the Group operated three additional stockless outbases during the nine months ended 31 December 2013.

Other administrative expenses

Other administrative expenses increased from £17.9 million for the nine months ended 31 December 2012 to £26.6 million for the nine months ended 31 December 2013, an increase of 48.6 per cent. Other administrative expenses as a percentage of revenue were 9.1 per cent. and 9.5 per cent. for the nine months ended 31 December 2012 and 2013, respectively. The increase in other administrative expenses was due primarily to an increase in staff costs reflecting increases in the Group's headcount to support growth in the business. The Group also recorded professional fees in relation to initial public offering of £1.4 million, which related to specifically identifiable costs incurred during the period relating to the Group's proposed initial public offering. Expected operational efficiencies built in to the fixed cost base were not realised in the nine months ended 31 December 2013 because the Group continued to invest during this period in overhead to support the future growth of the business.

Operating profit/(loss)

Operating profit decreased from £6.7 million for the nine months ended 31 December 2012 to £4.7 million for the nine months ended 31 December 2013, a decrease of 29.2 per cent. The decrease was primarily due to professional fees in relation to initial public offering of £1.4 million, costs of £1.4 million for the Granada television trial campaign and the impact of the rebranding to AO.com from Appliances Online, which were partially offset by improved operational efficiencies resulting from increased volumes.

Profit/(loss) before tax

The Group recorded a profit before tax of £6.5 million for the nine months ended 31 December 2012 and a profit before tax of £4.5 million for the nine months ended 31 December 2013.

Taxation (charge)/credit on ordinary activities

The Group recorded a taxation charge on ordinary activities of £1.5 million and £1.4 million for the nine months ended 31 December 2012 and 2013, respectively. The statutory rate of tax applicable was 24 per cent. for the nine months ended 31 December 2012 and 23 per cent. for the nine months ended 31 December 2013. The effective tax rate was 22.5 per cent. for the nine months ended 31 December 2012 and 30.4 per cent. for the nine months ended 31 December 2013.

Profit/(loss) for the period attributable to equity shareholders

The Group recorded a profit for the period attributable to equity shareholders of £5.0 million for the nine months ended 31 December 2012 and profit for the period attributable to equity shareholders of £3.2 million for the nine months ended 31 December 2013.

5.2 Analysis of results of operations for the years ended 31 March 2011, 2012 and 2013

The following table sets out the Group's consolidated income statement for the years ended 31 March 2011, 2012 and 2013:

	Year ended 31 March					
	2011	Per cent. of revenue	2012	Per cent. of revenue	2013	Per cent. of revenue
	£ million		£ million		£ million	
AO website sales	76.1	46.4	145.0	69.3	198.0	71.9
Third-party branded website sales and trade sales	75.5	46.0	51.7	24.7	61.7	22.4
Third-party logistics services	12.4	7.5	12.6	6.0	15.8	5.7
Revenue	164.1	100.0	209.4	100.0	275.5	100.0
Cost of Sales	(135.5)	(82.6)	(174.8)	(83.5)	(224.1)	(81.3)
Gross profit	28.6	17.4	34.6	16.5	51.4	18.7
Marketing and advertising expenses . .	(4.0)	(2.5)	(6.1)	(2.9)	(7.1)	(2.6)
Warehousing expenses	(5.2)	(3.1)	(6.7)	(3.2)	(9.2)	(3.3)
Other administrative expenses	(15.5)	(9.5)	(23.3)	(11.1)	(26.1)	(9.5)
Administrative expenses	(24.7)	(15.1)	(36.1)	(17.3)	(42.4)	(15.4)
Operating profit/(loss)	3.8	2.3	(1.6)	(0.8)	8.9	3.2
Net finance costs	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.1)
Profit/(loss) before tax	3.7	2.2	(1.7)	(0.9)	8.7	3.2
Taxation (charge)/credit on ordinary activities	(1.0)	(0.6)	0.3	0.2	(1.9)	(0.7)
Profit/(loss) for the year attributable to equity shareholders	2.6	1.6	(1.4)	(0.7)	6.8	2.5

Revenue

The Group's revenue increased from £164.1 million for the year ended 31 March 2011 to £209.4 million for the year ended 31 March 2012, an increase of 27.6 per cent., and to £275.5 million for the year ended 31 March 2013, an increase of 31.6 per cent. During the three-year period ended 31 March 2013, the Group's revenue grew at a compound annual growth rate of 29.6 per cent. The increases in revenue over the periods were due primarily to increases in AO website sales.

Number of orders increased from approximately 426,000 orders for the year ended 31 March 2011 to approximately 580,000 orders for the year ended 31 March 2012, an increase of 36.2 per cent., and to approximately 763,000 orders for the year ended 31 March 2013, an increase of 31.6 per cent. Average order value was £356.31, £339.32 and £340.42 for the years ended 31 March 2011, 2012 and 2013, respectively.

	Year ended 31 March					
	2011	Per cent. of revenue	2012	Per cent. of revenue	2013	Per cent. of revenue
	£ million		£ million		£ million	
AO website sales	76.1	46.4	145.0	69.3	198.0	71.9
Third-party branded website sales and trade sales	75.5	46.0	51.7	24.7	61.7	22.4
Third-party logistics services	12.4	7.5	12.6	6.0	15.8	5.7
Revenue	164.1	100.0	209.4	100.0	275.5	100.0

AO website sales

AO website sales increased from £76.1 million for the year ended 31 March 2011 to £145.0 million for the year ended 31 March 2012, an increase of 90.5 per cent., and to £198.0 million for the year ended 31 March 2013, an increase of 36.6 per cent. AO believes that these increases in AO website sales were driven by the strength of AO.com's customer proposition and the Group's focus on customer service, which enabled AO.com to attract new customers and encouraged existing customers to make additional purchases.

Number of orders in connection with AO website sales increased from approximately 217,000 orders for the year ended 31 March 2011 to approximately 435,000 orders for the year ended 31 March 2012, an increase of 100.5 per cent., and to approximately 588,000 orders for the year ended 31 March 2013, an increase of 35.2 per cent.

Third-party branded website sales and trade sales

Third-party branded website sales and trade sales decreased from £75.5 million for the year ended 31 March 2011 to £51.7 million for the year ended 31 March 2012, a decrease of 31.5 per cent., and then increased to £61.7 million for the year ended 31 March 2013, an increase of 19.3 per cent. The decrease in 2012 was due primarily to the Group's strategy to drive sales to AO.com. The increase in 2013 was due primarily to the commencement of sales of replacement appliances to trade clients.

Number of orders in connection with third-party branded website sales and trade sales decreased from approximately 209,000 orders for the year ended 31 March 2011 to approximately 145,000 orders for the year ended 31 March 2012, a decrease of 30.6 per cent., and then increased to approximately 175,000 orders for the year ended 31 March 2013, an increase of 20.7 per cent.

Third-party logistics services

Revenue from third-party logistics services were £12.4 million, £12.6 million and £15.8 million for the years ended 31 March 2011, 2012 and 2013, respectively, with the increase in 2013 resulting primarily from an increase in volume, as well as an increase in revenue from backhaul services to the Group's product suppliers.

Cost of Sales

Cost of sales increased from £135.5 million for the year ended 31 March 2011 to £174.8 million for the year ended 31 March 2012, an increase of 29.0 per cent., and to £224.1 million for the year ended 31 March 2013, an increase of 28.2 per cent. Cost of sales as a percentage of revenue was 82.6 per cent., 83.5 per cent. and 81.3 per cent. for the years ended 31 March 2011, 2012, and 2013, respectively. The increase in the percentage of revenue represented by cost of sales in 2012 was primarily driven by volume growth combined with a marginal increase in product cost per unit. Delivery costs also increased but at a lower cost per unit than the previous year. Other cost of sales savings were achieved due to reduced commissions paid to third-party branded website clients resulting from lower third-party branded website sales. Exceptional costs of £1.4 million were incurred in 2012 in relation to the relocation of the Group's delivery and logistics services to the NDC in Crewe and associated dual running costs. The decrease in the percentage of revenue represented by cost of sales in 2013 was due primarily to delivery costs per unit decreasing as a result of efficiencies being achieved following the establishment of the NDC in Crewe.

Gross profit

The Group recorded gross profit of £28.6 million for the year ended 31 March 2011 compared to gross profit of £34.6 million for the year ended 31 March 2012 and £51.4 million for the year ended 31 March 2013. Gross margin, calculated as gross profit divided by revenue, was 17.4 per cent., 16.5 per cent. and 18.7 per cent. for the years ended 31 March 2011, 2012 and 2013, respectively.

Administrative Expenses

Administrative expenses were £24.7 million, £36.1 million and £42.4 million for the years ended 31 March 2011, 2012 and 2013, respectively. Administrative expenses, as a percentage of revenue, were 15.1 per cent., 17.3 per cent. and 15.4 per cent. for the years ended 31 March 2011, 2012 and 2013, respectively. The

increases in administrative expenses over the periods were due primarily to increases in other administrative expenses.

	Year ended 31 March					
	2011	Per cent. of revenue	2012	Per cent. of revenue	2013	Per cent. of revenue
	£ million		£ million		£ million	
Marketing and advertising expenses	(4.0)	(2.5)	(6.1)	(2.9)	(7.1)	(2.6)
Warehousing expenses	(5.2)	(3.1)	(6.7)	(3.2)	(9.2)	(3.3)
Other administrative expenses	(15.5)	(9.5)	(23.3)	(11.1)	(26.1)	(9.5)
Administrative expenses	(24.7)	(15.1)	(36.1)	(17.3)	(42.4)	(15.4)

Marketing and advertising expenses

Marketing and advertising expenses during the periods were primarily the costs of promoting the Group's websites and other brand-related expenditure. Marketing and advertising expenses increased from £4.0 million for the year ended 31 March 2011 to £6.1 million for the year ended 31 March 2012, an increase of 50.7 per cent., and to £7.1 million for the year ended 31 March 2013, an increase of 17.1 per cent. Marketing and advertising expenses as a percentage of revenue were 2.5 per cent., 2.9 per cent. and 2.6 per cent. for the years ended 31 March 2011, 2012, and 2013, respectively. The increase in marketing and advertising expenses as a percentage of revenue in 2012 was due primarily to a short-term campaign to drive more sales volume to AO.com. The decrease in marketing and advertising expenses as a percentage of revenue in 2013 was due primarily to reduced expenditures due to a shift toward lower cost customer acquisition sources, such as natural and branded search results and social media.

Warehousing expenses

Warehousing expenses increased from £5.2 million for the year ended 31 March 2011 to £6.7 million for the year ended 31 March 2012, an increase of 30.2 per cent., and to £9.2 million for the year ended 31 March 2013, an increase of 36.4 per cent. The increase in 2012 was due primarily to the relocation of the Group's delivery and logistics services to the NDC in Crewe, which resulted in the Group incurring exceptional costs of £1.3 million in additional administrative expenses and associated dual running costs. The increase in 2013 was due primarily to costs associated with an increase in volume and an increased number of stockless outbases. Warehousing expenses as a percentage of revenue were 3.1 per cent., 3.2 per cent. and 3.3 per cent. for the years ended 31 March 2011, 2012 and 2013, respectively.

Other administrative expenses

Other administrative expenses increased from £15.5 million for the year ended 31 March 2011 to £23.3 million for the year ended 31 March 2012, an increase of 50.3 per cent., and to £26.1 million for the year ended 31 March 2013, an increase of 12.0 per cent. The primary driver of other administrative expenses was staff costs, and the increases in 2012 and 2013 were due primarily to increases in the Group's headcount to support growth in the business.

Operating profit/(loss)

The Group recorded operating profit of £3.8 million for the year ended 31 March 2011, an operating loss of £1.6 million for the year ended 31 March 2012 and an operating profit of £8.9 million for the year ended 31 March 2013.

Profit/(loss) before tax

The Group recorded a profit before tax of £3.7 million for the year ended 31 March 2011, a loss before tax of £1.7 million for the year ended 31 March 2012 and a profit before tax of £8.7 million for the year ended 31 March 2013.

Taxation (charge)/credit on ordinary activities

The Group recorded a taxation charge on ordinary activities of £1.0 million for the year ended 31 March 2011, a taxation credit on ordinary activities of £0.3 million for the year ended 31 March 2012 and a taxation charge on ordinary activities of £1.9 million for the years ended 31 March 2013. The applicable

statutory rate of tax was 28 per cent., 26 per cent. and 24 per cent. for the years ended 31 March 2011, 2012 and 2013, respectively. The effective tax rate was 28.4 per cent., 19.1 per cent. and 22.2 per cent. for the years ended 31 March 2011, 2012 and 2013, respectively.

Profit/(loss) for the year attributable to equity shareholders

The Group recorded a profit for the year attributable to equity shareholders of £2.6 million for the year ended 31 March 2011, a loss for the year attributable to equity shareholders of £1.4 million for the year ended 31 March 2012 and a profit for the year attributable to equity shareholders of £6.8 million for the year ended 31 March 2013.

6. CURRENT ASSETS

6.1 Inventories

AO aims to maintain levels of inventory that allow the Group to secure supply to meet customer demand and to offer customers a wide range of products for same-day and next-day delivery. In addition, as sales volumes have increased, the Group has purchased a larger portion of its high volume SKUs in bulk, as this allows the Group to benefit from additional supplier discounts.

Inventories were £3.7 million, £4.7 million, £8.7 million and £21.1 million as at 31 March 2011, 2012 and 2013 and 31 December 2013, respectively. The increase as at 31 March 2013 reflected primarily an increase in the Group's sales volumes, as well as an increase in the number of SKUs available for next-day delivery. The increase as at 31 December 2013 reflected seasonal variations in inventory held by the Group (31 December 2012—£8.8 million) in response to seasonal manufacturing interruptions and a change in the Group's stock holding strategy which has led the Group to hold more stock in order to provide customers with same-day and next-day delivery options on an increased number of SKUs and to improve availability of certain SKUs which are not consistently available from manufacturers. In line with this stock holding strategy, AO expects the Group to hold on average 14 to 16 days of stock (before seasonal adjustments). Average stock days were 10 days, 9 days, 11 days and 18 days for the years ended 31 March 2011, 2012 and 2013 and the nine months ended 31 December 2013, respectively.

6.2 Trade and other receivables

The Group's trade receivables were £4.1 million, £2.5 million, £6.5 million and £7.1 million as at 31 March 2011, 2012, and 2013 and 31 December 2013, respectively. The increase as at 31 March 2013 reflected the increase in the volume of the Group's trade sales. The Group receives payment in full before making delivery of appliances in connection with AO website sales and third-party branded website sales and accordingly does not generally have trade receivables in connection with such sales.

The Group had accrued income of £6.5 million, £10.1 million, £14.3 million and £17.9 million as at 31 March 2011, 2012 and 2013 and 31 December 2013, respectively. Accrued income consisted primarily of expected future commission payments in respect of product protection plans sold by the Group as agent of D&G. Purchasers of product protection plans pay a fixed monthly fee to D&G on plans that are in force, and the Group receives a cash commission on such monthly payments. The Group recognises the full amount of expected future commission payments on such plans at the time the plan is purchased, resulting in an accrued income balance. As retail revenues increase period on period, AO expects that accrued income will also increase.

The Group had prepayments of £4.1 million, £6.0 million, £7.4 million and £7.3 million as at 31 March 2011, 2012 and 2013, and 31 December 2013, respectively. Prepayments consisted primarily of supplier volume rebates and general prepaid amounts relating to rent, rates, insurance, utilities and overheads.

7. LIQUIDITY AND CAPITAL RESOURCES

7.1 Overview

The Group primarily finances its operations through cash from operations and the Group seeks to maintain a neutral working capital position by investing cash from operations back into the business, including through purchasing additional inventory. The Group regularly monitors its liquidity position, including cash flows and capital expenditure.

7.2 Cash flow analysis for the years ended 31 March 2011, 2012 and 2013 and the nine months ended 31 December 2012 and 2013

The following table sets out selected cash flow information for the Group for the years ended 31 March 2011, 2012, and 2013 and the ninth months ended 31 December 2012 and 2013:

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£ million	£ million	£ million	£ million	£ million
Cash generated from operating activities	1.5	3.8	12.2	3.6	(0.4)
Cash used in investing activities	(1.3)	(2.5)	(1.6)	(1.1)	(3.3)
Net cash used in financing activities	(0.2)	(2.5)	(1.3)	(0.9)	(4.8)
Net (decrease)/increase in cash	(0.0)	(1.2)	9.3	1.6	(8.4)
Cash and cash equivalents at beginning of year/period	4.2	4.1	2.9	2.9	12.2
Cash and cash equivalents at end of year/period	4.1	2.9	12.2	4.5	3.8

Cash generated from operating activities

The following table sets out selected information for the Group's cash flows from operations for the years ended 31 March 2011, 2012 and 2013 and the nine months ended 31 December 2012 and 2013:

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£ million	£ million	£ million	£ million	£ million
Cash flows from operating activities					
Profit/(loss) for the year/period	2.6	(1.4)	6.8	5.0	3.2
<i>Adjustments for:</i>					
Depreciation and amortisation	0.5	1.2	1.8	1.3	2.0
Finance cost	0.1	0.1	0.3	0.2	0.2
Loss on disposal of property, plant and equipment	–	0.1	0.3	0.2	–
Taxation charge/(credit)	1.0	(0.3)	1.9	1.5	1.4
Operating cash flows before movement in working capital	4.4	(0.3)	11.0	(8.1)	6.7
Increase in inventories	(0.0)	(1.0)	(4.0)	(4.1)	(12.4)
Increase in trade and other receivables	(7.3)	(3.9)	(9.6)	(7.1)	(4.2)
Increase in trade and other payables	4.5	7.3	16.4	7.7	10.3
Increase/(decrease) in provisions	–	1.7	(0.9)	(1.0)	0.0
	(2.8)	4.1	1.9	(4.5)	(6.1)
Taxation paid	–	(0.0)	(0.7)	–	(1.0)
Cash generated from operating activities	1.5	3.8	12.2	3.6	(0.4)

The Group's cash generated from operating activities decreased from a cash inflow of £3.6 million for the nine months ended 31 December 2012 to a cash outflow of £0.4 million for the nine months ended 31 December 2013. The decrease was due primarily to the Group's investment in inventory during the period. Trade and other receivables include accrued income in respect of commission on product protection plans.

The Group's cash generated from operating activities increased from £1.5 million for the year ended 31 March 2011 to £3.8 million for the year ended 31 March 2012 and increased to £12.2 million for the year ended 31 March 2013. For the year ended 31 March 2012, the Group's cash generated from operating activities reflected a decrease in receivables from customers and an increase in trade payables. Trade payables principally consist of amounts payable to product manufacturers and have increased in line with trading for the years ended 31 March 2011, 2012 and 2013.

Cash used in investing activities

The Group's cash used in investing activities increased from £1.1 million for the nine months ended 31 December 2012 to £3.3 million for the nine months ended 31 December 2013. The increase was due primarily to the purchase of 30 double-decker trailers and the fit out of the new Group head office at Unit 5A, the Parklands, Lostock, Bolton.

The Group's cash used in investing activities increased from £1.3 million for the year ended 31 March 2011 to £2.5 million for the year ended 31 March 2012 and decreased to £1.6 million for the year ended 31 March 2013. The increase in cash used in investing activities in 2012 related primarily to the Group's investment in the relocation of the Group's delivery and logistics services from Radcliffe to the NDC in Crewe, the opening of a customer service call centre in Manchester and the restructuring of the Group's delivery fleet.

Net cash used in financing activities

The following table sets out selected information for the Group's cash flows from financing activities for the years ended 31 March 2011, 2012 and 2013 and the nine months ended 31 December 2012 and 2013:

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£ million	£ million	£ million	£ million	£ million
Proceeds from new borrowings	1.5	0.7	0.4	0.3	0.4
Repurchase of own shares	—	(1.1)	—	—	—
Interest paid	(0.1)	(0.1)	(0.3)	(0.2)	(0.2)
Repayment of preference shares	(1.4)	(1.8)	(0.3)	—	(1.0)
Repayment of shareholder loan	—	—	(0.4)	(0.4)	(0.3)
Payment of finance lease liabilities	(0.1)	(0.2)	(0.8)	(0.5)	(0.8)
Dividends paid	—	—	—	—	(2.8)
Net cash used in financing activities	<u>(0.2)</u>	<u>(2.5)</u>	<u>(1.3)</u>	<u>(0.9)</u>	<u>(4.8)</u>

The Group's net cash used in financing activities increased from £0.9 million for the nine months ended 31 December 2012 to £4.8 million for the nine months ended 31 December 2013. The increase was due primarily to the repayment of preference shares in the amount of £1.0 million and dividend payments in the amount of £2.8 million.

The Group's net cash used in financing activities increased from £0.2 million for the year ended 31 March 2011 to £2.5 million for the year ended 31 March 2012 and decreased to £1.3 million for the year ended 31 March 2013.

7.3 Capital Expenditure

The Group's capital expenditure increased from £1.3 million for the year ended 31 March 2011 to £5.7 million for the year ended 31 March 2012 and decreased to £2.9 million for the year ended 31 March 2013. For the year ended 31 March 2013, capital expenditure consisted primarily of hardware replacements for servers and computers, new double-decker trailers, Microsoft software licence renewals and IT costs relating to the new office fit out and was principally funded through profits and finance leases.

The increase in capital expenditures in 2012 was due primarily to significant capital projects including the relocation of the Group's delivery and logistics services from Radcliffe to the NDC in Crewe, the opening of a customer service call centre in Manchester and the restructuring of the Group's delivery fleet. Capital expenditure for the Group's IT systems also increased in 2012 due primarily to a large telephone system implementation project.

AO believes that the Group's on-going maintenance capital expenditure requirements in the short to medium term will be in line with the expenditure for the nine months ended 31 December 2013, which accounts primarily for replacement and maintenance of computer equipment, certain longer-term strategic IT projects and increased capacity in the logistics function.

7.4 Capitalisation and Indebtedness

The Group had cash and cash equivalents of £4.1 million, £2.9 million, £12.2 million and £3.8 million as at 31 March 2011, 2012 and 2013, and 31 December 2013, respectively. The Group had total borrowings (current and non-current) of £4.6 million, £6.4 million, £6.9 million and £8.3 million as at 31 March 2011, 2012 and 2013, and 31 December 2013, respectively. The Group's borrowings as at 31 December 2013 consisted of £6.0 million of finance lease liabilities and £2.3 million of invoice discounting loan liabilities. The finance lease liabilities principally relate to the Group's double-decker trailers that were purchased under finance lease agreements in connection with the Group's fleet restructuring in 2012. The invoice discounting loan liabilities relate to the Group's invoice discounting facility, which has a maximum drawdown of £2.5 million.

8. OFF-BALANCE SHEET ARRANGEMENTS / COMMITMENTS AND CONTINGENCIES

Amounts contracted for but not provided in the financial statements amounted to £nil as at 31 December 2013 (31 March 2011—£nil, 31 March 2012—£nil, 31 December 2012—£nil, 31 March 2013—£nil).

9. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires management to make judgment calls, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses.

Significant items subject to such assumptions and estimates include the useful lives of assets, the measurement and recognition of provisions, the recognition of deferred tax assets, and liabilities for potential corporation tax. 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 judgments. These relate to revenue recognition, inventory valuation, onerous lease costs, provision for bad debts, the valuation of goodwill and property, plant and equipment and taxation. The Group's critical accounting policies and estimates are discussed below. For a full discussion of the Group's critical accounting policies and estimates, see Note 1 (*Accounting policies*) and Note 26 (*Accounting estimates and judgements*) in Part XI (*Historical Financial Information*).

9.1 Revenue recognition

Revenue represents the value of goods 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.

Revenue in respect of commissions received 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 product protection plans sold, which AO believes the Group 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. AO believes that the quantity and quality of data available provides an appropriate proxy for current trends.

9.2 Inventory valuation

Inventories are valued at the lower of cost and net realisable value. Cost comprises direct purchase cost and overheads that have been incurred in bringing the inventories to their present location and condition. 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 judgments to be made which include forecast consumer demand, the promotional, competitive and economic environment and inventory loss trends.

9.3 Provisions for onerous leases

If the Group vacates a property prior to the expiry of the related lease, or a lease forms part of a separate cash generating unit whereby the carrying value of that cash generating unit is not considered supportable, it records a provision for the expected lease payments that the Group will incur prior to assignment or

sublease of the property. Such a calculation requires a judgement as to the timing and duration of the expected vacant periods and the amount and timing of future potential sublease income. When making these judgements, AO considers a number of factors, including the landlord, the location and condition of the property, the terms of the lease, the specific marketplace demand and the economic environment.

9.4 Goodwill and property, plant and equipment impairment reviews

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation for property, plant and equipment is charged to the income statement on the basis over the estimated useful lives and residual values of each part of an item of property, plant and equipment.

Goodwill is required to be tested for impairment annually. Such testing 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. AO draws upon experience as well as external resources in making these judgements.

In assessing impairment of property, plant and equipment, discounted cash flow methods are used by AO. Judgement is required in determining the appropriate discount factors as well as the short and medium term business plans. As for goodwill, AO draws upon experience and external resources in making these judgements.

9.5 Taxation

Deferred tax is recognised on taxable losses based on the expected ability to utilise such losses. This ability takes account of the business plans for the relevant companies, potential uncertainties around the longer term aspects of these business plans, any expiry of taxable benefits and potential future volatility in the local tax regimes.

10. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Group's operations and financing arrangements expose it to a variety of financial risks that include credit, liquidity and market risks.

10.1 Credit Risk

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 following table sets out the Group's the maximum exposure to credit risk as at the dates indicated by class of financial instrument.

	As at 31 March			As at 31 December	
	2011	2012	2013	2012	2013
	£ million	£ million	£ million	£ million	£ million
Other receivables	6.5	10.1	14.3	13.0	17.9
Other loans and receivables	4.1	2.5	6.5	6.2	7.1
Total	10.6	12.6	20.7	19.2	25.0

Other receivables include accrued income in respect of commission on product protection plans, which depend 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 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 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.

Other loans and receivables comprise a number of individually small amounts from unrelated customers, operating within the same industry but over a number of geographical areas. AO believes that concentration of risk is therefore limited. Sales to retail customers are made predominantly in cash or via

major credit cards. The Group's policy for customers who wish to trade on credit terms is to subject such customers 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.

10.2 Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to maintain a balance of funds, borrowings, committed bank and other facilities sufficient to meet anticipated short-term and long-term financial requirements. The Group regularly monitors forecast and actual cash flows against the maturity profiles of financial assets and liabilities. The Group's policy is to ensure that a specific level of committed facilities is always available based on forecast working capital requirements.

The following tables sets out the contractual maturities of the Group's financial liabilities, including estimated interest payments and excluding the effect of netting agreements as at 31 December 2013.

As at 31 December 2013					
	Carrying amount	Contractual cash flows	Within 1 year	Between 1 and 5 years	More than 5 years
	£ million	£ million	£ million	£ million	£ million
Non-derivative financial liabilities					
Finance lease liabilities	6.0	6.5	0.7	5.8	—
Invoice discounting loan	2.3	2.3	2.3	—	—
Trade and other payables	54.9	54.9	54.9	—	—
Total	63.2	63.7	57.9	5.8	—

10.3 Market Risk

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.

The Group has no exposure to foreign currency 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 its exposure to this risk.

PART X

CAPITALISATION AND INDEBTEDNESS

1. CAPITALISATION AND INDEBTEDNESS

The following tables do not reflect the impact of the Offer on the Group's capitalisation and indebtedness (including receipt of the net proceeds of the Offer by the Company). Please refer to Part XII (*Pro Forma Financial Information*) for an analysis of the impact of the Offer on the consolidated net assets of the Group.

Investors should read these tables together with Part IX (*Operating and Financial Review*) and Part XI (*Historical Financial Information*) of this document.

1.1 Indebtedness

The following table sets out the indebtedness of the Group as at 31 December 2013 as extracted without material adjustment from the financial information in Part XI (*Historical Financial Information*):

	As at 31 December 2013
	£ million
Total current debt	4.4
Secured	4.4
Total non-current debt	3.9
Secured	3.9
Total debt	8.3

1.2 Capitalisation

The following table sets out the capitalisation of the Group as at 31 December 2013, as extracted without material adjustment from the financial information in Part XI (*Historical Financial Information*):

	As at 31 December 2013
	£ million
Shareholders' equity	16.0
Share capital	—
Statutory reserves	4.3
Retained earnings	11.7
Total Shareholders' equity	16.0

1.3 Net Financial Indebtedness

The following table shows the net financial indebtedness of the Group as at 31 December 2013 as extracted without material adjustment from the financial information in Part XI (*Historical Financial Information*):

	As at 31 December 2013
	£ million
Cash	3.8
Liquidity	3.8
Current non-bank debt	(4.4)
Current financial debt	(4.4)
Net current indebtedness	(0.6)
Non-current non-bank debt	(3.9)
Non-current financial indebtedness	(3.9)
Net financial indebtedness	(4.5)

PART XI
HISTORICAL FINANCIAL INFORMATION
ACCOUNTANT'S REPORT ON THE HISTORICAL FINANCIAL INFORMATION
RELATING TO THE GROUP

Deloitte.

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M60 2AT

The Board of Directors
on behalf of AO World plc
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The Parklands
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25 Bank Street
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E14 5JP

Jefferies International Limited
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68 Upper Thames Street
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26 February 2014

Dear Sirs,

AO World plc (the “Company”)

We report on the financial information for the three years and nine months ended 31 December 2013 of the Company and its subsidiaries (together, the “**Group**”) set out in this Part XI (*Historical Financial Information*) of the prospectus dated 26 February 2014 relating to the proposed issue of new ordinary shares by the Company and the sale of ordinary shares of the Company by certain shareholders and the admission to Premium Listing of the shares of the Company on the Official List of the UK Listing Authority and the proposed admission of those shares to trading on the London Stock Exchange plc’s Main Market for listed securities (the “**Prospectus**”). This financial information has been prepared for inclusion in the Prospectus on the basis of the accounting policies set out in note 1 to the financial information. This report is required by Annex I item 20.1 of Commission Regulation (EC) No 809/2004 (the “**Prospectus Directive Regulation**”) and is given for the purpose of complying with that requirement and for no other purpose.

We have not audited or reviewed the financial information for the period ended 31 December 2012 which has been included for comparative purposes only, and accordingly do not express an opinion thereon.

Responsibilities

The Directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising

out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at 31 March 2011, 31 March 2012, 31 March 2013 and 31 December 2013 and of its profits, cash flows and changes in equity for the years ended 31 March 2011, 31 March 2012, 31 March 2013 and the nine months ended 31 December 2013 in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte LLP
Chartered Accountants

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Consolidated income statement

	<i>Note</i>	Year ended 31 March			Nine months ended 31 December	
		2011	2012	2013	2012	2013
		£000	£000	£000	£000 (unaudited)	£000
Revenue	2	164,054	209,379	275,493	196,961	281,081
Cost of sales		(135,494)	(174,807)	(224,108)	(161,088)	(227,313)
Gross profit		28,560	34,572	51,385	35,873	53,768
Administrative expenses		(24,732)	(36,149)	(42,438)	(29,186)	(49,034)
Operating profit/(loss)	4,5,6,7	3,828	(1,577)	8,947	6,687	4,734
Finance income	8	3	11	43	36	30
Finance costs	8	(144)	(129)	(259)	(209)	(222)
Net finance costs		(141)	(118)	(216)	(173)	(192)
Profit/(loss) before tax		3,687	(1,695)	8,731	6,514	4,542
Taxation (charge)/credit on ordinary activities	9	(1,049)	324	(1,941)	(1,467)	(1,381)
Profit/(loss) for the year/period attributable to equity shareholders .		2,638	(1,371)	6,790	5,047	3,161
Earnings/(loss) per share (pence/share)	10	85	(45)	221	165	103

The Group has no other comprehensive income other than as disclosed above.

Consolidated statement of financial position

	<i>Note</i>	As at	As at 31 March			As at 31 December	
		1 April				2012	2013
		2010	2011	2012	2013	2012	2013
		£000	£000	£000	£000	£000 (unaudited)	£000
Non-current assets							
Property, plant and equipment	11	1,211	2,033	6,359	6,949	6,847	11,350
Intangible assets	12	12,196	12,196	12,196	12,587	12,196	12,655
Trade and other receivables	15	2,076	4,890	5,589	9,308	8,690	9,829
Deferred tax assets	13	1,167	146	442	18	–	18
		16,650	19,265	24,586	28,862	27,733	33,852
Current assets							
Inventories	14	3,714	3,737	4,688	8,708	8,819	21,060
Trade and other receivables	15	5,327	9,800	13,049	18,916	16,975	22,549
Cash and cash equivalents		4,154	4,145	2,903	12,210	4,511	3,772
		13,195	17,682	20,640	39,834	30,305	47,381
Total assets		29,845	36,947	45,226	68,696	58,038	81,233
Current liabilities							
Borrowings	16	(76)	(1,558)	(2,336)	(3,100)	(2,777)	(4,400)
Trade and other payables	17	(16,498)	(20,976)	(28,246)	(44,604)	(35,947)	(54,935)
Current tax liabilities		–	(28)	–	(753)	(985)	(1,128)
Provisions	19	–	–	(1,708)	(856)	(713)	(906)
		(16,574)	(22,562)	(32,290)	(49,313)	(40,422)	(61,369)
Net current liabilities		(3,379)	(4,880)	(11,650)	(9,479)	(10,117)	(13,988)
Non-current liabilities							
Borrowings	16	(4,614)	(3,090)	(4,101)	(3,758)	(3,722)	(3,889)
Deferred tax liabilities	13	–	–	–	–	(12)	–
		(4,614)	(3,090)	(4,101)	(3,758)	(3,734)	(3,889)
Total liabilities		(21,188)	(25,652)	(36,391)	(53,071)	(44,156)	(65,258)
Net assets		8,657	11,295	8,835	15,625	13,882	15,975
Equity							
Share capital	20	31	31	31	31	31	31
Share premium	21	5,358	5,358	4,269	4,269	4,269	4,269
Retained earnings		3,268	5,906	4,535	11,325	9,582	11,675
Total equity		8,657	11,295	8,835	15,625	13,882	15,975

Consolidated statement of changes in equity

	<i>Note</i>	Share capital	Share premium	Treasury Shares	Retained earnings	Total
		£000	£000	£000	£000	£000
Balance at 1 April 2010		31	5,358	–	3,268	8,657
Total comprehensive income for the year		–	–	–	2,638	2,638
Balance at 31 March 2011		31	5,358	–	5,906	11,295
Total comprehensive income for the year		–	–	–	(1,371)	(1,371)
Own shares acquired	20	–	–	(1,089)	–	(1,089)
Cancellation of own shares	20	–	(1,089)	1,089	–	–
Balance at 31 March 2012		31	4,269	–	4,535	8,835
Total comprehensive income for the year		–	–	–	6,790	6,790
Balance at 31 March 2013		31	4,269	–	11,325	15,625
		Share capital	Share premium	Treasury Shares	Retained earnings	Total
		£000	£000	£000	£000	£000
Balance at 1 April 2012		31	4,269	–	4,535	8,835
Total comprehensive income for the period		–	–	–	5,047	5,047
Balance at 31 December 2012 (unaudited)		31	4,269	–	9,582	13,882
		Share capital	Share premium	Treasury Shares	Retained earnings	Total
		£000	£000	£000	£000	£000
Balance at 1 April 2013		31	4,269	–	11,325	15,625
Total comprehensive income for the period		–	–	–	3,161	3,161
Dividends paid	20	–	–	–	(2,811)	(2,811)
Balance at 31 December 2013		31	4,269	–	11,675	15,975

Consolidated statement of cash flows

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000 (unaudited)	£000
Cash flows from operating activities					
Profit/(loss) for the year/period	2,638	(1,371)	6,790	5,047	3,161
<i>Adjustments for:</i>					
Depreciation and amortisation	525	1,160	1,779	1,258	1,989
Finance income	(3)	(11)	(43)	(36)	(30)
Finance costs	144	129	259	209	222
Loss on disposal of property, plant and equipment . .	–	138	310	150	–
Taxation charge/(credit)	1,049	(324)	1,941	1,467	1,381
Operating cash flows before movement in working capital	4,353	(279)	11,036	8,095	6,723
Increase in inventories	(23)	(951)	(4,019)	(4,130)	(12,353)
Increase in trade and other receivables	(7,286)	(3,920)	(9,615)	(7,056)	(4,154)
Increase in trade and other payables	4,478	7,270	16,358	7,702	10,331
Increase/(decrease) in provisions	–	1,708	(852)	(996)	50
	(2,831)	4,107	1,872	(4,480)	(6,126)
Taxation paid	–	(28)	(736)	–	(1,007)
Cash generated from operating activities	1,522	3,800	12,172	3,615	(410)
Cash flows from investing activities					
Interest received	3	11	43	36	30
Proceeds from sale of property, plant and equipment	–	–	128	128	–
Acquisition of property, plant and equipment	(1,338)	(2,527)	(1,348)	(1,270)	(3,189)
Acquisition of intangible assets	–	–	(391)	–	(105)
Cash used in investing activities	(1,335)	(2,516)	(1,568)	(1,106)	(3,264)
Cash flows from financing activities					
Proceeds from new borrowings	1,471	746	416	252	391
Repurchase of own shares	–	(1,089)	–	–	–
Interest paid	(144)	(129)	(259)	(209)	(222)
Repayment of preference shares	(1,400)	(1,828)	(252)	–	(1,010)
Repayment of shareholder loan	–	–	(449)	(419)	(269)
Payment of finance lease liabilities	(123)	(226)	(753)	(525)	(843)
Dividends paid	–	–	–	–	(2,811)
Net cash used in financing activities	(196)	(2,526)	(1,297)	(901)	(4,764)
Net (decrease)/increase in cash	(9)	(1,242)	9,307	1,608	(8,438)
Cash and cash equivalents at beginning of year/period	4,154	4,145	2,903	2,903	12,210
Cash and cash equivalents at end of year/period	4,145	2,903	12,210	4,511	3,772

Notes

1 Accounting policies

Basis of preparation

AO World plc (the “Company”) is a company incorporated and domiciled in the UK.

The Group historical financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs). The Group historical financial information has also been prepared in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”), and as such complies with Article 4 of EU IAS regulation.

The accounting policies set out below have been applied consistently to all periods presented in the historical financial information and in preparing an opening IFRS statement of financial position at 31 March 2010 for the purposes of the transition to Adopted IFRSs.

Basis of consolidation

The Group historical financial information 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 and to the date of sale outside the Group in the case of disposals of subsidiaries.

Transition to Adopted IFRSs

The Group is preparing its historical financial information in accordance with Adopted IFRS for the first time and consequently has applied IFRS 1. For first time adoption of International Financial Reporting Standards, an explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 27.

Adoption of new and revised standards

There are no new endorsed standards, amendments to standards and interpretations that are not yet effective for the period ended 31 December 2013 and which will have a significant impact on the information reported by the Group in future periods. The impact of amendments to IAS36, IAS39, IFRS10, IFRS11 and IFRS12 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 periods, this includes IFRS7, IFRS9 and improvements to IFRS’s 2010-2012 and IFRIC interpretation 21.

Measurement convention

The financial statements are prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

Going concern

The Group has continued to increase revenue and the business, after adding back exceptional items, is now trading profitably in difficult trading conditions. The Group has a rolling overdraft facility with its Bank. Future growth in the business is expected to be funded through trading and working capital management and the cash resources available are expected to be adequate for the Group for the foreseeable future, taking account of the net proceeds from the placing as well as reasonably possible changes in trading performance in an uncertain economic climate. Accordingly, the historical financial information has been prepared on a going concern basis.

Financial instruments

Financial assets and financial liabilities are recognised on the Group’s balance sheet 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 amortised cost using the effective interest method, less any impairment. 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 recognised at amortised cost using the effective interest method.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at the consideration less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

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's 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.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on the basis stated below over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Property alterations	10 years straight line
Fixtures and fittings	between 3 and 8 years reducing balance
Motor vehicles	5 years straight line
Computer equipment	4 years straight line
Office equipment	5 years reducing balance

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date. Property, plant and equipment are assessed on an on-going basis to determine whether circumstances exist that could lead to the conclusion that the net book value is not supportable.

Business combinations

Acquisitions of subsidiaries are accounted for by applying the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values of assets given (at the date of exchange), liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct purchase cost. 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 period 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.

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 periods 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 periods during which services are rendered by employees.

Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation its carrying amount is the present value of those cash flows.

Revenue

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.

Commission received 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. The fair value calculation takes into consideration the length of the plan and the historical rate of customer attrition. 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.

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.

2 Revenue

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000	£000
				(unaudited)	
Own website sales	76,141	145,015	198,024	141,930	206,319
Third-party branded website sales and trade sales .	75,539	51,719	61,693	43,378	59,352
Third-party logistics services	12,374	12,645	15,776	11,653	15,410
	164,054	209,379	275,493	196,961	281,081

3 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 KPI's 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 income statement, the Consolidated statement of financial position, the Consolidated statement of changes in equity and the Consolidated statement of cash flows.

4 Profit/(loss) for the year/period

Profit/(loss) has been arrived at after charging:

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000	£000
				(unaudited)	
Depreciation of:					
Owned assets	495	986	1,008	756	1,119
Assets held under finance leases	30	174	771	502	833
Amortisation of:					
Domain name costs	—	—	—	—	37
Operating lease expenses of:					
Plant and machinery	216	342	2,647	1,985	2,573
Other assets	2,565	2,100	2,323	1,742	1,544
Loss on disposal of property, plant and equipment	—	138	310	150	—
Professional fees in relation to initial public offering	—	—	—	—	1,393
Exceptional costs	—	2,752	—	—	—
	<u>—</u>	<u>2,752</u>	<u>—</u>	<u>—</u>	<u>—</u>

During the year to 31 March 2012 the Directors made the decision to close the Expert Logistics Limited site at Radcliffe. Costs associated with provisions for the onerous lease and other closure costs were £2,752,000 and are shown within both Cost of Sales: £1,434,000 and Administrative Expenses: £1,318,000 in the consolidated income statement.

Administrative expenses comprise the following:

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000	£000
				(unaudited)	
Marketing and advertising expenses	4,040	6,089	7,131	4,994	12,861
Warehousing expenses	5,162	6,723	9,172	6,314	9,559
Other administrative expenses	15,530	23,337	26,135	17,878	26,577
	<u>24,732</u>	<u>36,149</u>	<u>42,438</u>	<u>29,186</u>	<u>48,997</u>

Auditor's remuneration:

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000	£000
				(unaudited)	
Fees payable to the Company's auditor for the audit of the Company's annual accounts	2	2	9	7	7
Fees payable to the Company's auditor for other services to the Group:					
—the audit of the Company's subsidiaries	41	36	44	33	17
—other services relating to taxation	—	3	—	—	4
—other services	—	—	20	—	339
	<u>—</u>	<u>—</u>	<u>20</u>	<u>—</u>	<u>339</u>

5 Staff numbers

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees				
	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000 (unaudited)	£000
Sales, marketing and distribution	463	662	826	785	1,141
Directors	8	8	8	8	8
	<u>471</u>	<u>670</u>	<u>834</u>	<u>793</u>	<u>1,149</u>

6 Staff costs

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000 (unaudited)	£000
Wages and salaries	10,845	15,906	19,423	13,571	20,659
Social security costs	1,187	1,592	1,818	1,298	1,917
Contributions to defined contribution plans	230	226	348	261	365
	<u>12,262</u>	<u>17,724</u>	<u>21,589</u>	<u>15,130</u>	<u>22,941</u>

7 Directors' remuneration

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000 (unaudited)	£000
Directors' emoluments	512	516	490	353	799
Company contributions to money purchase pension plans	47	59	75	56	80

The aggregate of emoluments of the highest paid Director was £361,000 (*December 2012: £152,000, March 2013: £202,000, March 2012: £218,000, March 2011: £267,000*) and Company pension contributions of £43,000 (*December 2012: £19,000, March 2013: £25,000, March 2012: £25,000, March 2011: £25,000*) were made to a money purchase scheme on their behalf.

	Number of Directors				
	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
Retirement benefits are accruing to the following number of Directors under:					
Money purchase schemes	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

Note 25 analyses remuneration of key management personnel.

8 Finance income and costs

<u>Finance income</u>	<u>Year ended 31 March</u>			<u>Nine months ended 31 December</u>	
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u> (unaudited)	<u>£000</u>
Bank interest	3	11	43	36	30
Total finance income	3	11	43	36	30

<u>Finance costs</u>	<u>Year ended 31 March</u>			<u>Nine months ended 31 December</u>	
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u> (unaudited)	<u>£000</u>
Interest on borrowings	108	70	81	62	63
Interest on finance leases	36	59	178	147	159
Total finance costs	144	129	259	209	222

9 Taxation

a) Recognised in the statement of comprehensive income

	<u>Year ended 31 March</u>			<u>Nine months ended 31 December</u>	
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u> (unaudited)	<u>£000</u>
Corporation tax					
UK corporation tax on profits for the period at 23% (December 2012: 24%, March 2013: 24%, March 2012: 26%, March 2011: 28%)	28	–	1,517	1,013	1,362
Adjustments in respect of prior year/period	–	(28)	–	–	19
Total current tax	28	(28)	1,517	1,013	1,381
Deferred tax					
UK deferred tax	1,022	(298)	609	639	–
Adjustment in respect of prior year/period	(1)	2	(185)	(185)	–
Total deferred tax	1,021	(296)	424	454	–
Total tax charge/(credit)	1,049	(324)	1,941	1,467	1,381

b) Reconciliation of tax charge/(credit)

The total tax charge/(credit) on profit/(loss) on ordinary activities for the period/year is higher (December 2012: lower, March 2013: lower, March 2012: lower, March 2011: higher) than the standard rate of

corporation tax in the UK of 23% (December 2012: 24%, March 2013: 24%, March 2012: 26%, March 2011: 28%) and the difference can be explained as follows:

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000 (unaudited)	£000
Profit/(loss) before tax	3,687	(1,695)	8,731	6,514	4,542
Tax using the UK corporation tax rate of 23% (December 2012: 24%, March 2013: 24%, March 2012: 26%, March 2011: 28%)	1,032	(441)	2,095	1,563	1,045
Expenses not deductible for tax purposes	18	54	44	99	287
Fixed asset differences	—	—	—	—	56
Ineligible depreciation	4	9	27	20	—
Change in unrecognised deferred tax asset	—	11	—	—	—
Trade losses carried back	—	35	—	—	—
Additional deduction for R&D expenditure	—	—	(40)	(30)	(28)
Adjustments in respect of prior periods—current tax	—	(28)	—	—	19
Adjustments in respect of prior periods—deferred tax	(1)	2	(185)	(185)	—
Effect of tax rate change on opening balance	5	34	—	—	2
Small companies relief	(9)	—	—	—	—
Total tax charge/(credit)	1,049	(324)	1,941	1,467	1,381

c) *Factors that may affect future current and total tax charges*

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the Company's future current tax charge accordingly. The deferred tax asset and liabilities at 31 March 2011, 31 March 2012 and 31 March 2013, 31 December 2012 and 31 December 2013 have been calculated based on the rate of 26%/24%/23% and 23%/20% respectively substantively enacted at the balance sheet date.

The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement. The deferred tax balances at 31 December 2013 have been calculated based on the tax rate of 20% substantively enacted at the balance sheet date.

10 Earnings/(loss) per share

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

	31 March			31 December	
	2011	2012	2013	2012	2013
				(unaudited)	
Profit/(loss) for the year/period (£000)					
Profit/(loss) for the purpose of basic earnings per share	2,638	(1,371)	6,790	5,047	3,161
Number of shares					
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,102,124	3,079,624	3,067,124	3,067,124	3,077,124
Earnings/(loss) per share (pence/share)					
Basic	85	(45)	221	165	103

There are no share options. As such there is no dilution of earnings per share. The denominators for the purpose of calculating basic earnings per share have been adjusted to reflect the redemption of shares.

11 Property, plant and equipment

a) For the years to 31 March 2011, 2012 and 2013

	Property alterations £000	Fixtures and fittings £000	Motor vehicles £000	Computer and office equipment £000	Total £000
Cost					
Balance at 1 April 2010	43	103	67	2,561	2,774
Additions	73	110	81	1,083	1,347
Balance at 31 March 2011	116	213	148	3,644	4,121
Additions	27	218	2,547	2,924	5,716
Disposals	—	—	(251)	—	(251)
Balance 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)
Balance at 31 March 2013	118	625	3,345	6,267	10,355
Depreciation					
Balance at 1 April 2010	15	59	30	1,459	1,563
Depreciation charge for the year	13	16	21	475	525
Balance at 31 March 2011	28	75	51	1,934	2,088
Depreciation charge for the year	24	38	257	841	1,160
Disposals	—	—	(21)	—	(21)
Balance at 31 March 2012	52	113	287	2,775	3,227
Depreciation charge for the year	14	55	586	1,124	1,779
Disposals	(55)	(15)	(568)	(962)	(1,600)
Balance at 31 March 2013	11	153	305	2,937	3,406
Net book value at 31 March 2013	107	472	3,040	3,330	6,949
Net book value at 31 March 2012	91	318	2,157	3,793	6,359
Net book value at 31 March 2011	88	138	97	1,710	2,033

b) For the nine month periods to 31 December 2012 and 2013

	Property alterations £000	Fixtures and fittings £000	Motor vehicles £000	Computer and office equipment £000	Total £000
Cost					
Balance at 1 April 2012	143	431	2,444	6,568	9,586
Additions	50	327	742	779	1,898
Disposals	—	(81)	(112)	(3)	(196)
Balance at 31 December 2012 (unaudited)	193	677	3,074	7,344	11,288
Depreciation					
Balance at 1 April 2012	52	113	287	2,775	3,227
Depreciation charge for the period	20	39	396	803	1,258
Disposals	—	(15)	(29)	—	(44)
Balance at 31 December 2012	72	137	654	3,578	4,441
Net book value at 31 December 2012	121	540	2,420	3,766	6,847

	Property alterations £000	Fixtures and fittings £000	Motor vehicles £000	Computer and office equipment £000	Total £000
Cost					
Balance at 1 April 2013	118	625	3,345	6,267	10,355
Additions	2,061	612	1,280	2,400	6,353
Disposals	(118)	(288)	(8)	(2)	(416)
Balance at 31 December 2013	<u>2,061</u>	<u>949</u>	<u>4,617</u>	<u>8,665</u>	<u>16,292</u>
Depreciation					
Balance at 1 April 2013	11	153	305	2,937	3,406
Depreciation charge for the period	139	219	606	988	1,952
Disposals	(118)	(288)	(8)	(2)	(416)
Balance at 31 December 2013	<u>32</u>	<u>84</u>	<u>903</u>	<u>3,923</u>	<u>4,942</u>
Net book value at 31 December 2013	<u>2,029</u>	<u>865</u>	<u>3,714</u>	<u>4,742</u>	<u>11,350</u>

c) *Leased plant and machinery*

At 31 December 2013 the net carrying amount of finance leased plant and machinery was £6,321,000 (*December 2012: £4,100,000, March 2013: £3,855,000, March 2012: £2,551,000, March 2011: £88,000*). The leased equipment secures lease obligations (see note 16).

12 Intangible assets

a) *For the years to 31 March 2011, 2012 and 2013*

	Domain names £000	Goodwill £000	Total £000
Cost			
Balance at 1 April 2010	–	12,196	12,196
Balance at 31 March 2011	–	12,196	12,196
Balance at 31 March 2012	–	12,196	12,196
Additions	391	–	391
Balance at 31 March 2013	<u>391</u>	<u>12,196</u>	<u>12,587</u>
Amortisation			
Balance at 1 April 2010, 31 March 2011, 31 March 2012 and 31 March 2013	<u>–</u>	<u>–</u>	<u>–</u>
Net book value at 31 March 2013	<u>391</u>	<u>12,196</u>	<u>12,587</u>
Net book value at 31 March 2012	–	12,196	12,196
Net book value at 31 March 2011	–	12,196	12,196

Domain name costs

Two website domain names were acquired at the year end 31 March 2013. No further costs are required to bring these assets into use. The assets have been amortised in the nine months ended 31 December 2013 as the assets are available for use.

b) For the nine month periods to 31 December 2012 and 2013

	Domain names £000	Goodwill £000	Total £000
Cost			
Balance at 1 April 2012 and 31 December 2012	—	12,196	12,196
Amortisation			
Balance at 1 April 2012 and 31 December 2012	—	—	—
Net book value at 31 December 2012 (unaudited)	—	12,196	12,196
	Domain names £000	Goodwill £000	Total £000
Cost			
Balance at 1 April 2013	391	12,196	12,587
Additions	105	—	105
Balance at 31 December 2013	496	12,196	12,692
Amortisation			
Balance at 1 April 2013	—	—	—
Amortisation charge for the period	37	—	37
Balance at 31 December 2013	37	—	37
Net book value at 31 December 2013	459	12,196	12,655

c) Goodwill

All goodwill has arisen from business combinations. As explained in note 1, the Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the goodwill and intangible assets are determined by value-in-use calculations. The key assumptions for the value-in-use are those regarding discount rates and growth rates as well as expected changes to costs and selling prices.

The key assumptions for the value-in-use calculation are shown below:

	31 March			31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000	£000
				(unaudited)	
Period on which management approved forecasts are based	3 years	3 years	3 years	3 years	3 years
Growth rate applied beyond approved forecast period	4%	7%	6%	7%	6%
Pre-tax discount rate	10%	10%	10%	10%	10%

Management has estimated the discount rate taking account of the way the market would assess specific risks inherent within the Group's estimated future cash-flows.

The growth rates used in value in use calculation reflect the average growth rate experienced by the Group for the last 3 years, discounted by a factor of 5 due to future uncertainty.

No impairment was identified and furthermore, a reasonably possible change in the assumptions applied would not result in any impairment, including revising the growth rate of cash flows to a rate reflecting the growth rate of Gross Domestic Product in the economy in which the Group operates.

13 Deferred tax assets and liabilities

a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for the financial reporting purposes. Deferred tax assets and liabilities are attributable to the following:

	31 March			31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000	£000
Property, plant and equipment	(44)	(41)	–	(12)	18
Losses carried forward	190	483	18	–	–
Net deferred tax assets/(liabilities)	146	442	18	(12)	18

b) Movement in deferred tax during the years to 31 March 2011, 2012 and 2013

	1 April 2010	Recognised in income	31 March 2011
	£000	£000	£000
Property, plant and equipment	(41)	(3)	(44)
Losses carried forward	1,208	(1,018)	190
	1,167	(1,021)	146

	1 April 2011	Recognised in income	31 March 2012
	£000	£000	£000
Property, plant and equipment	(44)	3	(41)
Losses carried forward	190	293	483
	146	296	442

	1 April 2012	Recognised in income	31 March 2013
	£000	£000	£000
Property, plant and equipment	(41)	59	–
Losses carried forward	483	(483)	18
	442	(424)	18

c) Movement in deferred tax during the nine month periods to 31 December 2012 and 2013

	1 April 2012	Recognised in income	31 December 2012
	£000	£000 (unaudited)	£000 (unaudited)
Property, plant and equipment	(41)	29	(12)
Losses carried forward	483	(483)	–
	442	(454)	(12)

	1 April 2013	Recognised in income	31 December 2013
	£000	£000	£000
Property, plant and equipment	18	–	18
	18	–	18

At 31 December 2013 there was an unrecognised deferred tax asset of £12,000 (*December 2012: £12,000, March 2013: £12,000, March 2012: £12,000, March 2011: £1,000*).

14 Inventories

	31 March			31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000 (unaudited)	£000
Finished goods	<u>3,737</u>	<u>4,688</u>	<u>8,708</u>	<u>8,819</u>	<u>21,060</u>

15 Trade and other receivables

	31 March			31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000 (unaudited)	£000
Trade receivables	4,116	2,534	6,457	6,215	7,140
Accrued Income (see note 22)	6,520	10,096	14,266	12,962	17,889
Prepayments	4,054	6,008	7,426	6,488	7,349
Amounts due from related parties	–	–	18	–	–
Directors loan account	–	–	57	–	–
	<u>14,690</u>	<u>18,638</u>	<u>28,224</u>	<u>25,665</u>	<u>32,378</u>
The trade and other receivables are classified as:					
Non-current assets	4,890	5,589	9,308	8,690	9,829
Current assets	<u>9,800</u>	<u>13,049</u>	<u>18,916</u>	<u>16,975</u>	<u>22,549</u>
	<u>14,690</u>	<u>18,638</u>	<u>28,224</u>	<u>25,665</u>	<u>32,378</u>

IFRS7 disclosures are included in note 22. Accrued income relates to expected future commission payments in respect of product protection plans.

16 Borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and foreign currency risk, see note 22.

	31 March			31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000 (unaudited)	£000
Current liabilities					
Finance lease liabilities	87	838	1,187	1,028	2,095
Invoice discounting loan	<u>1,471</u>	<u>1,498</u>	<u>1,913</u>	<u>1,749</u>	<u>2,305</u>
	<u>1,558</u>	<u>2,336</u>	<u>3,100</u>	<u>2,777</u>	<u>4,400</u>
Non-current liabilities					
Finance lease liabilities	–	2,120	2,479	2,161	3,889
Loan from shareholders	–	719	269	299	–
Redeemable preference shares	<u>3,090</u>	<u>1,262</u>	<u>1,010</u>	<u>1,262</u>	<u>–</u>
	<u>3,090</u>	<u>4,101</u>	<u>3,758</u>	<u>3,722</u>	<u>3,889</u>

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments £000	Interest £000	Present value of minimum lease payments £000
31 December 2013			
Less than one year	1,871	281	1,590
Between one and five years	4,113	361	3,752
	<u>5,984</u>	<u>642</u>	<u>5,342</u>
31 December 2012 (unaudited)			
Less than one year	1,028	171	857
Between one and five years	2,161	221	1,940
	<u>3,189</u>	<u>392</u>	<u>2,797</u>
31 March 2013			
Less than one year	1,187	195	992
Between one and five years	2,479	254	2,225
	<u>3,666</u>	<u>449</u>	<u>3,217</u>
31 March 2012			
Less than one year	838	152	686
Between one and five years	2,120	224	1,896
	<u>2,958</u>	<u>376</u>	<u>2,582</u>
31 March 2011			
Less than one year	87	3	84
Between one and five years	—	—	—
	<u>87</u>	<u>3</u>	<u>84</u>

Finance leases relate primarily to motor vehicles where lease terms are 5 years. The effective borrowing rate on individual leases ranges between 0.5% and 1%. Interest rates are fixed at the contract date and all leases are on a fixed repayment basis with no contingent rental payment arrangements.

17 Trade and other payables

	31 March			31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000	£000
				(unaudited)	
Current					
Trade payables	14,293	21,691	32,793	23,375	38,208
Non-trade payables and accrued expenses	6,683	6,555	11,811	12,572	16,727
	<u>20,976</u>	<u>28,246</u>	<u>44,604</u>	<u>35,947</u>	<u>54,935</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade purchases is 41 days (*December 2012: 35, March 2013: 47, March 2012: 41, March 2011: 35*).

18 Employee benefits

Defined contribution pension scheme

The Group operates a defined contribution pension scheme. The total expense relating to this plan in the year/period represents contributions payable by the Group to the scheme and amounted to £365,000 (*December 2012: £261,000, March 2013: £348,000, March 2012: £226,000, March 2011: £230,000*).

There were £59,300 contributions payable to the scheme at the end of the period included in non-trade payables and accrued expenses (*December 2012: £3,000, March 2013: £88,000, March 2012: £nil, March 2011: £9,000*).

19 Provisions

a) For the years to 31 March 2011, 2012 and 2013

	Dilapidation provision £000	Restructuring provision £000	Total £000
Balance at 1 April 2010 and 2011	–	–	–
Provisions charged in the year	375	1,333	1,708
Balance at 31 March 2012	375	1,333	1,708
Utilised in the year	(54)	(1,329)	(1,383)
Provisions charged in the year	425	106	531
Balance at 31 March 2013	746	110	856

The restructuring provision relates to site closure and dual-running costs. The restructuring provision is expected to be utilised in the next year.

The dilapidation provision is accrued under operating leases where the Group is liable to return the assets to their original state at the end of the lease, at the point when costs become unavoidable. The dilapidation provision is expected to be utilised in the next year.

b) For the nine month periods to 31 December 2012 and 2013

	Dilapidation provision £000	Restructuring provision £000	Total £000
Balance at 1 April 2012	375	1,333	1,708
Utilised during the period	(27)	(968)	(995)
Balance at 31 December 2012 (unaudited)	348	365	713

	Dilapidation provision £000	Restructuring provision £000	Total £000
Balance at 1 April 2013	746	110	856
Utilised during the period	–	(110)	(110)
Provisions charged in the year	160	–	160
Balance at 31 December 2013	906	–	906

The restructuring provision relates to site closure and dual-running costs. The restructuring provision is expected to be utilised in the next year.

The dilapidation 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 dilapidation provision is expected to be utilised in the next year.

20 Share capital

In thousands of shares	31 March			31 December	
	2011	2012	2013	2012 (unaudited)	2013
Ordinary shares					
Issued at beginning of year/period	31	31	31	31	31
Issued at end of year/period	31	31	31	31	31
Redeemable preference shares					
Issued at beginning of year/period	2,245	1,545	631	631	505
Redeemed for cash	(700)	(914)	(126)	–	(505)
Issued at end of year/period	1,545	631	505	631	–

	31 March			31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000	£000
				(unaudited)	
Allotted, called up and fully paid					
A ordinary shares of £0.01 each	3	3	3	3	3
B ordinary shares of £0.01 each	3	3	3	3	3
C ordinary shares of £0.01 each	3	3	3	3	3
D ordinary shares of £0.01 each	4	4	4	4	4
E ordinary shares of £0.01 each	4	4	4	4	4
F ordinary shares of £0.01 each	14	14	14	14	14
G ordinary shares of £0.01 each	—	—	—	—	—
H ordinary shares of £0.01 each	—	—	—	—	—
Redeemable preference shares of £1.00 each	3,090	1,262	1,010	1,262	—
	<u>3,121</u>	<u>1,293</u>	<u>1,041</u>	<u>1,293</u>	<u>31</u>
Shares classified as liabilities	3,090	1,262	1,010	1,262	—
Shares classified in shareholders' funds	<u>31</u>	<u>31</u>	<u>31</u>	<u>31</u>	<u>31</u>

Ordinary shares

The holders of A 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. No other shares have voting rights or dividend rights. The ordinary shares for all classes have no rights to redemption.

The ordinary shares carry rights to assets on winding up or on a sale of the Company which vary as the total proceeds, being the first £10 million attributable to ordinary shareholders are due to the holders of A ordinary shares, with subsequent tranches due to holders of other classes of ordinary shares in sequence as defined in the Articles.

At 1 April 2010 and 31 March 2011, the Company had issued a total of 3,102,124 ordinary shares. On 1 June 2011, the Company acquired and cancelled 7,500 shares in each of the A, B, C, D, E and F classes for a consideration of £1,089,000. On 26 July 2012 the Company issued a further 10,000 G class shares and 10,000 H class shares. The total number of ordinary shares issued at 31 December 2013 was 3,077,124.

Redeemable preference shares

The preference shares are redeemable at the option of the shareholder. The premium on redemption is £1. The holders of preference shares have no rights to dividends and are not entitled to vote at meetings of the Company.

On 31 May 2013 the Company converted 287,666 preference shares of £1 each 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. On 8 April 2013 the Company redeemed and cancelled 217,233 preference shares of £1 each 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. On 1 June 2011 the Company redeemed and cancelled 914,100 preference shares of £1 each for a consideration of £1,828,000. On 1 April 2010 the Company redeemed and cancelled 700,000 preference shares of £1 each for a consideration of £1,400,000.

Dividends

A dividend of £1,890,092 was paid on 19 July 2013 and a dividend of £918,417 was paid on 8 November 2013 (*December 2012: £nil, March 2013: £nil, March 2012: £nil, March 2011: £nil*).

21 Reserves

Share premium

Share premium represents the amount of consideration received in respect of shares in the Company over and above the par value of the shares.

Treasury shares

Treasury shares represent shares in the Company that are held by the Group.

22 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 15 and 17, respectively. The categories of financial assets and liabilities and their related accounting policy are set out in note 1.

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:

	31 March 2011		31 March 2012		31 March 2013	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000	£000	£000
Financial assets designated as fair value through profit or loss						
Accrued income (note 15)	6,520	6,520	10,096	10,096	14,266	14,266
Loans and receivables						
Cash and cash equivalents	4,145	4,145	2,903	2,903	12,210	12,210
Other loans and receivables (note 15)	4,116	4,116	2,534	2,534	6,532	6,532
Total financial assets	14,781	14,781	15,533	15,533	33,008	33,008
Financial liabilities measured at amortised cost						
Trade and other payables (note 17)	(14,293)	(14,293)	(21,691)	(21,691)	(32,793)	(32,793)
Borrowings (note 16)	(4,648)	(4,648)	(6,437)	(6,081)	(6,858)	(6,791)
Total financial liabilities	(18,941)	(18,941)	(28,128)	(27,772)	(39,651)	(39,584)
Total financial instruments	(4,160)	(4,160)	(12,595)	(12,239)	(6,643)	(6,576)

	31 December 2012		31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000 (unaudited)	£000 (unaudited)	£000	£000
Financial assets designated as fair value through profit or loss				
Accrued income (note 15)	12,962	12,962	17,889	17,889
Loans and receivables				
Cash and cash equivalents	4,511	4,511	3,779	3,779
Other loans and receivables (note 15)	6,215	6,215	7,140	7,140
Total financial assets	23,688	23,688	28,808	28,808
Financial liabilities measured at amortised cost				
Trade and other payables (note 17)	(23,375)	(23,375)	(38,208)	(38,208)
Borrowings (note 16)	(6,499)	(6,445)	(8,289)	(6,139)
Total financial liabilities	(29,874)	(29,820)	(46,497)	(44,347)
Total financial instruments	(6,186)	(6,132)	(17,689)	(15,539)

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 2011	–	–	6,520	6,520
At 31 March 2012	–	–	10,096	10,096
At 31 March 2013	–	–	14,266	14,266
At 31 December 2012	–	–	12,962	12,962
At 31 December 2013	–	–	17,889	17,889

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 2011, 31 March 2012 and 31 March 2013, or in the nine month periods ended 31 December 2012 and 31 December 2013.

(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 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:

	31 March			31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000	£000
Other receivables	6,520	10,096	14,266	12,962	17,889
Other loans and receivables	4,116	2,534	6,457	6,215	7,140
	10,636	12,630	20,723	19,177	25,029

Credit quality of financial assets and impairment losses

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

	Gross £000	Impairment £000	Net £000
Not past due	6,415	–	6,415
Past due 0-30 days	688	(119)	569
Past due 31-120 days	62	(24)	38
More than 120 days	140	(22)	118
At 31 December 2013	7,305	(165)	7,140
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
Not past due	2,631	–	2,631
Past due 0-30 days	2,400	–	2,400
Past due 31-120 days	945	–	945
More than 120 days	239	–	239
At 31 December 2012	6,215	–	6,215
Not past due	1,408	–	1,408
Past due 0-30 days	527	–	527
Past due 31-120 days	569	–	569
More than 120 days	230	(200)	30
At 31 March 2012	2,734	(200)	2,534
Not past due	1,667	–	1,667
Past due 0-30 days	1,178	–	1,178
Past due 31-120 days	1,149	–	1,149
More than 120 days	222	(100)	122
At 31 March 2011	4,216	(100)	4,116

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

	31 March			31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000	£000
Balance at beginning of period	–	(100)	(200)	(200)	–
Impairment loss recognised	(100)	(100)	–	–	(165)
Impairment loss reversed	–	–	200	200	–
Balance at end of period	(100)	(200)	–	–	(165)

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	Contractual cash flows	Within 1 year	Between 1 and 5 years	In more than 5 years
	£000	£000	£000	£000	£000
Non-derivative financial liabilities					
Finance lease liabilities	5,985	6,497	698	5,799	–
Invoice discounting loan	2,305	2,305	2,305	–	–
Trade and other payables	54,935	54,935	54,935	–	–
At 31 December 2013	63,225	63,737	57,938	5,799	–

	Carrying amount	Contractual cash flows	Within 1 year	Between 1 and 5 years	In more than 5 years
	£000	£000	£000	£000	£000
Non-derivative financial liabilities					
Finance lease liabilities	3,666	4,113	449	3,664	–
Invoice discounting loan	1,913	1,913	1,913	–	–
Loans from Directors	269	269	–	–	269
Redeemable preference shares	1,010	1,010	–	1,010	–
Trade and other payables	44,604	44,604	44,604	–	–
At 31 March 2013	51,462	51,909	46,966	4,674	269

	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	3,189	3,589	392	3,197	–
Invoice discounting loan	1,749	1,749	1,749	–	–
Loans from Directors	299	299	–	–	299
Redeemable preference shares	1,262	1,262	–	1,262	–
Trade and other payables	35,947	35,947	35,947	–	–
At 31 December 2012 (unaudited)	42,446	42,846	38,088	4,459	299

	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	2,958	3,336	377	2,959	–
Invoice discounting loan	1,498	1,498	1,498	–	–
Loans from Directors	719	719	–	–	719
Redeemable preference shares	1,262	1,262	–	1,262	–
Trade and other payables	28,246	28,246	28,246	–	–
At 31 March 2012	34,683	35,061	30,121	4,221	719

	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	87	87	87	–	–
Invoice discounting loan	1,471	1,471	1,471	–	–
Loans from Directors	–	–	–	–	–
Redeemable preference shares	3,090	3,090	–	3,090	–
Trade and other payables	20,976	20,976	20,976	–	–
At 31 March 2011	25,624	25,624	22,534	3,090	–

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:

	31 March			31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000	£000
				(unaudited)	
Fixed rate instruments					
Finance lease liabilities	87	2,958	3,666	3,189	5,984
Variable rate instruments					
Invoice discounting facility	1,471	1,498	1,913	1,749	2,305
	1,558	4,456	5,579	4,938	8,289

Interest on drawn amounts on the facility is payable at LIBOR plus a margin of 2.25% (*December 2012: 2.25%, March 2013: 2.25%, March 2012: 2.25%, March 2011: 2.25%*) subject to a minimum of the actual 3 month LIBOR rate. A utilisation fee of 0.12% (*December 2012: 0.12%, March 2013: 0.12%, March 2012: 0.12%, March 2011: 0.12%*) is payable on drawings greater than £750 and on gross sales turnover subject to an annual minimum of £25,000.

Sensitivity analysis

A change of 1 basis point in interest rates at the balance sheet date would have increased (decreased) equity and profit or loss by the amounts shown below. 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.

	31 March			31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000	£000
				(unaudited)	
Equity					
Decrease	(11)	(15)	(19)	(17)	(23)
Profit or loss					
Decrease	(11)	(15)	(19)	(17)	(23)

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 debt (borrowings disclosed in note 16, after deducting cash and bank balances) and equity of the Group as disclosed in note 20 and 21. 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.

23 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 March			31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000	£000
				(unaudited)	
Less than one year	–	–	–	–	–
Between one and five years	1,085	366	639	539	826
More than five years	1,698	21,252	24,035	21,295	28,561
	<u>2,783</u>	<u>21,618</u>	<u>24,674</u>	<u>21,834</u>	<u>29,387</u>

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

During the period to 31 December 2013 £4,117,000 was recognised as an expense in the income statement in respect of operating leases (*December 2012: £3,727,000, March 2013: £4,970,000, March 2012: £2,442,000, March 2011: £2,781,000*).

24 Capital commitments

Amounts contracted for but not provided in the financial statements to £nil (*December 2012: £nil, March 2013: £nil, March 2012: £nil, March 2011: £nil*).

25 Related parties

Related parties with which the Group has transacted

Atticus LLP is a partnership in which K Philbin (a Director) has an interest in. During the period to 31 December 2013, Atticus LLP provided services to the Company in the ordinary course of business for £149,000 (*December 2012: £22,000, March 2013: £164,000, March 2012: £152,000, March 2011: £42,000*). At the balance sheet date the amount due to Atticus LLP was £nil (*December 2012: £nil, March 2013: £7,000, March 2012: £30,000, March 2011: £nil*).

Mark Two Distributors Limited, is a company in which C Hopkinson (a Director) has an interest in. During the period to 31 December 2013, DRL Limited purchased management and logistics services from Mark Two Distributors Limited for £nil (*December 2012: £67,000, March 2013: £89,000, March 2012: £56,000, March 2011: £44,000*). At the balance sheet date the amount due to Mark Two Distributors Limited was £nil (*December 2012: £nil, March 2013: £nil, March 2012: £nil, March 2011: £4,000*).

ElekDirect Limited is a company which J Roberts' (a Director) close family has an interest in. The Company consigns its inventory of imperfect units recovered from customers to ElekDirect for onward re-sale. At the time of re-sale ElekDirect purchases the unit from the Group at a price equal to consignment value plus 50% of the proceeds above consignment value. Transactions during the period to 31 December 2013 comprised sales of £769,000 (*December 2012: £484,000, March 2013: £908,000, March 2012: £875,000, March 2011: £973,000*). At the balance sheet date the amount due from ElekDirect Limited was £32,000 (*December 2012: £16,000, March 2013: £18,000, March 2012: £11,000, March 2011: £261,000*).

ElectroSwitch Limited is a company which R Rose (a Director) has an interest in. During the period to 31 December 2013, ElectroSwitch Limited provided consultancy services to the Company for £30,000 (*December 2012: £30,000, March 2013: £40,000, March 2012: £40,000, March 2011: £40,000*). At the balance sheet date the amount due to ElectroSwitch Limited was £nil (*December 2012: £nil, March 2013: £nil, March 2012: £nil, March 2011: £nil*).

Booker Limited is a company which R Rose (a Director) has an interest in. During the period to 31 December 2013, Booker Limited provided services to the Group in the ordinary course of business for £109,000 (*December 2012: £nil, March 2013: £13,000, March 2012: £nil, March 2011: £nil*). At the balance sheet date the amount due to Booker Limited was £9,000 (*December 2012: £nil, March 2013: £15,000, March 2012: £nil, March 2011: £nil*).

Transactions with Directors and key management personnel

J Roberts, a Director of the Company, had an unsecured zero percent loan, repayable on demand, which was outstanding during the period. The amount of the liability including interest to the Company at the

beginning of the year was £57,000 (*December 2012: £57,000, March 2013: £nil, March 2012: £nil, March 2011: £nil*), the maximum during the period was £57,000 (*December 2012: £57,000, March 2013: £57,000, March 2012: £nil, March 2011: £nil*). The entire loan was paid during the period.

Transactions with Directors and key management personnel

Directors of the Company and their immediate relatives control 100% of the voting shares of the Company.

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

	Year ended 31 March			Nine months ended 31 December	
	2011	2012	2013	2012	2013
	£000	£000	£000	£000	£000
				(unaudited)	
Key management emoluments including social security costs	1,018	894	1,734	1,306	1,218
Company contributions to money purchase pension plans . .	141	133	141	106	143
	<u>1,159</u>	<u>1,027</u>	<u>1,875</u>	<u>1,412</u>	<u>1,361</u>

26 Accounting estimates and judgements

In the application of the Group's accounting policies, which are described in note 1, 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 on-going 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 revenue recognition, inventory valuation, onerous lease costs, provision for bad debts, the valuation of goodwill and property, plant & equipment and taxation, and are set out below.

Revenue recognition

Revenue recognised in respect of commissions received 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 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. Changes of estimates during the period ended 31 December 2013 in relation to commission receivable after the initial contract term for sales originating in previous years totalled £nil (*December 2012: £nil, March 2013: £nil, March 2012: £nil, March 2011: £nil*).

Inventory valuation

Inventories are valued at the lower of cost and net realisable value. Cost comprises direct purchase cost and overheads that have been incurred in bringing the inventories to their present location and condition. 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.

Provisions for onerous leases

If the Group vacates a property prior to the expiry of the related lease, or a lease forms part of a separate cash generating unit whereby the carrying value of that cash generating unit is not considered supportable, it records a provision for the expected lease payments that the Group will incur prior to assignment or sublease of the property. Such a calculation requires a judgement as to the timing and duration of the expected vacant periods and the amount and timing of future potential sublease income. When making these judgements, the Directors consider a number of factors, including the landlord, the location and condition of the property, the terms of the lease, the specific marketplace demand and the economic environment.

Goodwill and property, plant & equipment impairment reviews

Goodwill is required to be tested for impairment annually. Impairment testing on goodwill is carried out in accordance with the methodology described in note 12. 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.

In assessing impairment of property, plant and equipment, discounted cash flow methods are used as described in note 1. Judgement is required in determining the appropriate discount factors as well as the short and medium term business plans. As for Goodwill, the directors draw upon experience and external resources in making these judgements.

Taxation

Deferred tax is recognised on taxable losses based on the expected ability to utilise such losses. This ability takes account of the business plans for the relevant companies, potential uncertainties around the longer term aspects of these business plans, any expiry of taxable benefits and potential future volatility in the local tax regimes.

27 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 1 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 2010.

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 UK). 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 2010			31 March 2013		
	Note	UK GAAP	Effect of transition to Adopted IFRSs	Adopted IFRSs	UK GAAP	Effect of transition to Adopted IFRSs	Adopted IFRSs
		£000	£000	£000	£000	£000	£000
Non-current assets							
Property, plant and equipment	a	1,210	–	1,210	7,340	(391)	6,949
Intangible assets	a, b	10,373	1,823	12,196	8,541	4,046	12,587
Trade and other receivables	c	–	2,077	2,077	–	9,308	9,308
		<u>11,583</u>	<u>3,900</u>	<u>15,483</u>	<u>15,881</u>	<u>12,963</u>	<u>28,844</u>
Current assets							
Inventories		3,714	–	3,714	8,708	–	8,708
Trade and other receivables	c	7,404	(2,077)	5,327	28,224	(9,308)	18,916
Cash and cash equivalents		4,154	–	4,154	12,210	–	12,210
Deferred tax assets		1,167	–	1,167	18	–	18
		<u>16,439</u>	<u>(2,077)</u>	<u>14,362</u>	<u>49,160</u>	<u>(9,308)</u>	<u>39,852</u>
Total assets		<u>28,022</u>	<u>1,823</u>	<u>29,845</u>	<u>65,041</u>	<u>3,655</u>	<u>68,696</u>
Current liabilities							
Borrowings		(76)	–	(76)	(3,100)	–	(3,100)
Trade and other payables		(16,498)	–	(16,498)	(44,604)	–	(44,604)
Current tax liabilities		–	–	–	(753)	–	(753)
Provisions		–	–	–	(856)	–	(856)
		<u>(16,574)</u>	<u>–</u>	<u>(16,574)</u>	<u>(49,313)</u>	<u>–</u>	<u>(49,313)</u>
Net current assets/(liabilities)		<u>(135)</u>	<u>(2,077)</u>	<u>(2,212)</u>	<u>(153)</u>	<u>(9,308)</u>	<u>(9,461)</u>
Non-current liabilities							
Borrowings		(4,614)	–	(4,614)	(3,758)	–	(3,758)
Total liabilities		<u>(21,188)</u>	<u>–</u>	<u>(21,188)</u>	<u>(53,071)</u>	<u>–</u>	<u>(53,071)</u>
Net assets		<u>6,834</u>	<u>1,823</u>	<u>8,657</u>	<u>11,970</u>	<u>3,655</u>	<u>15,625</u>
Equity attributable to equity holders of the parent							
Share capital		31	–	31	31	–	31
Share premium		5,358	–	5,358	4,269	–	4,269
Retained earnings	a	1,445	1,823	3,268	7,670	3,655	11,325
		<u>6,834</u>	<u>1,823</u>	<u>8,657</u>	<u>11,970</u>	<u>3,655</u>	<u>15,625</u>

Notes to the reconciliation of equity

- 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.
- 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 2010. No impairment was deemed necessary.
- 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 warranty policies (see note 1) which are due in more than one year.

Reconciliation of profit for the year ended 31 March 2013

	UK GAAP	Effect of transition to Adopted IFRSs	Adopted IFRSs
	£000	£000	£000
Revenue	275,493	—	275,493
Cost of sales	(224,108)	—	(224,108)
Gross profit	51,385	—	51,385
Administrative expenses	(42,438)	—	(42,438)
Amortisation	(613)	613	—
Operating profit	8,334	613	8,947
Finance income	43	—	43
Finance costs	(259)	—	(259)
Net financing expense	(216)	—	(216)
Profit before tax	8,118	613	8,731
Taxation	(1,941)	—	(1,941)
Profit for the period	<u>6,177</u>	<u>613</u>	<u>6,790</u>

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.

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.

PART XII
PRO FORMA FINANCIAL INFORMATION

1. ACCOUNTANTS' REPORT ON THE PRO FORMA FINANCIAL INFORMATION RELATING TO THE GROUP

Deloitte.

Deloitte LLP
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Manchester
M60 2AT

The Board of Directors
on behalf of AO World plc
Unit 5A
The Parklands
Lostock
Bolton
BL6 4SD

J.P. Morgan Securities plc
25 Bank Street
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E14 5JP

Jefferies International Limited
Vintners Place
68 Upper Thames Street
London
EC4V 3BJ

26 February 2014

Dear Sirs,

AO World plc (the “Company”)

We report on the pro forma financial information (the “**Pro forma financial information**”) set out in this Part XII (*Pro Forma Financial Information*) of the prospectus dated 26 February 2014 (the “**Prospectus**”), which has been prepared on the basis described therein, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies to be adopted by the Company in preparing the financial statements for the period ending 31 March 2014. This report is required by Annex I item 20.2 of Commission Regulation (EC) No 809/2004 (the “**Prospectus Directive Regulation**”) and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the “**Directors**”) to prepare the Pro forma financial information in accordance with Annex I item 20.2 and Annex II items 1 to 6 of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, in accordance with Annex I item 20.2 of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of

complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Opinion

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte LLP
Chartered Accountants

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

2. UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

The unaudited pro forma statement of net assets set out below has been prepared to illustrate the effect of the Offer on the Group's net assets as if the Offer had taken place on 31 December 2013. This unaudited pro forma statement of net assets has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results. The unaudited pro forma statement of net assets is compiled on the basis set out below from the IFRS consolidated balance sheet of the Company as at 31 December 2013, as set out in Part XI (*Historical Financial Information*). It may not, therefore, give a true picture of the Group's financial position or results nor is it indicative of the results that may, or may not, be expected to be achieved in the future. The unaudited pro forma financial information has been prepared on the basis set out in the notes below and in accordance with Annex II to the Prospectus Directive Regulation.

	As at 31 December 2013 ⁽¹⁾	Adjustments Offer proceeds ⁽²⁾	Unaudited pro forma total ^{(3),(4)}
	£ million	£ million	£ million
Non-current assets			
Property, plant and equipment	11.4	–	11.4
Intangible assets	12.7	–	12.7
Trade and other receivables	9.8	–	9.8
	33.9	–	33.9
Current assets			
Inventories	21.1	–	21.1
Trade and other receivables	22.5	–	22.5
Cash and cash equivalents	3.8	40.9	44.7
	47.4	40.9	88.3
Total assets	81.2	40.9	122.2
Current liabilities			
Borrowings	(4.4)	–	(4.4)
Trade and other payables	(54.9)	–	(54.9)
Tax payable	(1.1)	–	(1.1)
Provisions	(0.9)	–	(0.9)
	(61.4)	–	(61.4)
Net current assets/(liabilities)	(14.0)	40.9	26.9
Non-current liabilities			
Borrowings	(3.9)	–	(3.9)
	(3.9)	–	(3.9)
Total liabilities	(65.3)	–	(65.3)
Net assets	16.0	40.9	56.9

(1) The financial information has been extracted, without material adjustments, from the financial information set out in Part XI (*Historical Financial Information*) prepared in accordance with IFRS.

(2) Adjustments to reflect the net proceeds of the Offer receivable by the Group, of £40.9 million, being gross proceeds at £60.0 million less estimated fees and expenses of £19.1 million (exclusive of VAT).

(3) The unaudited pro forma statement of net assets does not constitute financial statements within the meaning of section 434 of the Companies Act 2006.

(4) The unaudited pro forma statement of net assets does not reflect any trading or other transaction undertaken by the Group since 31 December 2013.

PART XIII

DETAILS OF THE OFFER

1. THE OFFER

There are 148,465,511 Offer Shares available under the Offer comprising 21,052,631 New Ordinary Shares to be issued by the Company and 127,412,880 Existing Ordinary Shares (before any exercise of the Over-allotment Option) to be sold by the Selling Shareholders.

The Selling Shareholders are selling 127,412,880 Existing Ordinary Shares representing in aggregate 34.3 per cent. of their combined holdings before any exercise of the Over-allotment Option.

21,052,631 New Ordinary Shares will be issued pursuant to the Offer. The Ordinary Shares other than the New Ordinary Shares will represent 95.0 per cent. of the total issued Ordinary Shares immediately following Admission.

Under the Offer, Ordinary Shares are being made available to certain institutional and professional investors in the United Kingdom and elsewhere outside of the United States in reliance on Regulation S and in accordance with other applicable laws, and in the United States only to QIBs in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act. Certain restrictions that apply to the distribution of this document and Ordinary Shares in certain jurisdictions are described in paragraph 9 of this Part XIII (*Details of the Offer*).

When admitted to trading, the Ordinary Shares will be registered with ISIN (International Securities Identifying Number) GB00BJTNFH41 and SEDOL (Stock Exchange Daily Official List) number BJTNFH4.

The New Ordinary Shares being issued by the Company will, following Admission, rank *pari passu* in all respects with all Ordinary Shares then in issue in the issued ordinary share capital of the Company, including the right to receive all dividends and other distributions declared, made or paid in respect of the Ordinary Shares after Admission. The Existing Ordinary Shares being sold by the Selling Shareholders will be sold together with the right to receive all dividends and other distributions declared, made or paid on the Ordinary Shares after Admission. The Ordinary Shares will be freely transferable under the Articles of Association.

Immediately following Admission, it is expected that approximately 37.0 per cent. of the Company's issued ordinary share capital will be held in public hands (within the meaning of Listing Rule 6.1.19R) assuming that no Over-allotment Shares are acquired pursuant to the Over-allotment Option (increasing to 42.3 per cent. if the maximum number of Over-allotment Shares are acquired pursuant to the Over-allotment Option).

2. REASONS FOR THE OFFER AND USE OF PROCEEDS

The Directors believe that the Offer will provide additional capital to support the growth of the Group, with benefits including the enhancement of its service capability and product offering, potential European expansion, a reduction of exposure to third-party credit insurer sentiment and an ability to secure improved commercial terms from suppliers. The Offer will provide the Selling Shareholders with a partial realisation of their investment in the Company.

The Company expects to receive net proceeds of approximately £40.9 million, after estimated total expenses of approximately £19.1 million. The Selling Shareholders expect to receive net proceeds of approximately £348.6 million, after estimated total expenses of approximately £14.5 million.

The Company intends to use the net proceeds it receives from the Offer for general corporate purposes, including for additional working capital to support growth in the business following the Company's Admission. Until the Company uses the net proceeds of the Offer for a particular purpose, it intends to invest such proceeds in short term, interest bearing securities or similar deposits.

3. ALLOCATION AND PRICING

All Ordinary Shares made available pursuant to the Offer are payable in full at the Offer Price. The Offer Price and the number of Ordinary Shares allocated to investors under the Offer were announced on 26 February 2014.

Allocations under the Offer and the Offer Price were determined by the Company and the Selling Shareholders in consultation with the Joint Bookrunners. A number of factors were considered in determining the Offer Price and the basis of allocation under the Offer, including the level and nature of demand for Ordinary Shares and the objective of encouraging the development of an orderly after-market in the Ordinary Shares.

Upon accepting any allocation, prospective investors are contractually committed to acquire the number of Ordinary Shares allocated to them at the Offer Price and, to the fullest extent permitted by law are deemed to have agreed not to exercise any rights to rescind or terminate, or withdraw from, such commitment.

The rights attaching to the Ordinary Shares, including any Over-allotment Shares acquired pursuant to the Over-allotment Option, will be uniform in all respects and the Ordinary Shares will form a single class for all purposes.

Each investor is required to pay the Offer Price for the Ordinary Shares sold or issued to such investor in such manner as directed by the Joint Bookrunners.

Liability for stamp duty and stamp duty reserve tax is described in Part XIV (*Taxation*).

4. OVER ALLOTMENT AND STABILISATION

In connection with the Offer, the Stabilising Manager, or any of its affiliates or agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot Ordinary Shares or effect other transactions with a view to supporting, stabilising or maintaining the market price of the Ordinary Shares at a level which might not otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such transactions may be effected on the London Stock Exchange, in over-the-counter markets or otherwise. Such stabilising measures, if commenced, may be discontinued at any time without prior notice and may only be undertaken during the period of 30 calendar days immediately following the commencement of conditional dealings in the Ordinary Shares on the London Stock Exchange. Save as required by law or regulation, the Stabilising Manager nor any of its affiliates or agents intends to disclose the extent of any over-allotments of Ordinary Shares made or stabilisation transactions conducted in connection with the Offer.

In connection with the Offer, the Over-allotment Selling Shareholders have granted the Stabilising Manager the Over-allotment Option pursuant to which the Stabilising Manager may require the Over-allotment Selling Shareholders to sell in aggregate up to a maximum of 15.0 per cent. of the total number of Ordinary Shares comprised in the Offer at the Offer Price to cover over-allotments of Ordinary Shares, if any, made in connection with the Offer (excluding the Ordinary Shares subject to the Over-allotment Option) and to cover short positions resulting from stabilisation transactions. The Over-allotment Option is exercisable, in whole or in part, upon notice by the Stabilising Manager to the Over-allotment Selling Shareholders at any time during the period of 30 calendar days immediately following the commencement of conditional dealings in the Ordinary Shares on the London Stock Exchange.

Further details regarding the Over-allotment Option and stabilisation are set out in paragraphs 20.1 and 20.3 of Part XV (*Additional Information*).

5. DEALING ARRANGEMENTS

It is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange at 8.00am on 26 February 2014. The earliest date for settlement of such dealings will be 3 March 2014. All dealings in the Ordinary Shares prior to the commencement of unconditional dealings will be on a “when issued basis”, will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned.

Admission is expected to become effective, and unconditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange, at 8.00am on 3 March 2014. It is expected that Ordinary Shares allocated to investors will be delivered in uncertificated form and settlement will take place through CREST on 3 March 2014 or as soon thereafter as is practicable. Temporary documents of title will not be issued.

6. UNDERWRITING ARRANGEMENTS

The Company, the Directors, the Major Selling Shareholders and the Underwriters entered into the Underwriting Agreement pursuant to which the Underwriters severally agreed, subject to certain conditions, to procure subscribers for the New Ordinary Shares to be issued by the Company and purchasers for the Existing Ordinary Shares to be sold by the Selling Shareholders in the Offer, or failing which to subscribe for or purchase such Ordinary Shares themselves, at the Offer Price. Each of the Selling Shareholders (other than the Major Selling Shareholders) entered into a separate Deed of Election in connection with the underwriting arrangements.

The Underwriting Agreement provides that the obligations of the Underwriters are conditional upon the satisfaction of certain conditions, including Admission occurring by no later than 8.00am on 3 March 2014 or such later time and/or date as the Company and the Joint Global Co-ordinators (for themselves and on behalf of the other Joint Bookrunner) may agree (not being later than 17 March 2014).

Further details of the terms of the Underwriting Agreement and the Deeds of Election are set out in paragraph 20.1 of Part XV (*Additional Information*).

7. LOCK-UP ARRANGEMENTS

Pursuant to the Underwriting Agreement and the Deeds of Election, the Company, the Selling Shareholders and the Directors have each undertaken, subject to certain exceptions, that they will be subject to certain lock-up arrangements with respect to the Ordinary Shares and related securities. Each of the Company, the Selling Shareholders and the Directors has given certain customary representations, warranties and undertakings to the Underwriters in respect of the lock-up arrangements.

Further details of the lock-up arrangements are set out in paragraph 20.2 of Part XV (*Additional Information*).

8. CREST

CREST is a paperless settlement system enabling securities to be transferred and held by electronic means rather than by a certificate or written instrument. The system is designed to reduce the costs of settlement, and facilitate the processing of settlements and the updating of registers, through an electronic settlement system. Ordinary Shares held by the Company's shareholders in CREST will be in electronic form and evidence of title to Ordinary Shares will be established on an electronic register maintained by the Registrar which can only be altered by an electronic instruction sent through CREST. It will be possible for shareholders in CREST to transfer their Ordinary Shares without executing written stock transfer forms.

On Admission, the Articles of Association will permit the holding of Ordinary Shares under the CREST system. The Company has applied for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if any shareholder so wishes. CREST is a voluntary system and holder of Ordinary Shares who wish to receive and retain share certificates will be able to do so. An investor applying for Ordinary shares under the Offer may, however, elect to receive Ordinary Shares in uncertificated form if such investor is a system-member (as defined in the CREST Regulations) in relation to CREST.

9. SELLING RESTRICTIONS

9.1 European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), no Shares have been offered or will be offered pursuant to the Offer to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Ordinary Shares which has been approved by the competent authority in that Relevant Member State, or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that offers of Shares to the public may be made at any time under the following exemptions under the Prospectus Directive, if they are implemented in that Relevant Member State:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- to fewer than 150, or, if the Relevant Member State has not implemented the relevant provision of the Prospectus Directive, 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) in such Relevant Member State subject to the consent of the Joint Global Co-ordinators having been obtained; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Ordinary Shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a Relevant Member State and each person who initially acquires any Ordinary Shares or to whom any offer is made under the Offer will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression “offer to the public” in relation to any offer of Shares in any Relevant Member State means a communication in any form and by any means presenting sufficient information on the terms of the offer and any Ordinary Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Ordinary Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC as amended, to the extent implemented in the Relevant Member State and includes any relevant implementing measure in each Relevant Member State.

The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions.

9.2 United Kingdom

In the United Kingdom this document is being distributed to, and is directed only at, “qualified investors” (as defined in the Prospectus Directive) who are also (i) persons having professional experience in matters relating to investments falling within the definition “investment professionals” in Article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”) or (ii) high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2) of the Order, and other persons to whom it may lawfully be communicated. Any investment or investment activity to which this communication relates is only available to and will only be engaged in with such persons and persons within the United Kingdom who receive this document (other than persons falling within (i) and (ii) above) should not rely on or act upon this document.

9.3 United States

The Ordinary Shares have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state of the United States, and may not be offered or sold, directly or indirectly, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state of the United States.

The Offer Shares are being offered and sold (i) outside the United States in reliance on Regulation S and (ii) in the United States only to persons the sellers reasonably believe to be QIBs in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the offering of the Offer Shares, an offer or sale of Offer Shares in the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

9.4 Canada

The offer and sale of Ordinary Shares in Canada will only be made in the Provinces of Ontario and Québec or to residents thereof and not in, or to the residents of, any other Province or Territory of Canada. Such offers and sales will be made only under exemptions from the requirement to file a prospectus with the Ontario Securities Commission and/or the Autorité des marchés financiers and will be made only by authorised dealer representatives of the dealers that are properly registered under the laws of the

Provinces of Ontario and/or Québec or, alternatively, are entitled to rely on exemptions from the dealer registration requirements in the Provinces of Ontario and/or Québec.

9.5 Australia

This document is not a prospectus under the Corporations Act 2001 (Cth) Australia (the “**Corporations Act**”) and has not been lodged with or been the subject of notification to the Australian Securities and Investments Commission. Accordingly, the Ordinary Shares may not be offered, issued, sold or distributed in Australia by any person other than by way of or pursuant to an offer or invitation that does not need disclosure to investors under Part 6D.2 of the Corporations Act.

10. TERMS AND CONDITIONS OF THE OFFER

10.1 Introduction

Each investor who applies to acquire the Offer Shares will be bound by these terms and conditions:

10.2 Agreement to acquire the Offer Shares

Conditional on: (i) Admission occurring and becoming effective by 8.00am on or prior to 3 March 2014 (or such later time and/or date as the Company and the Joint Global Co-ordinators (for themselves and on behalf of the other Joint Bookrunner) may agree (not being later than 17 March 2014)) and (ii) the investor being allocated Offer Shares, an investor who has applied for Offer Shares agrees to acquire those Offer Shares allocated to it by the Joint Bookrunners (such number of Offer Shares not to exceed the number applied for by such investor) at the Offer Price. To the fullest extent permitted by law, each investor acknowledges and agrees that it will not be entitled to exercise any remedy of rescission at any time. This does not affect any other rights an investor may have. Each such investor is deemed to acknowledge receipt and understanding of this Prospectus and in particular the risk and investment warnings contained in this Prospectus.

10.3 Payment for the Offer Shares

Each investor must pay the Offer Price for the Offer Shares issued to the investor in the manner directed by the Joint Bookrunners.

If any investor fails to pay as so directed by the Joint Bookrunners, the relevant investor’s application for Offer Shares may be rejected.

If Admission does not occur, subscription monies will be returned without interest at the risk of the applicant.

10.4 Representations, warranties, undertakings, agreements and acknowledgements

Each investor and, in the case of paragraph (n) below, a person who agrees on behalf of an investor, to acquire Offer Shares under the Offer and/or who authorises any of the Underwriters to notify the investor’s name to the Registrar, will be deemed to represent, warrant, undertake, agree and acknowledge to the Underwriters, the Registrar and the Company that:

- a) in agreeing to acquire Offer Shares, the investor is relying solely on this Prospectus, any supplementary prospectus and any regulatory announcement issued by or on behalf of the Company on or after the date hereof and prior to Admission, and not on any other information or representation concerning the Company, the Selling Shareholders or the Offer. The investor agrees that none of the Company, the Underwriters or the Registrar nor any of their respective officers or directors will have any liability for any other information or representation. The investor irrevocably and unconditionally waives any rights it may have in respect of any other information or representation;
- b) the content of this Prospectus is exclusively the responsibility of the Company and the Directors and none of the Underwriters, the Registrar nor any person acting on their behalf nor any of their respective affiliates is responsible for or shall have any liability for any information, representation or statement contained in this Prospectus or any information published by or on behalf of the Company, and none of the Underwriters, the Registrar nor any person acting on their behalf nor any of their

respective affiliates will be liable for any decision by an investor to participate in the Offer based on any information, representation or statement contained in this Prospectus or otherwise;

- c) it has not relied on any information given or representations, warranties or statements made by the Company, the Directors, the Selling Shareholders, any of the Underwriters, the Registrar or any other person in connection with the Offer other than information contained in this Prospectus and/or any supplementary prospectus or regulatory announcement issued by or on behalf of the Company on or after the date hereof and prior to Admission. The investor irrevocably and unconditionally waives any rights it may have in respect of any other information or representation;
- d) none of the Underwriters are making any recommendations to the investor or advising it regarding the suitability or merits of any transaction it may enter into in connection with the Offer, and the investor acknowledges that participation in the Offer is on the basis that it is not and will not be a client of any of the Underwriters and that the Underwriters are acting for the Company and no one else in connection with the Offer, and will not be responsible to anyone other than their respective clients for the protections afforded to their respective clients, nor for providing advice in relation to the Offer, the contents of this Prospectus or any transaction, arrangements or other matters referred to herein, or in respect of any representations, warranties, undertakings or indemnities contained in the Underwriting Agreement or for the exercise or performance of any of the Underwriters' rights and obligations under the Underwriting Agreement, including any right to waive or vary any condition or exercise any termination right contained therein;
- e) if the investor is in the United Kingdom, it is a qualified investor as defined in the Prospectus Directive and also: (a) a person having professional experience in matters relating to investments who falls within the definition of "investment professionals" in Article 19(5) of the Order; or (b) a high net worth body corporate, unincorporated association or partnership or trustee of a high value trust as described in Article 49(2) of the Order, or is otherwise a person to whom an invitation or inducement to engage in investment activity may be communicated without contravening section 21 of FSMA;
- f) if the investor is in any EEA State which has implemented the Prospectus Directive, it is: (i) a legal entity which is a qualified investor as defined in the Prospectus Directive; or (ii) a legal entity which is otherwise permitted by law to be offered and issued Ordinary Shares in circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive or other applicable laws. If the investor purchases Offer Shares as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, it further represents, warrants and undertakes that: (y) the Ordinary Shares have not been and will not be acquired on behalf of, nor have they been nor will they be acquired with a view to their offer or resale to, persons in any EEA State other than qualified investors, as that term is defined in the Prospectus Directive; and (z) where Ordinary Shares have been acquired by it on behalf of persons in an EEA State other than qualified investors, the offer of those Offer Shares to it is not treated under the Prospectus Directive as having been made to such persons;
- g) if the investor is in Australia, the investor is a person to whom an offer or invitation to acquire Ordinary Shares may be made without disclosure to investors under Part 6D.2 of the Corporations Act;
- h) the Ordinary Shares have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state of the United States, and may not be offered or sold, directly or indirectly, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state of the United States;
- i) if the investor is outside the United States, the investor (i) is acquiring the Offer Shares in an "offshore transaction" (as defined in Regulation S) meeting the requirements of Regulation S and, (ii) will not offer, sell or otherwise transfer any Offer Shares except in accordance with the Securities Act and any applicable securities laws of any state of the United States;
- j) if the investor is in the United States, the investor (i) is a QIB acquiring Offer Shares for its own account, or for the account of one or more QIBs with respect to whom it has the authority to make, and does make, the representations, warranties, undertakings, agreements and acknowledgements set forth herein, (ii) is acquiring Offer Shares for investment purposes and not with a view to any further distribution of such Offer Shares, (iii) is aware and each beneficial owner of such Offer Shares has been advised that the offer and sale of the Offer Shares to it is being made in reliance on Rule 144A

or another exemption from the registration requirements of the Securities Act, (iv) is aware that the Offer Shares are being offered in the United States in a transaction not involving any public offering in the United States within the meaning of the Securities Act, (v) will not offer, sell or otherwise transfer any Offer Shares except (A) to a person whom it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (B) in an “offshore transaction” meeting the requirements of Rule 903 or Rule 904 of Regulation S, (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (D) pursuant to an effective registration statement under the Securities Act and, in each case, in accordance with any applicable securities laws of any state of the United States, (vi) acknowledges the Offer Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of Offer Shares, (vii) will not deposit or cause to be deposited any Offer Shares into any unrestricted depositary receipt facility established or maintained by a depositary bank so long as such Offer Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, and (viii) acknowledges that the Offer Shares (to the extent they are in certificated form), unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect:

THE SECURITY EVIDENCED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHO THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (A “QIB”) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN “OFFSHORE TRANSACTION” MEETING THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR THE RESALE OF THIS SECURITY. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, FOR SO LONG AS THIS SECURITY IS A “RESTRICTED SECURITY” AS DEFINED IN RULE 144(a)(3) UNDER THE SECURITIES ACT, THIS SECURITY MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF SECURITIES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK;

- k) it has complied with its obligations in connection with money laundering and terrorist financing under the Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering Regulations 2003, and applicable legislation in any other jurisdiction (together, the “**Money Laundering Regulations**”) and, if it is making payment on behalf of a third party, it has obtained and recorded satisfactory evidence to verify the identity of the third party as required by the Money Laundering Regulations;
- l) the investor is not a national, resident or citizen of Japan or South Africa or a corporation, partnership or other entity organised under the laws of Japan or South Africa and that the investor will not offer, sell, renounce, transfer or deliver, directly or indirectly, any of the Ordinary Shares in Japan or South Africa or to any national, resident or citizen of Japan or South Africa and the investor acknowledges that the Ordinary Shares have not been and will not be registered under the applicable securities law of Japan or South Africa and that the same are not being offered for sale and may not, directly or indirectly, be offered, sold, transferred or delivered in Japan or South Africa;
- m) it is entitled to acquire the Offer Shares under the laws of all relevant jurisdictions which apply to it; it has fully observed such laws and obtained all governmental and other consents which may be required under such laws and complied with all necessary formalities; it has paid all issue, transfer or other taxes due in connection with its acceptance in any jurisdiction; and it has not taken any action or

omitted to take any action which will or may result in any of the Underwriters, the Company, the Selling Shareholders, the Registrar or any of their respective directors, officers, agents, employees or advisers acting in breach of the legal and regulatory requirements of any jurisdiction in connection with the Offer or, if applicable, its acceptance of or participation in the Offer;

- n) in the case of a person who agrees on behalf of an investor, to acquire Offer Shares under the Offer and/or who authorises any of the Underwriters to notify the investor's name to the Registrar, that person represents and warrants that he has authority to do so on behalf of the investor; and
- o) it will pay to the Underwriters (or as it may direct) any amounts due from it in accordance with this document on the due time and date set out herein.

The Company, the Selling Shareholders and each of the Underwriters will rely upon the truth and accuracy of the foregoing representations, warranties, undertaking, agreements and acknowledgements. If any of the foregoing representations, warranties, undertakings, agreements or acknowledgements are no longer accurate or have not been complied with, the investor shall promptly notify the Company.

10.5 Miscellaneous

The rights and remedies of each of the Underwriters, the Company, the Selling Shareholders and the Registrar under these terms and conditions are in addition to any rights and remedies which would otherwise be available to each of them and the exercise or partial exercise of one will not prevent the exercise of others.

On application, if an investor is a discretionary fund manager, that investor may be asked to disclose in writing or orally to the Joint Bookrunners the jurisdictions in which its funds are managed or owned.

All documents will be sent at the investor's risk. They may be sent by post to such investor at an address notified to the Joint Bookrunners.

The contract to acquire Offer Shares, the appointments and authorities mentioned herein and the representations, warranties and undertakings set out herein will be governed by, and construed in accordance with, English law. For the exclusive benefit of the Underwriters, the Company, the Selling Shareholders and the Registrar, each investor irrevocably submits to the exclusive jurisdiction of the English courts in respect of these matters. This does not prevent an action being taken against an investor in any other jurisdiction.

In the case of a joint agreement to acquire Offer Shares, references to an "investor" in these terms and conditions are to each of the investors who are a party to that joint agreement and their liability is joint and several.

Each of the Joint Bookrunners and the Company expressly reserves the right to modify the terms of the Offer (including, without limitation, its timetable and settlement) at any time before closing.

PART XIV

TAXATION

1. UK TAXATION

The following paragraphs are intended as a general guide only, are not exhaustive and are based on current law and HM Revenue and Customs practice (which may not be binding) as at the date of this document, both of which are subject to change, possibly with retrospective effect. They summarise the position of Shareholders who (unless the position of non-resident Shareholders is expressly referred to) are resident (and in the case of individual Shareholders, resident and domiciled) in (and only in) the United Kingdom for tax purposes, who are the absolute beneficial owners of their Shares and any dividends paid on them and who hold their Shares as an investment (other than under an Individual Savings Account (“ISA”)). The discussion below does not address all possible tax consequences relating to an investment in shares. Certain Shareholders, such as traders, brokers, dealers in securities, banks, financial institutions, investment companies, those that are exempt from taxation, employees and officers of the Company (or a connected company), insurance companies, persons holding Shares as part of hedging or conversion transactions, Shareholders who are not domiciled or resident in the UK, collective investment vehicles, trusts and those who hold 5 per cent. or more of the Shares may be taxed differently and are not considered. Nor do the following statements consider the tax position of any person holding investments in any HMRC-approved arrangements or schemes, including the enterprise investment scheme, venture capital scheme or business expansion scheme, able to claim any inheritance tax relief or holding Shares in connection with a trade, profession or vocation carried on in the UK (whether through a branch or agency or, in the case of a corporate shareholder, a permanent establishment or otherwise).

If you are in any doubt as to your tax position or you are subject to tax in a jurisdiction outside the United Kingdom, you should consult an appropriate professional adviser before taking any actions.

1.1 Dividends

Under current law, no tax will be withheld by the Company when it pays a dividend.

A UK resident individual Shareholder who receives a dividend from the Company will be entitled to a tax credit, currently at the rate of 1/9th of the cash dividend paid (which is equivalent to 10 per cent. of the gross dividend, being the cash dividend received plus the related tax credit). The individual is treated as receiving for tax purposes the gross dividend. The tax credit is then set against the individual's tax liability on the gross dividend.

A UK resident individual Shareholder who is a basic rate taxpayer will be liable to income tax on the receipt of the gross dividend currently at the rate of 10 per cent. The tax credit will be set against this tax liability and as a result, such a shareholder will have no further income tax liability in respect of the dividend.

A UK resident individual Shareholder who is a higher rate taxpayer will be liable to income tax on the gross dividend currently at the rate of 32.5 per cent, to the extent that such sum, when treated as the top slice of that Shareholder's income, exceeds the threshold for higher rate income tax. After taking account of the tax credit, this equates to an effective tax rate of 25 per cent. on the net cash dividend. For example, a dividend of £80 will carry a tax credit of £8.89. The income tax payable by a higher rate taxpayer would be 32.5 per cent. of £88.89, namely £28.89, less the tax credit of £8.89, leaving a net tax liability of £20.

A UK resident individual Shareholder who is an additional rate taxpayer will be liable to income tax on the gross dividend currently at a rate of 37.5 per cent, to the extent that such sum, when treated as the top slice of that Shareholder's income, exceeds the threshold for additional rate income tax. After taking into account the tax credit, the effective tax rate is therefore 30.56 per cent. of the net cash dividend. For example a dividend of £80 will carry a tax credit of £8.89. The income tax payable by an additional rate taxpayer would be 37.5 per cent. of £88.89, namely £33.34 less the tax credit of £8.89, leaving a net tax liability of £24.44.

UK resident Shareholders who do not pay income tax or whose liability to income tax on the dividend and related tax credit is less than the tax credit (including pension funds, charities and certain individuals) are not entitled to claim repayment of any part of the tax credit associated with the dividend from HM Revenue and Customs.

UK resident corporate Shareholders which are “small companies” (for the purposes of UK taxation of dividends) will not generally expect to be subject to tax on dividends from the Company. Other UK resident corporate Shareholders will not generally be subject to tax on dividends received from the Company as long as the dividends fall within one of a number of statutory exemptions. Examples of dividends that fall within an exemption are dividends paid on shares that are ‘ordinary share capital’ for UK tax purposes and are not redeemable and dividends paid to a person holding less than 10 per cent. of the issued share capital of the payer (or any class of that share capital). The exemptions described above are not comprehensive and are subject to anti-avoidance rules. Where the conditions for the exemption are not met or cease to be satisfied, or such Shareholder elects for an otherwise exempt dividend to be taxable, the Shareholder will be subject to UK corporation tax on dividends received at the rate of corporation tax applicable to that Shareholder (currently 23 per cent. reducing to 21 per cent. for companies paying the full corporation tax rate which effect from 1 April 2014).

Non-UK resident individual Shareholders (other than those carrying on a trade, profession or vocation in the UK) will not generally be subject to UK tax on any dividends received from the Company. Whether a Shareholder who is not resident in the United Kingdom for tax purposes is entitled to a tax credit in respect of dividends paid by the Company and to claim payment of any part of the tax credit will depend, in general, on the existence and terms of any double taxation convention between the Shareholder’s country of residence and the United Kingdom. A non-UK resident Shareholder may also be subject to foreign taxation on dividend income under their local law.

1.2 Taxation of Chargeable Gains

A disposal of Shares by a Shareholder who is resident in the United Kingdom for tax purposes may, subject to the Shareholder’s circumstances and any available exemption or relief, give rise to a chargeable gain (or allowable loss) for the purposes of UK taxation of chargeable gains.

For UK resident corporate Shareholders within the charge to UK corporation tax on chargeable gains, indexation allowance on the cost of acquiring the Shares may be available to reduce the amount of chargeable gain realised on a disposal of Shares (but not to create or increase any loss). UK resident individual shareholders who are basic rate taxpayers will, subject to any exemption or relief, be liable to capital gains tax at a rate of 18 per cent. on any gains over the annual exempt amount. UK resident individual Shareholders who are higher or additional rate taxpayers will, subject to any exemption or relief, be liable to capital gains tax at a rate of 28 per cent. on any gains in excess of the annual exempt amount. Entrepreneurs’ relief may be available to reduce the amount of chargeable gain realised on a disposal of Shares. Where entrepreneurs’ relief applies, any gain qualifying for relief is taxed at an effective rate of 10 per cent. Trustees and personal representatives pay capital gains tax at 28 per cent.

A Shareholder who is not UK resident will not be subject to UK tax on a gain arising on a disposal of Shares unless (i) the Shareholder carries on a trade, profession or vocation in the United Kingdom through a branch, agency or permanent establishment and, broadly, holds the Shares for the purposes of the trade, profession, vocation, branch, agency or permanent establishment or (ii) the Shareholder falls within the anti-avoidance rules applying to individuals who are temporarily not resident or ordinarily resident in the United Kingdom.

1.3 Inheritance Tax

The Shares will be assets situated in the United Kingdom for the purposes of UK inheritance tax. A gift of Shares by, or on the death of, an individual Shareholder may (subject to certain exemptions and reliefs) be subject to UK inheritance tax, even if the Shareholder is neither domiciled nor deemed to be domiciled in the United Kingdom. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift. Special rules apply to gifts where the donor reserves or retains some benefit and these rules could give rise to a liability to UK inheritance tax on the death of the donor.

1.4 Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)

No stamp duty or SDRT will be payable by Shareholders on the allotment, issue or registration of Shares.

Any subsequent conveyance or transfer on sale of Shares will usually be subject to stamp duty, at the rate of 0.5 per cent. (rounded up to the nearest multiple of £5) of the amount or value of the consideration paid. Stamp duty is normally paid by the purchaser. There is an exemption where the consideration for a transfer is £1,000 or less and that transfer does not form part of a larger transaction or a series of

transactions where the combined consideration exceeds £1,000 and this is certified on the instrument of transfer. A charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration paid will also arise in relation to an unconditional agreement to transfer Shares. SDRT is also normally a liability of the purchaser. However, if within six years of the date of the agreement (or, if the agreement was conditional, the date on which the agreement became unconditional) an instrument of transfer is executed pursuant to the agreement and is duly stamped (unless it is exempt), the stamping of the transfer will normally cancel the SDRT liability and any SDRT already paid should be refunded.

A transfer of Shares effected on a paperless basis through CREST will generally be subject to SDRT (rather than stamp duty) at the rate of 0.5 per cent. of the amount or value of the consideration paid. Euroclear UK & Ireland Limited (Euroclear) will ordinarily collect SDRT on relevant transactions settled through CREST and will account for the SDRT to HM Revenue and Customs.

There will be no stamp duty or SDRT on a transfer of Shares into or out of CREST where such a transfer is made for no consideration.

UK domestic law provides that where Shares are issued or transferred to issuers of depositary receipts or providers of clearance services (or their nominees or agents) stamp duty or SDRT may be payable, broadly, at the higher rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, 1.5 per cent. of the value of the Shares (rounded up to the nearest multiple of £5 in the case of stamp duty). Following a decision of the European Court of Justice (in *HSBC Holdings plc and Vidacos Nominees Ltd v HMRC* (Case C-569/07)) and the First tier Tribunal in *HSBC Holdings plc and the Bank of New York Mellon Corporation v HMRC* ([2012] UK FTT 163) HM Revenue and Customs has confirmed that it will not seek to apply the 1.5 per cent. SDRT charge where new shares are issued into an EU or non EU depositary receipt system or clearance system.

The sale of the Existing Ordinary Shares by the Selling Shareholders will give rise to a liability to stamp duty and/or SDRT as explained above. Pursuant to the terms of the Underwriting Agreement certain Selling Shareholders have agreed to meet the liability to stamp duty and/or SDRT on behalf of the original purchasers of Existing Ordinary Shares which will arise on such initial sale at no more than the rate of 0.5 per cent. of the Offer Price.

Special rules apply to agreements made by market intermediaries and to certain sale and repurchase and stock borrowing arrangements. Charities are exempt from stamp duty and SDRT on the acquisition of shares.

2. CERTAIN US FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain US federal income tax consequences of the acquisition, ownership and disposition of Offer Shares by a US Holder (as defined below). This summary deals only with initial purchasers of Offer Shares that are US Holders and that will hold the Offer Shares as capital assets. The discussion does not cover all aspects of US federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Offer Shares by particular investors, and does not address state, local, foreign or other tax laws. This summary also does not address tax considerations applicable to investors that own (directly or indirectly) 10 per cent. or more of the voting stock of the Company, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the US federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers or traders in securities or currencies, investors that will hold the Offer Shares as part of straddles, hedging transactions, conversion transactions or integrated financial transactions for US federal income tax purposes or investors whose functional currency is not the US dollar).

As used herein, the term “**US Holder**” means a beneficial owner of Offer Shares that is, for US federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for US federal income tax purposes.

The US federal income tax treatment of a partner in an entity treated as a partnership for US federal income tax purposes that holds Offer Shares will depend on the status of the partner and the activities of

the partnership. Prospective purchasers that are entities treated as partnerships for US federal income tax purposes should consult their tax advisers concerning the US federal income tax consequences to their partners of the acquisition, ownership and disposition of Offer Shares by the partnership.

The summary assumes that the Company does not meet the criteria to be treated as a passive foreign investment company (a “**PFIC**”) for US federal income tax purposes, which the Company believes to be the case. The Company’s possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were to be a PFIC in any year, materially adverse consequences could result for US Holders.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the income tax treaty between the United States and the United Kingdom (the “**Treaty**”), all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF US FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE OFFER SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

2.1 Dividends

General. Distributions paid by the Company out of current or accumulated earnings and profits (as determined for US federal income tax purposes) will generally be taxable to a US Holder as foreign source dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the US Holder’s basis in the Offer Shares and thereafter as capital gain. However, the Company does not maintain calculations of its earnings and profits in accordance with US federal income tax accounting principles. US Holders should therefore assume that any distribution by the Company with respect to Offer Shares will constitute ordinary dividend income. US Holders should consult their own tax advisers with respect to the appropriate US federal income tax treatment of any distribution received from the Company.

Dividends paid by the Company will generally be taxable to a non-corporate US Holder at the special reduced rate normally applicable to long-term capital gains, provided the Company qualifies for the benefits of the Treaty. A US Holder will be eligible for this reduced rate only if it has held the Offer Shares for more than 60 days during the 121-day period beginning 60 before the ex-dividend date. A US Holder will not be able to claim the reduced rate on dividends received from the Company if the Company is treated as a PFIC in the taxable year in which the dividends are received or in the preceding taxable year. See “*Passive Foreign Investment Company Considerations*” below.

Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to dividends on the Offer Shares.

Foreign Currency Dividends. Dividends paid in pounds sterling will be included in income in a US dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the US Holder, regardless of whether the pounds sterling are converted into US dollars at that time. If dividends received in pounds sterling are converted into US dollars on the day they are received, the US Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income.

2.2 Sale or other Disposition

Upon a sale or other disposition of Offer Shares, a US Holder generally will recognise US source capital gain or loss for US federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the US Holder’s adjusted tax basis in the Offer Shares. This capital gain or loss will be long-term capital gain or loss if the US Holder’s holding period in the Offer Shares exceeds one year. However, regardless of a US Holder’s actual holding period, any loss may be long-term capital loss to the extent the US Holder receives a dividend that qualifies for the reduced rate described above under “*Dividends—General*”, and exceeds 10 per cent. of the US Holder’s basis in its Offer Shares.

A US Holder's tax basis in an Offer Share will generally be its US dollar cost. The US dollar cost of an Offer Share purchased with foreign currency will generally be the US dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of Offer Shares traded on an established securities market, within the meaning of the applicable Treasury Regulations, that are purchased by a cash basis US Holder (or an accrual basis US Holder that so elects). Such an election by an accrual basis US Holder must be applied consistently from year to year and cannot be revoked without the consent of the US Internal Revenue Service (the "IRS"). The amount realised on a sale or other disposition of Offer Shares for an amount in foreign currency will be the US dollar value of this amount on the date of sale or disposition. On the settlement date, the US Holder will generally recognise US source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the US dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, in the case of Offer Shares traded on an established securities market that are sold by a cash basis US Holder (or an accrual basis US Holder that so elects), the amount realised will be based on the exchange rate in effect on the settlement date for the sale, and no exchange gain or loss will be recognised at that time.

2.3 Disposition of Foreign Currency

Foreign currency received on the sale or other disposition of an Offer Share will have a tax basis equal to its US dollar value on the settlement date. Foreign currency that is purchased will generally have a tax basis equal to the US dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Offer Shares or upon exchange for US dollars) will generally be US source ordinary income or loss.

2.4 Passive Foreign Investment Company Considerations

The Company does not believe that it should be treated as a PFIC for US federal income tax purposes but the Company's possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were to be treated as a PFIC, US Holders of Offer Shares would be required (i) to pay a tax on certain distributions and gains on sale as calculated under special rules specific to PFICs and (ii) to pay tax on any gain from the sale of Offer Shares at ordinary income (rather than capital gains) rates in addition to paying the tax due as calculated under the special rules for PFICs. Additionally, dividends paid by the Company would not be eligible for the special reduced rate of tax described above under "*Dividends—General*". Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime.

2.5 Backup Withholding and Information Reporting

Payments of dividends and other proceeds with respect to Offer Shares, by a US paying agent or other US intermediary will be reported to the IRS and to the US Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its US federal income tax returns. Certain US Holders are not subject to backup withholding. US Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

2.6 Foreign Financial Asset Reporting

US Holders are subject to reporting requirements on the holding of certain foreign financial assets, including equity of foreign entities, if the aggregate value of all of these assets exceeds \$50,000 at the end of the taxable year or \$75,000 at any time during the taxable year. The thresholds are higher for individuals living outside of the United States and married couples filing jointly. The Offer Shares are expected to constitute foreign financial assets subject to these requirements unless the Offer Shares are held in an account at a financial institution (in which case the account may be reportable if maintained by a foreign financial institution). US Holders should consult their tax advisors regarding the application of this legislation.

2.7 Medicare Tax

US Holders who are individuals, estates or trusts with modified adjusted gross income that exceeds certain thresholds (\$250,000 for individuals filing jointly or filing as a surviving spouse, \$125,000 for married

taxpayers filing separately and \$200,000 for all other taxpayers) will be subject to a Medicare tax of 3.8 per cent. on their investment income, net of deductions properly allocable to such income, above such thresholds. This tax will be in addition to any US federal income tax imposed on US Holders with respect to amounts received that constitute investment income for this purpose. US Holders should consult their tax advisers regarding the application of this tax.

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT (A) ANY DISCUSSION OF US FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE COMPANY IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE COMPANY OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

PART XV

ADDITIONAL INFORMATION

1. RESPONSIBILITY

The Company and the Directors, whose names appear in paragraph 1 of Part VII (*Directors, Senior Managers and Corporate Governance*), accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. INCORPORATION AND REGISTERED OFFICE

The Company was incorporated and registered in England and Wales on 2 August 2005 as a private company limited by shares with the name DRL Holdings Limited and the registered number 05525751.

On 17 February 2014, pursuant to special written resolutions passed by the members of the Company, the Company was re-registered as a public limited company, changed its name to “AO World plc” and adopted the Interim Articles in substitution for the Old Articles.

On 25 February 2014, pursuant to a special resolution passed by the members of the Company, the Company resolved to, subject to, with effect from and conditional upon Admission, adopt the New Articles in substitution for the Interim Articles.

The principal legislation under which the Company operates and under which the Ordinary Shares will be issued is the Companies Act 2006 and the regulations made thereunder.

The Company is domiciled in the United Kingdom with its registered office and principal place of business at Unit 5A, the Parklands, Lostock, Bolton, BL6 4SD. The telephone number of the Company’s registered office is +44(0)1204 672400.

3. ORGANISATIONAL STRUCTURE

The Company is the ultimate holding company of the Group and DRL Limited and Expert Logistics Limited, the operating companies within the Group, are wholly-owned subsidiaries of the Company.

The Company’s principal subsidiaries and associated undertakings (each of which is considered by the Company to be likely to have a significant effect on the assessment of the assets and liabilities, the financial position or the profits and losses of the Group) are as follows:

<u>Name of subsidiary undertaking</u>	<u>Country of incorporation</u>	<u>Proportion of voting rights held</u>	<u>Nature of business</u>
DRL Limited	United Kingdom	100%	Online retail sale of electrical household appliances in specialised stores
Expert Logistics Limited	United Kingdom	100%	Freight transport by road, operation of warehousing and storage facilities for land transport activities and other support service activities

4. SHARE CAPITAL

4.1 Issued share capital

The issued fully paid up share capital of the Company (assuming the capital re-organisation described in paragraph 4.2 of this Part XV (*Additional Information*) has taken place and having regard to the number of New Ordinary Shares to be issued in connection with the Offer) as at the date of Admission is expected to be:

Issued and fully paid

<u>Class</u>	<u>Number</u>	<u>Nominal value per share</u> (£)
Ordinary Shares	421,052,631	0.0025

4.2 Changes in share capital prior to Admission

On incorporation the authorised share capital of the Company was £1,000 divided into 1,000 ordinary shares of £1 each. A single ordinary share was issued to the subscriber to the memorandum of association of the Company (the “**Memorandum of Association**”). On 2 August 2005 the subscriber’s ordinary share was transferred to a nominee company.

Since incorporation there have been the following changes to the Company’s authorised and issued share capital:

(A) By special resolution passed by the sole member of the Company on 20 March 2007:

- (1) the single issued ordinary share of £1 held by a nominee company and the remaining 999 authorised and unissued ordinary shares of £1 each in the capital of the Company were sub-divided into 100 ordinary shares of £0.01 each;
- (2) each of the 100 authorised and issued ordinary shares of £0.01 each and each of the 99,900 authorised and unissued ordinary shares of £0.01 each in the capital of the Company were re-designated as “A” Ordinary Shares;
- (3) the authorised share capital of the Company was increased from £1,000 to £2,274,946.83 by the creation of:
 - (a) 177,936 “A” Ordinary Shares of £0.01 each;
 - (b) 307,443 “B” Ordinary Shares of £0.01 each;
 - (c) 323,782 “C” Ordinary Shares of £0.01 each;
 - (d) 359,211 “D” Ordinary Shares of £0.01 each;
 - (e) 386,467 “E” Ordinary Shares of £0.01 each;
 - (f) 1,339,844 “F” Ordinary Shares of £0.01 each; and
 - (g) 2,245,000 redeemable preference shares of £1.00 each;
- (4) the rights in respect of the “A” to “F” ordinary shares and the redeemable preference shares were set out in the Old Articles adopted by special resolution on 20 March 2007.

(B) By special resolution passed by the members of the Company on 29 July 2008:

- (1) the authorised share capital of the Company was increased from £2,274,946.83 to £2,276,021.27 by the creation of:
 - (a) 3,105 “B” Ordinary Shares of £0.01 each;
 - (b) 6,608 “C” Ordinary Shares of £0.01 each;
 - (c) 11,110 “D” Ordinary Shares of £0.01 each;
 - (d) 16,103 “E” Ordinary Shares of £0.01 each; and
 - (e) 70,518 “F” Ordinary Shares of £0.01 each.

(C) Pursuant to the authority granted by a special resolution, the Company entered into an off-market purchase agreement on 3 June 2011 with a shareholder for the purchase of his entire shareholding in the Company, which reduced the authorised share capital of the Company by an aggregate amount of £450.00.

(D) By special resolution passed by the members of the Company, on 26 July 2012:

- (1) the authorised share capital of the Company was increased from £2,275,571.27 to £2,275,771.27 by the creation of:
 - (a) 10,000 “G” Ordinary Shares of £0.01 each; and
 - (b) 10,000 “H” Ordinary Shares of £0.01 each.

(E) Between 1 April 2010 and 31 May 2013, the redemption of the redeemable preference shares was completed by the Company, the cumulative effect of which reduced the authorised share capital of the Company from £2,275,771.27 to £30,771.27 as at 31 May 2013.

(F) Pursuant to the authorities granted by written resolutions, passed as special resolutions in the case of (1) and (3) and as an ordinary resolution in the case of (2), by the members of the Company, and by written class consents obtained from the members of each class of shareholders of the Company, on 14 February 2014:

- (1) the authorised share capital of the Company was removed;
- (2) all previous issues of shares by the Company were ratified and approved; and
- (3) the issued share capital of the Company was increased from £30,771.24 to £71,900.33 by the creation and issue of the following numbers of shares in the respective classes on a pro rata basis:
 - (a) 446,567 “A” Ordinary Shares of £0.01 each;
 - (b) 413,955 “B” Ordinary Shares of £0.01 each;
 - (c) 394,113 “C” Ordinary Shares of £0.01 each;
 - (d) 354,182 “D” Ordinary Shares of £0.01 each; and
 - (e) 2,504,092 “F” Ordinary Shares of £0.01 each.

According to the terms of such resolution:

- i. fractional entitlements were rounded down and a number of shares equal to the aggregate fractional entitlements of each class were issued to John Roberts;
- ii. pre-emption rights did not apply to such allotment; and
- iii. such shares were issued at par and paid up by the capitalisation of an amount equal to the par value of such shares from the Company’s distributable reserves.

(G) Pursuant to the authorities granted by shareholder resolutions and/or class consents (where applicable) passed at meetings on 25 February 2014, with the resolutions passed as special resolutions (in the cases of (2), (3) and (7)) and as ordinary resolutions (in the cases of (5) and (6)) by the members of the Company, and by class consents (in the cases of (1) and (2)) obtained from the members of each class of shareholders of the Company:

- (1) the share capital of the Company will be increased from £71,900.33 to £817,384.09 by the creation and issue of the following numbers of shares in the respective classes on a pro rata basis:
 - (a) 44,731,026 “G” Ordinary Shares of £0.01 each; and
 - (b) 29,817,350 “H” Ordinary Shares of £0.01 each;

provided that:

- i. fractional entitlements will be rounded down and a number of shares equal to the aggregate fractional entitlements of each class will be issued to John Roberts;
- ii. pre-emption rights shall not apply to such allotment;
- iii. such shares shall be issued at par and paid up by the capitalisation of an amount equal to the par value of such shares from the Company’s distributable reserves, and

this authority shall expire upon 30 June 2014 and is exercisable only while such classes of shares exist within the Company’s capital structure

- (2) the “A”, “B”, “C”, “D”, “E”, “F”, “G” and “H” classes of shares will be reclassified into a single class of Ordinary Shares;
- (3) a bonus issue of Ordinary Shares to increase the Company’s issued share capital to £1 million, such shares to be issued pro rata to shareholders’ holdings of Ordinary Shares;
- (4) the subdivision of the Ordinary Shares was approved so that each Ordinary Share of £0.01 each is sub-divided into four Ordinary Shares of £0.0025 each;
- (5) the issue and allotment of the New Ordinary Shares as part of, and pursuant to the terms of, the Offer was authorised;
- (6) with effect from and conditional upon Admission, the Directors are generally and unconditionally authorised, in accordance with section 551 of the Companies Act, to exercise all the powers of the

Company to allot Ordinary Shares in the Company and to grant rights for or to convert securities into Ordinary Shares in the Company:

- (a) up to a maximum aggregate nominal value of £350,877.19, equal to one-third of the allotted share capital of the Company; and
- (b) up to a maximum aggregate nominal value of £701,754.39, equal to two-thirds of the issued share capital of the Company, where an offer is made in connection with a fully pre-emptive rights issue;

for a period expiring (unless previously revoked or varied by the Company in a general meeting) at the end of the first annual general meeting of the Company or, if earlier, 30 September 2015, save that, in any such case, the Company shall be entitled to make offers or agreements before such expiry which would or might require shares in the Company to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry and the Directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such an offer or agreement as if the authority conferred by the resolution granting such authority had not expired; and

- (7) with effect from and conditional upon Admission, the Directors are empowered, pursuant to section 570 of the Companies Act, to allot equity securities (as defined in section 560 of the Companies Act) for cash pursuant to the authority conferred by the resolution described in paragraph (6) above as if section 561(1) of the Companies Act did not apply to any such allotment, provided that such power shall be limited to:

- (a) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of holders of Ordinary Shares on the register of members at such record date as the Directors may determine where the equity securities respectively attributable to the interests of the ordinary shareholders are in proportion (as nearly as may be practicable) to their respective holdings of such Ordinary Shares on any such record date, but subject in each case to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or any other matter; and
- (b) otherwise than pursuant to sub-paragraph (a) above, up to an aggregate nominal amount of £52,631.58, equal to five per cent. of the issued share capital of the Company,

for a period expiring upon the expiry of the general authority described in paragraph (6) above, save that the Company shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the Directors shall be entitled to allot equity securities pursuant to any such offer or agreements as if the power conferred by the resolution granting such power had not expired.

There are no acquisition rights or obligations in relation to the issue of Ordinary Shares in the capital of the Company or an undertaking to increase the capital of the Company.

There are no convertible securities, exchangeable securities or securities with warrants in the Company.

Save as disclosed in this document, during the three years immediately preceding the date of this document, there has been no issue of share capital of the Company fully or partly paid either for cash or other consideration and no such issues are proposed and no share capital of any member of the Group is under option or agreed, conditionally or unconditionally, to be put under option.

Rights attaching to the Ordinary Shares are summarised in paragraph 5.3 of this Part XV (*Additional Information*) below.

No commissions, discounts, brokerages or other special terms have been granted in respect of the issue of any share capital of the Company.

The Ordinary Shares will, when issued, be in registered form and, subject to the provisions of the CREST Regulations, the Directors may permit the holding of Ordinary Shares in uncertificated form and title to the Ordinary Shares may be transferred by means of a relevant system (as defined in the CREST Regulations). Where the Ordinary Shares are held in certificated form, share certificates will be sent to the

registered share owners by first class post. No temporary documents of title have been or will be issued in respect of the Company Ordinary Shares.

5. MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum of Association and New Articles are available for inspection at the Company's registered office as described in paragraph 25 of this Part XV (*Additional Information*) of this Prospectus.

The New Articles, which were adopted pursuant to a special resolution dated 25 February 2014 and shall be effective upon Admission, contain (among others) provisions to the following effect:

5.1 Unrestricted objects

The New Articles provide that the Company's objects are unrestricted, pursuant to section 31 of the Companies Act.

5.2 Share capital

5.2.1 Liability of members

The liability of the members is limited to the amount, if any, unpaid on the Ordinary Shares held by them. (*Article 3*)

5.2.2 Further issues and rights attaching to Ordinary Shares

Without prejudice to any rights attached to any existing Ordinary Shares, any Ordinary Share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, if the Company has not so determined, as the directors may determine. (*Article 4*)

5.2.3 Changes to the share capital

The Company may by ordinary resolution:

- consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- sub-divide its shares, or any of them, into shares of smaller amount than its existing shares; and

determine that, as between the shares resulting from such a sub-division, any of the shares may have any preference or advantage as compared with the others. (*Article 40*)

5.2.4 Redemption of shares

Any share may be issued which is or is to be liable to be redeemed at the option of the Company or the holder, and the directors may determine the terms, conditions and manner of redemption of any such share. (*Article 5*)

5.3 Rights attaching to the Ordinary Shares of the Company

5.3.1 Dividends

The Company may by ordinary resolution declare dividends in accordance with the respective rights of the members but no dividends shall exceed the amount recommended by the directors. The directors may pay interim dividends or dividends payable at a fixed rate, if it appears to them that they are justified by the profits of the Company available for distribution. If the directors act in good faith they shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights. (*Articles 110, 111*)

Except as otherwise provided by the Articles of Association or the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. If any share is issued on terms that it ranks for dividend as from a particular date, it shall rank for dividend accordingly. In any other case, dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion(s) of the period in respect of which the dividend is paid. (*Article 112*)

A general meeting declaring a dividend may, upon the recommendation of the directors, direct that it shall be satisfied wholly or partly by the distribution of specific assets and, where any difficulty arises in regard to the distribution, the directors may settle the same as they think fit.

The directors may, with the authority of an ordinary resolution of the Company, offer any holders of Ordinary Shares the right to elect to receive Ordinary Shares, credited as fully paid, instead of cash in respect of the whole (or some part, to be determined by the directors) of any dividend specified by the ordinary resolution. (*Articles 113, 118*)

Notwithstanding any other provision of the Articles of Association, but without prejudice to the rights attached to any shares, the Company or the directors may fix a date as the record date by reference to which a dividend will be declared or paid or a distribution, allotment or issue made, and that date may be before, on or after the date on which the dividend, distribution, allotment or issue is declared, paid or made. (*Article 120*)

No dividend or other money payable in respect of a share shall bear interest against the Company, unless otherwise provided by the rights attached to the share. (*Article 116*)

The Company intends to pay dividends solely by means of electronic transfer to an account nominated by the holder of the Ordinary Shares.

The Company may cease to send any payment in respect of any dividend payable in respect of a share if:

- in respect of at least two consecutive dividends payable on that share the cheque or warrant has been returned undelivered or remains uncashed (or another method of payment has failed); or
- in respect of one dividend payable on that share the cheque or warrant has been returned undelivered or remains uncashed, or another method of payment has failed, and reasonable enquiries have failed to establish any new address or account of the recipient; or
- a recipient does not specify an address, or does not specify an account of a type prescribed by the directors, or other details necessary in order to make a payment of a dividend by the means by which the directors have decided in accordance with the Articles of Association that a payment is to be made, or by which the recipient has elected to receive payment, and such address or details are necessary in order for the Company to make the relevant payment in accordance with such decision or election,

but, subject to the Articles of Association, the Company may recommence sending cheques or warrants or using another method of payment for dividends payable on that share if the person(s) entitled so request and have supplied in writing a new address or account to be used for that purpose. (*Article 115*)

Any dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the directors so resolve, be forfeited and cease to remain owing by the Company. (*Article 117*)

5.3.2 *Voting Rights*

Subject to any rights or restrictions attached to any Ordinary Shares:

- on a show of hands:
 - every member who is present in person has one vote;
 - every proxy present who has been duly appointed by one or more members entitled to vote on the resolution has one vote, except that if the proxy has been duly appointed by more than one member entitled to vote and is instructed by one or more of those members to vote for the resolution and by one or more others to vote against it, or is instructed by one or more of those members to vote in one way and is given discretion as to how to vote by one or more others (and wishes to use that discretion to vote in the other way) he has one vote for and one vote against the resolution; and
 - every corporate representative present who has been duly authorised by a corporation has the same voting rights as the corporation would be entitled to;
- on a poll every member present in person or by duly appointed proxy or corporate representative has one vote for every share of which he is the holder or in respect of which his appointment as proxy or corporate representative has been made; and

- a member, proxy or corporate representative entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses the same way. (*Article 62*)

For the purposes of determining which persons are entitled to attend or vote at a general meeting and how many votes such persons may cast, the Company may specify in the notice convening the meeting a time, not more than 48 hours before the time fixed for the meeting (not including any part of a day that is not a working day), by which a person must be entered on the register in order to have the right to attend or vote at the meeting. (*Article 63*)

In the case of joint holders, the vote of the senior who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the register of members. (*Article 64*)

No member shall have the right to vote at any general meeting or at any separate meeting of the holders of any class of shares, 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. (*Article 66*)

5.3.3 *Transfer of the shares*

A share in certificated form may be transferred by an instrument of transfer which may be in any usual form or in any other form approved by the directors, executed by or on behalf of the transferor and, where the share is not fully paid, by or on behalf of the transferee. A share in uncertificated form may be transferred by means of the relevant system concerned. The transfer may not be in favour of more than four transferees. (*Articles 28, 29*)

In their absolute discretion and without giving any reasons the directors may refuse to register the transfer of a share in certificated form which is not fully paid provided that if the share is listed on the Official List such refusal does not prevent dealings in the shares from taking place on an open and proper basis. The directors may also refuse to register a transfer of a share in certificated form (whether fully paid or not) unless the instrument of transfer:

- is lodged, duly stamped, at the registered office of the Company or such other place as the directors may appoint and 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;
- is in respect of only one class of share; and
- is not in favour of more than four transferees.

The directors may refuse to register a transfer of a share 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 to register the transfer under the Uncertificated Securities Regulations. (*Article 30*)

If the directors refuse to register a transfer of a share, they shall send the transferee notice of that refusal with reasons for the refusal within two months after the date on which the transfer was lodged with the Company (in the case of a transfer of a share in certificated form) or the date on which the Operator-instruction was received by the Company (in the case of a transfer of a share in uncertificated form which will be held thereafter in certificated form). The directors shall send such further information about the reasons for the refusal to the transferee as the transferee may reasonably request. (*Article 31*)

No fee shall be charged for the registration of any instrument of transfer of other document or instruction relating to or affecting the title to any share. (*Article 32*)

5.3.4 *Distribution of assets on a winding-up*

If the Company is wound up, the liquidator may, with the sanction of a special resolution and any other sanction required by law, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he may with the like sanction determine, but no member shall be compelled to accept any assets upon which there is a liability. (*Article 139*)

5.3.5 Restrictions on rights: failure to respond to a section 793 notice

If a member, or any other person appearing to be interested in shares held by that member, fails to provide the information requested in a notice given to him/her under section 793 of the Companies Act 2006 by the Company in relation to his/her interest in shares (the “default shares”) within 14 days from the date of giving the notice, sanctions shall apply, unless the directors determine otherwise. The sanctions available are the suspension of the right to attend or vote (whether in person or by representative or proxy) at any general meeting or at any separate meeting of the holders of any class or on any poll; and where the default shares represent at least 0.25 per cent. of their class (excluding treasury shares) also the withholding of any dividend payable in respect of those shares and the restriction of the transfer of any shares (subject to certain exceptions). (*Article 38*)

5.3.6 Untraced members

The Company shall be entitled to sell at the best price reasonably obtainable any share held by a member, or any share to which a person is entitled by transmission, if

- for a period of 12 years, no cheque or warrant or other method of payment for amounts payable in respect of the share sent and payable in a manner authorised by the Articles of Association has been cashed or effected and no communication has been received by the Company from the member or person concerned;
- during that period the Company has paid at least three dividends (whether interim or final) and no such dividend has been claimed by the member or person concerned;
- the Company has, after the expiration of that period, by advertisement in a national newspaper published in the United Kingdom and in a newspaper circulating in the area of the registered address or last known address of the member or person concerned, given notice of its intention to sell such share, and the advertisements, if not published on the same day, shall have been published within 30 days of each other; and
- the Company has not during the further period of three months following the date of publication of the advertisements (or, if published on different dates, the later or latest of them) and prior to the sale of the share received any communication from the member or person concerned.

The Company shall be indebted to the member or other person entitled to the share for an amount equal to the net proceeds of the sale, but no trust or duty to account shall arise and no interest shall be payable in respect of the proceeds of sale. (*Article 39*)

If on three consecutive occasions notices, documents or information sent or supplied to a member have been returned undelivered, the member shall not be entitled to receive any subsequent notice, document or information until he has supplied to the Company (or its agent) a new registered address, or a postal address within the United Kingdom, or shall have informed the Company of an electronic address. (*Article 129*)

5.3.7 Variation of Rights

If the capital of the Company is divided into different classes of shares, the rights attached to any class may be varied, either while the Company is a going concern or during or in contemplation of a winding up in such manner (if any) as may be provided by those rights or if there are no such provisions either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class (not including any treasury shares), or with the sanction of a special resolution passed at a separate meeting of the holders such shares.

To every such separate meeting the provisions of the Articles of Association relating to general meetings shall apply, except that the quorum for any such meeting shall be two persons together holding or representing by proxy at least one-third in nominal value of the issued shares of the class in question (excluding treasury shares). At an adjourned meeting the quorum shall be, one person holding shares of the class in question (excluding treasury shares) or his proxy. (*Article 10*)

Unless otherwise expressly provided by the rights attached to any class of shares, those rights shall be deemed not to be varied by the purchase by the Company of any of its own shares or the holding of such shares in treasury. (*Article 11*)

5.4 Directors of the Company

5.4.1 Appointment

Unless the Company determines otherwise by ordinary resolution, the number of directors (other than alternate directors) shall not be subject to any maximum but shall not be less than two. (*Article 76*)

Subject to the provisions of the Articles of Association, the Company may by ordinary resolution appoint a person who is willing to act as a director, and is permitted by law to do so, to be a director, either to fill a vacancy or as an additional director. (*Article 77*)

The directors may appoint a person who is willing to act as a director, and is permitted by law to do so, to be a director, either to fill a vacancy or as an additional director, provided that the appointment does not cause the number of directors to exceed any number fixed as the maximum number of directors. A director so appointed shall retire at the next AGM and shall then be eligible for reappointment. (*Article 80*)

Other than a director retiring at the meeting, no person shall be appointed or reappointed a director at any general meeting unless he is recommended by the directors or notice of the intention to propose such person for appointment or reappointment executed by a member qualified to vote on the appointment or reappointment is given to the company not less than seven nor more than 35 days before the date of appointed for the meeting. (*Article 78*)

5.4.2 Retirement

At each AGM, at least all directors who held office at the time of the two preceding AGMs and who did not retire at them will retire. If the number of directors retiring is less than one-third of the relevant directors, an additional number of directors will retire such that the total number of directors retiring will be equal to one third of the relevant directors. Any director who is to retire at or prior to the AGM for any reason other than retirement under Article 81(1) shall not be taken into account in determining the number or identity of the directors to retire under Article 81(1) at that meeting. (*Article 81*)

If the Company, at the meeting at which a director retires under any provision of the Articles of Association, does not fill the vacancy the retiring director shall, if willing to act, be deemed to have been reappointed unless at the meeting it is resolved not to fill the vacancy or a resolution for the reappointment of the director is put to the meeting and lost. If a director retiring at an AGM is not reappointed or deemed to have been reappointed, he shall retain office until the meeting elects someone in his place or, if it does not do so, until the close of the meeting. (*Article 82, 83*)

5.4.3 Removal

In addition to any power of removal under the Acts, the Company may remove a director before the expiration of his period of office by special resolution. (*Article 84*)

A person ceases to be a director as soon as:

- that person ceases to be a director by virtue of any provision of the Acts or is prohibited from being a director by law; or
- a bankruptcy order is made against that person; or
- a composition is made with that person's creditors generally in satisfaction of that person's debts; or
- notification is received from the Company from that person that he is resigning or retiring from his office as director, and such resignation or retirement has taken effect in accordance with its terms; or
- 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; or
- that person is absent without permission of the other directors from meetings of the directors for more than six consecutive months and the other directors resolve that he should cease to be a director; or
- a notice in writing is served upon him, signed by all the other directors stating that that person shall cease to be a director with immediate effect. (*Article 85*)

5.4.4 Powers of directors

The business of the Company shall be managed by the directors who, subject to the provisions of the Articles of Association and to any directions given by special resolution to take, or refrain from taking, specified action, may exercise all the powers of the Company. (*Article 92*)

The directors may appoint one or more of their number to the office of managing director 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. Any such appointment shall terminate if he ceases to be a director but without prejudice to any claim for damages for breach of the contract of service between the director and the Company. (*Article 99*)

Subject to the provisions of the Articles of Association, the directors may delegate any of the powers which are conferred on them under the Articles of Association: to such person or committee; by such means (including by power of attorney); to such an extent; in relation to such matters or territories; and on such terms and conditions, as they think fit. (*Article 95(1)*)

Any director (other than an alternate director) may appoint any other director, or any other person approved by resolution of the directors and willing to act and permitted by law to do so, to be an alternate director and may remove such an alternate director appointed from office. (*Article 86*)

An alternate director shall be entitled to receive notices of meetings of the directors, to attend and vote at any such meeting at which the director appointing him is not present and generally to perform all the functions of his appointer as director in his absence. (*Article 87*)

The Company may change its name by resolution of the directors. (*Article 138*)

5.4.5 Borrowing powers

The directors shall restrict the borrowings of the Company and exercise all powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure (insofar as they can) that the aggregate principal amount (including any premium payable on final repayment) outstanding of all money borrowed by the Group (excluding intra group borrowings other than as specifically provided by the Articles of Association) shall not at any time, save with the previous sanction of an ordinary resolution of the Company, exceed the greater of £500 million or an amount equal to three times the aggregate of:

- the amount paid up, or credited as paid up, on the share capital of the Company (excluding any share capital presented as debt); and
- the total of any credit balance on the distributable and undistributable reserves of the Group, but excluding amounts attributable to outside shareholders in subsidiary undertakings of the Company and deducting any debit balance on any reserve,

all as shown in the latest audited consolidated balance sheet of the Group, but adjusted as may be necessary in respect of any variation in the paid up share capital or share premium account or capital redemption reserve of the Company since the date of that balance sheet and further adjusted as the directors may reasonably consider to be appropriate to reflect any change since that date in the companies comprising the Group. (*Article 93*)

5.4.6 Provisions for employees on cessation or transfer of business

The directors may decide to make provision for the benefit of persons employed or formerly employed by the Company or any of its subsidiary undertakings (other than a director or former director or shadow director) in connection with the cessation or transfer to any person of the whole or part of the undertaking of the Company or that subsidiary undertaking. (*Article 94*)

5.4.7 Voting at board meetings

No business shall be transacted at any meeting of the directors unless a quorum is present and the quorum may be fixed by the directors. If the quorum is not fixed by the directors, the quorum shall be two. A director shall not be counted in the quorum present in relation to a matter or resolution on which he is not entitled to vote (or when his vote cannot be counted) but shall be counted in the quorum present in relation to all other matters or resolutions considered or voted on at the meeting. An alternate director, who is not himself a director shall if his appointer is not present, be counted in the quorum. An alternate

director who is himself a director shall only be counted once for the purpose of determining if a quorum is present. (*Article 106*)

Questions arising at a meeting shall be decided by a majority of votes. In case of an equality of votes, the chairman shall (unless he is not entitled to vote on the resolution in question) have a second or casting vote. (*Article 102*)

A resolution in writing agreed to by all the directors entitled to receive notice of a meeting of the directors and who would be entitled to vote (and whose vote would have been counted) on a resolution at a meeting of the directors shall (if that number is sufficient to constitute a quorum) be as valid and effectual as if it had been passed at a meeting of the directors, duly convened and held. (*Article 105*)

5.4.8 *Restrictions on voting*

Subject to the provisions of the Articles of Association, a director shall not vote at a meeting of the directors on any resolution concerning a matter in which he has, directly or indirectly, a material interest (other than an interest in shares, debentures or other securities of, or otherwise in or through, the Company) unless his interests arises only because the case falls within one or more of the following sub-paragraphs:

- the resolution relates to the giving to him of a guarantee, security, or indemnity in respect of money lent to, or an obligation incurred by him for the benefit of, the Company or any of its subsidiary undertakings;
- the resolution relates to the giving to a third party of a guarantee, security or indemnity in respect of an obligation of the Company or any of its subsidiary undertakings for which the director has assumed responsibility in whole or part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
- the resolution relates to the giving to him of any other indemnity which is on substantially the same terms as indemnities given or to be given to all of the other directors or to the funding by the Company of his expenditure on defending proceedings or the doing by the Company of anything to enable him to avoid incurring such expenditure where all other directors have been given or are to be given substantially the same arrangements;
- the resolution relates to the purchase or maintenance for any director or directors of insurance against any liability;
- his interest arises by virtue of his being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of any shares in or debentures or other securities of the Company for subscription, purchase or exchange;
- the resolution relates to an arrangement for the benefit of any of the employees, directors, former employees or former directors of the Company or any of its subsidiary undertakings, or the members of their families or any person who is or was dependent on such persons, including but without being limited to a retirement benefits scheme and an employees' share scheme, which does not accord to any director any privilege or advantage not generally accorded to the employees or former employees to whom the arrangement relates; and
- the resolution relates to a transaction or arrangement with any other company in which he is interested, directly or indirectly (whether as director or shareholder or otherwise), provided that he is not the holder of or beneficially interested in 1 per cent. or more of any class of the equity share capital of that company and not entitled to exercise 1 per cent. or more of the voting rights available to members of the relevant company. (*Article 107*)

The Company may by ordinary resolution suspend or relax to any extent, in respect of any particular matter, any provision of the Articles of Association prohibiting a director from voting at a meeting of the directors or of a committee of the directors. (*Article 108*)

5.4.9 Directors' interests

Provided that he has disclosed to the directors the nature and extent of any material interest of his, a director notwithstanding his office:

- may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested; and
- may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate in which the Company is interested,

and (i) he shall not, by reason of his office, be accountable to the Company for any benefit which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate; (ii) he shall not infringe his duty to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company as a result of any such office or employment or any such transaction or arrangement or any interest in any such body corporate; (iii) he shall not be required to disclose to the Company, or use in performing his duties as a director of the Company, any confidential information relating to such office or employment if to make such a disclosure or use would result in a breach of a duty or obligation of confidence owed by him in relation to or in connection with such office or employment; (iv) he may absent himself from discussions, whether in meetings of the directors or otherwise, and exclude himself from information, which will or may relate to such office, employment, transaction, arrangement or interest; and (v) no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit. (*Article 100(1)*)

The directors may authorise, to the fullest extent permitted by law, any matter which would otherwise result in a director infringing his duty to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possible may conflict, with the interests of the Company and which may reasonably be regarded as likely to give rise to a conflict of interests. They may also authorise, to the fullest extent permitted by law, a director to accept to continue in any office, employment or position in addition to his office as a director of the Company, and may authorise the manner in which a conflict of interest arising out of such office, employment or position may be dealt with.

Such authorisation is only effective if any requirement as to quorum at the meeting at which the matter is considered is met without counting the director in question or any other interested director and the matter was agreed to without their voting (or would have been agreed to if they votes had not been counted). (*Article 101*)

5.4.10 Directors' remuneration and expenses

Until otherwise determined by the Company by ordinary resolution, there shall be paid to the directors who do not hold executive office (other than alternate directors) such fees for their services in the office of director as the directors may determine and, not exceeding in the aggregate an annual sum of £600,000 or such larger amount as the Company may by ordinary resolution decide, divided between the directors as they may determine, or, failing such determination, equally.

Any director who holds any other office in the Company (including for this purpose the office of chairman or vice chairman), or who serves on any committee of the directors, or who performs, or undertakes to perform, services which the directors consider go beyond the ordinary duties of a director may be paid such additional remuneration (whether by way of fixed sum, bonus, commission, participation in profits or otherwise) as the directors may determine. (*Article 96*)

The directors may also be paid all reasonable expenses properly incurred by them in connection with their attendance at meetings of the directors or of committees of the directors or general meetings or separate meetings of the holders of any class of shares and any reasonable expenses properly incurred by them otherwise in connection with the exercise of their powers and the discharge of their responsibilities in relation to the Company. (*Article 97*)

5.4.11 Directors' gratuities and benefits

The directors may provide benefits, whether by the payment of allowances, gratuities or pensions, or by insurance or death, sickness or disability benefits or otherwise, for any director or any former director of the Company or of any body corporate which is or has been a subsidiary undertaking of the Company or a predecessor in business of the Company or of any such subsidiary undertaking, and for any member of his

family (including a spouse or civil partner or a former spouse or former civil partner) or any person who is or was dependent on him and may (before as well as after he ceases to hold such office) contribute to any fund and pay premiums for the purchase or provision of any such benefit. (*Article 98*)

5.4.12 *Indemnity*

The Company may:

- indemnify to any extent any person who is or was a director, or a director of any associated company, directly or indirectly (including by funding any expenditure incurred or to be incurred by him) against any loss or liability, whether in connection with any proven or alleged negligence, default, breach of duty or breach of trust by him or otherwise, in relation to the Company or any associated company;
- indemnify to any extent any person who is or was a director of an associated company that is a trustee of an occupational pension scheme, directly or indirectly (including by funding any expenditure incurred or to be incurred by him) against any liability incurred by him in connection with the company's activities as trustee of an occupational pension scheme; and
- purchase and maintain insurance for any person who is or was a director, or a director of any associated company, against any loss or liability or any expenditure he may incur, whether in connection with any proven or alleged negligence, default, breach of duty or breach of trust by him or otherwise, in relation to the Company or any associated company.

The Articles of Association do not authorise any indemnity which would be prohibited or rendered void by any provision of the Acts or by any other provision of law. (*Article 139*)

5.5 **General Meetings**

5.5.1 *Appointment*

The directors may call general meetings. If there are not sufficient directors to form a quorum in order to call a general meeting, any director may call a general meeting. If there is no director, any member of the Company may call a general meeting. (*Article 41*)

An annual general meeting and all other general meetings of the Company shall be called by at least such minimum period of notice as is prescribed or permitted under the Acts. (*Article 42*)

The notice shall specify the place, the date and the time of meeting and the general nature of the business to be transacted, and in the case of an annual general meeting shall specify the meeting as such. Where the Company has given an electronic address in any notice of meeting, any document or information relating to proceedings at the meeting may be sent by electronic means to that address, subject to any conditions or limitations specified in the relevant notice of meeting. Subject to the provisions of the Articles of Association and to any rights or restrictions attached to any shares, notices shall be given to all members, to all persons entitled to a share in consequence of the death or bankruptcy of a member or otherwise by operation of law and to the directors and auditors of the Company. Any notice to be given to a member may be given by reference to the register of members as it stands at any time within the period of 21 days before the notice is given; and no change in the register after that time shall invalidate the giving of the notice. A member whose registered address is not within the United Kingdom shall not be entitled to receive any notice, document or information from the Company unless he gives the Company an address (not being an electronic address) within the United Kingdom at which notices, documents or information may be sent or supplied to him. In the case of a member registered on a branch register, any notice, document or other information can be posted or despatched in the United Kingdom or in the country where the branch register is kept. (*Articles 42, 124, 122*)

Where, by reason of any suspension or curtailment of postal services, the Company is unable effectively to give notice of a general meeting or meeting of the holders of any class of shares, the board may decide that the only persons to whom notice of the affected general meeting must be sent are: the directors; the Company's auditors; those members to whom notice to convene the general meeting can validly be sent by electronic means and those members to whom notification as to the availability of the notice of meeting on a website can validly be sent by electronic means. (*Article 125*)

No business shall be transacted at any meeting unless a quorum is present. Two persons entitled to vote upon the business to be transacted, each being a member or a proxy for a member or a duly authorised

representative of a corporation which is a member (including for this purpose two persons who are proxies or corporate representatives of the same member), shall be a quorum. (*Article 44*)

A member is entitled to appoint another person as his proxy to exercise all or any of his rights to attend and to speak and vote at a meeting of the Company. The appointment of a proxy shall be deemed also to confer authority to demand or join in demanding a poll. Delivery of an appointment of proxy shall not preclude a member from attending and voting at the meeting or at any adjournment of it. A proxy need not be a member. A member may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. An appointment of proxy shall be in writing in any usual form or in any other form which the directors may approve and shall be executed by or on behalf of the appointor which in the case of a corporation may be either under its common seal or under the hand of a duly authorised officer or other person duly authorised for that purpose. Subject to the provisions of the Acts, any corporation (other than the Company itself) which is a member of the Company may, by resolution of its directors or other governing body, authorise such person(s) to act as its representative(s) any meeting of the Company, or at any separate meeting of the holders of any class of shares. The Company may require such person(s) to produce a certified copy of the resolution before permitting him to exercise his powers. The directors may (and shall if and to the extent that the Company is required to do so by the Acts) allow an appointment of proxy to be sent or supplied in electronic form subject to any conditions or limitations as the directors may specify. (*Articles 68, 70, 71, 75*)

Directors may attend and speak at general meetings and at any separate meeting of the holders of any class of shares, whether or not they are members. (*Article 50*)

A resolution put to the vote of a general meeting must be decided on a show of hands unless a poll is validly demanded. A poll on a resolution may be demanded either before a vote on a show of hands on that resolution or immediately after the result of a show of hands on that resolution is declared. A poll on a resolution may be demanded by:

- the chairman of the meeting;
- a majority of the directors present at the meeting;
- not less than five members having the right to vote at the meeting;
- a member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting (excluding any voting rights attached to any shares in the Company held as treasury shares); or
- a member or members holding shares conferring a right to vote on the resolution on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right (excluding any shares in the Company conferring a right to vote at the meeting which are held as treasury shares). (*Article 56*)

The directors or the chairman of the meeting may direct that any person wishing to attend any general meeting should submit to and comply with such searches or other security arrangements as they or he consider appropriate in the circumstances. The directors or the chairman of the meeting may in their or his absolute discretion refuse entry to, or eject from, any general meeting any person who refuses to submit to a search or otherwise comply with such security arrangements. (*Article 48*)

The directors or chairman of the meeting may take such action, give such direction or put in place such arrangements as they or he consider appropriate to secure the safety of the people attending the meeting and to promote the orderly conduct of the business of the meeting. (*Article 49*)

The directors may make arrangements for simultaneous attendance and participation by electronic means allowing persons not present together at the same place to attend, speak and vote at the meeting (including the use of satellite meeting places). The arrangements for simultaneous attendance and participation at any place at which persons are participating, using electronic means may include arrangements for controlling or regulating the level of attendance at any particular venue provided that such arrangements shall operate so that all members and proxies wishing to attend the meeting are able to attend at one or other of the venues. (*Article 51*)

6. DIRECTORS' AND SENIOR MANAGERS' INTERESTS

6.1 Other Directorships

Save as set out below, none of the Directors or Senior Managers have been a member of any partnerships, or held any directorships of any other company (other than subsidiaries of the Company), at any time in the five years prior to the date of this document.

<u>Director</u>	<u>Current directorships and partnerships</u>	<u>Previous directorships and partnerships held in the previous five years</u>
Richard Rose	Agil Ltd Anpario plc Booker Group plc Crawshaw Butchers Ltd Crawshaw Group plc Crawshaw Holdings Ltd Electro Switch Ltd	4Children 4Children (Direct) Ltd 4Children (Trading) Ltd Helphire Group plc Move With Us Ltd Toumaz Inc
John Roberts	Crystalcraft Ltd Incentia Ltd	None
Steve Caunce	Crystalcraft Ltd	None
Charles (Bill) Holroyd	Crystalcraft Ltd Wasdale Ltd Warrington Sports Holdings Ltd TD4 Ltd Onside Youth Zones Save the Family	Coast (WA) Pty Ltd Surf Properties WA Pty Ltd Alderley Group plc
Christopher Hopkinson	Better Business Support Ltd Clifton Trade Bathrooms Ltd Hopkinson Consultants Ltd Incentia Ltd	Firmspirit Ltd Mark Two Distributors Ltd Mark Two Management Services Ltd Mark II EBT Trustees Ltd Yorkclub Ltd
Marisa Cassoni	Skipton Group Holdings Ltd Partnership Assurance Group plc GFI Group Inc Skipton Group	Canal & River Trust Jacob's Island (Providence Square Blocks A, B & C) Ltd John Lewis Partnership Pensions Trust John Lewis Partnership plc John Lewis plc John Lewis Properties plc Cavendish Trustees Ltd John Lewis Car Finance Ltd Springalls Wharf RTM Company Ltd Buy.com Ltd Herbert Parkinson Ltd Jonelle Jewellery Ltd Jonelle Ltd JSL Custodian Trustee Ltd Leckford Estate Ltd Nuffield Health Peter Jones Ltd The Odney Estate Ltd Providence Square ABC Block RTM Company Ltd Providence Square E Block RTM Company Ltd

<u>Director</u>	<u>Current directorships and partnerships</u>	<u>Previous directorships and partnerships held in the previous five years</u>
		Providence Square H Block RTM Company Ltd Providence Square I Block RTM Company Ltd Providence Square J Block RTM Company Ltd Providence Square K Block RTM Company Ltd Providence Tower RTM Company Ltd John Lewis PT Holdings Ltd Waitrose Ltd John Lewis Partnership Services Ltd John Lewis Delivery Ltd Waitrose Card Services Ltd John Lewis Card Services Ltd Hampreston Estates Ltd John Lewis Building Ltd John Lewis Transport Ltd Bainbridge & Co. Ltd Bonds (Norwich) Ltd Cavendish Textiles Ltd Cole Brothers Ltd JLP Victoria Ltd John Lewis Construction Ltd John Lewis Overseas Ltd Leckford Mushrooms Ltd Suburban & Provincial Contracts Ltd Suburban & Provincial Stores Ltd John Lewis Partnership Residential Clubs Ltd John Lewis Trading Ltd WSP Group Ltd
Rudolf Lamprecht	EWC East-West- Connect GmbH & Co. KG Duagon AG Fujitsu Technology Solutions (Holding) B.V.	BSH Bosch und Siemens Hausgeräte GmbH & Co. KG Nokia Siemens Network Osram Licht AG Safe ID Solutions AG Gigaset AG
Brian McBride	ASOS plc Computacentre plc Moor House BPRA Property Fund LLP Cumberland House BPRA Property Fund LLP Fenkle Street BPRA Property Fund LLP London Luton Hotel BPRA Property Fund LLP Cobalt Data Centre 2 LLP Waverton Property LLP	Amazon UK Ltd Celtic plc Monitise plc Archangel Top Hat plc

Senior Manager	Current directorships and partnerships	Previous directorships and partnerships held in the previous five years
David Ashwell	None	None
John Crowther	None	None
Mark Higgins	None	None
Andrew Kirkcaldy	None	None
Kevin Monk	None	None
David Wilkinson	None	None

Rudolf Lamprecht, one of AO's Non-executive Directors, was a member of the management board of Siemens AG from 1 October 2004 until the scheduled expiry of his executive employment contract on 31 December 2007. Siemens AG was investigated for allegations of bribery by Siemens AG employees that occurred during the period that Mr Lamprecht served as a member of the management board. In 2008, Siemens AG paid substantial fines and other penalties to US and German authorities in connection with these investigations. In 2009, Siemens AG proposed to accept monetary compensation in lieu of proceeding with civil claims against eleven former members of the management board, including Mr Lamprecht, in relation to the performance of their supervisory duties during the relevant period. The settlement payments proposed by Siemens AG to be paid by such former management board members totalled €24.5 million, with Mr Lamprecht's proposed settlement payment being €0.5 million. Mr Lamprecht agreed to the settlement proposal without any admission of liability or responsibility. In 2009, the public prosecution office in Munich, Germany also terminated its investigation of Mr Lamprecht and other former members of the management board of Siemens AG in relation to these matters. There have been no subsequent actions against Mr Lamprecht in relation to this matter.

6.2 Interests of Directors and Senior Managers in share capital

As at the Latest Practicable Date, insofar as is known to the Company, the interests (all of which are beneficial) of each Director and Senior Manager in the number of shares and the associated voting rights of the Company are set out in the following table:

Director ⁽¹⁾	Interests as at the Latest Practicable Date							
	"A" shares	"B" shares	"C" shares	"D" shares	"E" shares	"F" shares	"G" shares ⁽²⁾	"H" shares ⁽²⁾
Richard Rose	0	7,346	14,673	21,955	16,103	196,392	365	0
John Roberts	129,862	166,841	174,548	192,743	110,799	821,215	2,267	6,389
Steve Caunce	36,115	26,171	29,711	34,861	21,623	373,422	1,031	3,195
Charles (Bill) Holroyd . . .	160,834	143,526	134,706	119,881	60,663	730,761	1,959	0
Christopher Hopkinson . .	154,625	147,676	143,138	137,336	73,157	725,392	2,003	0
Marisa Cassoni ⁽³⁾	0	0	0	0	0	10,755	0	0
Rudolf Lamprecht ⁽³⁾	0	0	0	0	0	10,755	0	0
Brian McBride ⁽³⁾	0	0	0	0	0	10,755	0	0
Senior Manager ⁽¹⁾	"A" shares	"B" shares	"C" shares	"D" shares	"E" shares	"F" shares	"G" shares ⁽¹⁾	"H" shares ⁽¹⁾
David Ashwell	0	0	0	0	0	14,338	0	0
John Crowther	0	1,038	1,549	2,163	1,556	37,316	104	104
Mark Higgins	0	0	0	0	0	12,545	0	0
Andrew Kirkcaldy	0	0	0	0	0	14,339	0	0
Kevin Monk	0	0	0	0	0	14,339	0	0
David Wilkinson	0	11,075	16,732	25,992	17,649	74,629	207	207

- (1) The number of shares set out in this table includes those held by Directors, Senior Managers and their respective connected persons.
- (2) The number of shares set out in this table does not include the bonus issue of "G" shares and "H" shares described in paragraph 4.2(G) of this Part XV (*Additional Information*).
- (3) Each of Marisa Cassoni, Rudolf Lamprecht and Brian McBride acquired 3,862 F Shares in the Company (which will convert into 52,628 Ordinary Shares with effect from and conditional upon Admission) for an aggregate amount of £12,298 each prior to Admission. The Company facilitated the acquisition of these shares from a third party.

Following determination of the Offer Price, a bonus issue (conditional on Admission) of “G” shares and “H” shares shall occur, each on a pro-rata basis to the existing holders of such shares, to give effect to an agreed exit valuation mechanism whereby: (a) the aggregate value of the “H” shares shall be the relevant percentage of the amount by which the market capitalisation (based on the Offer Price) exceeds £100 million where the relevant percentage is, where the exit occurs on or before 30 April 2014, (i) 5 per cent. where the amount is equal to or greater than £110 million, (ii) 10 per cent. where the amount is equal to or greater than £120 million, (iii) 20 per cent. where the amount is equal to or greater than £130 million, (iv) 30 per cent. where the amount is equal to or greater than £140 million, or (v) 40 per cent. where the amount is equal to or greater than £150 million; and (b) the aggregate value of the “G” shares shall be the remainder of the amount by which the market capitalisation (based on the Offer Price) exceeds £100 million less the aggregate value of the “H” shares as determined above. In the event that the exit occurred following 30 April 2014, reduced relevant percentages apply.

Following the bonus issues of “G” shares and “H” shares and the changes to the Company’s share capital described in paragraph 4.2(G) of this Part XV (*Additional Information*) effective on Admission, the Directors and Senior Managers are expected to have the following respective interests in the Ordinary Shares of the Company (assuming that the pre-Admission transfers described in paragraph 11.2 of this Part XV (*Additional Information*) have taken place and taking into account the number of Existing Ordinary Shares to be sold, and the number of New Ordinary Shares to be issued, in connection with the Offer and assuming that the Over-allotment Option has not been exercised):

	Interests immediately following Admission	
	No. of Ordinary Shares	Percentage of enlarged issued share capital
Director⁽¹⁾		
Richard Rose	6,699,900	1.6
John Roberts	120,563,488	28.6
Steve Caunce	57,411,884	13.6
Charles (Bill) Holroyd	26,005,490	6.2
Christopher Hopkinson	25,232,605	6.0
Marisa Cassoni ⁽²⁾	52,628	0.0
Rudolf Lamprecht ⁽²⁾	52,628	0.0
Brian McBride ⁽²⁾	52,628	0.0
	No. of Ordinary Shares	Percentage of enlarged issued share capital
Senior Manager⁽¹⁾		
David Ashwell	35,082	0.0
John Crowther	2,004,276	0.5
Mark Higgins	57,642	0.0
Andrew Kirkcaldy	70,168	0.0
Kevin Monk	66,660	0.0
David Wilkinson	4,134,266	1.0

(1) The number of shares set out in this table includes those held by Directors, Senior Managers and their respective connected persons.

(2) Each of Marisa Cassoni, Rudolf Lamprecht and Brian McBride acquired 3,862 F Shares in the Company (which will convert into 52,628 Ordinary Shares with effect from and conditional upon Admission) for an aggregate amount of £12,298 each prior to Admission. The Company facilitated the acquisition of these shares from a third party.

Details of options over the Ordinary Shares held by the Directors and Senior Managers are set out below. They are not included in the interests of the Directors and Senior Managers shown in the table above.

The Directors and Senior Managers had the following options and awards relating to Ordinary Shares under the AO Performance Share Plan (“PSP”) as at the Latest Practicable Date (conditional on Admission):

<u>Optionholder</u>	<u>Date of grant</u>	<u>No. of Ordinary Shares under option</u>	<u>Exercise price per Ordinary Share (p)</u>	<u>First exercise date⁽¹⁾</u>	<u>Expiry date</u>
David Ashwell	25/02/14	526,315	nil	25/02/17	25/02/24
John Crowther	25/02/14	526,315	nil	25/02/17	25/02/24
Mark Higgins	25/02/14	526,315	nil	25/02/17	25/02/24
Andrew Kirkcaldy	25/02/14	526,315	nil	25/02/17	25/02/24
Kevin Monk	25/02/14	526,315	nil	25/02/17	25/02/24
David Wilkinson	25/02/14	526,315	nil	25/02/17	25/02/24

(1) Subject to determination of the performance conditions

Save as disclosed in this paragraph no Director or Senior Manager has any interests (beneficial or non-beneficial) in the share capital of the Company or any of its subsidiaries.

Save as disclosed above, no other person involved in the Offer has an interest which is material to the Offer.

6.3 Confirmations and conflicts of interest

Confirmations

As at the date of this document, save as disclosed above, none of the Directors or Senior Managers has during at least the previous five years:

- (A) any convictions in relation to fraudulent offences;
- (B) been a member of the administrative, management, supervisory body or senior management of a company associated with any bankruptcies, receiverships or liquidations; or
- (C) been subject to any official public incrimination or sanctions by any statutory or regulatory authorities (including designated professional bodies) or been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

There are no family relationships between any of the Directors or Senior Managers.

Conflicts of interest

None of the Directors or Senior Managers has any potential conflict of interest between his or her duties to the Company and his or her private interests or other duties.

Transactions with Directors

None of the Directors or Senior Managers has, or has had, any interest in any transaction which is or was unusual in its nature or conditions or which is, or was, significant in relation to the business of the Group and which was effected by any member of the Group during the current or immediately preceding financial year, or during any earlier financial year, and remains in any respect outstanding or underperformed.

There are no outstanding loans granted by the Company or any Group company to any of the Directors or Senior Managers nor has any guarantee been provided by the Company or any Group company for their benefit.

Director appointment arrangements

There are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any Director or Senior Manager was selected as a director or senior manager (as the case may be).

7. SUMMARY OF REMUNERATION AND BENEFITS

A summary of the amount of remuneration paid to the Directors (including any contingent or deferred compensation) and benefits in kind for the year ended 31 March 2013 is set out in the table below. The Directors are categorised in their positions as at the Latest Practicable Date for these purposes.

Director	Role	Salary/fees (£)	Pension (£)	Benefits in kind (£)	Total year ended 31 March 2013 (£)
Richard Rose ⁽¹⁾	Chairman	55,000	–	–	55,000
John Roberts	Chief Executive Officer	212,000	25,000	1,532	238,532
Steve Caunce	Chief Financial Officer & Chief Operating Officer	157,690	50,000	2,471	210,161
Christopher Hopkinson	Non-Executive Director	15,450	–	–	15,450
Norman Stoller ⁽²⁾	Non-Executive Director	15,450	–	–	15,450
Charles (Bill) Holroyd	Non-Executive Director	15,450	–	–	15,450
Kevin Philbin ⁽²⁾	Non-Executive Director	15,450	–	–	15,450
Total		486,490	75,000	4,003	565,492

(1) Mr Rose (or entities related to him) received remuneration of £55,000 per annum.

(2) Resigned on 25 February 2014.

For the year ended 31 March 2013, the aggregate total remuneration paid (including contingent or deferred compensation) and benefits in kind granted (under any description whatsoever) to all of the Senior Managers was £1,734,299. Of this, £923,158 was in respect of salary/fees, £728,116 was in respect of bonuses and £83,025 was in respect of benefits in kind.

The aggregate amount set aside by the Group to provide pension, retirement or similar benefits in relation to Directors and Senior Managers in the Company's last financial year, which ended 31 March 2013, was £140,736.

8. DIRECTORS' TERMS AND CONDITIONS

8.1 Overview of remuneration policy

In anticipation of Admission, the Remuneration Committee undertook a review of the Group's remuneration policy for senior management, including the Executive Directors (as defined in paragraph 8.2.1 below), in order to ensure that it is appropriate for the listed company environment. In undertaking this review, the Remuneration Committee sought independent, specialist advice.

The aim of the remuneration policy is 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 high growth, and to align the interests of Executive Directors and senior managers with those of shareholders through encouraging equity ownership. In promoting these objectives the policy aims to ensure that no more than is necessary is paid and has been structured so as to adhere to the principles of good corporate governance and appropriate risk management. The Group also has a strong 'collegiate culture' which is reflected in the remuneration policy by way of consistency in how packages are structured across the whole senior management population.

Taking account of the previous remuneration policy, the experience and calibre of the senior management team, and the high growth nature of the business, salaries and packages applying post Admission will be broadly in line with those of UK listed companies of a similar size and complexity. The remuneration arrangements have been structured with due consideration of both best practice and market practice for UK listed companies. The primary benchmark for this analysis is FTSE 250 companies (as the Company is expected to be a member of this Index following Admission), together with specific case analysis of practice within selected competitors.

8.1.1 Base salary

Base salaries will be reviewed annually. In reviewing salaries the policy is for any increases to take close account of the increases awarded to the workforce as a whole, as well as a consideration of the

performance of the Company and the individual, skill set and experience and external indicators such as inflation.

Following a benchmarking exercise undertaken as part of the overall review of policy, base salaries from Admission for John Roberts and Steve Caunce will be £450,000 and £390,000, respectively.

8.1.2 Pension and benefits

All members of the senior management team (including the Executive Directors) will receive Company pension contributions of 12.75 per cent. of salary, benefits in kind comprising a car allowance or company car, private family medical cover and death in service life assurance. In the case of the Executive Directors, car allowances will be £12,000 per annum.

8.1.3 Annual bonus

Executive Directors and senior managers are eligible to participate in a cash bonus plan.

The bonus plan for the year ending 31 March 2014 will be unaffected by Admission.

From 1 April 2014 and beyond it is intended that the cash bonus plan will be subject to the achievement of stretching performance conditions which will be set by the Remuneration Committee at the beginning of each financial year. It is anticipated that the metrics will be primarily linked to the Group's annual financial performance.

Annual bonuses will be capped at 150 per cent. of salary for the Executive Directors and will not be pensionable.

8.1.4 Long-term incentives

The long-term incentive policy following Admission will be delivered through the PSP, a new long-term incentive plan which was adopted by the Board on 14 February 2014.

The Remuneration Committee's policy is to award Executive Directors PSP awards annually. Awards will be in the form of conditional free shares or nil cost options, and will normally be capped at a number of shares equal in value to 150 per cent. of base salary for each Executive Director. However, recognising their inherent alignment with shareholders by virtue of their existing shareholdings, and stated long-term commitment to the Company, John Roberts and Steve Caunce indicated that they did not wish to be considered for PSP awards in 2014, and reserve the right to give a similar indication in future years.

Performance conditions will be set for each award. At the time of each award, the Remuneration Committee will determine an appropriate performance metric, and will set a threshold and stretch target of required performance around that metric in the final year of the performance period. Under the performance condition, if the performance is below threshold, no awards will vest. At threshold, a pre-determined percentage of the total award will vest, and awards will only vest in full for meeting the stretch target or better.

The performance conditions for each award to Executive Directors will be disclosed in the directors' remuneration report.

Other than the awards set out in paragraph 8.1.5 below, it is intended that no awards will be made under the PSP until the publication of results for the year ended 31 March 2015 (other than if a mid-year recruitment or promotion is made).

From 1 April 2015, selected senior managers will also participate in the PSP.

A summary of the principal terms of the PSP is set out at paragraph 9 of this Part XV (*Additional Information*).

8.1.5 One-off share-based awards to senior management

Conditional on Admission, certain senior below-board employees have been granted one-off awards under the PSP. These awards will vest after three years subject to the achievement of stretching performance conditions. The awards are in recognition of the role each individual has played in bringing the Company to Admission, to aid retention, and to incentivise strong performance in the medium- to long-term post Admission.

8.1.6 *Claw-back*

Consistent with best practice, claw-back provisions may be operated at the discretion of the Remuneration Committee in respect of awards granted under the cash bonus plan and the PSP 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).

8.1.7 *All-employee share schemes*

The Executive Directors and Senior Managers will be entitled to participate in any all-employee share schemes adopted by the Company, for example the new AO Sharesave Scheme (“**SAYE**”), on the same terms as other employees. A summary of the proposed terms of the SAYE are set out at paragraph 9.2 of this Part XV (*Additional Information*).

8.1.8 *Share ownership guidelines*

Whilst the current Executive Directors have significant shareholdings in the Company, the Remuneration Committee wishes to ensure that a shareholding guideline is in place to cater for future Executive Directors who may not hold shares. Accordingly, the Remuneration Committee has adopted formal shareholding guidelines in order to encourage Executive Directors to build or maintain (as appropriate) a shareholding in the Company equivalent in value to 100 per cent. of salary.

Shares held on Admission, together with any shares acquired following Admission, will count towards the threshold. If an Executive Director does not meet the guideline, they will be expected to retain at least half of the net shares vesting under the Company’s PSP until the guideline is met.

8.1.9 *Recruitment policy*

Consistent with best practice, new senior management hires will be offered packages in line with the remuneration policy in force at the time. It is the Remuneration Committee’s policy that no special arrangements will be made, and in the event that any deviation from approved policy is required to recruit a new hire, approval would be sought at the AGM. However, the Remuneration Committee recognises that it may be necessary in some circumstances to provide compensation for amounts foregone from a previous employer (“buyout awards”). Any buyout awards would be limited to what is felt to be a fair estimate of the value of remuneration foregone when leaving the former employer and would be structured so as to be, to the extent possible, no more generous in terms of the fair value and other key terms (e.g. time to vesting and performance targets) than the incentives it is replacing.

8.1.10 *Termination policy*

In the event of termination, service contracts provide for payments of base salary and benefits only over the notice period. There is no contractual right to any bonus payment in the event of termination although in certain “good leaver” circumstances the Remuneration Committee may exercise its discretion to pay a bonus for the period of employment and based on performance assessed after the end of the financial year.

The default treatment for any share-based entitlements under the PSP is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, or at the discretion of the Remuneration Committee ‘good leaver’ status can be applied. In these circumstances a participant’s awards vest subject to the satisfaction of the relevant performance criteria and, ordinarily, on a time pro-rata basis, with the balance of the awards lapsing. The treatment of options under the SAYE is governed by relevant legislation.

8.1.11 *Chairman and non-executive Director fee policy*

The Company Chairman and Non-Executive Directors do not participate in any of the Company’s incentive arrangements or receive any pension provision.

The Chairman will, from Admission, receive an annual fee of £135,000. This fee is inclusive of all committee roles and his chairmanship of the Nominations Committee.

The non-executive Directors will receive a basic Board fee of £45,000, with additional fees of £10,000 payable for chairmanship of the Audit Committee, £5,000 payable for chairmanship of the Remuneration Committee and £5,000 payable for performing the Senior Independent Non-Executive Director role.

8.2 Executive Directors

8.2.1 General terms

On 14 February 2014, the Company entered into service contracts with John Roberts and Steve Counce (each an “**Executive Director**”, together the “**Executive Directors**”). The new service contracts will take effect from and are conditional upon Admission. The principal terms of these service contracts are set out below.

John Roberts and Steve Counce will be paid annual base salaries of £450,000 and £390,000, respectively, which will be reviewed by the Remuneration Committee at least once in each twelve month period, save after notice of termination of such contract has been served by either party, but the Remuneration Committee shall not be obliged to make any increase in the salary.

The Company shall provide each of the Executive Directors with a benefit package which includes company pension contributions of 12.75 per cent. of salary, benefits in kind comprising a car allowance of £12,000 per annum, private family medical cover and death in service life assurance.

In addition to English public holidays, the Executive Directors shall each be entitled to 30 days of holiday in each calendar year to be taken at such times as may be approved by the Board.

8.2.2 Termination provisions

The service contracts of the Executive Directors may be terminated by not less than twelve months’ written notice by the Company and twelve months’ notice by the Executive Director. The contracts do not contain any specific provisions relating to a change of control of the Company.

At any time after notice of termination has been served by either party, or if the Executive Director resigns without giving due notice and the Company does not accept his resignation, the Company may in its discretion place the Executive Director on garden leave during which time the Executive Director is subject to certain restrictions.

The Company may elect to terminate the Executive Director’s employment immediately by making a payment in lieu of notice of an amount equivalent to the value of the Executive Director’s salary, benefits and pension for the notice period. The Company may also elect to make a payment in lieu of notice in monthly instalments which will continue until the expiry of the notice period or the date on which the Executive Director obtains an alternative remunerated position. If the Executive Director finds an alternative remunerated position, the monthly payments will be reduced by the amount of remuneration received by the Executive Director pursuant to that alternative remunerated position.

The Company shall be entitled to terminate the employment of an Executive Director with immediate effect in certain circumstances, including where that Executive Director (i) commits a repudiatory breach of his service contract; (ii) commits a serious or persistent breach of any term of his service contract; (iii) is guilty of conduct (whether or not related to his employment or office) likely in the opinion of the Board to bring himself or the Company into disrepute; (iv) neglects, fails or refuses to carry out any of the duties properly assigned to him; (v) is declared bankrupt; (vi) is removed from his office as a director of the Company by virtue of not being re-elected as a director; or (vii) is disqualified or disqualified from membership of, or is subject to any prohibition, censure, criticism or disciplinary sanction by, or fails to be granted or obtain, or ceases to hold, any necessary licences, permissions, consents, approvals or qualifications from any professional, regulatory or other body or authority, which prevents him from performing any of his duties under his service contract or which undermines the confidence of the Board in his continued employment by the Company.

For the period of twelve months after termination of an Executive Director’s service contract, that Executive Director may not (i) carry on, or hold an interest above a certain threshold, in a competing business; (ii) directly or indirectly accept orders for or supply certain restricted goods or services to any person who was provided with goods or services by a Group company at any time during the twelve months prior to the termination of the Executive Director’s service contract; (iii) directly or indirectly solicit, canvass or approach any person who supplied goods or services to a Group company, or was negotiating with a Group company in relation to orders for the supply of goods or services to a Group company, at any time during the twelve months prior to the termination of the Executive Director’s service contract; (iv) directly or indirectly solicit, canvass or approach any person who was supplied with goods or services by a Group company at any time during the twelve months prior to the termination of the Executive Director’s service contract; (v) directly or indirectly solicit, canvass or approach any person who was a

director or an employee (working in a certain capacity) of a Group company at any time during the twelve months prior to the termination of the Executive Director's service contract.

8.2.3 *Summary of service contracts*

Details of the service contracts entered into with the Executive Directors on 14 February 2014 are set out below:

<u>Director</u>	<u>Position</u>	<u>Date of commencement</u>	<u>Unexpired term</u>	<u>Notice period by Company</u>	<u>Notice period by director</u>
John Roberts	Chief Executive Officer	Admission	–	12 months	12 months
Steve Caunce	Chief Financial Officer & Chief Operating Officer	Admission	–	12 months	12 months

8.3 **Non-Executive Directors**

8.3.1 *General terms*

The Company has the following Non-Executive Directors: Richard Rose, the non-executive Chairman, Charles (Bill) Holroyd, Christopher Hopkinson, Brian McBride, the Senior Independent Non-Executive Director, and other independent Non-Executive Directors, Marisa Cassoni and Rudolf Lamprecht. Each of the Non-Executive Directors was appointed by letter of appointment for an initial term of three years.

From Admission, Richard Rose will be paid an annual fee of £130,000. Each of Marisa Cassoni, Charles (Bill) Holroyd, Christopher Hopkinson, Rudolf Lamprecht and Brian McBride will be paid an annual fee of £45,000. An additional fee of £5,000 is payable to Brian McBride for his role as senior independent non-executive director, as well as to Richard Rose and Charles (Bill) Holroyd for their roles as chairmen of the Nomination Committee and the Remuneration Committee, respectively. An additional fee of £10,000 is payable to Marisa Cassoni as chairman of the Audit Committee.

Each of the Non-Executive Directors shall be entitled to have reimbursed all fees that they reasonably incurred in the performance of their duties as a director in accordance with their terms of appointment.

8.3.2 *Termination provisions*

The appointment of a Non-Executive Director may be terminated forthwith without any entitlement to compensation if that Non-Executive Director is (i) not elected or re-elected at an annual general meeting of the Company; (ii) required to vacate office for any reason pursuant to the Articles; or (iii) removed as a director or otherwise required to vacate office under any applicable law.

The appointment of a Non-Executive Director may be terminated with immediate effect if that Non-Executive Director (i) commits a material breach of his or her obligations under this letter; (ii) commits any serious or repeated breach or non-observance of his or her obligations to the Company (which include an obligation not to breach his or her duties to the Company, whether statutory, fiduciary or common law); (iii) is guilty of any fraud or dishonesty or has acted in a manner which brings or is likely to bring the Non-Executive Director or the Company into material disrepute or is materially adverse to the interests of the Company; (iv) is convicted of any arrestable criminal offence; (v) is declared bankrupt; or (vi) is disqualified from acting as a director.

8.3.3 Summary of letters of appointment

Details of the terms of the letters of appointment of the Non-Executive Directors are set out below:

Director	Date of Appointment	Current term	Notice period by Company	Notice period by director	Current age
Richard Rose	01 Aug 2008	3 years	3 months	3 months	58
Charles (Bill) Holroyd	02 Aug 2005 ⁽¹⁾	3 years	3 months	3 months	61
Christopher Hopkinson	12 Dec 2005	3 years	3 months	3 months	54
Marisa Cassoni	5 Feb 2014	3 years	3 months	3 months	62
Rudolf Lamprecht	17 Jan 2014	3 years	3 months	3 months	65
Brian McBride	6 Feb 2014	3 years	3 months	3 months	58

(1) Charles (Bill) Holroyd became a director of DRL Limited on 30 September 2003 and subsequently became a Director of DRL Holdings Limited upon its incorporation on 2 August 2005.

8.4 Directors' indemnities

All of the Directors have been granted indemnities by the Company to the maximum extent permitted by the Companies Act 2006 (including the right to recover costs on an "as incurred" basis), subject to certain exceptions, including that such indemnities will not apply to the extent that any recovery is made under any policy of insurance.

9. EMPLOYEE SHARE SCHEMES

9.1 AO Performance Share Plan ("PSP")

A summary of the PSP is set out below.

Administration

Awards will be granted, and the PSP will be administered, by the Board, or a duly authorised committee thereof. Awards for Executive Directors will be determined and administered by the Remuneration Committee (and references to the Board means the Remuneration Committee in respect of such Awards). Awards are non-transferable, other than on death and are non-pensionable.

Eligibility

Awards may be granted to any of the employees of the Company or its subsidiaries ("**Participants**"), including the Executive Directors.

Form of awards

Under the PSP, awards will take the form of either:

- a conditional right to receive Ordinary Shares which will be automatically transferred to the Participant following vesting (a "**Conditional Award**");
- a nil or nominal-cost option, exercisable by the Participant following vesting during a permitted exercise period (an "**Option**"); or
- an interest in Ordinary Shares which will be held on behalf of the Participant until vesting (a "**Forfeitable Share Award**"). The Participant will not be entitled to call for or otherwise deal in the Ordinary Shares subject to a Forfeitable Share Award prior to vesting.

Dividend equivalents

Participants may receive an additional payment (or Ordinary Shares of equivalent value) equal to the dividends during the vesting period which would have been paid on the number of Ordinary Shares that vest.

Plan limits

Awards may be satisfied using new issue Ordinary Shares, Ordinary Shares held in treasury or Ordinary Shares purchased in the market.

The number of Ordinary Shares subject to outstanding options or awards granted within the previous 10 years and the number of Ordinary Shares issued for the purpose of options and awards granted within the previous 10 years shall not exceed 5 per cent. of the Company's ordinary share capital in issue immediately prior to the proposed date of grant under the PSP rules and any other discretionary employees' share scheme adopted by the Company, or 10 per cent. under the PSP rules and any other employees' share scheme adopted by the Company (excluding those one-off awards granted to senior below-Board employees, as set out in paragraph 6.2 of this Part XV (*Additional Information*), which are conditional on the Offer). Treasury shares will count as new issue Ordinary Shares for the purposes of this limit for so long as institutional investor bodies consider that they should be so counted.

Individual limit

Other than in relation to the one-off awards granted to senior below-Board employees, as set out in paragraph 6.2 of this Part XV (*Additional Information*), the maximum market value of the Ordinary Shares over which a Participant may be granted an award under the PSP in any financial year shall not exceed an amount equal to 200 per cent. the Participant's gross annual basic salary at that time. In exceptional circumstances, this limit may be increased to 300 per cent. at the discretion of the Board.

Timing of grant of awards

Normally, awards may only be granted within a period of 42 days following the date of announcement by the Company of its interim or final results (or as soon as practicable thereafter if the Company is restricted from being able to grant awards during such period). Awards may not be granted under the PSP more than ten years after the Offer.

Performance condition

The Board will determine the performance conditions which will apply to awards and which will be measured over a period of not less than three years. There will be no provision for re-testing. The Board may alter the performance conditions if events happen after the date of grant that cause the Board to consider that any element of the performance condition is no longer a fair measure of the Company's performance, provided that the revised target is not considered to be materially less challenging in the circumstances. Performance conditions proposed for executive directors are outlined in the Company's remuneration policy, a summary of which is set out at paragraph 8.1 of this Part XV (*Additional Information*), and will be set out in the annual report on director's remuneration.

Vesting

Normally, awards will vest three years after the date of grant, while the Participant remains in office or employment with the Company or any subsidiary, and to the extent that the relevant performance condition has been met. If the Board so determines, an award may be satisfied in whole or part by a cash payment as an alternative to the issue or transfer of Ordinary Shares.

Leavers

An Award shall normally lapse where a Participant ceases to hold office or employment with the Group. Awards will not lapse where the cessation of office or employment with the Group is due to injury, disability, redundancy, retirement, the transfer of the Participant's employment in connection with a business sale, the company with which the Participant holds office or employment ceasing to be a member of the Group, or any other reason if the Board so determines (a "**Good Leaver**").

Where a Participant ceases employment for a Good Leaver reason, the award will continue and vest on its normal vesting date. However, the Board may determine that the award will instead vest on or at any time following the date of cessation. On the death of a Participant, an award shall immediately vest. Where a Participant ceases employment for a Good Leaver reason or by reason of death, an award in the form of an Option will be exercisable during such period, of up to six months from the date of cessation or 12 months in the case of death.

Corporate actions

In the event of a change of control, awards will normally vest and Options may be exercised for a period of six months. In the event of the passing of a resolution for the voluntary winding-up of the Company,

Awards will vest and Options will be exercisable for a period of two months. In the event of a demerger of a substantial part of the Group's business, a special dividend or a similar event affecting the value of the Ordinary Shares to a material extent, awards may be adjusted as set out below or the Board may allow Awards to vest, in which case Options may be exercised for a period of two months, or such longer period as the Board may determine.

An Award shall not vest, and instead will be rolled-over into an award over shares in the controlling company of equivalent value where the corporate action forms part of an internal re-organisation (unless the Board determines otherwise).

Extent of vesting

Awards will only vest (including on a corporate action) to the extent that the relevant performance condition has been satisfied. Where an award vests prior to the normal vesting date, the Board will assess performance using such information as it determines to be appropriate.

Where, prior to the normal vesting date, a Participant ceases employment for a Good Leaver reason or there is a corporate action, the number of Ordinary Shares in respect of which an award vests will, unless the Board determines otherwise, be pro-rated on the basis of the number of whole months which have elapsed from grant to the date of cessation or the corporate action (as applicable).

Variation of capital

The number of Ordinary Shares subject to awards will generally be adjusted, in such manner as the Board may determine, following any variation of share capital of the Company or a demerger of a substantial part of the Group's business, a special dividend or a similar event affecting the value of the Ordinary Shares to a material extent.

Clawback

The Board may apply clawback where at any time before or within three years of vesting it determines that the financial results of the Company were misstated, an error was made in any calculation or in assessing performance, which resulted in the number of Ordinary Shares in respect of which the award was granted or vested being more than it should have been. The Board may also apply a claw-back where the Participant has been dismissed for misconduct.

A clawback may be satisfied in a number of ways, including by reducing the amount of any future bonus, the vesting of any subsisting or future PSP or other awards, the number of Ordinary Shares under any vested but unexercised option under the PSP or any other share scheme and either one or both of a requirement to make a cash payment or transfer of shares.

The clawback provisions will not apply following the occurrence of a takeover or similar corporate event.

Alterations

The Board may at any time alter or add to all or any of the provisions of the PSP in any respect, provided that any change to the advantage of present or future Participants relating to eligibility, scheme limits, the limits on participation, the basis of individual entitlement to, and the terms of, Ordinary Shares or cash provided under the PSP or the provisions for the adjustment of awards in the event of a variation of the Company's share capital must be approved in advance by the Company's shareholders in general meeting.

Any alteration or addition to performance conditions or which is necessary or desirable in order to comply with or take account of the provisions of any proposed or existing legislation, law or other regulatory requirements or to take advantage of any changes in legislation, law or other regulatory requirements, or to obtain or maintain favourable taxation, exchange control or regulatory treatment of the Company, any subsidiary or any Participant or to make minor amendments to benefit the administration of the PSP do not need prior approval of the Company's shareholders.

9.2 The AO Sharesave Scheme (the "SAYE")

A summary of the SAYE is set out below. The SAYE is a UK tax-advantaged all-employee option plan governed by relevant statutory provisions.

Administration

Options will be granted, and the SAYE will be administered, by the Board, or a duly authorised committee thereof. Options are non-transferable, other than on death, and are non-pensionable.

Eligibility

The SAYE will be open to all employees of the Company, and any of its subsidiaries which the Board selects for participation, who meet the eligibility criteria. All eligible employees who are chargeable to income tax as a UK resident must be invited to participate.

Invitation Period

Normally, eligible employees will only be invited to apply for options in the period of 42 days following:

- the date of announcement by the Company of its interim or final results (or as soon as practicable thereafter if the Company is restricted from being able to invite applications during such period); or
- the publication of a new prospectus in relation to certified SAYE savings arrangements.

Invitations may also be made in circumstances the Board considers to be exceptional. No new invitations will be made under the SAYE more than ten years after the Offer.

Plan limits

Options may be satisfied using new issue Ordinary Shares, Ordinary Shares held in treasury or Ordinary Shares purchased in the market.

The number of Ordinary Shares subject to outstanding options or awards granted within the previous 10 years and the number of Ordinary Shares issued for the purpose of options and awards granted within the previous 10 years shall not exceed 10 per cent. of the Company's ordinary share capital in issue immediately prior to the proposed date of grant under the SAYE rules and any other employees' share scheme adopted by the Company (excluding those one-off awards granted to senior below-Board employees, as set out in paragraph 6.2 of this Part XV (*Additional Information*), which are conditional on the Offer). Treasury shares will count as new issue Ordinary Shares for the purposes of this limit for so long as institutional investor bodies consider that they should be so counted.

Savings arrangements

Eligible employees who apply for an option must enter into HMRC approved savings arrangements. Under these arrangements, the employee will agree to make monthly savings contributions of a fixed amount within statutory limits (currently a minimum of not more than £10, up to a maximum, from 6 April 2014, of not more than £500). Ordinary Shares may only be acquired on the exercise of the option using the repayment of accrued savings and interest under the savings arrangements. Such repayment may be taken as including any bonus (interest) payable, if any, under the savings arrangements if the Board so decides.

Exercise Price

The price payable for each Ordinary Share under option will be determined by the Board at grant provided that it must not be less than 80 per cent. of the market value of the Company's Ordinary Shares at that time.

Exercise of options

An option may not normally be exercised until the option holder has completed making contributions under his or her savings arrangements (which will be either three or five years from the date of entering into those savings arrangements) and then not more than six months thereafter.

Leavers

Options shall normally lapse where the option holder ceases to hold office or employment with the Group. Options will not lapse where the cessation of office or employment with the Group is due to death, injury, disability, redundancy, retirement, the transfer of the option holder's employment in connection with a business sale, or the company with which the option holder holds office or employment ceasing to be a member of the Group (a "**Good Leaver**").

Where an option holder ceases employment for a Good Leaver reason, the option will be capable of exercise, for a period of six months (or 12 months in the case of death), only to the extent of accrued savings and interest, if any, to the date of exercise.

Corporate actions

Options may be exercised in the event of a change of control, a court sanctioning a compromise or arrangement of the Company, or a winding-up of the Company. In such circumstances, options may be exercised, for a period of up to six months, to the extent of accrued savings and interest, if any, to the date of exercise.

In the event of a change of control of the Company, an acquiring company may offer a roll-over into an option over shares in the acquiring company, subject to complying with the statutory requirements.

Variation of capital

The number of Ordinary Shares subject to options will generally be adjusted, in such manner as the Board may determine, subject to complying with the statutory requirements, following any variation of share capital of the Company.

Alterations

The Board may at any time, subject to complying with the statutory requirements, alter or add to all or any of the provisions of the SAYE in any respect, provided that any change to the advantage of present or future participants relating to eligibility, scheme limits, the limits on participation, the basis of individual entitlement to, and the terms of, Ordinary Shares provided under the SAYE or the provisions for the adjustment of options in the event of a variation of the Company's share capital must be approved in advance by the Company's shareholders in general meeting.

Any alteration or addition which is necessary or desirable in order to comply with or take account of the provisions of any proposed or existing legislation, law or other regulatory requirements or to take advantage of any changes in legislation, law or other regulatory requirements, or to obtain or maintain favourable taxation, exchange control or regulatory treatment of the Company, any subsidiary or any option holder or to make minor amendments to benefit the administration of the SAYE do not need prior approval of the Company's shareholders.

Overseas Plans

The Board may establish further plans for overseas territories on similar terms to the SAYE, but modified to take account of local tax, exchange control or securities laws, provided that any Ordinary Shares made available under such further plans are treated as counting against the limits on overall participation in the SAYE.

9.3 Employee Benefit Trust (the "EBT")

The PSP and the SAYE may operate in conjunction with an EBT. The EBT will provide the Company with flexibility in the sourcing of Ordinary Shares for the PSP and the SAYE and may be used to benefit employees and former employees of the Group.

The Company may fund the EBT by loan or gift to acquire Ordinary Shares by market purchase, by subscription or from treasury. Any Ordinary Shares issued or transferred from treasury will be treated as counting against the plan limits contained in the PSP and SAYE rules.

The EBT will be constituted by a trust deed between the Company and an offshore independent professional trustee. The Company will have the power to appoint and remove the trustee.

The EBT will not, without prior shareholder approval, be able to make an acquisition of Ordinary Shares where it would then hold more than 5 per cent. of the Company's issued share capital from time to time.

10. PENSIONS

The Company contributes to the personal pension plans of its staff through a defined contribution company personal pension scheme which is administered by Scottish Life. Employer contributions to the scheme are a percentage of salary.

11. SELLING SHAREHOLDERS

11.1 Transfers shortly prior to the date of this Prospectus

Between 28 January 2014 and the Latest Practicable Date, certain Directors and Senior Managers transferred shares in the Company as gifts to connected persons. In addition, certain Directors transferred the legal title to certain shares in the Company to the existing beneficial title holder of those shares for nil consideration.

11.2 Transfers made on or after the date of this Prospectus and prior to Admission

Norman Stoller intends to transfer “G” Ordinary Shares with a value of approximately £49.0 million at the Offer Price to the Norman Stoller Charitable Trust as a gift prior to Admission.

Richard Rose intends to transfer Ordinary Shares with an aggregate value of approximately £1.5 million at the Offer Price to certain family members as gifts immediately prior to Admission.

Christopher Hopkinson intends to transfer Ordinary Shares with an aggregate value of approximately £1.9 million at the Offer Price to certain family members as gifts immediately prior to Admission.

Julie Holroyd intends to transfer Ordinary Shares with an aggregate value of approximately £6.0 million at the Offer Price to a number of trusts in respect of which certain family members are beneficiaries as gifts immediately prior to Admission.

Charles (Bill) Holroyd intends to transfer Ordinary Shares with a value of approximately £7.5 million at the Offer Price to The Holroyd Foundation as a gift immediately prior to Admission.

11.3 Ordinary Shares sold in the Offer

The following table sets out the interests of each Selling Shareholder in the Company’s Ordinary Shares immediately prior to and immediately following the Offer:

Selling Shareholder ⁽¹⁾⁽²⁾	Ordinary Shares owned prior to the Offer		Existing Ordinary Shares to be sold in the Offer	Ordinary Shares owned after the Offer assuming no exercise of the Over-allotment Option		Ordinary Shares to be sold if the Over-allotment Option is exercised in full	Ordinary Shares owned after the Offer if the Over-allotment Option is exercised in full	
	No.	% ⁽³⁾		No.	% ⁽⁴⁾		No.	% ⁽⁴⁾
Norman Stoller ⁽⁶⁾	29,638,372	7.4	5,263,157	24,375,215	5.8	2,953,569	21,421,646	5.1
Norman Stoller Charitable Trust	17,192,976	4.3	17,192,976	0	0.0	0	0	0.0
Sheila Stoller ⁽⁶⁾	2,490,200	0.6	2,490,200	0	0.0	0	0	0.0
Charles (Bill) Holroyd ⁽⁶⁾	22,077,772	5.5	18,766,106	3,311,666	0.8	2,963,874	347,792	0.1
The Holroyd Foundation	2,623,188	0.7	2,623,188	0	0.0	0	0	0.0
Holroyd 2014 Settlement No.1	526,315	0.1	526,315	0	0.0	0	0	0.0
Holroyd 2014 Settlement No.2	526,315	0.1	526,315	0	0.0	0	0	0.0
Holroyd 2014 Settlement No.3	526,315	0.1	526,315	0	0.0	0	0	0.0
Holroyd 2014 Settlement No.4	526,315	0.1	526,315	0	0.0	0	0	0.0
Christopher Hopkinson ⁽⁶⁾	45,239,504	11.3	20,357,776	24,881,728	5.9	3,031,015	21,850,713	5.2
John Roberts ⁽⁵⁾	150,696,424	37.7	30,139,284	120,557,140	28.6	9,024,286	111,532,854	26.5
Steve Caunce ⁽⁵⁾	71,756,920	17.9	14,351,384	57,405,536	13.6	4,297,082	53,108,454	12.6
Mark Two Pension Fund ⁽⁶⁾	4,691,172	1.2	4,691,172	0	0.0	0	0	0.0
John Dutton	903,284	0.2	551,003	352,281	0.1	0	352,281	0.1
Peter Cartwright	197,184	0.0	181,409	15,775	0.0	0	15,775	0.0
Elizabeth Coverdale	114,492	0.0	76,709	37,783	0.0	0	37,783	0.0
Jean Roberts & Roger Morgan	38,148	0.0	38,148	0	0.0	0	0	0.0
David Wilkinson ⁽⁷⁾	8,268,532	2.1	4,134,266	4,134,266	1.0	0	4,134,266	1.0
Christopher Thomas	92,568	0.0	92,568	0	0.0	0	0	0.0
John Crowther ⁽⁷⁾	4,008,552	1.0	2,004,276	2,004,276	0.5	0	2,004,276	0.5
Richard Rose ⁽⁶⁾	8,718,580	2.2	2,311,662	6,406,918	1.5	0	6,406,918	1.5
David Ashwell ⁽⁷⁾	37,460	0.0	18,730	18,730	0.0	0	18,730	0.0
Lisa Ashwell ⁽⁷⁾	32,704	0.0	16,352	16,352	0.0	0	16,352	0.0
Kevin Monk ⁽⁷⁾	70,168	0.0	3,508	66,660	0.0	0	66,660	0.0
Mark Higgins ⁽⁷⁾	37,460	0.0	3,746	33,714	0.0	0	33,714	0.0
Total	371,030,920		127,412,880	243,618,040		22,269,826	221,348,214	

(1) The business address of each Selling Shareholder is c/o AO World plc, Unit 5A, the Parklands, Lostock, Bolton, BL6 4SD.

(2) The above table assumes that the share capital re-organisation described in paragraph 4.2 and the transfers made on or after the date of this Prospectus and prior to Admission described in paragraph 11.2 of this Part XV (*Additional Information*) have taken place.

- (3) Percentage calculated prior to the issue of 21,052,631 New Ordinary Shares.
- (4) Percentage calculated after taking into account the issue of 21,052,631 New Ordinary Shares.
- (5) John Roberts and Steve Caunce are the Executive Directors of the Company.
- (6) Richard Rose is the Non-Executive Chairman of the Company, Charles (Bill) Holroyd and Christopher Hopkinson are Non-Executive Directors of the Company and Norman Stoller has been a Non-Executive Director of the Company during the previous three years. Sheila Stoller is the spouse of Norman Stoller. Christopher Hopkinson also holds a beneficial interest in the Ordinary Shares held by Mark Two Pension Fund.
- (7) David Wilkinson, John Crowther, David Ashwell, Kevin Monk and Mark Higgins are all Senior Managers of the Company and Lisa Ashwell is the spouse of David Ashwell.

12. SIGNIFICANT SHAREHOLDERS

As at the Latest Practicable Date, insofar as is known to the Company, the following persons had an interest which represented three per cent. or more of the voting share capital of the Company (assuming that the share capital re-organisation described in paragraph 4.2 of this Part XV (*Additional Information*), and the pre-Admission transfers described in paragraph 11.2 of this Part XV (*Additional Information*), have taken place and taking into account the number of Existing Ordinary Shares to be sold, and the number of New Ordinary Shares to be issued, in connection with the Offer and assuming that the Over-allotment Option has not been exercised):

<u>Name of Shareholder</u>	<u>No. of Ordinary Shares</u>	<u>Percentage of enlarged issued share capital</u>
John Roberts	120,557,140	28.6
Steve Caunce	57,405,536	13.6
Christopher Hopkinson	24,881,728	5.9
Norman Stoller	24,375,215	5.8
Julie Holroyd	22,687,476	5.4

Save as disclosed in this paragraph 12, the Directors are not aware of any interest which will represent an interest in the Company's share capital or voting rights which is notifiable under the Disclosure Rules and Transparency Rules following the transaction becoming effective and Admission occurring.

So far as the Company is aware, on Admission, no person or persons, directly or indirectly, jointly or severally, will exercise or could exercise control over the Company.

There are no differences between the voting rights enjoyed by the shareholders described in this paragraph 12 and those enjoyed by any other holder of the Company's Ordinary Shares.

13. MANDATORY BIDS AND COMPULSORY ACQUISITION

The City Code is issued and administered by the Panel. Upon Admission, the Company is subject to the City Code and therefore shareholders are entitled to the protection afforded by the City Code.

13.1 Mandatory bids

Under Rule 9 of the City Code (i) when a person acquires an interest in shares which (taken together with the shares in which he and persons acting in concert with him are interested) carry 30 per cent. or more of the voting rights of a company subject to the City Code; or (ii) where a person, together with persons acting in concert with him is interested in shares which in the aggregate carry not less than 30 per cent. of the voting rights of a company, but does not hold shares carrying more than 50 per cent. of the voting rights of the company subject to the City Code, and such person, or any persons acting in concert with him, acquires an interest in any other shares which increases the percentage of the shares carrying voting rights in which he is interested, then in either case, that person together with the person acting in concert with him, is normally required to extend offers in cash, at the highest price paid by him (or any persons acting in concert with him) for shares in the company within the preceding twelve months, to the holders of any class of equity share capital of that company whether voting or non-voting and also to the holders of any other transferable securities carrying voting rights.

13.2 Squeeze-out

Under the Companies Act, if a “takeover offer” (as defined in section 974 of the Act) is made for a company’s shares and the offeror were to acquire or unconditionally contract to acquire, not less than 90 per cent. in value of the shares to which the offer relates and not less than 90 per cent. of the voting rights attached to those shares, within three months of the last day on which its offer can be accepted, it could acquire compulsorily the remaining 10 per cent. It would do so by sending a notice to outstanding shareholders telling them that it will acquire compulsorily their shares to which the offer relates and then, six weeks later, it would execute a transfer of the outstanding shares under the takeover offer in its favour and pay the consideration to the company, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose shares are acquired compulsorily under the Companies Act must, in general, be the same as the consideration that was available under the takeover offer.

13.3 Sell-out

The Companies Act also gives minority shareholders a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the shares and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90 per cent. of the shares to which the offer relates, any holder of shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those shares. The offeror is required to give any shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of the minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises his or her rights, the offeror is bound to acquire those shares, on the terms of the offer or on such other terms as may be agreed.

14. WORKING CAPITAL

The Company is of the opinion that, taking into account the net proceeds receivable by the Company from the Offer, the working capital available to the Group is sufficient for its present requirements, that is for at least the next 12 months from the date of publication of this document.

15. NO SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of the Group since 31 December 2013, being the date to which the last financial information reported on by the Group’s auditors has been published (see Part XI (*Historical Financial Information*)).

16. DIVIDEND POLICY

The Company intends to retain any earnings to support the growth and development of its business and, therefore, does not anticipate paying dividends in the foreseeable future.

17. RELATED PARTY TRANSACTIONS

Save as disclosed in the related party transactions note (note 22) to the Historical Financial Information, the Company entered into no transactions with related parties during the nine months ended 31 December 2013 and the years ended 31 March 2011, 2012 and 2013. The financial period end balances which arose as a result of such related party transactions are set out in note 22 in Part XI (*Historical Financial Information*).

For the period from and including 1 January 2014 to the Latest Practicable Date, the Company has entered into the following related party transactions:

Atticus LLP

The Company has sourced legal services from Atticus LLP, a partnership in which Kevin Philbin (a former director of the Company) has an interest, in the ordinary course of business for the amount of £80,529 and for which the balance outstanding at the Latest Practicable Date is £nil.

Booker Limited

The Company has sourced services from Booker Limited, a company in which Richard Rose has an interest, in the ordinary course of business for the amount of £6,066 and for which the balance outstanding at the Latest Practicable Date is £7,058.

ElekDirect Limited

The Company has a trading relationship with from ElekDirect Limited, a company in which a person connected with John Roberts has an interest. The Group consigns its inventory of imperfect units recovered from customers to ElekDirect Limited for onward re-sale. At the time of re-sale of a unit, ElekDirect Limited purchases the unit from the Group at a price equal to consignment value plus 50 per cent. of the proceeds above consignment value. Transactions between the Group and ElekDirect Limited amount to £91,423 since 1 January 2014 and the balance outstanding for these transactions at the Latest Practicable Date is £45,173.

18. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or a member of the Group within the two years immediately preceding the date of publication of this document and are, or may be, material or have been entered into at any time by the Company or any member of the Group and contain provisions under which the Company or any member of the Group has an obligation or entitlement which is, or may be, material to the Company or the Group as at the date of this document.

18.1 Underwriting Agreement

Details of the Underwriting Agreement are set out at paragraph 20.1 of this Part XV (*Additional Information*).

18.2 Lease of the NDC

Expert Logistics, a subsidiary of the Company, entered into a lease of the NDC site (the “**NDC Lease**”) on 2 December 2011 for an initial term of 15 years to expire on 30 November 2026. The Company guarantees certain of the obligations of Expert Logistics as tenant under the NDC Lease. The landlord for the NDC Lease is a tenant under a superior lease with Crewe and Nantwich Borough Council.

Pursuant to the terms of the NDC Lease, Expert Logistics will pay, in equal quarterly payments in advance, an annual rent of £809,550 for the third year of the NDC Lease, which will rise to £1,151,360 for the period between 2 December 2014 and 1 December 2015 and then rise again to £1,349,250 for the period between 2 December 2015 and 1 December 2016. The first rent review will take place on 1 December 2016 and every fifth year thereafter during the term of the NDC lease. From the date of each rent review, the rent shall be whichever is the higher of the annual rent payable immediately before that rent review or the open market rent for the property on the relevant review date, save that in the case of the first rent review, the rent shall be at least £1,529,150 but shall not exceed £1,709,050.

The terms of the NDC Lease permit Expert Logistics to make internal non-structural alterations or additions to the NDC, including but not limited to the installation of a mezzanine floor and racking provided that they do not affect the structure of the property. The property that is subject to the NDC Lease is categorised as being for storage and distribution.

The NDC Lease permits Expert Logistics to assign, underlet, charge and part with possession of the leases, subject to certain conditions which are set out in the NDC Lease. The NDC Lease does not contain any break rights in favour of either the landlord or Expert Logistics. Expert Logistics does not have a reversion right or a contractual right to renew the lease or to acquire another lease of the NDC.

18.3 Rothschild Engagement Letter

On 9 September 2013, in relation to services provided since January 2013, the Company entered into a letter of engagement with Rothschild, pursuant to which Rothschild was appointed to act as sole financial adviser in relation to assessment of strategic options, strategic planning and the initial public offering of the Company.

The Company and Rothschild have agreed that, upon an initial public offering (a) the Company will pay Rothschild a fee of 1 per cent. of the market capitalisation of the Company on Admission calculated by reference to the Offer Price and (b) at the Company's discretion, it may pay Rothschild an additional fee of up to £500,000.

Rothschild and its associates' total liability is limited, save in relation to any liability which may not be lawfully excluded or which may not be excluded or restricted under the regulatory system (as defined by the FCA). The Company has granted customary representations, warranties and indemnities in favour of Rothschild, which are unlimited in time and amount.

19. PROPERTY, PLANT AND EQUIPMENT

Details of any existing or planned material tangible fixed assets, including leased properties, and any material encumbrances thereon, that are occupied by the Group are set out below:

Location	Tenure	Utilisation	Term
ProLogis 360 Building, Weston Road, Crewe	Leasehold	Storage and distribution	15 years from 1 December 2011
6 th Floor, City Tower, Manchester	Leasehold	Office space	10 years from 21 December 2012
Unit 5A, the Parklands, Lostock, Bolton	Leasehold	Head office	15 years from 13 September 2013

All present and future properties leased by the Group are subject to a guarantee and debenture in favour of Barclays Bank plc that was created on 12 November 2010.

20. UNDERWRITING, LOCK-UP AND STOCK LENDING ARRANGEMENTS

20.1 Underwriting Arrangements

On 26 February 2014, the Company, the Major Selling Shareholders, the Directors and the Underwriters entered into an underwriting and sponsor agreement (the “**Underwriting Agreement**”). Each of the Selling Shareholders (other than the Major Selling Shareholders) entered into a separate deed poll of election (each a “**Deed of Election**” and together the “**Deeds of Election**”). Pursuant to the terms of the Underwriting Agreement and the Deeds of Election:

- the Company has agreed, subject to certain conditions (the last condition being Admission), to allot and issue, at the Offer Price, the New Ordinary Shares to be issued in connection with the Offer;
- the Selling Shareholders have agreed, subject to certain conditions (the last condition being Admission), to sell, at the Offer Price, the Existing Ordinary Shares to be sold by them in connection with the Offer;
- the Underwriters have severally agreed, subject to certain conditions (the last condition being Admission), to procure subscribers and purchasers for (or, failing which, to subscribe or purchase themselves) the Offer Shares (in such proportions as set out in the Underwriting Agreement) pursuant to the Offer;
- the Over-allotment Selling Shareholders have granted the Over-allotment Option to the Stabilising Manager, pursuant to which the Stabilising Manager may, subject to certain conditions, elect to purchase up to such additional Existing Ordinary Shares from the Over-allotment Selling Shareholders representing 15 per cent. of the total number of Offer Shares comprised in the Offer (excluding the Ordinary Shares subject to the Over-allotment Option) at the Offer Price, for the purposes of allowing the Stabilising Manager to cover short positions resulting from over-allotments of Ordinary Shares, if any, made in connection with the Offer and to cover short positions resulting from stabilising transactions. The Over-allotment Option is exercisable, in whole or in part, upon notice by the Stabilising Manager to the Over-allotment Selling Shareholders at any time during the period of 30 calendar days immediately following the commencement of conditional dealings in the Ordinary Shares on the London Stock Exchange;
- the obligations of the Company and the Selling Shareholders to issue or sell, as applicable, the Offer Shares and the obligations of the Underwriters to procure subscribers or purchasers for, or failing

which, to subscribe for or purchase themselves the Offer Shares to be issued and sold under the Offer are conditional upon certain conditions that are customary for agreements of this nature;

- the Underwriting Agreement and the Deeds of Election will become unconditional on Admission;
- in consideration for their services and subject to Admission occurring, the Company has agreed to pay to the Underwriters a commission of 2.5 per cent. of the amount equal to the Offer Price multiplied by the aggregate number of New Ordinary Shares;
- in consideration for their services and subject to Admission occurring, the Selling Shareholders have agreed to pay to the Underwriters a commission of 2.5 per cent. of the amount equal to the Offer Price multiplied by the aggregate number of Existing Ordinary Shares;
- the Company, the Selling Shareholders and the Over-allotment Selling Shareholders may, in the sole and absolute discretion of the Company, pay the Underwriters a commission of up to 1 per cent. of the amount equal to the Offer Price multiplied by the number of New Ordinary Shares, Existing Ordinary Shares and Over-allotment Shares, respectively;
- the Over-allotment Selling Shareholders have agreed to pay to the Stabilising Manager, on behalf of the Underwriters, a commission of 2.5 per cent. of the amount equal to the Offer Price multiplied by the aggregate number of Over-allotment Shares (if any) actually sold and transferred by such Over-allotment Selling Shareholders pursuant to any exercise of the Over-allotment Option by the Stabilising Manager;
- the Company has agreed to pay certain of the costs, charges, fees and expenses relating to the Offer (together with any related VAT); and
- the Company, the Selling Shareholders and the Directors have each given certain customary representations, warranties and undertakings to the Underwriters. In addition, the Company and the Selling Shareholders have given certain indemnities to the Underwriters in connection with the Underwriting Agreement and the Deeds of Election. The liability of the Company pursuant to the Underwriting Agreement is unlimited by time and amount. The liability of the Directors pursuant to the Underwriting Agreement is limited by both time and amount. The liability of the Major Selling Shareholders under the Underwriting Agreement is limited by amount. The liability of the Selling Shareholders (other than the Major Selling Shareholders) under the Deeds of Election is limited by both time and amount.

20.2 Lock-up Arrangements

The Company has agreed with the Underwriters, save for certain customary exceptions and other than pursuant to the Offer or with the consent of the Joint Global Co-ordinators, not to offer, issue, lend or dispose of, or agree to offer, issue, lend or dispose of, directly or indirectly, any further Ordinary Shares (or any other securities exchangeable for or convertible into, or substantially similar to, Ordinary Shares) for a period of 180 days after the date of Admission. The exceptions include the issue of Ordinary Shares pursuant to the exercise of options under, or other awards granted by the Board in accordance with, share option schemes in existence on the date of Admission and described in paragraph 9 of Part XV (*Additional Information*).

Each of the Selling Shareholders (other than the Directors) has agreed with the Underwriters, save for certain customary exceptions and other than pursuant to the Offer or with the consent of the Joint Bookrunners, not to offer, issue, lend or dispose of, or agree to offer, issue, lend or dispose of, directly or indirectly, any Ordinary Shares or related securities or any interest in those Ordinary Shares or related securities for a period ending 180 days after the date of Admission. The exceptions include (a) the acceptance by a Selling Shareholder of a general offer made to all holders of Ordinary Shares or entering into an irrevocable commitment in relation to the same; (b) the sale or disposal by a Selling Shareholder of Ordinary Shares pursuant to any offer by the Company to purchase its own shares; (c) the transfer or disposal by a Selling Shareholder of Ordinary Shares not exceeding 2 per cent. of the relevant Selling Shareholder's holding to a relative of the Selling Shareholder or the trustees of a family trust or to a charitable trust settled by the Selling Shareholder, provided that the transferee enters into a deed of adherence in respect thereof; (d) the taking up or disposal by a Selling Shareholder of rights granted in respect of a rights issue or other pre-emptive share offering by the Company; (e) the disposal by a Selling Shareholder of Ordinary Shares pursuant to an order made by a Court of competent jurisdiction; (f) the disposal of Ordinary Shares following the death of a Selling Shareholder; (g) the lending or disposal by a

Selling Shareholder of Ordinary Shares pursuant to the Over-allotment Option; and (h) the entering into and transfer of Ordinary Shares by a Selling Shareholder in accordance with the Stock Lending Agreement.

Each of the Directors has agreed with the Underwriters, save for certain customary exceptions and other than pursuant to the Offer or with the consent of the Joint Global Co-ordinators, not to offer, issue, lend or dispose of, or agree to offer, issue, lend or dispose of, directly or indirectly, any Ordinary Shares or related securities or any interest in those Ordinary Shares or related securities for a period of 360 days after the date of Admission. The exceptions include (a) the acceptance by a Director of a general offer made to all holders of Ordinary Shares or entering into an irrevocable commitment in relation to the same; (b) the sale or disposal by a Director of Ordinary Shares pursuant to any offer by the Company to purchase its own shares; (c) the transfer or disposal by a Director of Ordinary Shares not exceeding 2 per cent. of the relevant Director's holding to a relative of the Director or the trustees of a family trust or to a charitable trust settled by the Director, provided that the transferee enters into a deed of adherence in respect thereof; (d) the taking up or disposal by a Director of rights granted in respect of a rights issue or other pre-emptive share offering by the Company; (e) the disposal by a Director of Ordinary Shares pursuant to an order made by a Court of competent jurisdiction; (f) the disposal of Ordinary Shares following the death of a Director; (g) the lending or disposal by a Director of Ordinary Shares pursuant to the Over-allotment Option; and (h) the entering into and transfer of Ordinary Shares by a Director in accordance with the Stock Lending Agreement.

20.3 Stock Lending Arrangements

In connection with settlement and stabilisation, the Stabilising Manager has entered into a stock lending agreement (the “**Stock Lending Agreement**”) with the Over-allotment Selling Shareholders pursuant to which the Stabilising Manager will be able to borrow up to 15.0 per cent. of the total number of Offer Shares (excluding the Ordinary Shares subject to the Over-allotment Option) on Admission for the purposes, amongst other things, of allowing the Stabilising Manager to cover short positions resulting from over-allotments of Ordinary Shares, if any, made in connection with the Offer. If the Stabilising Manager borrows Ordinary Shares pursuant to the Stock Lending Agreement, it will be required to return equivalent securities to the Over-allotment Selling Shareholders by no later than the third business day after the date that is 30 calendar days after the date of commencement of conditional dealings in the Ordinary Shares on the London Stock Exchange.

21. LITIGATION

There are not and have not been, since the date 12 months prior to the date of the document, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), which may have, or have had in the recent past, significant effects on the Company and/or the Group's financial position or profitability.

22. AUDITORS

Deloitte, whose registered office is at 2 New Street Square, London EC4A 3BZ, has provided an accountants' report on the historical financial information of the Group for the three years ended 31 March 2013, and the nine months ended 31 December 2013 set out in Part XI (*Historical Financial Information*). The historical financial information for the nine months ended 31 December 2012 set out in Part XI (*Historical Financial Information*) of this Prospectus is unaudited. Deloitte is a member of the Institute of Chartered Accountants in England and Wales. The financial information contained in this Prospectus which relates to the Company does not constitute full statutory accounts as referred to in section 434(3) of the Companies Act. Statutory audited accounts of the Company, on which Deloitte has given its unqualified report and which contained no statement under section 498(2) or (3) of the Companies Act, have been delivered to the Registrar of Companies in respect of each of the years ended 31 March 2011, 31 March 2012 and 31 March 2013.

23. CONSENTS

Deloitte has given and has not withdrawn its consent to the inclusion in this document of its reports (as reproduced in Part XI (*Historical Financial Information*) and Part XII (*Pro Forma Financial Information*) and the references thereto in the form and context in which they are included and has authorised the contents of that part of the document which comprises its reports (as reproduced in Part XI (*Historical*

Financial Information) and Part XII (*Pro Forma Financial Information*) of this document) for the purposes of paragraph 5.5.3R(2)(f) of the Prospectus Rules.

OC&C has given and has not withdrawn its written consent to inclusion in this document of its name and references to the OC&C Report and the inclusion of information therefrom in Part I (*Summary*), Part II (*Risk Factors*), Part VI (*Information on the Company and the Group*) and Part IX (*Operating and Financial Review*) of this document in the form and context in which they are included and has authorised the inclusion of its name and such references and information for the purposes of paragraph 5.5.3R(2)(f) of the Prospectus Rules. OC&C accepts responsibility for the information from the OC&C Report included in this document. To the best of the knowledge and belief of OC&C (who has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

24. GENERAL

The total costs and expenses (exclusive of VAT) payable by the Company in connection with the Offer and Admission are estimated to be approximately £19.1 million. Given the inter-relationship between the Offer and Admission, it is not practicable to separate costs attributable solely to the Offer and to Admission. There are no amounts payable to financial intermediaries.

25. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's registered office, Unit 5A, the Parklands, Lostock, Bolton, BL6 4SD, during normal business hours on Monday to Friday each week (public holidays excepted) for a period from and including the date of publication of this document until the date of Admission:

- Memorandum of Association, the Interim Articles and the New Articles;
- the historical financial information relating to the Group and the report thereon by Deloitte, as set out in Part XI (*Historical Financial Information*) of this document;
- the pro forma financial information relating to the Group and the report thereon by Deloitte, as set out in Part XII (*Pro Forma Financial Information*) of this document;
- the OC&C Report;
- the written consents referred to in paragraph 23 of this Part XV (*Additional Information*); and
- this document.

Copies of this document are also available for inspection on the National Storage Mechanism at <http://www.morningstar.co.uk/uk/NSM>.

For the purposes of paragraph 3.2.4 of the Prospectus Rules, this document will be published in printed form and available free of charge until the date of Admission at the Company's registered office, Unit 5A, the Parklands, Lostock, Bolton, BL6 4SD. In addition this document will be published in electronic form and available on the Company's website at www.ao.com, subject to certain access restrictions.

This document is dated 26 February 2014.

PART XVI

DEFINITIONS

The following definitions shall apply throughout this document unless the context requires otherwise:

“Adjusted EBITDA”	has the definition set out in Part III (<i>Important Information</i>)
“Admission”	the admission of the Ordinary Shares to the Official List and to trading on the London Stock Exchange’s main market for listed securities and “Admission becoming effective” means it becoming effective in accordance with paragraph 3.2.7 of the Listing Rules and the Admission and Disclosure Standards
“Admission and Disclosure Standards”	the requirements contained in the publication “Admission and Disclosure Standards” dated 16 April 2013 containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s main market for listed securities
“Articles of Association” or “New Articles”	the articles of association of the Company which are effective from and conditional upon Admission
“Audit Committee”	the audit committee established by the Board to monitor financial risks in the Company’s businesses, as described in paragraph 4 of Part VII (<i>Directors, Senior Managers and Corporate Governance</i>)
“Auditors”	Deloitte LLP
“Board”	the board of Directors of the Company
“business day”	a day (other than a Saturday or Sunday) on which banks are open for general business in London
“City Code”	the City Code on Takeovers and Mergers issued from time to time by or on behalf of the Panel on Takeovers and Mergers
“Companies Act”	the UK Companies Act 2006, as amended
“Company” or “AO”	AO World plc, a company registered in England and Wales with registered number 05525751
“Company Register”	the register of members of the Company
“CREST”	the system of paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear UK & Ireland Limited in accordance with the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended
“D&G”	Domestic & General Services Limited
“Deeds of Election” or “Deed of Election”	has the definition set out in paragraph 20.1 of Part XV (<i>Additional Information</i>)
“Deloitte”	Deloitte LLP
“Directors”	the directors of the Company whose names appear in paragraph 1 of Part VII (<i>Directors, Senior Managers and Corporate Governance</i>)
“Disclosure Rules and Transparency Rules”	the disclosure rules and transparency rules of the FCA made pursuant to section 73A of the FSMA
“EBITDA”	has the definition set out in Part III (<i>Important Information</i>)
“EEA State”	a state which is a contracting party to the agreement on the European Economic Area signed on 2 May 1992, as it has effect for the time being

“EU”	the European Union
“Euroclear”	Euroclear UK & Ireland Limited, the operator of CREST
“Exchange Act”	the US Securities Exchange Act of 1934
“Executive Directors”	John Roberts and Steve Caunce
“Existing Ordinary Shares”	the Ordinary Shares in issue and to be sold by the Selling Shareholders pursuant to the Offer
“FCA”	the Financial Conduct Authority
“FSMA”	the Financial Services and Markets Act 2000, as amended
“Group”	AO World plc and its subsidiary undertakings (as defined in the Companies Act 2006)
“Historical Financial Information”	the IFRS historical financial information for the Group set out in Part XI (<i>Historical Financial Information</i>)
“HM Revenue and Customs”	Her Majesty’s Revenue and Customs
“IFRS”	International Financial Reporting Standards as adopted by the European Commission for use in the European Union
“Interim Articles”	the articles of association adopted by the Company on re-registration as a public limited company that will apply until Admission
“ISIN”	International Security Identification Number
“ITEPA”	the Income Tax (Earnings and Pensions) Act 2003
“Listing Rules”	the listing rules of the FCA made pursuant to section 73A of the FSMA
“London Stock Exchange”	London Stock Exchange plc
“Joint Bookrunners”	Jefferies International Limited, J.P. Morgan Securities plc and Numis Securities Limited
“Joint Global Co-ordinators”	Jefferies International Limited and J.P. Morgan Securities plc
“Joint Sponsors”	Jefferies International Limited and J.P. Morgan Securities plc
“Major Selling Shareholders”	Norman Stoller, the trustees of the Norman Stoller Charitable Trust, Charles (Bill) Holroyd, the trustees of the Holroyd Foundation, Christopher Hopkinson, John Roberts, Steve Caunce, the trustees of the Mark Two Pension Fund, David Wilkinson, John Crowther and Richard Rose
“Memorandum of Association”	the memorandum of association of the Company
“Model Code”	the Model Code published by the UKLA at Annex 1 of Listing Rule 9 of the Listing Rules
“Money Laundering Regulations”	the Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering Regulations 2003, and applicable legislation in any other jurisdiction
“NDC”	a single national distribution centre and warehouse at which the Group’s delivery operations are based
“NDC Lease”	the lease entered into on 2 December 2011 by Expert Logistics Ltd for the lease of the NDC
“New Ordinary Shares”	the new Ordinary Shares to be issued by the Company pursuant to the Offer
“Nomination Committee”	the director nomination committee established by the Board to consider and make recommendations to the Board concerning

“Non-Executive Directors”	the composition of the Board, as described in paragraph 4 of Part VII (<i>Directors, Senior Managers and Corporate Governance</i>)
“OC&C”	Richard Rose, Charles (Bill) Holroyd, Christopher Hopkinson, Marisa Cassoni, Rudolf Lamprecht and Brian McBride
“OC&C Report”	OC&C Services Limited
“Offer”	a report dated 4 October 2013 prepared by OC&C at the request of the Group
“Offer Price”	the offer of the Offer Shares to investors in the United Kingdom and elsewhere as described in Part XIII (<i>Details of the Offer</i>)
“Offer Shares”	the price at which the Offer Shares are to be offered and sold under the Offer
“Official List”	the New Ordinary Shares and the Existing Ordinary Shares
“Old Articles”	the Official List of the FCA
“Order”	means the articles of association of the Company adopted on 20 March 2007 (and amended by written resolutions 29 July 2008, 22 March 2010 and 26 July 2012), which were replaced by the Interim Articles on 17 February 2014
“Ordinary Shares”	the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005
“Over-allotment Option”	the ordinary shares with a nominal value of 0.25 pence each in the share capital of the Company
“Over-allotment Selling Shareholders”	the over-allotment option granted by the Over-allotment Selling Shareholders to the Stabilising Manager as described in paragraph 4 of Part XIII (<i>Details of the Offer</i>)
“Over-allotment Shares”	Norman Stoller, Charles (Bill) Holroyd, Christopher Hopkinson, John Roberts and Steve Caunce
“Prospectus”	the Ordinary Shares that are the subject of the Over-allotment Option
“Prospectus Directive”	this document
“Prospectus Rules”	Directive of the European Parliament and of the Council 2003/71/EC
“PSP”	the prospectus rules of the FCA made pursuant to section 73A of the FSMA
“QIBs”	the AO Performance Share Plan, details of which are set out in paragraph 9.1 of Part XV (<i>Additional Information</i>)
“Registrar”	“qualified institutional buyers” as defined in Rule 144A
“Regulation S”	Capita Registrars Limited
“Remuneration Committee”	Regulation S under the Securities Act
“Reporting Accountants”	the remuneration committee established by the Board to consider and make recommendations to the Board as to the remuneration of Company’s directors and senior executives, as described in paragraph 4 of Part VII (<i>Directors, Senior Managers and Corporate Governance</i>)
“Rule 144A”	Deloitte LLP
“SAYE”	Rule 144A under the Securities Act
	the AO Sharesave Scheme, details of which are set out in paragraph 9.2 of Part XV (<i>Additional Information</i>)

“SDRT”	stamp duty reserve tax
“SEC”	the US Securities and Exchange Commission
“Securities Act”	the US Securities Act of 1933
“Selling Shareholders”, each a “Selling Shareholder”	the persons listed in paragraph 11 of Part XV (<i>Additional Information</i>) who will be holders of Ordinary Shares immediately prior to Admission and who, pursuant to the Underwriting Agreement or a Deed of Election, have agreed to sell Ordinary Shares in the Offer
“Senior Managers”	those members of the management bodies of the Company and its subsidiary undertakings who are relevant to establishing that the Company has the appropriate expertise and experience for the management of its business for the purposes of paragraph 14.1 of Annex 1 of the Prospectus Rules and whose names appear in paragraph 2 of Part VII (<i>Directors, Senior Managers and Corporate Governance</i>)
“Shareholders”	holders of the Ordinary Shares from time to time
“SKUs”	stock keeping units
“Stabilising Manager”	J.P. Morgan Securities plc
“Stock Lending Agreement”	the stock lending agreement dated 26 February 2014 between the Over-allotment Selling Shareholders and the Stabilising Manager
“Uncertificated Securities Regulations”	the Uncertificated Securities Regulations 2001
“UK Corporate Governance Code”	the UK Corporate Governance Code issued by the Financial Reporting Council in September 2012
“UK Listing Authority” or “UKLA”	the FCA when it is exercising its powers under Part 6 of the FSMA
“Underwriters”	Jefferies International Limited, J.P. Morgan Securities plc and Numis Securities Limited
“Underwriting Agreement”	the underwriting and sponsor agreement dated 26 February 2014 between and among the Company, the Directors, the Major Selling Shareholders and the Underwriters
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“United States” or “US”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
“VAT” or “Value Added Tax”	value added tax



