Exceptional in the moments that matter.

AO World Plc
Annual Report and Accounts 2015

Full year 2015 highlights

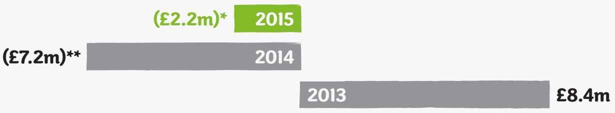
Group revenue

+23.8%

AO website revenue

+32.9%

Group operating profit/(loss)

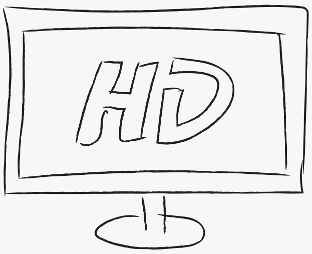


+69.3%

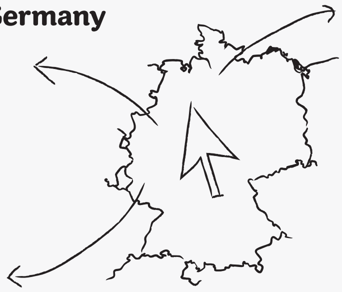
UK Adjusted EBITDA***

+47.3%

Launched AV products
May 2014



Launched AO.de in Germany
October 2014



Contents

* After investment in Europe start-up operations and Long Term Incentive Plan costs of £6.7m.

** After non-recurring IPO costs of £15.4m.

*** Adjusted EBITDA is defined by the Group as profit/loss before tax, depreciation, amortisation, net finance costs, "Adjustments" and exceptional items. Adjustments is defined by the Group as set-up costs relating to overseas expansion and share-based payment charges attributable to the LTIP IPO award which the Board considers one-off in nature.

John's pen.

John, our CEO, has a great habit of simplifying complex subjects by drawing diagrams and highlighting key points.

Look out for his scribbles throughout this Report!

Last year we told you how we started our business with a one pound bet.

We've come a long way since then (or "Wir haben einen langen Weg hinter uns" as our 200 new German colleagues say).

Continuing to be exceptional in the moments that matter has helped drive our business forward:

We successfully launched AO in Germany.

Grew our share of the UK market.

Introduced AV products to AO.com.

Continued to focus on product range, customer service and price.

Amplified our culture and our values across the business.

Continued to put the customer at the heart of everything we do.

Moment #1

What we did when the lights went out.

"It was a cold rainy Tuesday evening in Larkhall, Glasgow when, suddenly, the lights went out in our depot.

We were only halfway through that night's orders and everything still needed to go out.

It was then that I had a bright idea – line the staff cars up facing into the depot, turn the headlights on full beam and load the lorries.

We leapt into our cars, manoeuvred them into position and in moments everything was lit up like a football stadium.

All of the orders went out on time and the car heaters even kept us warm. Job done."

Michael Fallon
Outbase Nightshift Supervisor, Larkhall

Moment #2

Bringing products to life.

"Sometimes it's really difficult to understand why one washing machine costs £1,000 and another, with basically the same spec, costs £200. After all, they both wash clothes.

It's a bit like Formula 1. The car that finishes first looks identical to the one that finishes last.

The difference is often down to build quality and engineering.

To help us understand more, we sent a large team of people to one of our leading suppliers for a week. The outcome was a series of 3D computer-generated videos that brought the products to life and showed how the technology really worked, and so we're now rolling this out across many of our products.

It's simple. If we understand, we can explain product differences to customers. And if they understand, they can choose the right product. And if that happens, we get happy customers and suppliers."

Lauren Rigg
Buyer, Laundry Category

Moment #3

When we realised we're more German than we thought.

"As with all new things, you have to be prepared to learn a little as you go along.

This year, we learnt something big. The double-decker delivery trucks we use in the UK were too tall to go under German bridges.

Using typical German efficiency and innovation, we decided not to reduce the size of the trailer as that would mean increasing the number of deliveries we had to make – and extra cost and emissions.

Instead we decided to design and manufacture a new type of double-decker trailer that you could reduce the height of at the press of a button.

Germany is new and exciting for us. We don't pretend to know everything about it. But as things go up and down in the market, so can we. Quite literally."

Peter Plog
Head of Logistics, Germany

Moment #4

Letting our customers do the talking.

"Every fortnight Yossi and his team set our customers a Facebook competition to win one of our amazing appliances.

One week we asked customers to upload a short video sharing their experience of AO.

Involving customers like this helps us to build relationships while also having a bit of fun.

We had a great response. It showed us customers don't just like our service, they love it – and that happy customers really are our best advertisement.

It actually inspired us to make our customers the stars and tell their own stories in our TV adverts. Obvious really!"

Kate Barton
Social Media Manager

Moment #5

Saying it with flowers.

"It was a pretty normal day
as we loaded our vans.

Once we got under way we
called customers as usual to let
them know we were on schedule.
Customers like to know when
we're going to arrive so they
can plan their day.

And what a day it was for one
of our customers! It was their
parents' wedding anniversary and
they told us they had organised
a surprise party for later on.

My mum always told me you
should never go to a party without
something for the host. So we
stopped off at a local Garden
Centre and bought the customer
a sunflower in a bright green
plant pot as a present.

The huge smile we got from the
customer made our day. Being
a driver, I think it's always nice
to go that little bit further."

Gary Archer
Driver

Chairman's statement

Richard Rose
Chairman

I am pleased to report on some significant achievements during our first full year as a public company. Overall Group revenue increased by 23.8% to £476.7m (2014: £384.9) for the year under review, with Group Adjusted EBITDA reaching £8.5m (2014: £11.2m) after allowing for £8m of Europe Adjusted EBITDA losses. Year-on-year UK sales were up 22.3% to £470.8m and UK Adjusted EBITDA was up 47.3% to £16.5m. We have broadened our product range with the introduction on AO.com of audio-visual equipment and we completed our first step in international expansion with the successful launch of AO.de in Germany. Whilst doing this, we have continued to maintain our unique culture and continue to provide a market-leading proposition backed by a level of service that our customers still describe as exceptional.

Our balance sheet remains strong with cash balances at the year end of £44.9m.

The increase in our profitability can be attributed to the year-on-year sales growth and the incremental EBITDA that increased volumes has provided, together with tight control of gross margin and overheads. We are driving our business forward in our core UK market by investing in improvements across AO's retail and logistics operations. This is helping to secure an ever-increasing level of repeat business from our loyal customers, as well as attracting new customers. During the year customer finance was introduced to AO.com which allows us to attract even more customers. Product focused promotions and TV advertising have also helped to drive sales. Ongoing improvements in the website, internal IT systems and management information have been delivered by the team this year also contributing to our performance.

We reported on 25 February 2015 that not achieving the level of UK sales expected as our fourth quarter progressed, despite trading very well through "Black Friday", Christmas and the New Year, impacted on our anticipated EBITDA for the full year. Naturally, we were disappointed to miss our UK sales and profit expectations for the year but we remain focused on achieving high-growth and delivering our long-term plan.

Our strategy to broaden the business continues. AO.com now offers a wide range of audio-visual products ("AV"). The market for AV is significant and we are expanding our internal expertise to capitalise on this with future developments planned to include the sale of our own label products and a wider range of premium models.

Opening a brand new operation in Germany in a relatively short space of time was going to be a real test of our culture and our teams did an excellent job in launching the business in approximately six months. We decided against heavy marketing to allow sales to build naturally so that our teams could gain the experience needed to handle higher volumes and that our processes could be fine-tuned to the German market. We achieved pleasing progress in Germany with the business finishing the year with an annualised sales run-rate of almost £20m and with no national media marketing. Considering we only launched in October 2014 and have only allowed sales to build gradually, this annualised rate of sales provides us with much encouragement. Customer feedback has been exceptional, as evidenced by our Trustpilot score of 9.6 (as at 12 May 2015). As expected, overall in our "Europe" segment we made an EBITDA loss of £12.3m (which includes Germany costs and losses and costs incurred in exploring other territory opportunities on continental Europe). We anticipate trading will continue to yield an EBITDA loss in Europe through this current financial year as we build sales towards breakeven level.

Our progress this year in Germany gives us the confidence that the AO model can translate across categories and borders. There is still a way to go, but we are on track with our strategic long-term plans. Extensive work is underway to research those markets adjacent to Germany where we can leverage our existing infrastructure and grow the business into new territories.

Outlook

We are on track with our plans at this early stage of the new financial year. Although the current trading environment in the UK remains challenging, we are well positioned to compete successfully given the flexibility and efficiency of our business model. Whilst there remains a lot still to do as we build scale in Germany, we are encouraged by our progress over the first six months of trading in our new territory and the run rate of revenues as we exited the year. This gave us a good base to start from for the current financial year and the sales momentum is gathering pace.

As always, we remain focused on the long-term – growing the business by driving profitable market share growth through providing exceptional performance, driving loyalty, reaching out to new customers, maintaining a tight control on overheads and expanding the territories in which we operate.

AGM

Our AGM will be held on 21 July 2015 at the Company's headquarters in Bolton at 10am and I look forward to welcoming shareholders.

Richard Rose
Chairman
2 June 2015

Build

our brand in the UK and Europe.

Drive

sales and profit through innovation, efficiency and happiness.

Broaden

the categories we sell where our business model will work.

Expand

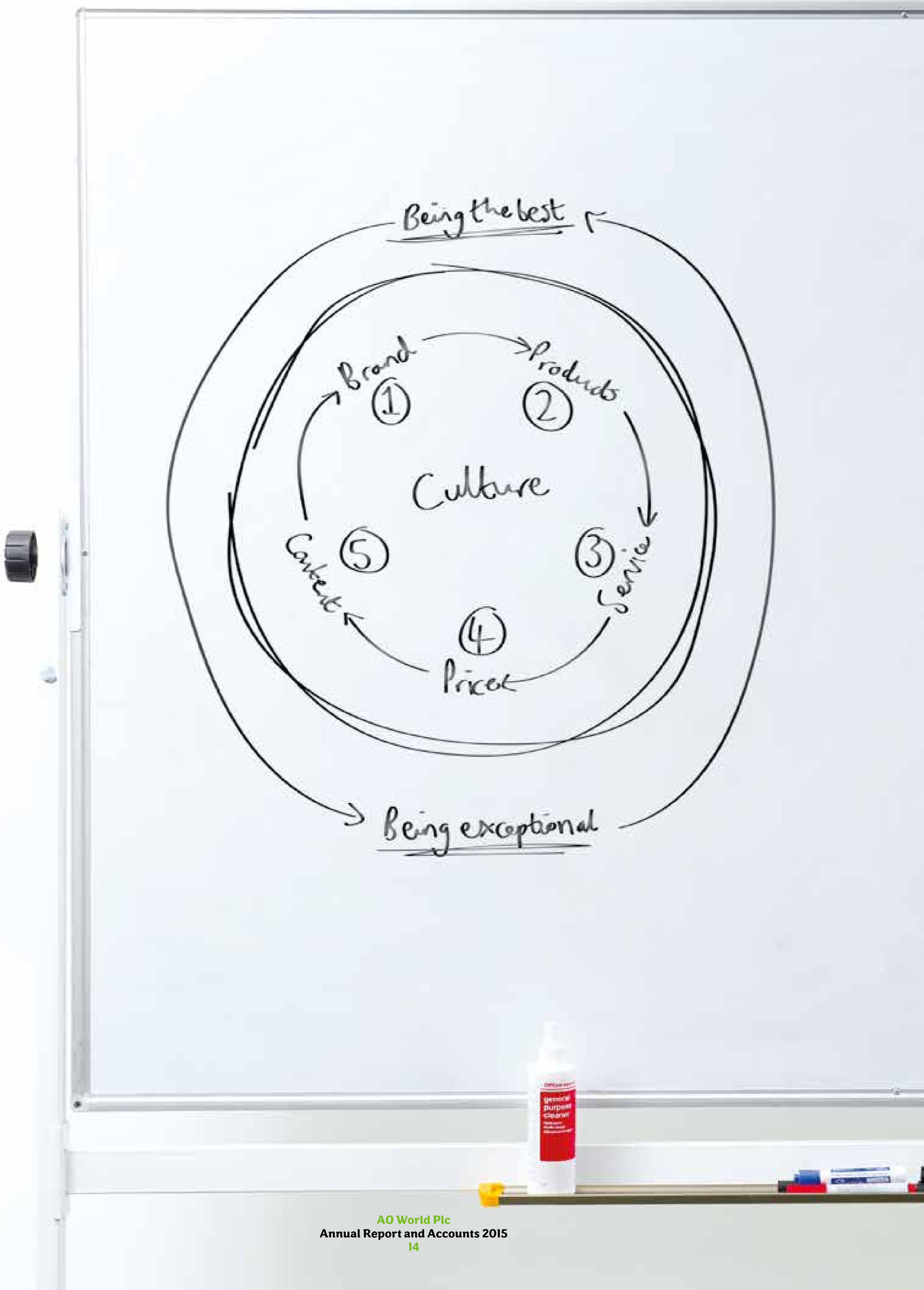
overseas; the launch of AO.de is testament to our ability to execute our promises and replicate our proven business model overseas.

We are on track with our strategic long-term plans and remain focused on driving profitable market share growth through providing an exceptional customer experience.

Find out more about our governance section on pages 42 to 71.

Things I think about in the shower

John Roberts, Chief Executive Officer




Culture: How do we get everyone just to care more?
1 Brand
Who are we?
What do we stand for?
Why?
2 Products
Huge range and great availability.
3 Service
Best proposition delivered in the best way with passion and a bit of fun
4 Price
Unbeatable prices upfront.
Simple: No exceptions
No games
5 Content
Better information to aid the decision process.
The simplest web journey out there.

John Roberts
Founder and Chief Executive Officer

Last year was our first Annual Report as a public company and so it was an opportunity to explain to many what AO.com is about and what it is that makes us who we are.

This year is a more traditional update on the events of the last financial year and our thoughts for the year.

Despite missing our expectations in our last quarter, the headline message is that we are still an exceptional business. The strategic plan we have set out is very much on track; we are investing in the future of our business and making the right choices, not just the easy or short-term ones.

We still have the audacity and courage to believe we can change the way Europe buys its electricals and we believe we can do this simply by caring more and executing brilliantly.

Last year was an enormous year for us with the IPO, but this year has been even bigger and another year of firsts:

- The first time consumers in Germany could taste AO service.
- The first time "Black Friday" mattered.
- The first time we sold televisions.

Germany

Our achievement in Germany is one of our proudest to date. At the time of our IPO last March, launching in a new territory was very much a theory; we had nothing signed, no premises, no staff, no infrastructure and no orders. By October we had built everything and were ready for business.

Our key differential in the UK is that we care more; it's not just a functional order and delivery process but the all-round customer journey – the "AO experience". It starts with a huge choice, great quality content and an easy to use website all with fantastic customer service. In our view, this was not on offer in Germany and so we were intent on establishing, from day one, a revolutionary service of next-day delivery using our own fleet of vehicles with our own drivers delivering the same level of passion and service that we do in the UK. Leveraging our culture and our in-house systems was not for the faint hearted or for those thinking short term.

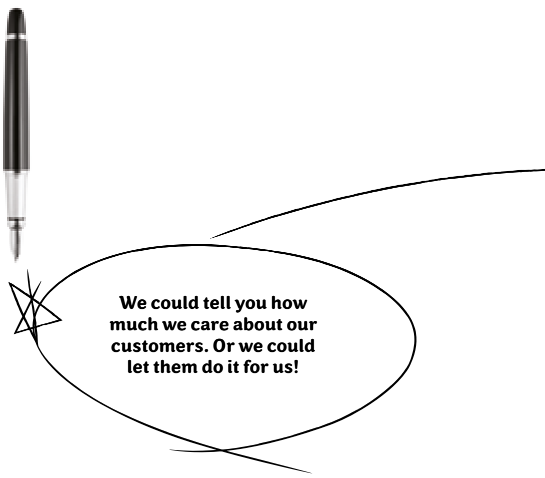
To replicate the culture that we have in the UK whilst allowing for local nuance and integrating over 200 new members in our team in only six months was truly a humbling achievement. The team in Germany sees that AO is not a job, it's a way of life, just as our people do in the UK.

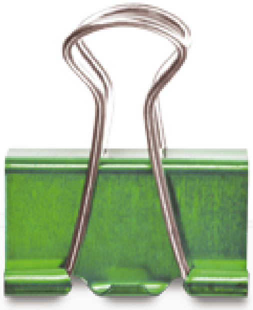
We have been delighted by what we achieved in Germany and opposite are some examples of what customers think of the service. Our Net Promoter Score ("NPS") since launch has been over 90 which would be exceptional for a fully established business, let alone one with a new concept in a new territory.

Our biggest challenge in Germany so far has been winning the hearts and minds of the brands. This is something we continue to invest huge amounts of time and energy into and I'm pleased to say progress has been swift. 15 years of progress in the UK has been compressed into 12 months in Germany with significant strides being made and positions materially advanced from a year ago.

We always believed that our IT systems could be easily replicated internationally, and our experience in Germany has proven this to be true. Our continued investment in our IT platforms gives us a significant long-term strategic advantage.

We're now focusing on what is possible by when. There is much to do but nothing we have seen in Germany concerns us when we sense check against our macro plan and so we are excited to be accelerating our thinking of what is possible on the timings of further European roll out, safely.





Quotable quotes:

"You're putting old fashioned great service into a new world online."

UK

"Really first-class service."

Germany

"It's everything online shopping should be."

UK

"Wunderbar."

Germany

"Way to go AO!"

UK

"Black Friday"

Our IT systems proved more than capable to cope with unprecedented levels of demand on "Black Friday". Our customers could all buy without website crashes and we didn't have to introduce the quite bizarre concept of queuing to enter a website. Crucially our delivery performance was unaffected by the increased demand levels, which meant that our customers got what they ordered when they were expecting it. The extent of the hysteria took most of retail by surprise and it's a phenomenon that we have learned a lot from.

Big spikes are not efficient for retail, but this feels like a concept that is here to stay.

We did what we always do – we put the customer first and reacted quickly to demand and responded in real time to the pricing strategies of our competitors.

TV

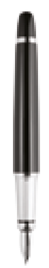
Moving into a new category was another part of our strategy at the time of IPO. We knew we could replicate our model and sell TVs by partnering with many of our existing brands and leveraging our existing infrastructure; many TVs are now big enough that they require two people to deliver them and our model is perfectly placed to do this.

As with our launch in Germany the biggest challenge has been convincing the incumbent dominant brands of the value that our route to market offers them. We are very encouraged by the progress we have made.

Again using our cookie-cutter approach, fulfilment, customer service and proposition for the new category have been easy to deliver and the category has fitted neatly into our existing offering. Customers have welcomed our simple and straight-forward approach to complex technologies and the percentage of orders generated from our existing MDA (Major Domestic Appliances) customers gives real confidence on the future benefits of cross pollinating new categories.

So that was the firsts...

However, we are not forgetting what got us here in the first place and remain focused on our core UK MDA business.



The good news is that none of our customers got injured trying to buy our products!

Despite missing market expectations we have taken market share in the UK MDA and our UK sales growth and UK Adjusted EBITDA growth is impressive. There will be bumps in the road but our key offering has remained strong – our unbeatable prices, huge range and amazing service mean our customer satisfaction levels remained exceptional and will continue to be so. We are forever enhancing our content and looking for new ways to drive engagement and make today's web experience look old fashioned. One of our key objectives for the year ahead will be to build our brand awareness; the AO brand is effectively two years old and will continue to be a primary focus over the next few years. We have been working to simplify our message and how we best define the AO brand. We have amazing assets to leverage such as our 1.6 million plus Facebook community and our existing customers who know how great our service is and are our best form of advertising. We're hugely excited by what we have ahead. Our brand awareness (or lack of it) remains our biggest weakness and thus our biggest opportunity.

None of what we achieved last year or the progress being made in the current year would be possible without our people and I'd like to thank all our staff and drivers, both here in the UK and abroad, for their sheer hard work, passion and dedication to our cause. People ask me how do we get people to care the way that we do? I've always said that you can't pay people to care and the truth is we're picky and obsessive about it; we select the right people to begin with, people who live and breathe our values and we create an environment for those with the brightest minds and the biggest hearts to thrive. It's not just the business that benefits; we continue to have a positive impact in the communities in which we operate. This enables our people to be proud of the AO badge they wear. We had another sensational evening supporting Comic Relief and our affiliation with AO Smile Foundation enables us to help them change people's lives. Our team have made a great social impact through a number of other initiatives that are worth dwelling on for a minute or two on page 32 – after all it's not all about the money.

In summary, it has been another positive year with its challenges and learnings and many more standout achievements that are covered in the report. We have stayed true to our long-term commitments and vision while embracing the lessons learned.

Our passion for our customers, our people and all stakeholders has never been bigger and our determination to make our plan a reality is unwavering.

John Roberts
Founder and Chief Executive Officer

Firsts from our first full year as a public company

The first time consumers in Germany could taste AO service.

The first time "Black Friday" mattered.

The first time we took on apprentices.

The first time we sold televisions.

The first time we experienced a national driver shortage.

Strategic objective 1:

Build

Build our brand
The AO brand is only really two years old and brand awareness remains our biggest weakness and therefore our biggest opportunity. Unprompted brand awareness is relatively low and is one of the key things we are striving to build on in the year ahead applying the lessons learned to date. We know we have good assets to leverage, such as our 1.6m+ Facebook community and high customer retention rates, but attracting new customers is key. Increased brand awareness should drive growth and lower the overall cost of customer acquisition.

The risks affecting our brand are highlighted on page 40.

Performance this year

We have continued to deliver a great proposition and service this year, which our customers describe as exceptional. Much of the increase in brand awareness this year has been helped by our existing customers singing our praises to their friends and families, which has been supplemented by some national TV advertising and social media campaigns.

Towards the end of the year, we started to dress some of our local delivery vehicles in the AO green and with the AO.com logo and these can now be seen driving through towns and cities, giving us more of a physical presence in communities and advertising the brand.

Priorities next year

This year one of our key focuses is to really build awareness of the brand. We are engaging with a number of different brand agencies to find a better way to engage new customers and leverage the advocacy of our existing ones. We will conduct national advertising campaigns across a variety of media to highlight our quality of service and target key audiences while also continuing to develop our social media and direct marketing strategies.

Strategic objective 2:

Drive

Drive our market-leading proposition forward and increase our share of the UK online market for MDAs
Our key offering remains strong; our unbeatable prices, huge range and amazing service means our customer satisfaction levels remain exceptional. We remain the leading player in the UK online MDA market having gained further market share this year (see page 22 for market data) and the number of SKUs available for next day delivery is significant.

The risks affecting our progress in our core market are on pages 40 and 41.

Performance this year

We have continued to invest in our content and our digital marketing strategy, to improve our relationships with our partners of choice, define demand and to offer an exclusive range of products.

Our promotional campaigns have matured with the introduction of product focused advertising and a variety of price-centred offers.

Engagement with customers has remained a top priority during the year and our customer base and our Facebook "likes" have continued to grow as have our customer reviews, all helping to drive our repeat purchase rates. Despite unprecedented demand over the "Black Friday" period and a shortage in drivers due to legislative changes, we have maintained our high deliver-to-promise rates. Installation services have been enhanced with the national roll-out of premium installation. Customer finance was introduced to AO.com giving customers more options in their purchasing patterns.

Priorities next year

To do more of the same; enrich content, refine the web journey and develop relationships, particularly with SDA and AV suppliers. We will also look to introduce more own-label branded products and conduct more focused and targeted advertising at distinct consumer groups.

Strategic objective 3:

Broaden

Broaden the range of products and services we offer
We believe we can replicate our MDA model across other categories by leveraging our existing relationships with the brands and existing infrastructure.

The market for Audio Visual ("AV") is significant; larger than MDA and more concentrated than SDA. Sale channels and distribution methods play to our strengths and the categories also offer future add-on technologies.

Our broaden risks are discussed in the Risk Review on page 40.

Performance this year

In May 2014 we added a new category to our retail proposition and started selling TVs, sound systems and ancillary equipment to our customers. In doing this we have developed our relationships with our existing brand partners who operate in this category and have built new relationships to broaden our range to include the latest technology.

Customers have welcomed our simple and straightforward description of complex technologies, various payment options and availability for immediate delivery and we have gained a good foothold in the market this year.

Priorities next year

In the year ahead we will continue to expand aggressively in this category. We will develop our ranges to include 4k, curved and OLED technologies and a better range of Smart TVs. We will look to develop our own label brands and bundle ancillary products into offers while tailoring our existing high quality service proposition to this category.

Exploration into further categories which complement our existing ones continues.

Strategic objective 4:

Expand

Expand into other European markets
Our progress this year in Germany gives us the confidence that our model can be replicated overseas and our systems are fully transferable. The market-leading proposition we have in the UK has been rolled out in Germany and has found favour with the German consumer with feedback and reviews stating AO.de is “wunderbar”. We believe we have disrupted the German MDA market and will continue to do so as we build and grow.

The risks to our expansion in Europe are specifically discussed in the Risk Review on page 41.

Progress this year
Our theory was put into practice as AO.de was launched in Germany in October 2014. It is currently focused on the MDA market. This market is significant and demographics are similar to those of the UK but with the online proposition lagging behind. There is much to capitalise on and much progress has been made since the initial launch, including tailoring the site so it is more in-tune with the German “Denkweise” (mindset) and launching our German eBay store. A country wide end-to-end proposition is in place and we are pleased with how this has been accepted amongst German consumers and how our culture has translated.

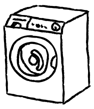
Priorities next year
Our key priority in the current financial year is to grow volumes, drive efficiencies and increase brand awareness in Germany while continuing to deliver a market-leading proposition. As with AO.com we will continue to enrich content and streamline the web-journey to convince German consumers our way is a better way to buy the category.

Extensive work is underway to understand how we can leverage the infrastructure we have established in Germany to reach adjacent markets.

Trends and insights in our markets

UK Major Domestic Appliances (MDA)

Link to strategy:
Drive, Broaden.



The UK MDA market is estimated at £3.6bn inc. VAT.

13%

It is estimated that AO's share is 13% of the total UK MDA market.

The UK MDA market is estimated at £3.6bn inc. VAT, being management's best estimate based on a number of sources. Recent growth has been driven in part by increased UK households as a result of Government backed Buy-To-Let schemes and reduced Stamp Duty Taxes stimulating home movers.

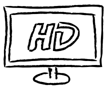
The market continues to be dominated by the top four manufacturers which account for over 50% of the market (Top 10 have 73%) hence AO have further continued to invest in long-term strategic partnerships with their key suppliers.

Despite the growing UK MDA market, AO has also gained market share. It is estimated that AO's share is approximately 13% of the total UK MDA market.

The MDA market is predicted to grow by 3.1% each year (CAGR) between 2014 and 2019.

Other UK – Small Domestic Appliances (SDA) and Audio Visual (AV)

Link to strategy:
Build, Drive, Broaden.



AO successfully launched into the £4.2bn "AV" (Audio Visual – TVs, Home Entertainment Systems, Soundbars, accessories etc.).

£1.9bn inc. VAT

The UK SDA market which AO operates in is worth approximately £1.9bn.

AO successfully launched into the £4.2bn "AV" (Audio Visual – TVs, Home Entertainment Systems, Soundbars, accessories etc.) market in May 2014, allowing AO to further leverage its logistics infrastructure. The top four major manufacturers account for 63%, with whom AO have established strong trading relationships, resulting in improved ranging and competitive pricing. During the year, AO also introduced its own-label brand "Techwood" to better compete with entry level models offered elsewhere in the market.

This year has seen further technological advancements such as Ultra HD and OLED, stimulating demand for high end TVs. Increased digitalisation of media services such as LoveFilm, Amazon Prime and Netflix has meant that consumers are increasingly demanding affordable smart and connected TVs as traditional set-top boxes decline.

After a full year of trading in the SDA market, AO has developed key relationships with Dyson, Vax, Daewoo and Sebo to further enhance the Small Appliances and Food Preparation range and proposition. The UK SDA market which AO operates in (i.e. Small Appliances, Food Preparation, Floor Care) is worth approximately £1.9bn inc. VAT and is predicted to grow by 2.4% each year (CAGR) between 2014 and 2019.

Channel switching

Link to strategy:
Drive, Expand.

Online migration is set to continue.

c.40%

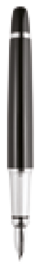
MDA continues to have the highest online penetration rates of consumer goods (c.40%) due to not being a "take home today" product.

The UK is the most technologically advanced country in Europe, with the highest levels of internet access, online penetration and smart device usage resulting in continued migration to online, albeit at a slower rate than experienced in previous years.

In the Electricals market in the UK and across Europe, MDA continues to have the highest online penetration rates of consumer goods due to them not being a "take home today" product. Online shopping provides greater choice and flexibility in the purchase process for consumers and with the increase of tablets, consumers are finding it easier to shop online.

Management estimate that AO's share of the online UK MDA market is approximately 34%.

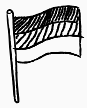
Note to readers: figures contained in this section are management's best estimate based on a number of sources including the OC&C Report 2013, prepared in conjunction with our IPO, recent Euromonitor Data, Google Barometer and other industry information.



Point four of our strategy on page 21 tells you more about how we have done in Germany and our priorities going forward. We believe AO.de provides us with a launch pad for other European markets with similar dynamics.

European Markets

Link to strategy:
Build, Expand.



Compared to the UK, the rest of Western Europe indicates excellent growth opportunities as internet access increases.

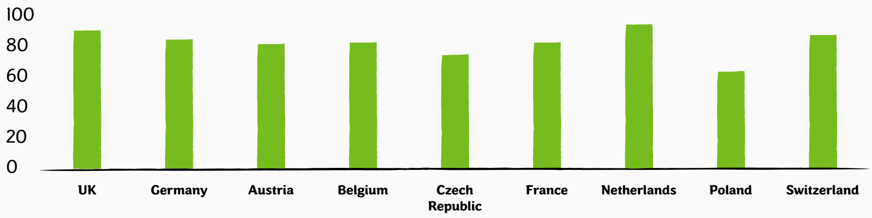
£7.2bn
inc. VAT

AO.de was launched in Germany (initially selling MDAs only) entering a market worth approximately £7.2bn inc. VAT.

In October 2014 AO.de was launched in Germany (initially selling MDAs only) entering a market worth approximately £7.2bn inc. VAT. Germany continues to present strong growth prospects for AO due to the current low online penetration rates and high migration to online that is being experienced.

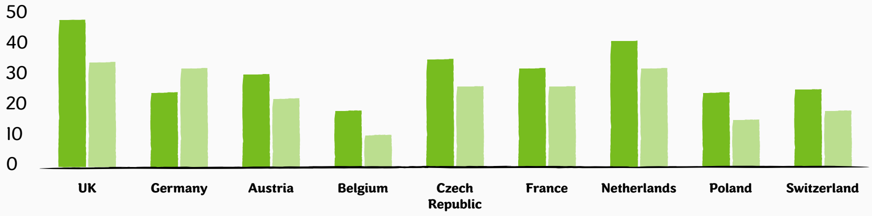
Compared to the UK, the rest of Western Europe indicates excellent growth opportunities as internet access increases, availability of affordable high speed internet improves and the adoption of smart devices continues to grow.

Percentage of population with internet access
(%)



Source: WorldBank

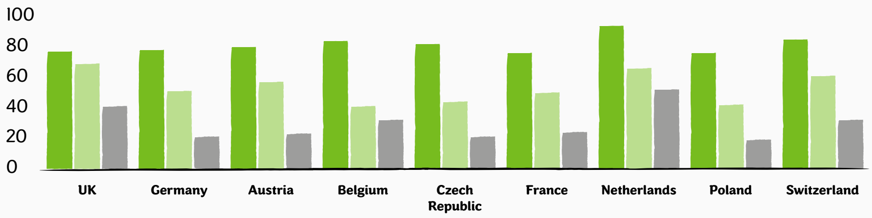
Online penetration purchases
(%)



Home appliances TV

Sources: WorldBank and Google Barometer

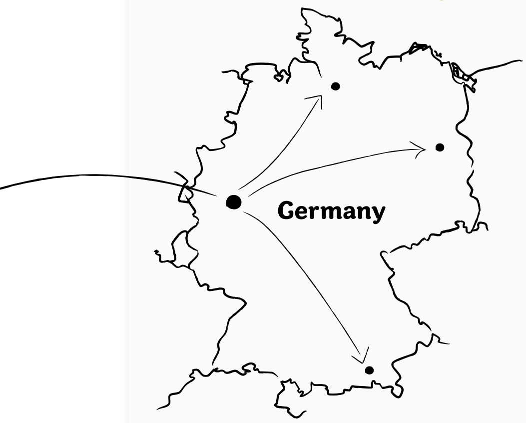
Device penetration
(%)



Desktop Smartphone Tablet

Source: Google Barometer

Last year launching in a new territory was very much a theory.

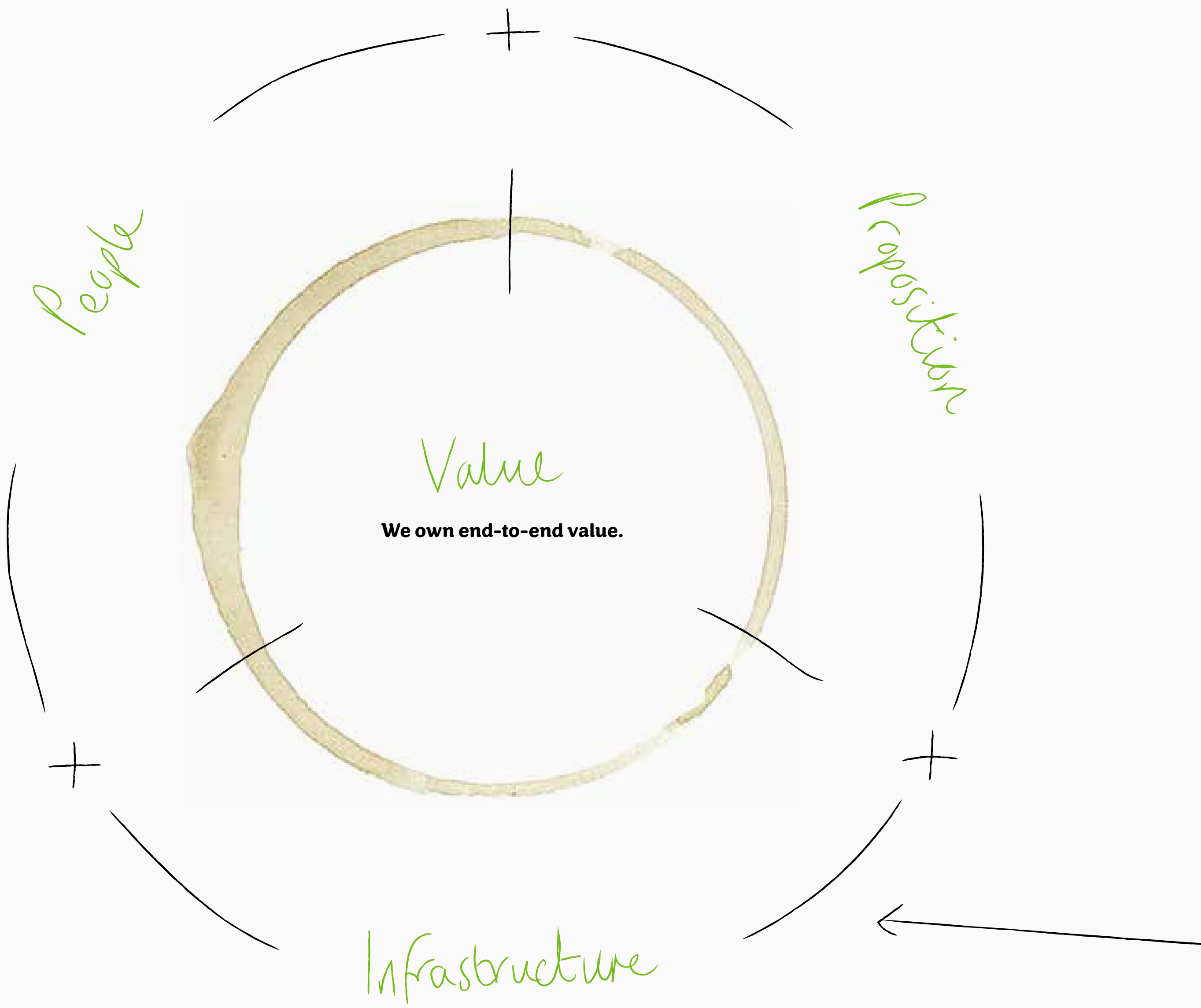


Our business model

There are two key facts about our business model. The first is that it is proven: we built it, we understand it and it works. We believe that our fully in-sourced online proposition provides structural advantages over our competitors. It allows us to:

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

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



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

The model itself consists of three main elements. These are our:
- **Proposition**
- **People** and
- **Infrastructure**.

The factors that could impact our business model and future performance are considered in our disclosures around principal risks and uncertainties on pages 40 and 41.

Proposition

Our mission is to become the best electrical retailer in Europe. We will do this by being exceptional in the moments that matter and simply by caring more.

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

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

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

Range: We offer an extensive range of MDA items – almost 4,000 SKUs and we are growing our range of SDAs and TVs. This is significantly bigger than any store can offer. In Germany we have over 1,700 MDA SKUs and it's growing fast.

Delivery: Our in-sourced seven-day delivery (six in Germany) is the best in the market for free delivery. We also offer a wide range of delivery options including next-day and same-day delivery. We can also install new appliances and remove and recycle the old ones too. A lot of TVs are so big now they often also need a two-man delivery.

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

None of our competitors offer the range of products for next-day or same-day delivery that we do.

People

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

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

Infrastructure

Most of the IT systems we use were developed in-house. This means that we can – and do – adapt them in order to improve customer experience. It also means that they are scalable, transferable and reduce our reliance on third parties while making sure we get all the benefit of operational gearing from our investments and long-term view.

Key bespoke systems include our website and subsequent order management and warehouse management systems. Our existing IT infrastructure has the capacity to handle planned growth and more. We have proven in the year how successfully our operations can be replicated internationally.

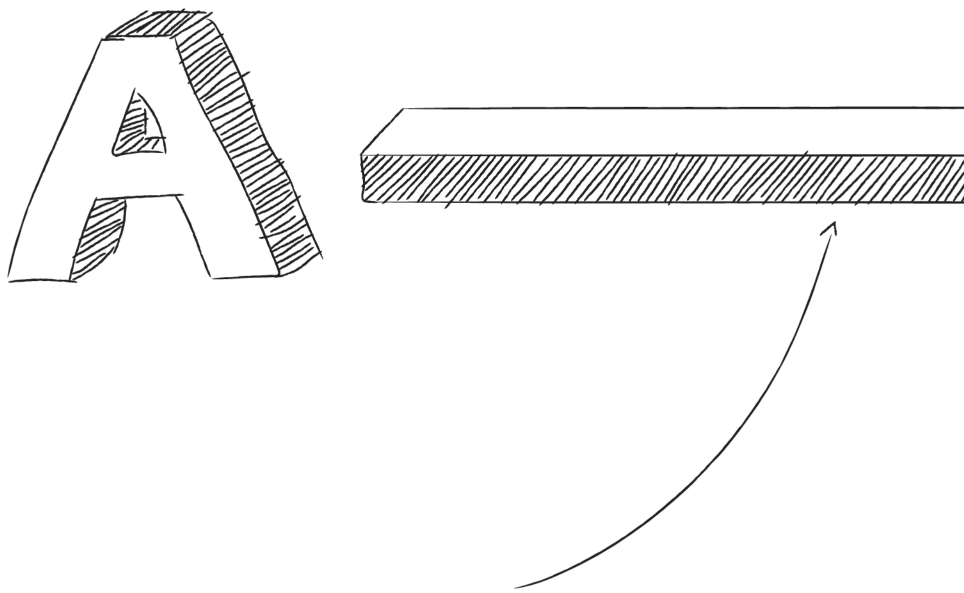
Within both the UK and Germany we also have our own national delivery fleet operating out of a central distribution centre with a network of outbases across the country, which gives us control over our entire distribution chain – from the online purchase of an appliance through to its delivery to the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

Our model is based on a wealth of knowledge and proprietary systems built over many years.

Check out 'Our Performance' section on page 36 to see how all of this comes together.

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

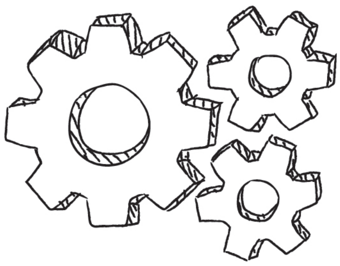
Our success to date has been based on a number of key elements: our customer service; our culture; our processes and systems and our supplier relationships.



Everything you ever wanted to know about AO but were afraid to ask.

Suppliers

We are reliant on our suppliers and see our role as being the shortest/most direct link between them and the end user – our customers.



We think a lot about and invest in how we add value for supplier brands to be the trusted partner in our channel and we always think long term.

Supplier relationships

Relationships

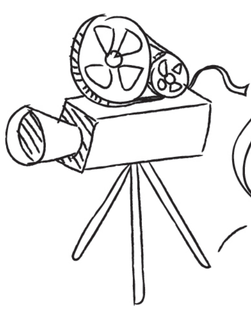
There is considerable interdependence between us and most of the relationships have been in place for many years.

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

Our online platform includes detailed technical information, customer reviews and product and price comparison tools, which are not available in stores.

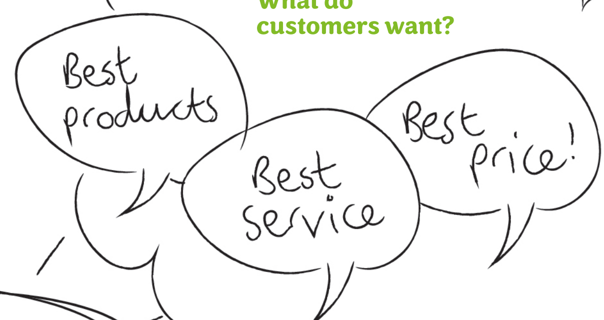
Bringing products to life

We provide video reviews of products that are available on AO.com to bring products to life and help define customer demand. These are produced in-house and represent part of our end-to-end service offer.



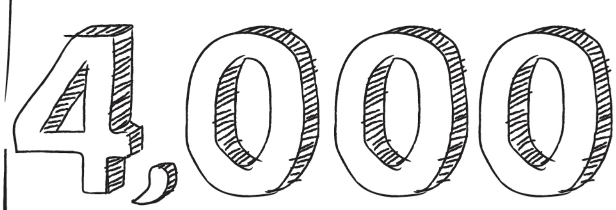
Customer relationships

What do customers want?

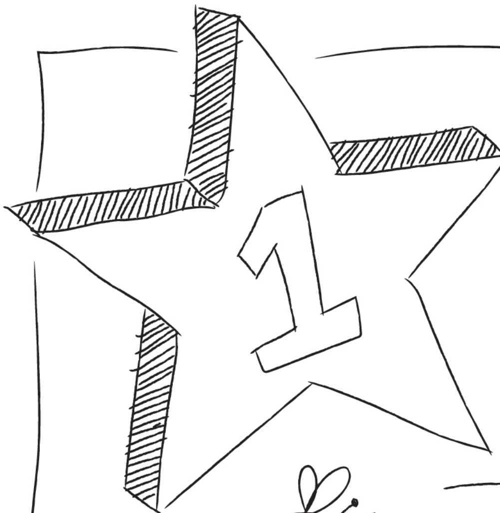


So that's what we offer...

...as a result customer satisfaction levels are high. We rank an "excellent" 9.7 on Trustpilot for AO.com and 9.6 for AO.de. Our NPS scores are very high too.



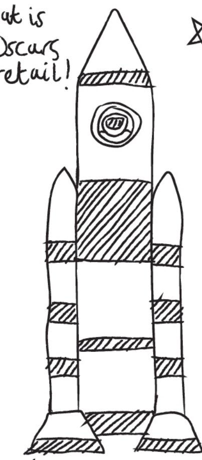
We offer nearly 4,000 MDA SKUs in the UK and over 1,700 so far in Germany, a price match promise and deliver seven days a week at no extra charge. Our TV range is growing too. A vast majority of these products can be delivered next day or same day. None of our competitors can offer all that.



Awards

In March 2015 we won Deloitte Employer of the Year at the Retail Week Awards. ← that is the Oscars of retail!

For a full list of the award we won this year go to the inside back cover of this report.



Strong management and culture

Our employees

Happy people care more and require a lot less management. So we make sure they're happy by giving them autonomy where appropriate, support where needed and a great environment to work in. They are empowered; they are incentivised; and they know they are trusted. We love watching them grow and thrive.

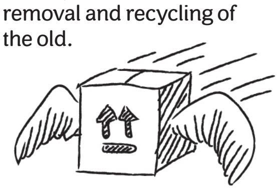
Our team

There are nine of us on the Group Executive Team and we have an average length of service of over eight years. It means we know the business inside out, trust each other and communicate almost telepathically. The pace and energy it fuels is intoxicating.

Deliveries

Our UK in-house delivery system runs from Crewe and eight stockless outbases around the UK, and in Germany from our NDC in Bedburg to currently three outbases around Germany with more on the way.

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



Customer facing

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

We obsess about just how we sprinkle our "just care more" pixie dust at every customer touch point

Processes and systems

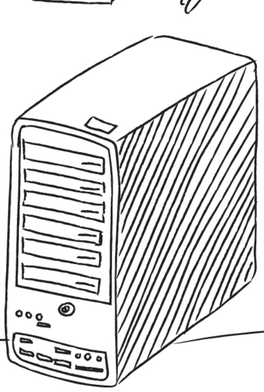
End-to-end service

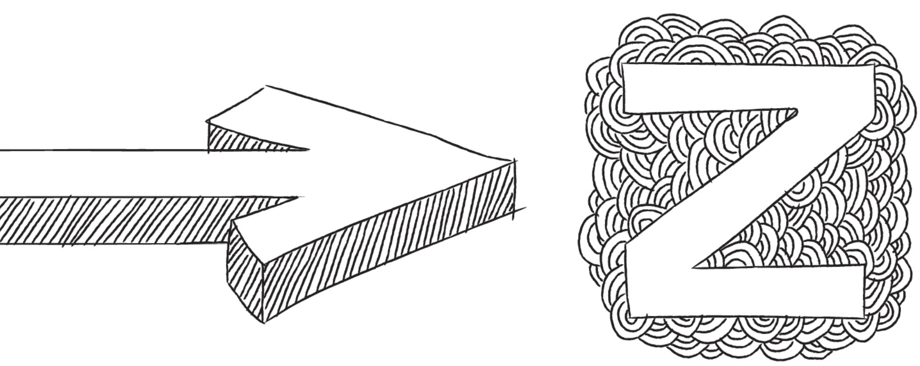
We now run a dual branded fleet as our two-man delivery service is also used by a small number of third parties who ask us to deliver their own products through our network on their behalf.

IT

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

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



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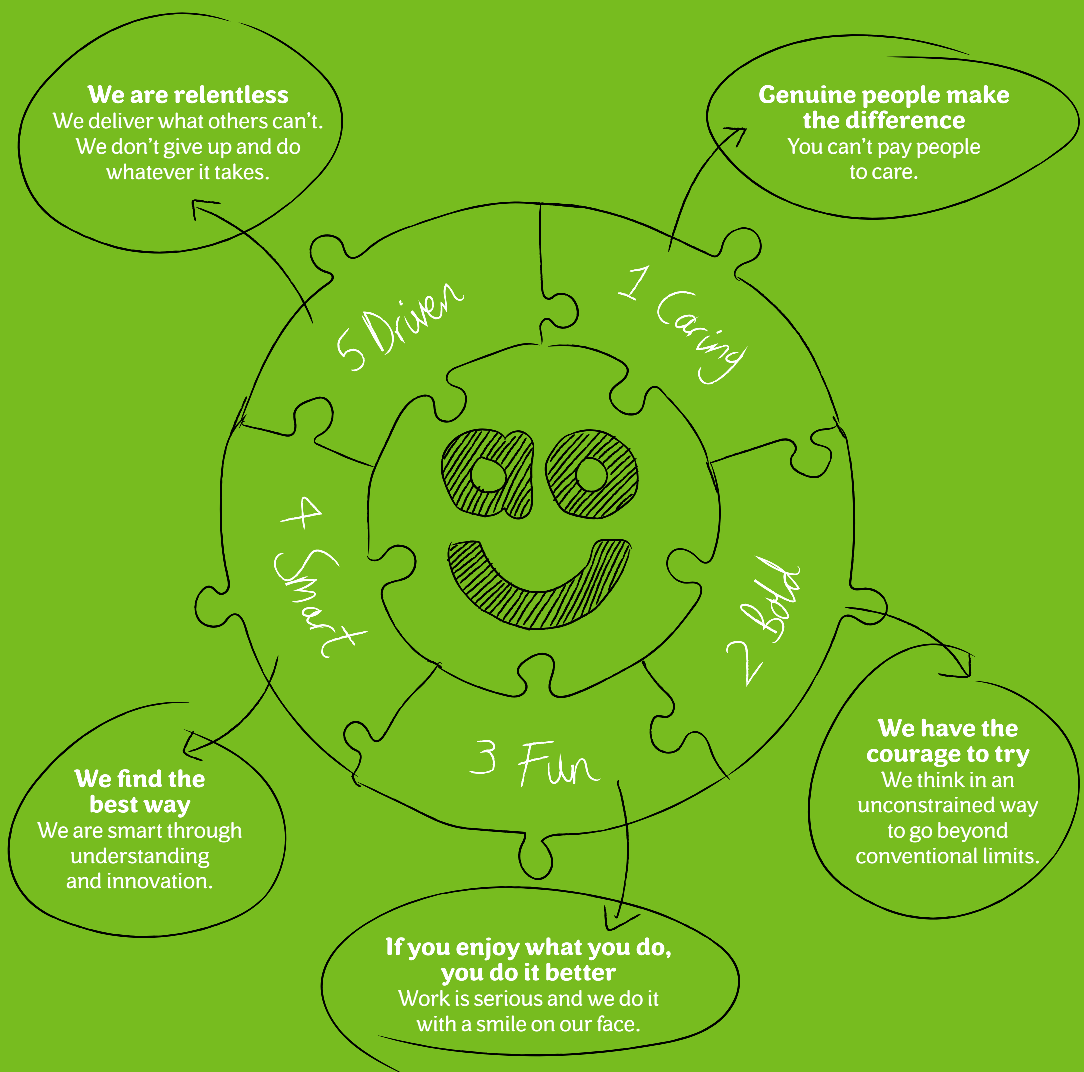
This year we redefined our five core values across the business.



We live and breathe these values…

…It helps us all to row in the same direction.

People are our business…
As we have broadened and expanded the business this year, maintaining our culture was of paramount importance.

We have continued to do what is best for our employees as we do for our customers and this means supporting our people through good and bad. We care, we support, we provide an environment in which our employees can flourish. We celebrate when things have gone right and if things don't go quite to plan we all rally around each other. Above all we work together as a team.

At AO we believe that happy staff equal happy customers, and our unique culture hinges on the belief that you can't pay people to care and you can't tell people to have fun with customers; they've got to want to. Recruiting, engaging and retaining staff with the right AO DNA is of uppermost importance to us and we have spent the last year creating a working environment that supports our values.

The result is we have employees who live and breathe our values; they care about the customers we serve. This focus on our people and culture was recognised by the industry when we were awarded the Best Employer Award at the Retail Week Awards 2015.

Featured value #1: Caring
An early foray into Europe for AO
In my previous life as a Customer Service agent, I spoke to an elderly chap who was having trouble understanding the instruction manual for his washing machine – it turned out that the gentleman was a British ex-pat living in France, and had bought his machine from a local dealer. Even though he wasn't one of our customers, I posted out an English version of the manual he needed. About a year later, I got a call from reception to say I had a visitor… unbelievably, he was in the UK for his Grandson's wedding and had stopped by to say thank you for my help and to deliver a bottle of wine from his own vineyard!

Daniel Leyland
Senior Operations Analyst

Featured value #2: Bold
Running to work
I had only been training for two weeks when a colleague said – why don't you run to work tomorrow. I said that was ludicrous as it was a 36 mile trip (12 miles was the furthest I'd ever ran) – I then said if you can raise £250 by the time I come out of my hour meeting I'll do it. An hour later he'd raised over £400. I set off at 2am, got into work late at 9:20 – but the whole business (even the senior team stopped their meeting to come outside) was there to welcome me.

Colin Steele
UI Design Manager

Employee empowerment

We are big on empowering our people. After all, happy employees are more engaged, deliver better service and require less management. Over the last year we have focused on giving employees autonomy, where appropriate and support where needed. Our staff are empowered and trusted to do what is right and fair by our customers, and as a result we are seeing more customers than ever returning to AO to shop.

In preparation for our continued growth, we launched our first Group intranet; called "The Fridge" this is to ensure people can collaborate across different offices and countries. "The Fridge" is a social intranet that allows individuals to connect with each other, share ideas, best practice and update each other on progress across different areas of the business through status updates, comments, likes, shares and groups.

Featured value #3: Fun

It's a Knockout!

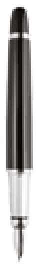
We had only been live for a number of months at Crewe when we took a coach load of old and new employees and their families to compete in the local "It's a Knockout competition". I jokingly told everyone that they would not be allowed back on the coach unless they won. They literally took me on and, guess what, they all pulled together and won. This was the beginning of the competitive DNA growing in our business.

Julia Bent
People Development Manager

"The Fridge" is a key part in strengthening the culture across the Group in our UK operations and to instil it in our new overseas colleagues. There have been some incredible examples of people going the extra mile to help our German colleagues find their feet and learn processes, strategies and we are delighted with the way our culture has transferred to our new territory.

We also have our monthly "state of the nation", which updates our colleagues on business activities as well the social side of life across the Group. In February this year we launched our second save-as-you-earn scheme which was open to all employees who had passed their probationary period. Once again the take-up was strong with 17% of eligible employees participating in the option scheme.

AO is also committed to an equal opportunities policy. We aim to ensure that no employee is discriminated against, directly or indirectly, on the grounds of colour, race, ethnic or national origins, sexual orientation or gender, marital status, disability, religion or belief, being part time or on the grounds of age or frankly anything else and recruit on this basis. Across our business of approximately 1,450 employees, female employees represented approximately 30%; although there are no females on the Group Executive Team, 28% of the senior management team were women, as at 31 March 2015.



Apart from people who don't care of course... We don't want them!

Featured value #4: Smart
Breakfast bet

I once had a bet with Steve Caunce that I could redesign the Appliance Deals website in record time. His wager was that if I got the work done he would take me for a round of golf with a full English breakfast afterwards. Sure enough, I did the work on time and Steve was true to his word and came through with the golf and the food.

Johnny Shepherd
Software Developer

Featured value #5: Driven
You can't "process" commitment

I remember when we won our first key client and that they asked for our Customer Service Process Manual – an encyclopaedia of all our processes covering "what if" situations on a customer journey. The big obstacle was that we didn't have one all in one place during the early days! We worked tirelessly for a couple of weeks. It made us think about the entire customer journey, in detail. On the day of the presentation we had three copies of the manual. The Head of Customer Services for the client said, "If you don't mind we don't need to run through it with you, it's just great to know you have everything documented!"

It actually forced us to do the right thing for the business, challenge what we did, and make improvements where we needed to. Importantly, it focused on ensuring we did the right things for the customer. All of which remain at the backbone of the business today.

Martin Hanley
Director of Business Development

Investing for the future

With the UK facing a digital skills gap in years to come, a huge challenge facing UK businesses is the predicted shortage in digital skills, with the UK needing a minimum of 745,000 digitally skilled workers by 2017, with over 169,000 of these being young people. Last year we initiated programmes to build and nurture a future AO talent pool.

As part of our programme to develop the next generation of leaders, we enrol our younger colleagues on the Duke of Edinburgh ("DofE") scheme. The programme is focused on instilling the values and behaviours that make AO what it is and what it will be in the future. It enables employees to develop their own skills while also enabling them to give back to the local community. Twelve people achieved their DofE Golden Business Award in September 2014, and 23 others continue to progress on the scheme.

We also became one of the first UK businesses to launch a digital apprenticeship scheme, which was undertaken in conjunction with a number of certified providers. We held our first AO Apprenticeship Challenge where we invited 20 people from four local schools into our head office for a challenge, culminating in presentations to John Roberts. The successful seven now have apprenticeships in our IT, marketing and facilities functions, learning the secrets of e-commerce and gaining a broader understanding of life in a fast-paced business environment. See the following page for a day in the life of one of our apprentices, Jacob Grigg.

Other people initiatives launched in the year include the Driver Academy which develops and trains existing and new drivers to achieve the new EU regulated CPC qualification; our Star programme at Crewe where people who show potential are put on a special scheme to nurture and develop ability; and our cycle to work scheme that not only helps the environment but also keeps our cyclists as fit as fiddles!

Jake's story

I'll start right from the very beginning of my "AO experience" shall we say. I remember the first time I walked into the building for my interview at 9 am, after a 5.30 am start to get here on the train. Obviously I'd done my research and I was thrilled that I'd been given an interview. It was a group interview and everyone was waiting in reception together. There were the awkward "hellos" as you could tell everyone was weighing up the competition... Well, I was! Anyway, long story short it went swimmingly and I was called back for a second interview, which didn't go quite as well as the first and I wasn't sure whether I'd blown it! But luckily after what felt like a lifetime of waiting I got the call from the recruitment team to say I'd got the job! I was over the moon; I obviously had my doubts with having to leave home at 17 and everything, especially as I struggled to cook, wash or look after myself in any way, shape or form but I sorted somewhere to stay in a room down the road and I was ready to face whatever the world had to throw at me... Well, almost!

A fortnight after receiving the good news my first day arrived at long last! I was pretty nervous but soon felt far less on edge after the infamous induction tour, which I think could make most people forget any nerves. I was then introduced to my team; the projects and optimisation team and my manager Nicole. Everyone was really lovely to me and made me feel comfortable almost before I'd sat down. I learnt a lot in my first couple of months and gained exposure to things I may never have otherwise had the chance to learn about, which was great! After a couple of months it was time to dip my toes into a new World and fortunately Nicole introduced me to a certain Yossi Erdman, who I was of course well aware of due to the captivating fortnightly live streams. Yossi asked me if I'd be interested in having a go at some work on social and the rest is history!

After being told what to do, I created a twitter account named @JakeAtAO and tweeted a little bit mainly about things I was interested in and then I was told I was going to be given a kettle to give away. This may not sound like much... but for me this was pretty exciting! This went really well, loads of people were talking to me on twitter and it got over 600 retweets; for someone who on their personal twitter had only ever achieved seven retweets I was almost considering investing in some small domestic appliances myself!

After a couple of weeks of tweeting my desk was moved over to the brand team; although I was sad to leave my first ever desk I was excited to be having a fresh start in a role that I was really enjoying. I felt at home almost straight away in the brand team and I'd like to think I get on with all the team!

After joining the brand team and using my twitter account I was given the massive responsibility of the official @ao twitter account, which I was actually both surprised by and quite proud of the fact I was being trusted with it really, I was eased into it until eventually being given full responsibility for AO's twitter. This was at first pretty scary but I would like to say I thrived under the responsibility and over 90 days the twitter account had gained over 4,000 new followers, which I'm quite proud of. I've also learnt some of the basics on Photoshop so I'm now able to create my own images for twitter competitions.

I've also contributed to blogger outreach campaigns, set up promoted twitter campaigns, assisted the team with some of the planning for the recent Media event; as well as featuring regularly in the live stream, I've tried my hand at cordless vacuum racing which is a must try! Last, but not least I'm now making waves in the modelling world, as I make fridge freezers look bigger than they actually are... I've also been given the amazing opportunity of doing the DofE Gold Business Award.

Overall my experience at AO has been brilliant and I look forward to what will hopefully be a bright future here...

Jake Grigg
AO Digital Marketing Apprentice

Community engagement

AO actively encourages all employees to support and give back to their local community and the AO Smile Foundation was launched during the year to facilitate this. Fifty-three per cent of our UK employees now make a regular monthly gift to the charity, and during the year over £50k was raised through payroll giving, which makes the process of giving as easy, flexible and tax efficient as possible. The Foundation holds a Gold Award from the Institute of Fundraising, and the Group supports the charity by providing, free of charge, a charity manager and other services such as financial, payroll and legal support.

During the year AO also supported Comic Relief's Red Nose Day; all of our trucks were dressed with the infamous red noses and we transformed our customer service centre to be an official Red Nose Day call centre. Almost 150 employees gave up their time on a Friday night for Comic Relief and over £57k was raised for the cause.

We also encourage colleagues to have a positive impact within their local communities and give each employee two "make a difference" days per year to work with a charity.

We have also joined forces with "Money Saving Movement" ("MSM") which is a new social enterprise with Government backing and National Lottery funding. MSM is looking to provide more affordable white goods to those in relative poverty, giving people an option not to have to purchase goods on expensive finances. We will be providing MSM with a select range of products which will be made available to MSM customers.

Keeping people safe

We're committed to maintaining the highest standards of health and safety practices for our employees, customers, visitors, contractors and anyone affected by our business activities. Health and safety is a standing agenda item and a full report is made to the Board on a quarterly basis. We've continued to embed Health and Safety responsibility into our AO culture, increasing awareness across the business via a number of campaigns, such as "see it, sort it, report it". We are replicating this structure within our new German territory.

Environment

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

To ensure minimum environmental impact all handling processes are developed to fully utilise supplier packaging with less than 0.1% additional packaging added from receipt into our warehouses to delivery to our consumers. More than 95% of packaging collected during delivery to the consumer is recycled with more than 1,300 tonnes of card and plastic (including Expanded Polystyrene) recycled each year across all our operations.

We offer a collection and recycling service to our customers for their old appliances (for a small charge) or, alternatively, we accept any WEEE free of charge which is delivered directly to our warehouse. Old appliances are mostly broken down into recyclable parts. A proportion are refurbished and put back into the market; re-use is, after all, the ultimate in recycling. Last year over 25,000 tonnes of WEEE was processed.

Energy efficient operations

We aim to run our operations with a strong focus on environmental impact, fuel management and operational efficiency and constantly seek at both a corporate and local level to help improve our performance in all areas. During the year we were proud to become a member of the ECOSTARS Fleet Recognition Scheme and to achieve an overall maximum operational rating of 5 Stars. This scheme provides recognition for best operational practices, and guidance for making improvements and is based on the pillars of Fleet Composition, Fuel Management, Driver Skills Development, Vehicle Specification & Preventative Maintenance, IT Support Systems and Performance Monitoring & Management.

In order to drive energy efficiencies:

- All our UK and German delivery vehicles have telematic monitoring systems installed to enable us to identify any possibilities to reduce vehicle carbon emissions;
- We also try to maximise our fuel efficiency by, for example, employing double-decker trunking so that we can deliver more products in one go to our outbases; and
- We offer our UK customers an environmental delivery option – enabling customers to choose a delivery date when we are already scheduled to be in their area, rather than making a special trip.

Greenhouse Gas Emissions Statement

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

The methodology used to calculate our emissions is based on the Greenhouse Gas Protocol Corporate Standard and emissions reported correspond with our financial year. This year we have reported on all material emissions from both our owned and leased assets for which we are responsible across both the territories in which we currently operate. Last year's comparable figures have therefore been restated as appropriate. Emission factors used are from UK Government (DEFRA) conversion factor guidance current for the year reported.

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

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

Greenhouse Gas Emissions data

	Tonnes of CO_2e*	
Year ending 31 March	**2015**	**2014**
Emissions from operations and combustion of fuel (Scope 1)	20,192	12,936
Emissions from energy usage (Scope 2)	3,245	1,949
Total	**23,437**	**14,884**
Intensity ratio: tonnes of CO_2e per £m of revenue	49.16	38.67

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

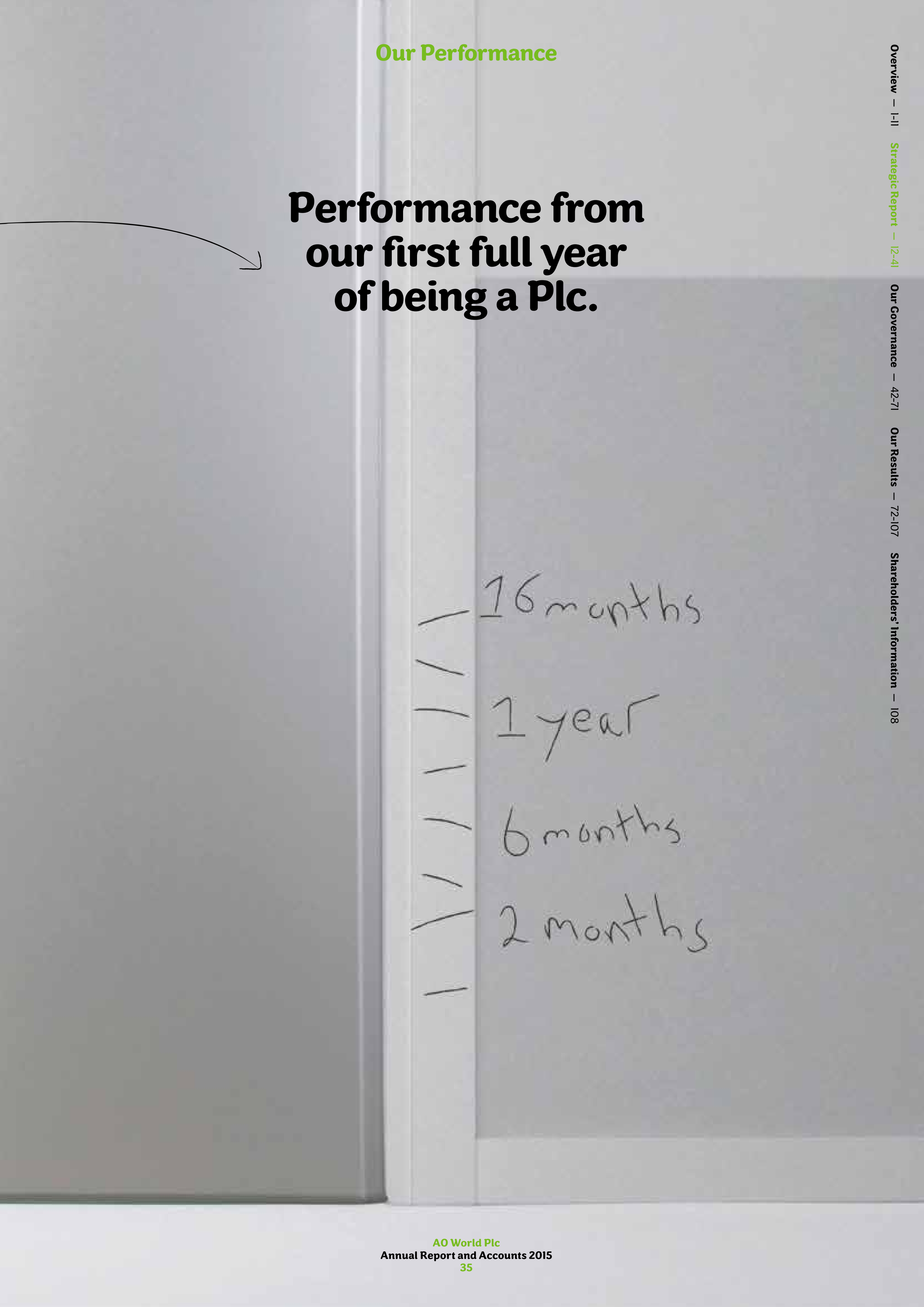
Scope 2 comprises our energy consumption in buildings (electricity, heat, steam and cooling).

* CO_2e conversion factor in respect of the Group's German operations unavailable therefore CO_2 was used.

John Roberts
Founder and Chief Executive Officer


Let's not forget AO has been around for over 14 years.
Go online for our full company history.

Performance from our first full year of being a Plc.



Steve Caunce
Chief Operating Officer and Chief Financial Officer

Operational Review

UK Retail and Operations

We were pleased to have continued our strategy to broaden the business with the additions made to our retail proposition during the year. In May 2014 we added the Audio Visual ("AV") category comprising televisions, sound systems and ancillary equipment to the range of products we offer to our customers. We achieved this through leveraging our existing infrastructure (as with MDA products, many televisions require two-man delivery), tailoring our high quality service proposition to the AV market and leveraging and strengthening our existing relationships with global brand leaders while building new ones. This allows us to capitalise on the significant level of market demand for these high value items as we offer our customers a broad range of products to include the latest in technology at competitive prices and to increase the number of opportunities our loyal customers have to buy from us.

Our progress in the AV market is encouraging and our customers have welcomed our simple and straightforward description of complex technologies. In the coming year we intend to expand aggressively into this market through developing exclusive brands with our partners, further developing our content to demystify the category, increasing the range of premium products on offer (particularly with larger screen sizes) and continuing to apply our exceptional levels of customer service to this market.

During the year to 31 March 2015, across all categories, we have worked closely with our existing and new brand partners to innovate and evolve our content. Our promotional campaigns have matured with the introduction of product focused advertising and a variety of price-based offers.

We are now confidently looking into other new categories in the future in line with our stated strategy.

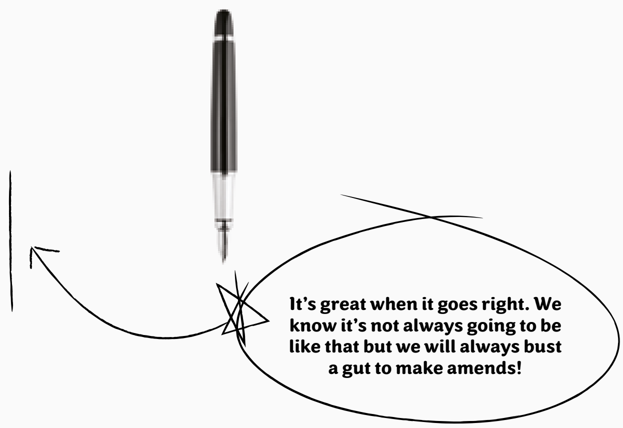
It is the strength of our offering, attention to detail and continued high customer satisfaction levels which encourages the purchase of additional items from our existing customers whilst also helping to attract new ones. Over the reporting period repeat purchase levels continued to grow from 36% to 45%. We remain the leading player in the UK online MDA market having gained further market share this year (see page 22 for market data) and the number of SKUs available for same-day or next-day delivery is significant.

AO remains committed to delivering excellent customer service across all its categories. We make every effort to ensure that our customers receive as much help and guidance as possible to allow them to make a truly informed purchase decision through the use of product videos (produced by our in-house video production facility), providing a comprehensive level of product, price and delivery information coupled with an impressive level of customer engagement and reviews. During the year we introduced a customer finance option to provide more flexible payment methods for our customers. This has also enabled us to run interest-free and 'buy now, pay later' promotional campaigns, supported in part by manufacturers without any direct credit exposure for AO.com. It is pleasing to report that over the 12 months to 31 March 2015 our Net Promoter Score (an industry measure of customer loyalty and satisfaction) remained at its historically very high level of over 80.

AO's in-house logistics service has once again performed strongly delivering products to our customers on time, as promised. Our Deliver-To-Promise rate ("DTP") – which represents the average monthly number of deliveries made successfully, on the customer's first chosen delivery date and with the desired or higher specification product at no extra cost – remained exceptional. This is a substantial achievement when considered against an increase in orders of approximately 26% and the addition of a major new category and premium installations. Additionally we proved that our IT and delivery infrastructure was able to cope well with the unprecedented level of demand experienced during "Black Friday" as none of our service levels were materially compromised.

During the year a change in legislation which introduced the requirement for all 7.5 tonne vehicle drivers to hold a special licence led to a shortage in the workforce available. In order to ensure that we could maintain efficiency and service levels, our logistics business opened its own "Driver Academy" which develops and trains existing and new drivers to achieve the new Driver Certificate of Professional Competence qualification. We have been delighted with progress so far as we were able to maintain consistent service levels through peak trading periods. The Driver Academy has given us a significant structural advantage over our competitors. Drivers who have graduated from the Driver Academy have, by and large, remained very loyal to the business.

Customers have access to a range of ancillary services through AO.com including product protection plans, disposal and connection services. Following trials in FY14 we commenced a national roll-out of our premium installation service offering delivery seven days a week. We aim to become the market leaders in the installation of MDA products. These installations are performed by a team of trained specialists and are available to the vast majority of the UK population.



With the exception of our 3.5 tonne premium installations fleet the vast majority of AO.com deliveries have historically been made using 7.5 tonne vehicles branded as our in-house logistics business which also makes deliveries for third parties. During the year we began to brand these vehicles as AO.com and we plan to extend this to more vehicles over the coming year thereby helping to promote our brand on the road.

Last year we increased our number of outbases to eight, all of which continue to operate well. We have league tables in place across all our outbases and at our 360,000 sq. ft. National Distribution Centre ("NDC") in Crewe to help us monitor efficiency and to ensure consistently high standards are achieved. Although our current NDC and outbases offer us significant capacity for growth in order to help mitigate any risk from business interruption during the year we took a lease on a second facility in close proximity to our existing NDC in order to hold stock and to ensure we could continue to offer good availability on products to customers.

Once again our dedication to our customer proposition has been recognised by the industry and we are pleased to have won four awards at the Etail Awards 2014, including "Overall Award for Excellence" and four awards at the eCommerce Awards for Excellence 2014 including "Large eCommerce Retailer of the Year."

Germany Retail and Operations

In October 2014 we took the first step in our international expansion strategy and launched AO.de, the German version of AO.com. Our initial Germany offering is concentrating solely on the MDA category as we learn about customer preferences and the German market and the operating model has largely been replicated from the UK. We have invested in end to end resource including head office, warehouse and outbase infrastructure and our own last mile delivery capability to offer next-day delivery to the majority of customers and to completely control the customer experience, as has been successful in the UK. This is unique to the German market.

Since commencing trading in Germany we have continued to expand our manufacturer base, thereby increasing the amount of choice available to our German customer. Levels of traffic to the site continue to grow. We have maintained our service levels since launch and feedback in Germany has been extremely positive, as evidenced by our customer reviews (see page 17) and Trustpilot, Trustedshops and idealo.de ratings. Now we have demonstrated operational effectiveness we are in a position to accelerate sales growth, drive efficiencies and continue to expand our retail offering in this new territory. Our recent progress has encouraged us to review our infrastructure requirements and we will increase logistics capacity as we build scale. A significant achievement over the reporting period was witnessing how well our culture has been transferred to and is developing within our new German operation. We have welcomed over 200 new colleagues to the AO family and we have been delighted with how our values have been embraced and supported by them. There have also been some incredible examples of people going the extra mile to help our German colleagues find their feet and learn processes and strategies.

Brand

During the year we revisited national television advertising which was well received and helped to drive sales and brand awareness. Our Facebook "likes" grew over the reporting period and are now in excess of 1.6m. However, our brand remains in its relative infancy and continuing to build awareness remains one of our key strategic objectives. We believe that it remains a substantial area of opportunity for us.

We have a dedicated Brand team in place and over the coming year intend to invest heavily in this area to really define our brand and help deliver our key messages effectively. AO customer advocacy is one of our greatest brand assets and opportunities. Our customers take the time to review the service they receive from us, get involved with our social media campaigns and recommend us to others. In conjunction with agency partners we will look to capitalise on this opportunity by incorporating and developing it into our brand campaigns which we intend to roll out across a variety of advertising mediums including television and social media platforms over the coming year.

Culture

We consistently state that our culture is at the heart of everything we do and continues to be core to our success to date. It is of paramount importance that we continue to maintain this and do what is best for our employees against a backdrop of significant business growth and expansion. We were therefore particularly pleased to be awarded the Best Employer Award at the Retail Week Awards 2015.

During the year we launched our Group-wide intranet, "The Fridge", which has helped individuals to connect with each other, share ideas and learnings and update each other on progress across different areas of the business. It has helped to reaffirm the culture in our UK operations and to instil it in our new overseas colleagues.

In February 2015 we launched our second AO World Sharesave Scheme. Once again we were proud of the number of employees who applied to join the scheme, highlighting our people's commitment, passion and positivity for the business.

Financial Review

Revenue

For the year ended 31 March 2015 total Group revenue increased by 23.8% to £476.7m (2014: £384.9m) despite the impact of slower than anticipated year-on-year sales growth experienced in our final quarter as we didn't experience the benefit from our heightened publicity surrounding our IPO as we had in the previous year.

Growth achieved during the year was polarised towards our UK AO Websites which experienced a strong increase of 32.9% to £381.5m (2014: £287.1m). This was driven by the continued migration of consumers to the online channel and our commitment to exceptional levels of customer service which continues to stimulate repeat business and attract new customers. The introduction of the AV category, broadening our product range, added to this growth. Sales from our German website, AO.de, contributed approximately £5.8m to our revenue. AO own website sales (including AO.com, AO.de and AO branded eBay shops) now account for 81.3% of total Group revenue (2014: 74.6%).

	2015			2014	Change	
Year ended 31 March (£m)	UK	Europe	Total	UK Total	UK increase %	Total
AO Website Sales	381.5	5.8	387.4	287.1	32.9%	34.9%
Third-party Website Sales	70.3	0.0	70.3	79.3	-11.4%	-11.4%
Third-party Logistics Services	19.0	0.0	19.0	18.5	2.8%	2.9%
Revenue	**470.8**	**5.8**	**476.7**	**384.9**	**22.3%**	**23.8%**

During the reporting period, the total number of completed orders from UK AO Website Sales and Third-Party Website Sales increased by 26.4% to 1,348k (2014: 1,066k).

Sales from third-party websites reduced to £70.3m (2014: £79.3m) as our focus remains on AO.com. These sales, in part, are likely to have been cannibalised by our own-branded website as AO.com continues to gain overall market share through its proposition and price offering. We experienced only a modest increase in revenue from our UK third-party logistics service of 2.8% to £19.0m which was impacted by the loss of a contract during the year.

Gross Margin

Year ended 31 March (£m)	2015 UK	2015 Europe	2015 Total	2014 UK Total	Change UK	Change Total
Gross profit	89.7	(2.1)	87.6	74.2	20.9%	18.1%
Gross margin	19.0%	-36.1%	18.4%	19.3%	-0.3ppts	-0.9ppts

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.

Gross margin for the Group decreased to 18.4% for the reporting period, a reduction of 0.9ppts against the prior year although gross profit grew by 18.1% to £87.6m. In the UK gross margin fell slightly to 19.0% (2014: 19.3%). This was largely due to the dilutive effect of AV compared to MDA which is likely to increase going forward as the AV category takes an increasingly larger share of the overall business. UK gross margin was improved by the full year effect of three outbases opened during the prior year (which increases warehousing costs below).

In Germany the gross loss of £2.1m reflected the early purchasing prices achieved in that operation, compounded with inefficient deliveries whilst volumes are small.

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

Total Group administrative expenses increased over the year by 36.1% to £89.8m (2014: £66.0m). Of this increase £10.3m was attributable to administrative expenses incurred in connection with our European expansion, largely comprising costs in AO.de. UK administrative expenses for the year to 31 March 2015 increased by 22.6% to £80.9m (2014: £66.0m).

Year ended 31 March (£m)	2015 UK	2015 Europe	2015 Total	2014 UK	2014 Total	Change % UK	Change % Total
Advertising and marketing	19.5	1.9	21.4	18.2	18.2	7.0%	17.5%
% of sales	*4.1%*	*32.5%*	*4.5%*	*4.7%*	*4.7%*		
Warehousing	16.8	1.2	18.0	13.3	13.3	26.4%	35.2%
% of sales	*3.6%*	*20.1%*	*3.8%*	*3.4%*	*3.4%*		
Other Admin	40.7	3.0	43.7	34.3	34.3	18.7%	27.4%
% of sales	*8.6%*	*51.1%*	*9.2%*	*8.9%*	*8.9%*		
Adjustments	3.9	2.8	6.8	0.2	0.2	1,922.1%	3,362.1%
% of sales	*0.8%*	*48.0%*	*1.4%*	*0.1%*	*0.1%*		
Administrative expenses	**80.9**	**8.9**	**89.8**	**66.0**	**66.0**	**22.6%**	**36.1%**
% of sales	17.2%	151.8%	18.8%	17.1%	17.1%		

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.

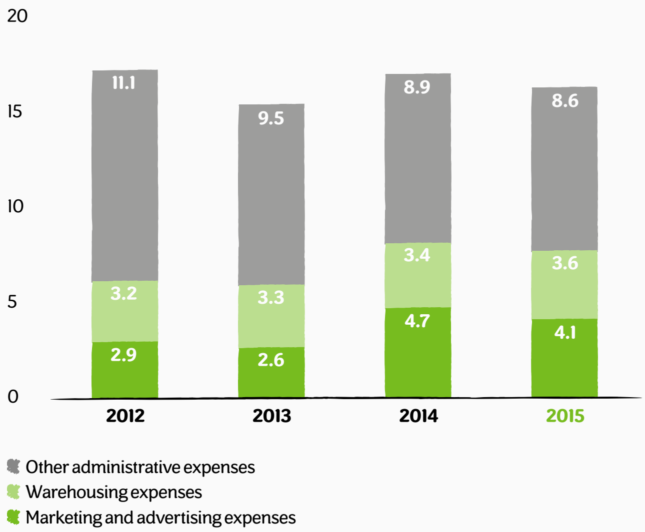
The reduction in UK Advertising and Marketing expenditure as a percentage of sales from 4.7% to 4.1% over the reporting period reflects the leverage in this cost category as the fixed media advertising expenditure is amortised across the larger sales base. Going forward we expect UK Advertising and Marketing costs to continue to be leveraged, with some offset as we develop our brand.

Increases in UK warehousing expenses reflect a full year's operation of our three additional outbases opened during the prior year reporting period and the lease costs associated with our new stock holding facility based close to our existing NDC in Crewe.

UK other administrative expenses increased by £6.4m to £40.7m (2014: £34.3m), but as a percentage of sales fell these expenses fell from 8.9% to 8.6% demonstrating some economies of scale in this cost category. However, costs in the fourth quarter were planned for a higher level of sales. In our Europe segment our SG&A costs, as a percentage of sales, reflect the start-up nature of the operation. As volumes increase, we would expect these costs to fall towards the rates experienced in the UK.

UK SGA as a % of revenue

(%)



Adjusted EBITDA

When reviewing profitability performance, the Directors use a number of adjusted measures to give meaningful comparisons.

Group Adjusted EBITDA was £8.5m (2014: £11.2m) after allowing for £8m of Europe Adjusted EBITDA losses.

UK Adjusted EBITDA for the 12 months to 31 March 2015 was £16.5m (2014: £11.2m) representing an increase of 47.3% against the prior year period. This increase was achieved despite a number of challenges encountered during the year, most notably the slowdown in sales growth experienced in the last quarter of our reporting period. It became apparent that the growth we expected during the final quarter of the year under review was impacted by the extra publicity the business received during our IPO process in the fourth quarter of the financial year and therefore the business was not able to sustain the year-on-year growth rates of the previous three quarters. As our model is based around each additional sale of MDA contributing approximately 8% to EBITDA incrementally, this shortfall of sales affected our full year profit. In addition we incurred costs in connection with the creation of our Driver Academy which we introduced during the year to mitigate the long-term impact of the changes in driver legislation and we were also impacted by the effects of "Black Friday" which did not produce incremental sales, but changed the phasing of sales in the third quarter. All of these factors contributed to a lower than forecast level of Adjusted EBITDA.

Notwithstanding the above we increased our EBITDA margin to 3.5% (2014: 2.9%) due to the overall increase in sales achieved during the year together with maintaining tight control of our cost base.

Year ended 31 March (£m)	2015 UK	2015 Europe	2015 Total	2014 UK	2014 Total	Change UK	Change Total
Operating profit	**8.8**	**(11.0)**	**(2.2)**	**(7.2)**	**(7.2)**	**221.0%**	**69.3%**
Add: Exceptional items: Professional fees in relation to IPO	–	–	–	15.4	15.4	-100%	-100%
Operating profit before adjustments	8.8	(11.0)	(2.2)	8.2	8.2	6.8%	-127.1%
Add adjustments: *Europe set-up costs*	1.4	2.8	4.2	–	–	–	–
Non-cash share based payments charge	2.5	–	2.5	0.2	0.2	1,185.1%	1,185.1%
Adjusted Operating Profit	**12.7**	**(8.2)**	**4.5**	**8.4**	**8.4**	**51.3%**	**-46.0%**
Add: Depreciation and amortisation	3.7	0.2	3.9	2.8	2.8	35.1%	40.9%
Adjusted EBITDA	**16.5**	**(8.0)**	**8.5**	**11.2**	**11.2**	**47.3%**	**-24.3%**
Adjusted EBITDA as % of sales	3.5%	-137.1%	1.8%	2.9%	2.9%		

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.

Exceptional Items

In March 2014, AO World plc floated on the London Stock Exchange. Non-recurring IPO costs totalled £19.7m in the year ended 31 March 2014, of which £15.4m was charged to the income statement and £4.3m was charged to the share premium account as being directly related to newly issued shares.

Adjustments

Europe set-up costs

These are costs incurred in connection with our European expansion strategy prior to the "go-live" of that territory, namely the launch of AO.de and our continuing research into other further countries along with strategic post "go-live" costs.

Share-based payment charges

At the time of the IPO, LTIP awards were made to a number of senior staff. The Board considers that the magnitude and timing of these awards are one-off in nature and so add this charge back to Adjusted EBITDA. The AO Share Save Schemes charges and any future LTIP charges will be included in trading numbers.

Taxation

The tax credit for the year was £0.4m (2014: £2.0m charge). The effective rate of tax for the year was 12.6% (2014: -26.8%). The business is subject to UK taxes and through its registered branch structure for Germany is able to fully offset losses.

Loss per share

Basic loss per share was 0.60p (2014: 2.38p loss).

Dividend policy

In line with the Group's dividend policy no dividend has been proposed or paid during the period.

Cash resources and cash flow

Year end net funds position was £37.9m (2014: £48.7m), as cash decreased to £44.9m (2014: £55.1m) reflecting the increased stockholding for additional ranges and territories, while total borrowings increased to £7.1m (2014: £6.4m). Surplus cash balances are held with UK-based banks, in line with the Group Treasury Policy.

The Group's cash generated from operating activities was a cash inflow of £1.3m (2014: £13.6m).

Working Capital

Year ended 31 March (£m)	2015 UK	2015 Europe	2015 Total	2014 Total
Inventories	28.9	2.6	31.5	15.9
As % of COGS	*8%*	*32%*	*8%*	*5%*
Trade and other receivables	44.9	2.5	47.4	33.0
As a % of revenue	*10%*	*42%*	*10%*	*9%*
Trade and other payables	(82.2)	(4.4)	(86.6)	(62.9)
As a % of COGS	*22%*	*55%*	*22%*	*20%*
Net working capital	**(8.4)**	**0.6**	**(7.8)**	**(14.0)**
Change in net working capital	5.5	0.6	6.2	(5.0)

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.

As at 31 March 2015 UK inventories were £28.9m (2014: £15.9m) reflects an increase in sales volumes and the change in our MDA stockholding strategy as we hold more stock in order to provide customers with same-day and next-day delivery options on an increased number of SKUs and buy more products in bulk. We have also increased our stockholding in the UK to support the AV category which is only bought in bulk loads. As a result UK average stock days increased to 27 days (2014: 20 days).

UK trade and other receivables for the UK were £44.9m as at 31 March 2015 (2014: £33.0m) reflecting an increase in accrued income in respect of commissions due on product protection plans as a result of higher retail volumes. UK trade and other payables for the UK increased to £82.2m (2014: £62.9m) as manufacturers continued to extend credit on a higher volume of sales.

Capital Expenditure

Total capital expenditure for the year was £7.6m (2014: £7.5m), of which £3.4m relates to our expansion into Germany including the establishment of the head office, warehouse and outbase infrastructure and investment in our own last mile delivery capability to completely own the customer experience as we do in the UK.

Steve Caunce
Chief Operating Officer and Chief Financial Officer
2 June 2015

Our risks and uncertainties

The Board takes overall responsibility for risk management with a particular focus on determining the nature and extent of significant risks it is willing to take in achieving its strategic objectives – our risk appetite. The Audit Committee takes responsibility for overseeing the effectiveness of sound risk management and internal control systems. Our risk management procedure was significantly enhanced during the year as the Group's existing risk management processes were strengthened and broadened and the composition of our Risk Management Committee was expanded to reflect a multitude of skills and experience and to reflect new risks arising from operating in new categories and territories. This Committee has responsibility for ensuring the development, maintenance, operation and review of robust risk management controls to help support AO's strategic objectives and the achievement of its financial targets. Further details on this process are set out in our Corporate Governance Statement.

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

We have identified 11 principal risks and uncertainties currently facing the Group. These are considered by the Board to be material to the future development, financial and operational performance or position of AO as they could have an impact on our business model, strategy and resources. These risks, together with the implications and mitigating actions, are summarised below. They are not set out in priority order.

Strategic

Objective: Build

Risk	Implication	Mitigating actions
Our brand, websites, social media strategy and offering do not receive wide acceptance.	Reduction in customer loyalty, an inability to attract new customers and a reduction in purchases.	– Continued investment to raise and maintain brand awareness through a variety of mediums. – Dedicated brand and social media team in place to generate consumer interest. – Rigorous monitoring of customer feedback through quality processes. – In-house PR teams established to deal with press and events.

Objective: Drive

Risk	Implication	Mitigating actions
Failure of search engine strategy.	A reduction in traffic to websites, conversion rates and increased cost of customer acquisition.	– Ongoing monitoring of the balance of paid and natural traffic to websites. – Investment in sustainable search engine optimisation activities which adhere to search engine guidelines.
Loss of third-party clients.	Negative impact on financial performance and competitive advantage.	– Continued focus on maintaining relationship with clients.
Failure to maintain culture and recruit and retain appropriate staff and partners.	Reduction in customer service levels and loyalty. Supplier relationships suffer.	– AO culture is supported by a wide range of tools and events including a Group-wide intranet for internal communication, shared employee values and regular business updates from the CEO and COO. – Group-wide company events and subsidised restaurant and recreation activities are in place. – Dedicated team focused on employee events management. – Group Executive Team and senior management team have a shared responsibility to drive culture throughout the business. – Introduction of Driver Academy initiative.

Objective: Broaden

Risk	Implication	Mitigating actions
Failure to maintain existing relationships with key suppliers and build new ones.	Inability to retail products through Group websites at attractive prices and impact customer service levels.	– Continued focus on building and maintaining existing and new relationships with suppliers. – Regular reviews with key suppliers to ensure all aspects of the relationship are operating appropriately. – Brand development.

Objective:
Expand

Risk	Implication	Mitigating actions
European expansion is unsuccessful.	Limitation of long-term growth, costs incurred in withdrawing from European territories.	– Entry into new territories only undertaken after extensive research. – Expansion will leverage existing UK online retailing expertise and experience that has been built up over many years. – Capital requirements are relatively low and investment is managed in stages.

Operational

Risk	Implication	Mitigating actions
Dependence on Executive Directors.	Inability to deal with excessive demands in growth.	– Strengthened operational management teams in each territory to give benefit of localised decision making and to reduce reliance on individuals. – Senior employees receive attractive remuneration packages including long-term share options and career structures to encourage retention.
Changes to or introduction of new regulatory requirements.	Regulatory changes or compliance failure affect strategy or operations.	– Regular monitoring of regulatory developments to ensure that potential changes are identified, any impact is assessed and appropriate action is taken. – Monitoring operational performance to minimise environmental impact.
Changes in the macro-economic environment.	Reduction in consumer demand or significant short-term increases in consumer demand put pressure on operations. Negative impact on operations and relationships with suppliers.	– Monitoring of the macro-economic environment by Group strategy team to ensure that potential changes are identified, any impact is assessed and appropriate action is taken. – Planning for peak-trading events to ensure adequate operational capabilities.
Business interruption.	Material adverse impact on the operation of the Group's business for a significant period of time, regulatory breaches/fines and negative impact to reputation.	– Dedicated engineering teams on site with daily maintenance programmes to support the continued operation of the NDCs. – A number of standalone controls are in place to mitigate a major event occurring at one of the Group's sites. – The business is supported by a qualified health and safety team. – Sites are supported by an effective facilities management function.
Failure of technology or data loss.	Failure in one system could disrupt others and could impact the availability of websites and the Group's ability to take and process orders. Damage to reputation, loss of customer confidence and/or competitive advantage.	– Physical and system controls in place to minimise data breaches. – Software is rigorously tested and follows a robust release process before being deployed in live environment. – Operation of the IT environment is continuously monitored, disaster recovery plans are in place to ensure business can recover from any interruptions with minimal impact. – The AO.com website and internal network is protected by a firewall, a holistic view of routers and switches with potential for individual configuration change, frequently updated anti-virus and penetration testing. – An ethical hacker is regularly instructed in order to highlight any security concerns.

Further risks in relation to significant financial accounting matters are discussed in the Corporate Governance section on page 54.

The Company's Strategic Report is set out on pages 12 to 41.
Approved by the Board on 1 June 2015 and signed on its behalf by:

Julie Finnemore
Company Secretary
AO World Plc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In this section we show you how the business is wired up.

Chairman's introduction

Richard Rose
Chairman

I am pleased to present our Corporate Governance Statement for the year ended 31 March 2015, our first full year as a listed company since joining the London Stock Exchange's main market in March 2014. In my letter to you last year I reported that as a very recently listed company it had not been possible, or in some cases relevant, for us to comply with all the provisions of The UK Corporate Governance Code 2012 ("the Code"). I am pleased to report that during the period under review we continued to strengthen the governance policies and processes to support the growth strategy of the Group.

During the year we completed our first evaluation exercise to review the performance of the Board, its Committees and the individual Directors. The exercise was facilitated internally by the Company Secretary under my direction. I believe that regular and appropriate Board and Committee evaluation is an area which is fundamental to improving Board effectiveness and ensuring that our objectives can be met. It also ensures that the processes under which the Board operates remain appropriate and effective, for example the quality and timeliness of the information received and the exposure to management. Further details of this review and its outcome are set out on page 51.

In conjunction with the evaluation exercise outlined above, during the year the composition of the Board and its Committees were reviewed to ensure that they continue to operate effectively and contain the correct mix of skills and experience to guide the Company through its next stage of development. In February 2015 the composition of the Remuneration Committee was altered as Brian McBride, our Senior Independent Non-Executive Director succeeded Bill Holroyd, as Chair with Bill remaining a member of this Committee.

Having served as a Non-Executive Director for nearly 10 years, Bill Holroyd has decided to retire and will not be standing for re-election at the Company's forthcoming Annual General Meeting. The Board thanks Bill for his significant contribution during his time with the Company, particularly through the IPO process in 2014, and wishes him well for the future. Rudi Lamprecht will replace Bill as a member of the Remuneration Committee. The composition of this Committee and that of the full Board will comply with the independence requirements set out in the Code going forward.

Chris Hopkinson will replace Bill as a member of the Audit Committee. The Board considers that although the membership of the Audit Committee will continue to be in strict non-compliance with the independence provisions set out in the Code, the contribution of Chris's significant experience and knowledge should ensure that he makes a significant contribution to its work and that the Committee will continue to operate effectively.

Our risk management procedure was developed further during the year as the Group's existing risk management processes were enhanced and broadened. Although it is the Board, supported by the Audit Committee, which remains ultimately responsible for establishing and maintaining risk management internal controls, the composition of our Risk Management Committee was expanded to reflect a multitude of skills and disciplines throughout the Group and it has been given the responsibility for ensuring the development, maintenance, operation and review of robust risk management controls to help support AO's strategic objectives and the achievement of its financial targets. Further details of the role of this Committee can be found on page 52.

We are committed to maintaining an active dialogue with all our shareholders. More information on how we have strengthened our Investor Relations function during the year can be found on page 55. I would like to encourage our shareholders to attend our Annual General Meeting which will be held at 10.00 am on 21 July 2015 at AO Park, 5A The Parklands, Lostock, Bolton Bl6 4SD. It will provide an excellent opportunity to meet the Executive and Non-Executive Directors and to visit our head office.

The AO business has the principles of transparency and openness at the heart of its culture. We recognise that strong Corporate Governance is crucial to our business and that sound structures and processes will support and enhance our performance for the benefit of all our stakeholders. Over the coming year we will continue to review and adapt our processes and procedures as appropriate, in line with recent amendments made to the Code which will apply to our current financial year (ending March 2016). Another of our future objectives will be to ensure that as the Group expands, our corporate policies are complied with in all the territories in which we operate.

Richard Rose
Chairman
AO World Plc

The following pages set out how AO has applied the main principles of the Code and its compliance with the various provisions.

Introduction

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

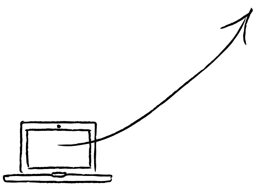
Compliance with the Code

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

Code provision	Detail	Explanation of non-compliance
B.1.2	Less than half of the Board, excluding the Chairman, are independent Non-Executive Directors.	As the Board has three experienced independent Non-Executive Directors the Board is satisfied that no individual has dominated its decision taking, no undue reliance has been placed on particular individuals, there has been sufficient challenge of executive management in meetings of the Board and the Board has operated effectively. The composition of the Board will be continually reviewed to ensure it remains effective.
B.2.1	The Nomination Committee does not comprise a majority of independent Non-Executive Directors.	Only Brian McBride is independent and while the Chairman of the Company was considered to be independent on appointment, the Code provides that thereafter the test of independence is not appropriate in relation to the Chairman. However, the Board considers that it has a strong independent non-executive component and that the continuity, experience and knowledge of Chris Hopkinson and Richard Rose ensured that they made a significant contribution to the work of the Committee over the period under review. The composition of the Committee will be continually reviewed to ensure it remains effective.
C.3.1 and D.2.1.	The Audit and Remuneration Committees do not comprise three independent Non-Executive Directors.	Bill Holroyd is not considered to be independent for the purposes of the Code. The Board considers that the composition of both the Audit and Remuneration Committees have a strong independent non-executive component and that the continuity, experience and knowledge of Bill Holroyd ensured that he made a significant contribution to the work of the Committees and that the Committees ran effectively over the period under review. The composition of the Committees will be continually reviewed to ensure they remain effective.

As noted in the Chairman's introduction, Mr Holroyd will not offer himself for re-election as a Director at the Company's forthcoming AGM. Rudi Lamprecht will replace him as a member of the Remuneration Committee and as a result, going forward, the Company will meet the independence requirements as to the composition of the Board and Remuneration Committee set out in the Code (B.1.2 and D.2.1). Chris Hopkinson will replace Bill Holroyd as a member of the Audit Committee. The Board considers that although the membership of the Audit Committee will continue to be in strict non-compliance with the independence provisions set out in the Code, the contribution of Chris's significant experience and knowledge should ensure that he makes a significant contribution to its work and that the Committee will continue to operate effectively.

The Listing Rules require that we state how we have applied the Main Principles set out in The UK Corporate Governance Code.



This information is set out on our website at www.ao.com/corporate and the required detail on specific Code provisions is set out in this Corporate Governance Statement.

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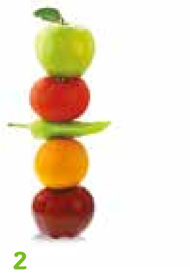

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1. Richard Rose

Non-Executive Chairman of the Board and Chairman of the Nomination Committee

Appointment to the Board
1 August 2008

Relevant experience
Richard has a wealth of experience chairing high profile boards. He has been Non-Executive Chairman of Crawshaw Plc since 2007, Anpario Plc since 2005 and fashion retailer Blue Inc. since April 2014. Previously he has held a number of positions in organisations such as AC Electrical Wholesale, where he was Chairman from 2003 to 2006 and Whittard of Chelsea Plc, where he was Chief Executive Officer and then Executive Chairman from 2004 to 2006. Richard was appointed Non-Executive Chairman Designate of insurance claims company Quindell Plc in January 2015 and, in accordance with best practice under the Code, he will step down as Non-Executive Chairman of Booker Group Plc in July 2015 having served three terms of three years each. Age 59.

Significant external appointments
- Anpario Plc
- Booker Group Plc
- Crawshaw Group Plc
- Marlow Retail Limited (trading as Blue Inc)
- Quindell Plc (currently Chairman designate)

Committee membership
Richard chairs the Nomination Committee.

Item purchased:
Camera lens from Wex.

What did you like about the experience?
Attention to detail.

2. John Roberts

Founder and Chief Executive Officer

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

Relevant experience
John is a founding Director and established the business of the Group in 2000. Having previously worked extensively in the kitchen appliance industry, he has been instrumental in using the internet as a platform to change the way in which kitchen appliances are sold in the United Kingdom. Since co-founding the Group, John has presided over the evolution of the business and led the management team which has successfully developed and expanded the Group's business during periods of challenging market conditions and with a limited capital base. He is from Bolton and is a passionate supporter of staff participation in local charitable causes. Age 41.

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

Item purchased:
Basket of food from Ocado.

What did you like about the experience?
Ease of web-journey, fantastic app, great service and fresh produce.

3. Steve Caunce

Chief Operating Officer and Chief Financial Officer

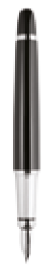
Appointment to the Board
13 October 2005

Relevant experience
Prior to joining AO, Steve was Finance Director with Phones 4U Limited between 2001 and 2003 and held senior positions at MyTravel Plc and Preston North End Plc. He holds a degree in Mathematics and is an associate of the Institute of Chartered Accountants of England and Wales. Age 46.

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

Item purchased:
Cycling helmet from Wiggle.

What did you like about the experience?
The extra little touches made the whole experience that bit more enjoyable.



We want everyone at AO to always think like a customer.

This year, we asked the Board to show us the last thing they bought online and to describe the experience they had.

4. Brian McBride

Senior Independent Non-Executive Director and Chairman of the Remuneration Committee

Appointment to the Board
6 February 2014

Relevant experience
Brian is currently Chairman of ASOS Plc and Wiggle Ltd, the private equity owned pure play online cycling retailer. He is also a Senior Adviser with Scottish Equity Partners, a member of the UK Government's Digital Advisory Board and a member of the Court (Governing Body) of the University of Glasgow. He was previously Managing Director of Amazon.co.uk and has had previous experience as a Non-Executive Director at Celtic Football Club Plc, SThree Plc, Computacenter Plc, the BBC and the Advisory Board of Huawei UK. Brian holds a master's degree in Economics, History and Politics. Age 59.

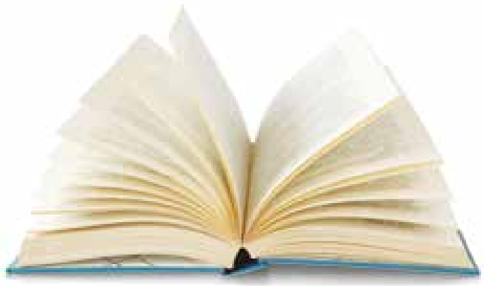
Significant external appointments
- ASOS Plc
- Wiggle Limited

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

Item purchased:
Golf clubs from Amazon.

What did you like about the experience?
Great range and choice.


5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5. Bill Holroyd
Non-Executive Director

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

Relevant experience
Bill was formerly the Chief Executive Officer of Holroyd Meek. He was also an investor in and Chairman of Millies Cookies, which was sold to Compass Group Plc in 2003, and Chairman of and investor in Positive Solutions Ltd. He is currently an investor in and Non-Executive Director of Warrington Sports Holdings Ltd and Chairman of and investor in TD4 Ltd. In addition, Bill is Chairman of Onside Youth Zones and a Trustee of Save the Family. Age 62.

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

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

Item purchased:
A retro Porsche keyring to go with Julie's 356 convertible.

What did you like about the experience?
A small purchase, but the attention to detail from the vendor was terrific. Personal message on receipt of the order and then a personal follow up once the item was delivered. The keyring came with a nice welcome from the vendor too. OK, so he is a small vendor, but none the less it was a great experience.

6. Chris Hopkinson
Non-Executive Director

Appointment to the Board
12 December 2005

Relevant experience
Following university, Chris joined the Royal Air Force as a pilot officer and worked as an analyst for Cazenove. Chris subsequently joined Mark II, a UK distributor of kitchen and bathroom products, in 1986. He holds a degree in Economics & Computer Science and a master's degree in Logistics. Age 56.

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

Committee membership
Chris is a member of the Nomination Committee.

Item purchased:
A book on Amazon.

What did you like about the experience?
Using one click, which is the best way to transact bar none.

7. Marisa Cassoni
Independent Non-Executive Director and Chair of the Audit Committee

Appointment to the Board
5 February 2014

Relevant experience
Marisa is a qualified ICAEW chartered accountant and finance professional with 40 years of experience and was previously Finance Director of the UK Division of Prudential Group. Between 2001 and 2006 she was Finance Director of the Post Office (subsequently Royal Mail), and between 2006 and 2012 she was Finance Director of the John Lewis Partnership Plc and its subsidiaries. Marisa was a Non-Executive Director of Partnership Plc and has been a Non-Executive Director of GFI Group Inc since 2005 and a Non-Executive Director of Skipton Group since 2012. She was appointed as a Non-Executive Director of Enterprise Inns Plc in April 2015 and The People's Operator Plc in October 2014. Marisa holds a degree in Physics from Imperial College London and is an associate of the Institute of Chartered Accountants of England and Wales. Marisa also sits on the Economics Affairs Committee of the CBI and is a panel member of the Competition and Markets Authority. Age 63.

Significant external appointments
- Skipton Group Holdings Ltd
- GFI Group Inc
- Enterprise Inns Plc
- The People's Operator Plc

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

Item purchased:
Linen from White Company.

What did you like about the experience?
Companies sometimes need to just let the product sell itself.

8. Rudi Lamprecht
Independent Non-Executive Director

Appointment to the Board
17 January 2014

Relevant experience
In 2009, Rudi founded East-West-Connect GmbH & Co. KG and occupies the roles of both President and Chief Executive Officer. He is also currently a Non-Executive Director of Duagon AG and Fujitsu Technology Solutions (Holding) B.V. and was previously a Non-Executive Director of BSH Bosch und Siemens Hausgeräte GmbH & Co. KG, Osram Licht AG and Safe ID Solutions AG. Rudi worked for Hewlett Packard in various positions in Europe and the United States for approximately 20 years. Rudi holds a degree in Computer Science and has studied at Massachusetts Institute of Technology, the European Institute for Business Administration and Stanford University. Age 66.

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

Committee membership
Rudi is a member of the Audit Committee.

Item purchased:
Speakers from Otto-Versand.

What did you like about the experience?
My experience was very positive. Everything they promised regarding delivery was fulfilled 100% and the quality of the product is excellent.

Leadership

Overview of Governance structure

AO World Plc Board

The Company is led and controlled by the Board. The structure and business of the Board is designed to ensure that the Directors focus on strategy, monitoring, governance and the performance of the Group. The Board is collectively responsible to shareholders for the long-term success of the Company. The Board has delegated certain responsibilities to Board Committees to assist it with discharging its duties, and delegates the detailed implementation of matters approved by the Board and the day-to-day operational aspects of the business to the Executive Directors who cascade this responsibility to the Group Executive Team ("GET") and throughout the Group. The Reports of each Committee can be found on pages 51 to 67.

Executive Directors

- Senior Management Team

Committees

- Audit see page 53
- Remuneration see page 56
- Nomination see page 51

Risk Committee*

* Not a formally adopted sub-committee of the Board. Further details set out on pages 52 and 54.

The Board

Role of the Board

Our Board is collectively responsible for the Group's performance and meets as often as necessary to effectively conduct its business.

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

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

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

There is an established procedure for each Board or Committee meeting which normally includes a report on current trading and detailed papers on matters where the Board will be required to make a decision or give approval. Standard agenda items include: Operations, Health and Safety, Strategy and Financial Performance. A list of those matters reserved for the Board is available on the Company's website at www.ao.com/corporate and from the Company Secretary upon request.

Current composition of our Board

As at the date of this Annual Report the Board comprises eight members: the Chairman, two Executive Directors and five Non-Executive Directors. All our Directors served throughout the year. Further details of the relevant skills and experience of the Board are set out in their biographical details set out on pages 46 and 47. The Board regularly reviews the composition, experience and skills to ensure that the Board and its Committees continue to work effectively and that the Directors are demonstrating a commitment to their roles.

On 1 June 2015, the Board noted that Bill Holroyd intended to retire as a Non-Executive Director and would therefore not seek re-election at the AGM on 21 July 2015.

Board meetings and attendance

Nine Board meetings were held during the year ended 31 March 2015 and there are currently nine meetings scheduled for the year ending 31 March 2016. Unscheduled supplementary meetings will take place as and when necessary. The table below summarises the attendance of the Directors during the reporting period.

Director	Meetings eligible to attend	Meetings attended
Richard Rose	9	9
John Roberts	9	9
Steve Caunce	9	9
Brian McBride	9	8
Bill Holroyd	9	9
Chris Hopkinson	9	8
Marisa Cassoni	9	8
Rudi Lamprecht	9	8

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

Division of responsibilities

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

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

John Roberts and Steve Caunce are together responsible for the day-to-day running of the Group, carrying out our agreed strategy and implementing specific Board decisions.

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

Diversity

We fully support the aims, objectives and recommendations outlined in Lord Davies' Report "Women on Boards" and are aware of the need to increase the number of women on our Board and in senior positions throughout the Group. However, we do not consider that it is in the best interests of the Company and its shareholders to set prescriptive targets for gender on the Board and we will continue to make appointments based on merit, against objective criteria to ensure we appoint the best individual for each role. Across our business of approximately 1,450 employees, female employees represented approximately 30% and although there are no females on the Group Executive Team, 28% of the senior management team were women as at 31 March 2015.

Directors' conflicts of interest

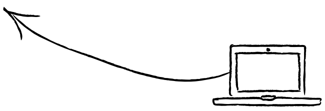
Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company, unless that conflict is first authorised by the Board. This includes potential conflicts that may arise when a Director takes up a position with another company. The Company's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

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

Committees of the Board

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

Committee	Role and terms of reference	Membership required under terms of reference	Minimum number of meetings per year	Committee report on pages
Audit	Reviews and reports to the Board on the Group's financial reporting, internal control and risk management systems, whistleblowing, internal audit and the independence and effectiveness of the external auditors.	At least three members At least two should be independent Non-Executive Directors	Three	53 to 55
Remuneration	Responsible for all elements of the remuneration of the Executive Directors and the Chairman, the Company Secretary and the Group Executive Team.	At least three members At least two should be independent Non-Executive Directors	Three	56 to 67
Nomination	Reviews the structure, size and composition of the Board and its Committees and makes appropriate recommendations to the Board.	At least three members At least one should be an independent Non-Executive Director	Two	51 and 52



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

Effectiveness

Board evaluation and effectiveness
The effectiveness and performance of the Board is vital to our success. An internal evaluation of the performance of the Board, its Committees and the Chairman was carried out during the second half of the year. The process of evaluating the performance was undertaken by the Company Secretary under the direction of the Chairman. A tailored, high-level questionnaire was distributed for the Directors to complete. This was structured to provide the Directors with an opportunity to express their views about:

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

The responses to the evaluation of the Board and its Committees were reviewed with the Chairman and then considered by the Board. The results of the evaluation indicated that the Board is working well and that there are no significant concerns among the Directors about its effectiveness. Some actions were agreed as a result of the exercise and these will be progressed over the coming year.

During the year, the Chairman met with the Non-Executive Directors without the Executive Directors present to discuss Board balance, monitor the powers of individual Executive Directors and raise any issues between themselves as appropriate. Led by the Senior Independent Director, the Non-Executive Directors also met during the year without the Chairman present to appraise his performance and to discuss any other necessary matters as appropriate. The performance of individual Directors was evaluated by the Chairman, with input from the Committee Chairmen and other Directors.

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

Independence
For the purposes of assessing compliance with the Code, the Board considers that Marisa Cassoni, Rudi Lamprecht and Brian McBride are Non-Executive Directors who are independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Board also considers that Richard Rose, Chairman of the Company, was independent at the time of his appointment in August 2008. As the Board currently consists of the Chairman, three independent Non-Executive Directors, two Executive Directors and two Non-Executive Directors who are not considered independent by virtue of their historic involvement with the Company, the Board is aware that it did not comply with the recommendation of the Code that at least half the members of the Board, excluding the Chairman, should comprise independent Non-Executive Directors over the year. However, as noted above, as Mr Holroyd will not stand for re-election as a Director of the Company at the forthcoming AGM on 21 July 2015, the composition of the Board will from that date comply with the independence requirements set out in the Code.

Having regard to the character, judgement, commitment and performance of the Board and Committees to date, and following the Board evaluation conducted during the year, the Board is satisfied that no one individual will dominate the Board's decision taking and considers that all of the Non-Executive Directors are able to provide objective challenges to management. A key objective of the Board is to ensure that its composition is sufficiently diverse and reflects a broad range of skills, knowledge and experience to enable it to meet its responsibilities. As can been seen from the biographies on pages 46 and 47 the Chairman and the Non-Executive Directors collectively have significant industry, public company and international experience which will support the Company in executing its strategy.

Director election
Following the Board evaluation process and the subsequent recommendations from the Nomination Committee the Board considers that all Directors continue to be effective, committed to their roles and are able to devote sufficient time to their duties. Accordingly, all Directors will seek re-election at the Company's AGM with the exception of Bill Holroyd who is not seeking re-election and will retire from the Board at the conclusion of that meeting.

Annual General Meeting
The AGM of the Company will take place at 10.00 am on Tuesday 21 July 2015 at the Company's registered office at AO Park, 5A The Parklands, Lostock, Bolton BL6 4SD. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The notice of the AGM can be found in a booklet which is being mailed out at the same time as this Report and can also be found on our website www.ao.com/corporate. The notice of the AGM sets out the business of the meeting and an explanatory note on all resolutions. Separate resolutions are proposed in respect of each substantive issue.

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

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

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

In addition, the Chairman, following the Board Evaluation, will discuss any training and development needs with the Directors.

External directorships
Any external appointments or other significant commitments of the Directors require the prior approval of the Board. Details of the Directors' significant external directorships can be found in their biographies on pages 46 and 47. During the year Richard Rose announced his appointment as Non-Executive Chairman designate of Quindell Plc and his intention to step down as Non-Executive Chairman of Booker Group Plc in July 2015. Additionally, since the end of the financial year under report, Marisa Cassoni has been appointed as Non-Executive Director of Enterprise Inns Plc. Neither of these changes in appointments are expected to have any significant impact on the time they commit to the Company.

While all Non-Executive Directors have external directorships, the Board is comfortable that these do not impact on the time that any Director devotes to the Company and we believe that this experience only enhances the capability of the Board. Neither John Roberts nor Steve Caunce hold external directorships save for Crystalcraft Limited, a dormant company for which they receive no fee.

Report of the Nomination Committee

Richard Rose
Chairman, Nomination Committee

Delivering a balanced Board with the right skills mix.

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

Composition of the Committee

The members of the Committee who served during the year were as follows:

Composition of the Nomination Committee	
Richard Rose	Chairman and Chairman of the Board
Brian McBride	Senior Independent Non-Executive Director
Chris Hopkinson	Non-Executive Director

During the year ended 31 March 2015, the Nomination Committee held two meetings. The table below summarises the attendance.

	Meetings eligible to attend	Meetings attended
Richard Rose	2	2
Brian McBride	2	2
Chris Hopkinson	2	2

The Code recommends that the Nomination Committee is comprised of a majority of independent Non-Executive Directors. Only Brian McBride is deemed as independent as whilst I was considered to be independent on appointment, the Code provides that thereafter the test of independence is not appropriate in relation to the Chairman.

Chris Hopkinson is not deemed as independent for the purposes of the Code due to his historic involvement with the Company. However, the Board considers that it has a strong independent non-executive component and that the continuity, experience and knowledge of myself and Chris enable us to make a significant contribution to the work of the Committee, ensuring the Committee is run effectively.

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

Role of the Nomination Committee

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

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

The Nomination Committee takes into account the provisions of the UK Corporate Governance Code 2012 (the "Code") and any regulatory requirements that are applicable to the Company. As the Company has only completed one full financial year as a main market listed company, no external evaluation has yet been undertaken. The Nomination Committee will be responsible for ensuring that future external evaluations of the Board are carried out according to applicable regulations.

Main activities of the Committee during the year

During the year the Nomination Committee assessed the composition and effectiveness of the Board and its Committees, having regard to the internal Board evaluation carried out in the second half of the year, and considered the proposal for re-election of all the Directors at the forthcoming AGM. The Board also discussed succession planning of senior management. The Board recognises that effective succession planning is fundamental to the success of the Company and that ensuring the continued development of talented employees helps to mitigate the risks associated with unforeseen events, such as key individuals leaving the business. The Committee recognised that more work was required in this area and a further review will be undertaken during the financial year to 31 March 2016.

On the recommendation of the Nomination Committee and in line with the Code, all currently appointed Directors will retire at the 2015 AGM and offer themselves for reappointment, with the exception of Bill Holroyd who is not seeking re-election and will retire from the Board at the conclusion of that meeting. The biographical details of the current Directors can be found on pages 46 and 47. The Committee considers that the performance of the Directors standing for re-election continues to be effective and that they each demonstrate commitment to their role and devote sufficient time to attend Board and Committee meetings and any other duties.

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

Diversity

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

To find out more about the industry knowledge of our Board go to pages 46 and 47.

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

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

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

Richard Rose
Chairman, Nomination Committee
AO World Plc

Accountability

Internal controls

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

The Board and the Audit Committee review on an ongoing basis the effectiveness of the system of internal controls and did so during the year ended 31 March 2015 and for the period up to the date of approval of the consolidated financial statements contained in the Annual Report. The review covered all material controls, including financial, operational and compliance controls and risk management systems. The Board confirms that the actions it considers necessary have been, or are being taken to remedy any significant failings or weaknesses identified from its review of the system of internal control. This has involved considering the matters reported to it and developing plans and programmes that it considers are reasonable in the circumstances. The Board also confirms that it has not been advised of material weaknesses in the part of the internal control system that relates to financial reporting.

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

- **Risk management:** Our Risk Management Committee has a clear framework for identifying, evaluation and managing risk faced by the Group on an ongoing basis, both at an operational and strategic level. This internal control process starts with the identification of risks through regular routine reviews with our designated risk owners facilitated by our internal audit team with appropriate action taken to manage and mitigate the risks identified. These risks are recorded in a central risk register and the implications and consequences for the Group together with the likelihood of occurrence are assessed. This register is reviewed and discussed on a bi-monthly basis by the Risk Management Committee and follow-up actions are assigned as appropriate. The Risk Management Committee issues a quarterly report to the Audit Committee and the key risks are included within the Group's Corporate Risk Register which is then reviewed and scrutinised by the Board.
- **Management structure:** There is a clearly defined organisational structure throughout the Group with established lines of reporting and delegation of authority based on job responsibilities and experience. Within the businesses, Group Executive Team meetings and senior management meetings occur regularly to allow prompt discussion of relevant business issues.
- **Financial reporting:** Monthly management accounts provide relevant, reliable and up-to-date financial and non-financial information to management and the Board. Analysis is undertaken of the differences between actual results and budgeted results on a monthly basis. Annual plans, forecasts, performance targets and long-range financial plans allow management to monitor the key business and financial activities, and the progress towards achieving the financial objectives. The annual budget is approved by the Board. The Group reports half-yearly based on a standardised reporting process. In addition the Company intend to publish interim management statements on a quarterly basis.
- **Information systems:** Information systems are developed to support the Group's long-term objectives and are managed by professionally staffed teams. During the reporting period work commenced to implement a new financial reporting system across the Group to improve internal controls and the efficiency of our processes, assist with the segregation of duties and standardise procedures across the Group. Appropriate policies and procedures are in place covering all significant areas of the business.
- **Contractual commitments:** There are clearly defined policies and procedures for entering into contractual commitments. These include detailed requirements that must be completed prior to submitting proposals and/or tenders for work, both in respect of the commercial, control and risk management aspects of the obligations being entered into. Significant capital projects and acquisitions and disposals require Board approval.
- **Monitoring of controls:** the Audit Committee receives regular reports from the internal and external auditors and assures itself that the internal control environment of the Group is operating effectively. There are formal policies and procedures in place to ensure the integrity and accuracy of the accounting records and to safeguard the Group's assets. There are formal procedures by which staff can, in confidence, raise concerns about possible improprieties in financial and pensions administration and other matters – often referred to as "whistleblowing" procedures.

Report of the Audit Committee

Marisa Cassoni
Chair, Audit Committee

Ensuring fair, balanced and understandable reporting.

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

Membership of the Audit Committee

The members of the Committee who served during the year were as follows:

Composition of the Audit Committee	
Marisa Cassoni	Chair
Rudi Lamprecht	Independent Non-Executive Director
Bill Holroyd	Non-Executive Director

During the year ended 31 March 2015, the Audit Committee held four meetings. The table below summarises the attendance.

	Meetings eligible to attend	Meetings attended
Marisa Cassoni	4	4
Rudi Lamprecht	4	3
Bill Holroyd	4	4

Meetings are scheduled to review the Annual Report and Accounts and the half-yearly report. Other meetings are scheduled as required.

The Code recommends that the Audit Committee should comprise at least three members, all of whom should be independent Non-Executive Directors with at least one member having recent and relevant financial experience. I am the independent Non-Executive Director considered to have recent and relevant financial experience and am pleased to confirm that all members have had extensive experience in large organisations (Directors' biographies appear on pages 46 and 47). Bill Holroyd is not regarded as an independent Non-Executive Director for the purposes of the Code and therefore during the year the Committee was not fully compliant in this respect. However, Bill Holroyd will retire from the Board at the conclusion of the Company's forthcoming AGM and Chris Hopkinson will replace him as a member of the Audit Committee. Although Chris is not deemed to be independent, his financial experience and knowledge will be valuable to the Committee and will help to ensure that the Committee is run effectively.

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

Role of Audit Committee

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

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

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

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

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

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

Main activities of the Committee during the year

During the year to 31 March 2015 the Audit Committee reviewed and endorsed, prior to submission to the Board, full-year financial statements and the preliminary results announcements. We considered internal audit reports and risk management updates, agreed external and internal audit plans and approved the review of accounting policies.

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

Our risk management procedure was significantly enhanced during the year as the Group's existing risk management processes were strengthened and broadened. Although it is the Board, supported by the Audit Committee, which remains ultimately responsible for establishing and maintaining risk management internal controls, the composition of our Risk Management Committee was expanded to reflect a multitude of skills and experience and to reflect new risk arising from operating in new categories and territories. This Committee has responsibility for ensuring the development, maintenance, operation and review of robust risk management controls to help support AO's strategic objectives and the achievement of its financial targets. Over the coming year the Audit Committee will continue to support the work of the Risk Management Committee in ensuring that the Company adheres to best practice in this area.

The Audit Committee is responsible for overseeing the Group's processes for handling reports from whistleblowers and we encourage all employees to report any potential improprieties in financial reporting or other matters. During the year we introduced an independent compliance hotline operated by an external agency. Any contact received is reported to the Audit Committee. If appropriate our Legal and Internal Audit teams may be asked to investigate the issue.

During the reporting period we commenced work on implementing a new financial reporting system across all our operations. This system was successfully integrated into our German operations prior to the commencement of trading and rolled-out across the UK to coincide with the start of our new financial year. This new system will further improve our internal controls and the efficiency of our processes, assist with the segregation of duties and standardise procedures across the Group for the year ahead.

Significant accounting matters

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

Note 4 to the financial statements can be found on pages 86 to 87.

Significant financial accounting matters	
Revenue recognition, debtor recoverability and legal risk in respect of product protection plans	The Company sells product protection plans to customers purchasing electrical appliances, on behalf of a third party (D&G), who administer the plans, collect money from the customers and pay a commission to the Company for each plan sold. The revenue recognition policy is set out in note 3 to the financial statements (page 85). Revenue recognised for the plans sold is based on a fair value calculation of commissions due over the life of the plan at each period end. There is a risk therefore that the revenues are being recognised in the incorrect period based on the weighted average calculation performed by management. There is also an associated risk around the recoverability of the receivable balance attributable to the product protection plans. Additionally, the basis upon which the Company offers and sells product protection plans could change due to a change in law or regulation or the interpretation of existing law or regulation, or the Company could be subject to claims or proceedings in relation to such production protection plans. The management team has prepared detailed policies setting out the key assumptions and judgments in this area. The Committee has reviewed the judgements made in this area by management and following appropriate challenge, we consider the policy and practice appropriate.
Audio Visual inventory valuation and provisioning	During the financial year to 31 March 2015 the Company expanded its offering to include a range of audio visual ("AV") stock to customers. In selling these items there is an inherent risk of obsolescence due to the shorter lifespan of these items in comparison to white goods and the specific agreements with suppliers for repositioning credits for these items. The management team has prepared detailed policies setting out the key assumptions and judgments in this area. The Committee has reviewed the judgements made in this area by management and, after due challenge and debate, was content with the assumptions made and the judgements applied.
Commercial income arrangements	The Group has a number of contracts with its suppliers where additional discounts can be applied based on purchase levels. The Group accrues the additional discounts by reference to the expected level of purchases. The percentage discount accrued may differ to the current run rate of purchases as the calculation takes seasonality into account. There is a risk therefore that the level of rebates provided for at the year-end could materially differ from the actual number of purchases when compared to assumptions made by management. The management team has prepared detailed policies setting out the key assumptions and judgments in this area. The Committee has reviewed the judgements made in this area by management and, after due challenge and debate, was content with the assumptions made and the judgements applied.

External Auditor

AO World Plc is a member of the FTSE 350 index and the Committee notes the Department of Business, Innovation and Skills ("BIS") and the Financial Reporting Council ("FRC") consultation on the options for the UK implementation of the EU Audit Directive & Regulation. The current auditors, Deloitte LLP, were appointed in 2010 for the period ended 31 March 2010. There are no contractual obligations that restrict the Audit Committee's choice of external auditor.

Damian Sanders, the current audit engagement partner, has served six years. Four years of this six-year term were whilst the business was under private ownership and not listed. As disclosed in the prior year, as we became a listed entity in the prior year, in this situation, Ethical Standard 3 ("ES3") allows the audit engagement partner to continue for not more than two more years, with the current period end being the last year of his term. In certain situations, ES3 allows for the audit partner appointment to be extended for a further year but to not exceed seven years in total. In the current period, due to the substantial change in nature and structure of the Group over recent months I wrote to Deloitte LLP, with a request to extend Damian's tenure for one more year to maintain audit quality. This request was approved and Damian Sanders will serve one more year taking his total term to seven years.

As Deloitte became our external auditor within the last 10 years, based on the EU regulations, Deloitte could not be re-appointed for the period ending 31 March 2020 without a competitive tender.

The timing of a competitive tender will continue to be assessed on an annual basis. For the period ending 31 March 2016, the Committee has provided to the Board its recommendation to the shareholders on the reappointment of Deloitte as the Group's auditor. During the year, Deloitte charged the Group £0.2m (2014: £0.1m) for audit and audit-related services.

Non-audit services

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

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

During the year, Deloitte charged the Group £0.019m (2014: £0.655m) for non-audit related services. These fees related to an annual review of the potential impact of certain changes in employment legislation. Deloitte were best placed to perform their work given their knowledge of the business.

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

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

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

Marisa Cassoni
Chair, Audit Committee
AO World Plc

Shareholder relations

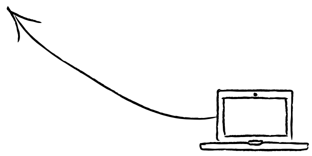
The Company recognises the importance of communicating with its shareholders to ensure that its strategy and performance are understood and that it remains accountable to shareholders. During the year, the Company established an Investor Relations function, headed by the Group Finance Director.

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

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

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

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



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

Report of the Remuneration Committee

Brian McBride
Chairman, Remuneration Committee

Our Directors' Remuneration Report sets out details of the remuneration policy for Executive and Non-Executive Directors, describes how the remuneration policy is being implemented for the financial year ending 31 March 2016 and discloses the amounts paid to them in the financial year ended 31 March 2015.

The Remuneration Policy was approved by shareholders at our AGM on 17 July 2014. There are no changes to the policy approved last year but, for ease of reference, this is set out in full for shareholders' information on pages 57 to 62. The Annual Report on Remuneration (set out on pages 63 to 67) describes how the policy has been implemented in the year under review and how it will be implemented for the year ahead. The Annual Report on Remuneration along with the Remuneration Committee Chairman's Annual Statement will be the subject of an advisory vote at the forthcoming AGM.

Annual Statement by the Chairman of the Remuneration Committee

Dear Shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for our financial year ended 31 March 2015.

Remuneration Committee

During the year under review, Bill Holroyd stepped down as Chairman of the Remuneration Committee and I was appointed to replace him. Bill still remains on the Committee at present but has indicated he will not stand for re-election as a Director of the Company at the forthcoming AGM. I thank Bill for his contribution to the work of the Committee through our first full year in the public company environment. Rudi Lamprecht will replace Bill on the Committee going forward and Rudi and I will continue to be supported by Marisa Cassoni, our Audit Committee Chair, who has considerable experience in the remuneration and governance fields. The Remuneration Committee will therefore meet the independence criteria set out in the UK Corporate Governance Code following these changes and we will continue to ensure that the remuneration of our key Executives is appropriate, transparent and aligns long-term strategic objectives with the corporate culture throughout the organisation and with the interests of shareholders.

Remuneration Policy

Prior to our IPO, we undertook a full review of our remuneration structure to ensure that, as a public company, we would be operating within a framework consistent with best practice, while being mindful of the need to pay no more than is necessary to retain and attract high-quality talent.

The resulting remuneration policy ("the Policy") is straightforward, transparent and in keeping with the strategic and financial objectives of the business; it delivers market competitive packages to the senior executives at base level and rewards the achievement of stretching targets at the other end. The aim is simple – to align executive pay with the interests of shareholders and to promote the long-term success of the AO Group for all stakeholders.

Performance and reward for 2014/15 and looking forward

The Annual Report on Remuneration (set out on pages 63 to 67), describes how the policy has been implemented in the year under review and how it will be implemented for the year ahead. It will be the subject of an advisory vote at the forthcoming AGM.

Owing to the fact that the Company's financial performance missed the threshold set (which was around market expectations) for this financial year, neither of the Executive Directors received (nor were entitled to receive) a bonus for the year under review. For the year ahead, the Executives will be entitled to participate in the annual bonus scheme where, again, performance targets have been set in line with the Company's strategic and financial goals. As was the case last year, both of the Executive Directors have requested to waive their entitlement to participate in the Company's PSP Scheme and the Committee has approved such request due to their existing holdings and their stated long-term commitment to the Company. Further details of the variable elements of remuneration for the Executive Directors are set out on pages 60 to 61, but there are no significant changes to the previous year.

Shareholder feedback

The Remuneration Committee recognises that the fostering of a close relationship with shareholders can complement the work of the Committee in developing the remuneration policy and welcomes any feedback that shareholders may have. I will be available at the AGM on 21 July 2015 to answer any questions shareholders may have regarding the work of the Remuneration Committee.

Brian McBride
Chairman, Remuneration Committee
AO World Plc

Policy Report

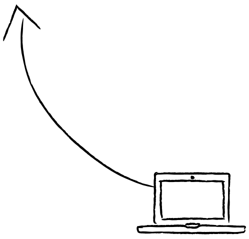
This part of the Directors' Remuneration Report sets out the remuneration policy for the Company ("the Policy") and has been prepared in accordance with the Companies Act 2006, Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the UKLA's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

The Policy was put to a binding shareholder vote at the 2014 AGM and received approval from the vast majority of shareholders. It is intended that the policy will apply for three years from the date of approval. For the purpose of clarity and transparency the Policy is being restated in full here. Slight amendments have been made to the report such that it can be read in the context of the 2015/16 financial year (e.g. the reward scenarios charts have been updated).

Role of the Remuneration Committee in setting policy

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

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



The Committee's terms of reference are available on the Company's website at ao.com/corporate.

How the views of shareholders are taken into account

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

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

Consideration of employment conditions elsewhere in the Group

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

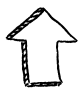
Consideration of the impact of remuneration on risk

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

Summary of our remuneration policy

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

Element	Base salary	Annual bonus
Purpose and link to strategy	– To aid the recruitment and retention of high-calibre executives – To reflect experience and expertise – To provide an appropriate level of fixed basic income	– To reward the delivery of annual objectives relating to the business strategy
Operation	– Reviewed annually, effective 1 April – Set initially at a level required to recruit suitable executives reflecting their experience and expertise – Any subsequent increase influenced by (a) scope of the role; (b) experience and personal performance in the role; (c) average change in total workforce salary; (d) performance of the Company; and (e) external economic conditions, such as inflation – Periodic account of practice in comparable companies (e.g. those of a similar size and complexity) taken – No clawback or recovery provisions apply	– All bonus payments are at the discretion of the Committee – Not pensionable – Payable in cash following the end of the year based on targets set at the start of the year – Targets are set and reviewed annually – Clawback provisions apply in certain circumstances (including where there has been a misstatement of accounts, an error in assessing any applicable performance condition, or in the event of misconduct on the part of the participant)
Maximum opportunity	– Annual increases will generally be linked to those of the average of the wider workforce – Increases beyond those awarded to the wider workforce (in percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group	– Up to 150% of salary for all Executive Directors, dependent on performance, but a lower maximum may be operated
Framework used to assess performance	– The Committee reviews the salaries of Executive Directors each year taking due account of all the factors described in how the salary policy operates	– Bonuses are based on performance measures with stretching targets as set and assessed by the Committee in its discretion – Financial measures (e.g. EBITDA) will represent the majority of bonus, with any other measures representing the balance – Up to 25% of bonus will be payable for achievement of a threshold level of performance – Measures and weightings may change each year to reflect any year-on-year changes to business priorities



Bonuses are based on performance measures with stretching targets.

Performance metrics and targets are carefully selected and aligned to the Company's strategic plan.

Performance Share Plan ("PSP")	Pension	Other benefits
– Intended to align the long-term interests of Executives with those of shareholders – To incentivise the delivery of key strategic objectives over the longer term	– To aid recruitment and retention – To provide an appropriate level of fixed income	– To provide a competitive benefits package to aid recruitment and retention
– The PSP was introduced on Admission in 2014. Awards of free performance shares may be granted annually in the form of conditional awards or nil cost options – Vesting is dependent on performance targets being met during the performance period and continued service of the Directors – A dividend equivalent provision exists which allows the Committee to pay dividends on vested shares at the time of vesting – Clawback provisions apply in certain circumstances (including where there has been a misstatement of accounts, an error in assessing any applicable performance condition, or in the event of misconduct on the part of the participant)	– Executive Directors may receive an employer's pension contribution	– Directors are entitled to benefits including a car allowance or company car, private family medical cover, death in service life assurance and other Group-wide benefits offered by the Company. Executive Directors are also eligible to participate in any all-employee share plans operated by the Company, in line with HMRC guidelines currently prevailing (where relevant), on the same basis as for other eligible employees
– Maximum limit contained within the plan rules is 200% of salary although up to 300% of salary may be made in exceptional circumstances – Normal policy awards may be made at lower levels than this	– Employer's defined contribution up to 12.75% of salary	– The value of benefits may vary from year to year depending on the cost to the Company
– Awards vest based on challenging targets measured over a three-year period, the majority of which will normally be based on financial performance metrics – Prior to each award the Committee will set threshold and stretch targets along with an intermediate vesting range. Details of this will be disclosed in advance in the Annual Report on Remuneration unless the targets are commercially sensitive, in which case they will be disclosed retrospectively – No more than 25% vests at threshold	– N/A	– N/A

Awards granted prior to the effective date
For the avoidance of doubt, authority is given to the Company to honour any commitments entered into with Directors prior to adoption of the Policy.

Annual bonus plan and PSP policy
The Committee will operate the annual bonus plan and PSP according to the rules of each respective plan and taking into account normal market practice and the Listing Rules, including flexibility in a number of regards. While it does not intend to alter the operation of these plans frequently, the Committee retains discretion over the following areas (working within the Policy):
- Who participates in the plans.
- When to make awards and payments.
- How to determine the size of an award, a payment, or when and how much of an award should vest.
- How to deal with a change of control or restructuring of the Group.
- Whether a Director is a good/bad leaver for incentive plan purposes and whether and what proportion of awards vest at the time of leaving or at the original vesting date(s).
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends).
- What the weighting, measures and targets should be for the annual bonus plan and PSP from year to year.

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

Choice of performance measures and approach to target setting
The performance metrics and targets that are set for the Executive Directors via the annual bonus plan and PSP are carefully selected to align closely with the Company's strategic plan.

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

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

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

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

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

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

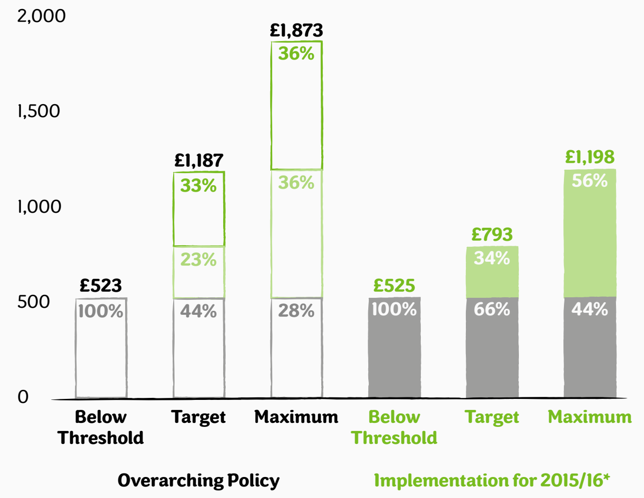
Overall, the remuneration policy for the Executive Directors is more heavily weighted towards performance-related pay than for other employees. In particular, performance-related long-term incentives are not provided outside of senior management as they are reserved for those considered to have the greatest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

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

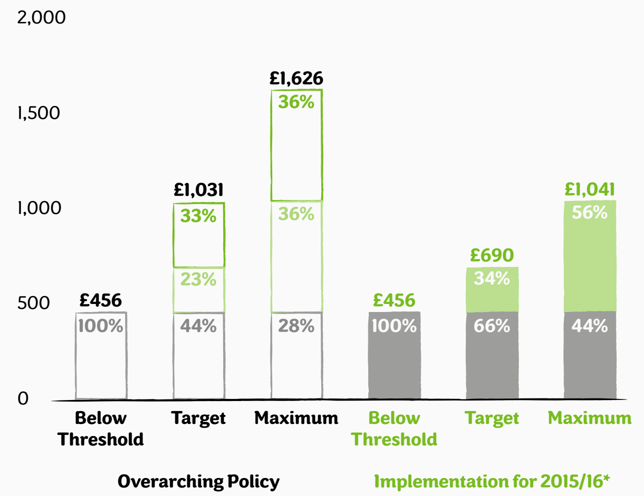
Reward scenarios
Under the Policy, a significant proportion of remuneration received by Executive Directors is variable and dependent on the performance of the Company. The charts below illustrate how the total pay opportunities for the Executive Directors vary under three different performance scenarios: below target, on-target and maximum, based on implementation of the bonus and PSP for the year ahead. Given the Remuneration Committee have agreed to the wishes of the Executive Directors to not be granted PSP awards in 2015/16 two sets of data have been presented – one to show the overarching policy (i.e. to include normal policy level PSP awards) and one to show the policy as it will be implemented for 2015/16 (i.e. to recognise that the Executive Directors will not be granted PSP awards).

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

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



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



* Pursuant to the CEO's and the COO/CFO's decision not to participate in the current PSP.

Assumptions:
– Below threshold = fixed pay only (i.e. latest salary, benefits and pension.
– Target = fixed pay plus 40% of maximum bonus payout and 58% vesting under the PSP (assuming awards equivalent to 150% of base salary are granted).
– Maximum = fixed pay plus 100% of bonus payout and 100% PSP vesting (assuming awards equivalent to 150% of base salary are granted).
– Fixed pay includes the base salaries for each Executive Director applying on 1 April 2015 together with pension (at 12.75% of base salary), a car allowance of £12,000 for each Executive Director and the value of other taxable benefits (such as gym membership and medical cover) based on the cost of supplying those benefits.

Service contracts and loss of office payments

Service contracts normally continue until the Executive Director's agreed retirement date or such other date as the parties agree. The Company's policy is that Executive Directors will be employed on a contract that can be terminated by the Company on giving no less than one year's notice, with the Executive Director required to give no less than one year's notice of termination also.

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

In summary, the contractual provisions are as follows:

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

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

Annual bonus on termination

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

PSP on termination

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

Approach to recruitment and promotions

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

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

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

Chairman and Non-Executive Directors' letters of appointment

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

Non-Executive Directors' fees

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

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

Annual Report on Remuneration

As set out in our last Annual Report, the Annual Remuneration for the year ended 31 March 2015 was structured with the framework of the Policy and has been implemented accordingly. This will be put to an advisory vote at the Company's AGM on 21 July 2015.

Single figure of total remuneration for 2014/2015

The audited table below shows the aggregate emoluments earned by the Directors of the Company during the period 1 April 2014 to 31 March 2015 and those earned during the period 1 April 2013 to 31 March 2014.

		Salaries and fees £	Benefits[1] £	Pension[2] £	Bonus £	Value of SAYE[3] £	Value of PSP £	Total £
Chairman								
Richard Rose	2014/15	135,000	–	–	–	–	–	**135,000[4]**
	2013/14	52,500	–	–	–	–	–	**52,500**
Executive Directors								
John Roberts	2014/15	450,000	16,091	57,375	–	4,497	–	**527,963**
	2013/14	450,000	29,930	57,375	–	–	–	**537,305**
Steve Caunce	2014/15	390,000	15,804	49,725	–	4,488	–	**460,017**
	2013/14	390,000	21,278	49,725	–	–	–	**461,003**
Non-Executive Directors								
Charles (Bill) Holroyd	2014/15	50,000	–	–	–	–	–	**50,000**
	2013/14	34,583	–	–	–	–	–	**34,583**
Christopher Hopkinson	2014/15	45,000	–	–	–	–	–	**45,000**
	2013/14	30,000	–	–	–	–	–	**30,000**
Brian McBride	2014/15	50,000	–	–	–	–	–	**50,000**
	2013/14	8,333	–	–	–	–	–	**8,333**
Marisa Cassoni	2014/15	55,000	–	–	–	–	–	**55,000**
	2013/14	9,167	–	–	–	–	–	**9,167**
Rudi Lamprecht	2014/15	45,000	–	–	–	–	–	**45,000**
	2013/14	7,500	–	–	–	–	–	**7,500**
		2,202,083	**83,103**	**214,200**	**–**	**8,985**	**–**	**2,508,371**

1 Benefits for 2014/2015 included gym membership, medical and life assurance, plus car allowance paid in cash. In 2013/2014 John Roberts received his annual £12,000 car allowance plus a further car allowance of £12,000 which was outstanding from the previous financial year. Similarly, in 2013/2014 Steve Caunce received £9,000 car allowance plus £9,000 outstanding from the previous financial year.

2 Employer's pension contributions of 12.75% of salary were paid to the Executive Directors in both years.

3 John Roberts participated in full in the 2014 AO Sharesave Scheme (launched in May 2014) on the same basis as other employees and was granted 7,093 SAYE options. Steve Caunce participated in full in the 2015 AO Sharesave Scheme (launched in January 2015) on the same basis as other employees and was granted 7,929 SAYE options. The SAYE value is calculated by multiplying the number of shares under option by the value of discount (in pounds) at the time the scheme was launched. The exercise price for each award was set at 80% of the market value of the share price prior to the scheme launch.

4 The Chairman's fee is comprised of £130,000 for basic duties and £5,000 for chairing the Nomination Committee.

Details of variable pay earned in 2014/15

Annual bonus payments

Owing to the fact that the Company's financial performance missed the threshold set (which was around consensus market expectations) for the financial year ending 31 March 2015, neither of the Executive Directors received (nor were entitled to receive) a bonus for the year.

Long-term incentive payments

No long-term incentive plans were in place prior to IPO and therefore no awards were eligible to vest based on performance ending in the year under review.

Implementation of remuneration policy for 2015/16

Salary

The Executive Directors' salaries were reviewed shortly prior to the end of financial year under review and no increase was awarded. The Executive Directors will next be eligible for a salary review in early 2016, with any changes to be effective from 1 April 2016. For comparison, the average salary increase provided to UK employees in April 2015 was 5%.

The current salaries as at 1 April 2015 (and those as at 1 April 2014) are as follows:

	Base salary at 1 April 2015	Base salary at 1 April 2014	% increase
John Roberts	£450,000	£450,000	0%
Steve Caunce	£390,000	£390,000	0%

Pension and other benefits

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

In the year ending 31 March 2016 the Directors may be required to pay German personal income tax based on their time spent in Germany managing AO.de. The Company has agreed to make up the difference to the Directors should they end up paying more personal tax in aggregate (across UK and Germany), than they would have paid, had they been working solely in the UK.

Annual bonus

The operation of the bonus plan for 2015/16 will be consistent with the framework detailed in the Policy. For Executive Directors, the maximum bonus opportunity for 2015/16 will be capped at 150% of basic salary.

The performance measures have been selected to support the key strategic objectives and goals of the Company. For 2015/16 four financial metrics will be used to determine the bonus payments of the Executive Directors, split as follows:

(1) UK Adjusted EBITDA (excluding non-recurring costs relating to major strategic projects and share-based payment charges attributable to the LTIP IPO Award which the Board considers one-off in nature, as agreed in advance by the Committee);
(2) UK Turnover;
(3) Germany Turnover; and
(4) Germany Profitability.

40% of the maximum bonus will relate to UK EBITDA achievements, 20% to UK Turnover, 20% to Germany Profitability and 10% to Germany Turnover. In addition, 10% of the notional bonus pool will be subject to an assessment of performance against key strategic milestones. The performance metrics are stand-alone and will be assessed independently.

In accordance with Policy, no more than 25% of the maximum bonus entitlement will be payable at threshold level; for "on target" performance across the Group 40% will be payable, rising to 100% of maximum for significantly outperforming the Group's plans and consensus forecasts, based on the Committee's assessment of achievement against the targets set.

The Committee considers that the targets themselves, in relation to the 2015/16 financial year, are commercially sensitive and therefore plans to disclose them only on a retrospective basis. Details of the targets, performance against those targets, and any payments resulting, will be disclosed, as far as possible, in next year's Annual Report on Remuneration, save where they remain commercially sensitive.

Long-term incentives
The Committee's policy is normally to award Executive Directors PSP awards annually. In light of their inherent alignment with shareholders by virtue of their existing shareholdings and their stated long-term commitment to the Company, John Roberts and Steve Caunce have indicated that they do not wish to be considered for PSP awards in 2015, as they did for the PSP IPO Award. The Committee is satisfied that John Roberts and Steve Caunce are already sufficiently aligned with shareholders, are fully committed to the long-term success of the Company and that allowing them to not be considered for awards during 2015 is appropriate. The Committee will keep this under review.

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

Share ownership requirements
The required share ownership level for the Executive Directors for 2015/16 will be 100% of salary. There are no share ownership requirements for the Non-Executive Directors.

Non-Executive Director fees
The fee structure and fee levels of the Non-Executive Directors were reviewed at the end of the financial year and due to the increasing duties and responsibilities of the Remuneration Committee Chairman, the supplementary fee for chairing this Committee has been increased and is now on a par with the supplementary fee for the Audit Committee Chair. The Chairman's fee was amended from £130,000 plus Nomination Committee fee of £5,000, to £135,000 in order to consolidate the fee previously payable for chairmanship of the Nomination Committee (the net impact being no change to the fee he receives). No other changes to Non-Executive Director fees have been made. Accordingly, the fees payable per annum for 2015/16 are shown in the table below.

Non-Executive Director fees	
Chairman fee covering all Board duties	£135,000
Non-Executive Director basic fee	£45,000
Supplementary fees to Non-Executive Directors covering additional Board duties	
Audit Committee Chairman fee	£10,000
Remuneration Committee Chairman fee	£10,000
Senior Independent Director fee	£5,000

Payments to past Directors and loss of office payments
There were no payments to past Directors or loss of office payments made in the year ended 31 March 2015.

Directors' shareholdings

	Shares held beneficially[1] at 31 March 2015	Target shareholding guidelines (% of salary)	Target shareholding achieved	Options
Richard Rose	723,443	N/A	N/A	N/A
John Roberts	110,387,235	100%	Yes	7,093
Steve Caunce	52,556,382	100%	Yes	7,929
Charles (Bill) Holroyd	23,041,616	N/A	N/A	N/A
Christopher Hopkinson	22,201,590	N/A	N/A	N/A
Brian McBride	52,628	N/A	N/A	N/A
Marisa Cassoni	52,628	N/A	N/A	N/A
Rudi Lamprecht	52,628	N/A	N/A	N/A

1 Includes any shares held by connected persons.

In the period from 31 March 2015 to the date of this report, there has been no change in the Directors' interests in shares in the Company.

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

	Chief Executive	Average per employee[1]
Salary	0%	5%
Benefits[2]	0%	0%
Bonus	0%	-3%

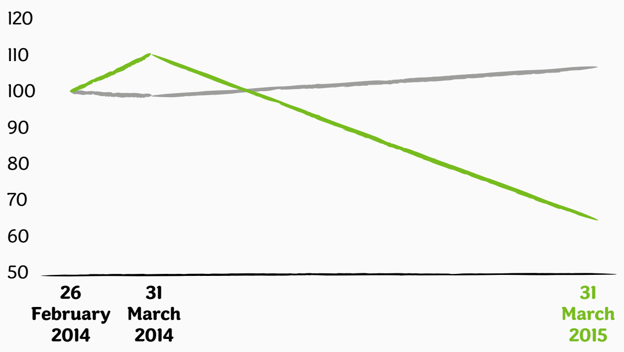
1 Reflects the average change in pay for employees employed in both the year ended 31 March 2014 and the year ended 31 March 2015.
2 There are no changes to benefit entitlements and therefore we have used the prevailing inflation rate to estimate cost changes.

Performance graph and pay table

The chart below shows the Company's TSR performance against the performance of the FTSE 250 Index from 25 February 2014 (the date on which the Company's shares were first conditionally traded) to 31 March 2015. This index was chosen as it represents a broad equity market index which includes companies of a broadly comparable size and complexity.

Total Shareholder Return

(Rebased)



This graph shows the value, by 31 March 2015, of £100 invested in AO World Plc on 26 February 2014 (being the date that shares were first admitted to trading) compared with the value of £100 invested in the FTSE 250 Index.

AO World FTSE 250

Source: Datastream (Thomson Reuters)

The table below shows the total remuneration figure for the Chief Executive during the financial years ending 31 March 2010 to 31 March 2015. The total remuneration figure includes the annual bonus payable for performance in each of those years. No long-term incentives were eligible for vesting based on performance ending in any of those years. The annual bonus percentage shows the payout for each year as a percentage of the maximum.

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Total remuneration (£'000)	680	292	243	227	537	528
Annual bonus (%)	69%	18%	0%	0%	0%	0%
PSP vesting (%)	–	–	–	–	–	–

Relative importance of the spend on pay

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

	2013/14	2014/15	% change
Staff costs (£'000)[1]	£32,375	£46,480	43.6%
Distributions to shareholders[2]	No distributions were made to shareholders in the year		

[1] Includes base salaries, social security and pension.
[2] Distributions to shareholders prior to the date of listing have been excluded.

Details of Directors' service contracts and letters of appointment

Details of the service contracts and letters of appointment in place as at 31 March 2015 for Directors are as follows:

Director and date of service contract or letter of appointment	Unexpired term	Notice period by Company (months)	Notice period by Director (months)	Date joined Group
Marisa Cassoni 31/01/2014	Initial term of 3 years from date of letter subject to notice	3	3	05/02/2014
Steve Caunce 14/02/2014	Continuous employment until terminated by either party	12	12	13/10/2005
Charles (Bill) Holroyd 14/02/2014	Initial term of 3 years from date of letter subject to notice	3	3	30/09/2003
Christopher Hopkinson 14/02/2014	Initial term of 3 years from date of letter subject to notice	3	3	12/12/2005
Rudi Lamprecht 17/02/2014	Initial term of 3 years from date of letter subject to notice	3	3	17/01/2014
Brian McBride 17/02/2014	Initial term of 3 years from date of letter subject to notice	3	3	06/02/2014
John Roberts 14/02/2014	Continuous employment until terminated by either party	12	12	19/04/2000
Richard Rose 14/02/2014	Initial term of 3 years from date of letter subject to notice	3	3	01/08/2008

External appointments

No fees were received by Executive Directors for external appointments during the year ended 31 March 2015.

Remuneration Committee membership

The members of the Committee were for the year in question and are currently Brian McBride (Chairman), Bill Holroyd and Marisa Cassoni, but as noted in the introduction to this report, Bill Holroyd indicated he will not stand for re-election as a Director of the Company at the forthcoming AGM on 21 July 2015. Rudi Lamprecht will replace Bill on the Committee from that date. Following the changes, the Committee will comprise Brian McBride (Senior Independent Non-Executive Director) as Chairman supported by Marisa Cassoni and Rudi Lamprecht. All members of the Committee are deemed to be independent and therefore going forward the constitution of the Committee will comply with the independence requirements set out in the Code.

The responsibilities of the Committee are set out in the Corporate Governance section of the Annual Report on page 49. The Executive Directors may be invited to attend meetings to assist the Committee in its deliberations as appropriate. The Committee may also invite other members of the management team to assist as appropriate. No person is present during any discussion relating to their own remuneration or is involved in deciding their own remuneration.

Advisers to the Committee

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

NBS are signatories to the Remuneration Consultants Group Code of Conduct and any advice provided by them is governed by that code. NBS's terms of engagement are available on request from the Company Secretary. NBS is a trading name of Aon Hewitt Limited (an Aon Plc company) which, other than acting as independent consultant to the Committee, provided no further services to the Company during the year. The Committee is committed to regularly reviewing the external advisor relationship and is comfortable that NBS's advice remains objective and independent. For the year under review NBS's total fees charged were £8,704 plus VAT.

Shareholder feedback

During the IPO process, the views of potential shareholders were canvassed and taken into account when formulating the Directors' remuneration policy, which was, as noted below, approved by the majority of shareholders at the AGM in July 2014. As there are no proposed changes to the Policy, the Committee has not sought further shareholder feedback over the year. The Committee has, however, monitored developments in market trends and in the best practice expectations of investors as part of the ongoing review of how the Policy is implemented. As ever, the Committee welcomes any enquiries or feedback shareholders may have on the Policy or the work of the Committee.

At the 2014 AGM, the Annual Remuneration Report for the year ended 31 March 2014 was put to shareholders by way of an advisory vote and received approval from shareholders holding in aggregate 304,682,167 shares (over 99.4% of votes cast with only 0.59% of votes cast against; total votes withheld 2,647,692). The Policy was put to a binding shareholder vote and received approval from the vast majority of shareholders holding in aggregate 305,302,957 shares (over 99.6% of votes cast with only 0.38% of votes cast against; total votes withheld 2,667,260).

Audited information

The Group's Auditor, Deloitte, has audited the information contained in the Annual Report on Remuneration set out on pages 63 to 67.

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

Brian McBride
Chairman, Remuneration Committee
AO World Plc
2 June 2015

Directors' Report

The Directors have pleasure in submitting their report and the audited financial statements of AO World Plc (the "Company") and its subsidiaries (together the "Group") for the financial year to 31 March 2015.

Statutory Information

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

Statutory Information	Section	Page
Amendment of the Articles	Directors' Report	69
Appointment and replacement of Directors	Directors' Report	68
Board of Directors	Corporate Governance Statement	46-47
Change of control	Directors' Report	69
Community	Strategic Report; Corporate Social Responsibility	32
Directors' indemnities	Directors' Report	70
Directors' interests	Remuneration Report	65
Directors' responsibility statement	Directors' Report	71
Disclosure of information to Auditors	Directors' Report	71
Employee involvement	Strategic Report Corporate Social Responsibility	28-32
Employees with disabilities	Strategic Report Corporate Social Responsibility	30
Future developments of the business	Strategic Report	12-41
Going concern	Directors' Report	70
Greenhouse gas emissions	Corporate Social Responsibility	33
Independent Auditors	Directors' Report	71
Results and dividends	Directors' Report	70
Political donations	Directors' Report	70
Post-balance sheet events	Directors' Report	70
Powers for the Company to issue or buy back its shares	Directors' Report	69
Powers of the Directors	Directors' Report	69
Research and development activities	Directors' Report	70
Restrictions on transfer of securities	Directors' Report	69
Rights attaching to shares	Directors' Report	69
Risk management	Strategic Report Note 32 to the consolidated financial statements	40-41 96-99
Share capital	Directors' Report	69
Significant related party agreements	Note 33 to the consolidated financial statements	99
Significant shareholders	Directors' Report	70
Statement of corporate governance	Corporate Governance Statement	44-67
Voting rights	Directors' Report	69

Management Report

This Directors' Report, on pages 68 to 71, together with the Strategic Report on pages 12 to 41, form the Management Report for the purposes of DTR 4.1.5R.

The Strategic Report

The Strategic Report, which can be found on pages 12 to 41, sets out the development and performance of the Group's business during the financial year, the position of the Group at the end of the year and a description of the principal risks and uncertainties which is set out on pages 40 to 41.

UK Corporate Governance Code

The Company's statement on corporate governance can be found in the Corporate Governance Statement, the Audit Committee Report, the Nomination Committee Report and the Directors' Remuneration Report on pages 44 to 67. The Corporate Governance Statement, the Audit Committee Report and the Nomination Committee Report form part of this Directors' Report and are incorporated into the Directors' Report by reference.

Appointment and replacement of Directors

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

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

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

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

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

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

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

For further details of our Directors please refer to pages 46 and 47.

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

Share capital and control
The Company's issued share capital comprises of ordinary shares of 0.25p each which are listed on the London Stock Exchange (LSE: AO.L). The ISIN of the shares is GB00BJTNFH41. As at 31 March 2015, the issued share capital of the Company was £1,052,632 comprising 421,052,631 ordinary shares of 0.25p each.

Details of the issued share capital of the Company, together with movements in the issued share capital during the year, can be found in note 27 to the financial statements on page 93. All the information detailed in note 27 on page 93 forms part of this Directors' Report and is incorporated into it by reference.

Details of employee share schemes are provided in note 29 to the financial statements on pages 94 and 95.

At the Annual General Meeting of the Company to be held on 21 July 2015 the Directors will seek authority from shareholders to allot shares in the capital of the Company up to a maximum nominal amount of £701,754.39 (280,701,756 shares (representing approximately 66.6% of the Company's issued ordinary share capital)) of which 140,350,878 shares (representing approximately 33% of the Company's issued ordinary share capital (excluding treasury shares)) can only be allotted pursuant to a rights issue.

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

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

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

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

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

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

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

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

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

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

2015 Annual General Meeting

The Annual General Meeting will be held on 10.00 am on 21 July 2015 at AO Park, 5A The Parklands, Lostock, Bolton BL6 4SD. The Notice of Meeting which sets out the resolutions to be proposed at the forthcoming AGM is enclosed with this Annual Report. The Notice specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes will be counted and the numbers for, against or withheld in relation to each resolution will be announced at the Annual General Meeting and published on the Company's website.

Interests in voting rights

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

Shareholder	Number of ordinary shares/voting rights notified	Percentage of voting rights over ordinary shares of 0.25p each
John Roberts	110,387,235	26.22%
Steve Caunce	52,556,382	12.48%
Baron Capital Group, Inc, BAMCO, Baron Capital Management & Ronald Baron	42,053,701/ 38,049,298	9.04%
Generation Investment Management LLP	24,189,418	5.74%
Odey Asset Management LLP	23,911,376 (plus contracts for difference 18,560,000)	5.68%
Julie Holroyd	22,687,476	5.39%
The London & Amsterdam Trust Company Ltd	22,320,000	5.30%
Chris Hopkinson	21,850,713	5.19%
N K Stoller	17,629,098	4.20%
Maverick Capital, Ltd	13,954,502 (total return swap – no voting rights)	3.31%
Aviva plc and its subsidiaries	13,046,819	3.10%

Results and dividends

The Group's and Company's audited financial statements for the year are set out on pages 78 to 107.

No dividend was paid by the Company during the year to 31 March 2015.

Post-balance sheet events

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

Research and development

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

Indemnities and insurance

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

Environmental

Information on the Group's greenhouse gas emissions is set out in the Corporate Social Responsibility section on page 33 and forms part of this report by reference.

Political donations

During the year, no political donations were made.

External branches

As part of its strategy on international expansion, the Group established a branch in Germany on 18 July 2014 via its subsidiary AO Deutschland Limited, registered in Elsdorf.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 12 to 41. The financial position of the Company and its cash flows are described in the CFO/COO's Performance Review on pages 36 to 39. In addition, the notes to the financial statements include the Company's policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Company continues to have considerable financial resources following the issue of new shares as part of the IPO in March 2014; combined with this it has strong free cash flow generation and low capital expenditure requirements, deals with a range of suppliers with which it has good relations and has no economic dependence on particular customers.

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

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

Financial instruments

Details of the financial risk management objectives and policies of the Group, including hedging policies and exposure of the entity to price risk, credit risk, liquidity risk and cash flow risk, are given on pages 96 to 99 in note 33 to the consolidated financial statements.

Independent Auditor

The Company's Auditor, Deloitte LLP, have indicated their willingness to continue their role as the Company's Auditor. A resolution to re-appoint Deloitte LLP as Auditor of the Company and to authorise the Board to determine its remuneration will be proposed at the 2015 AGM.

Disclosure of information to Auditor

Each of the Directors has confirmed that:

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

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

Directors' responsibilities statement

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

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

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

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

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

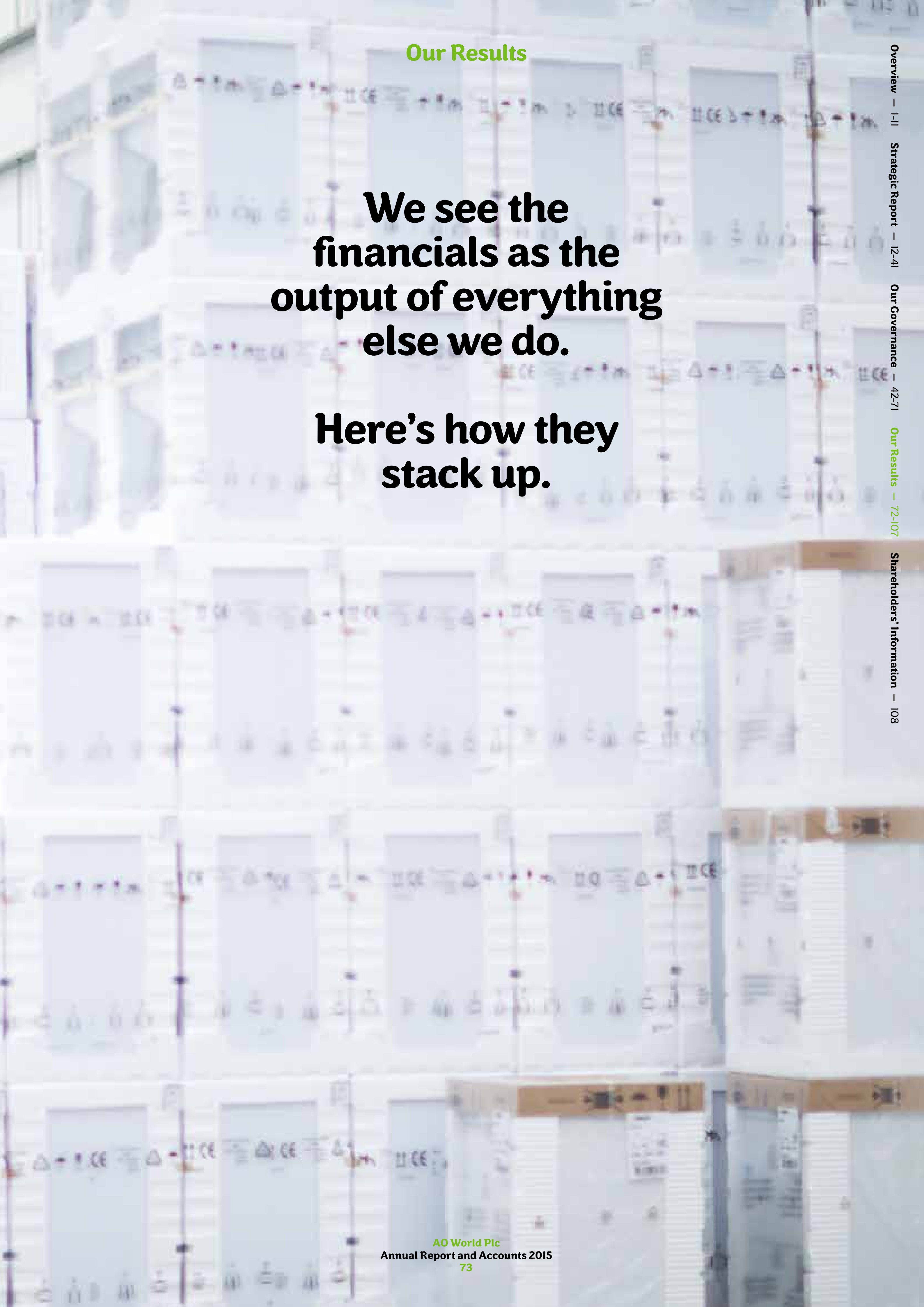
The Directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

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

Approved by the Board and signed on its behalf

Julie Finnemore
Company Secretary
AO World Plc
2 June 2015



We see the financials as the output of everything else we do.

Here's how they stack up.

Opinion on financial statements of AO World Plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2015 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated income statement, Consolidated statement of comprehensive income, the Consolidated and Company statement of financial position, the Consolidated and Company statement of changes in equity, the Consolidated and Company cash flow statement, and the related notes 1 to 33 and 1 to 16 for the Group and Company financial statements respectively. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, are applied in accordance with the provisions of the Companies Act 2006.

Going concern

As required by the Listing Rules we have reviewed the Directors' statement within the Directors' Report on page 70 that the Group is a going concern. We confirm that:

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

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

Our assessment of risks of material misstatement

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

Risk	How the scope of our audit responded to the risk
Product protection plans	
The Group sells product protection plans to customers purchasing electrical appliances, on behalf of a third-party (Domestic & General Services Limited ("D&G")), who, without recourse to the Group, administer the plans, collect money from the customers and pay a commission to the Group for each policy sold over the life of the plan. Revenue recognised in the year for the plans sold in the year is based on a fair value calculation of commissions due over the expected life of the plan. The expected life of the plan is profiled based on historical cancellation data. There is a risk therefore that the revenues are being recognised at the incorrect value and in the incorrect period. There is an associated risk around the recoverability of the receivable balance attributable to the product protection plans. There is a risk that a change in the interpretation of the existing law or regulation could differ from the current management view of the nature of product protection plans. This could result in plans being considered as insurance contracts and accordingly the plans would be regulated under the Financial Services Markets Act ("FSMA"). See critical accounting judgements and key sources of estimation uncertainty on pages 86 to 87.	We agreed the key inputs to the fair value calculation (which are plan cancellations and commission receipts) to third-party documentation. This involved agreeing: – A sample of plan cancellations within the D&G cancellation statements to the fair value calculation; and – A sample of commission receipts to D&G statements and bank statements. We compared the forecast cancellation rates over the expected life of the plans to the historical cancellation data. We also benchmarked the discount rate that the Group had used against an external market rate for a medium-term monetary asset. Our data specialists rebuilt the warranty cancellation curve from source data and used specialist tools to examine the integrity of the formulae used to calculate the fair value of the revenue and receivable balance. We have reviewed the latest legal advice and variation agreements with regards to any updates regarding the legal position of the plans.

Risk	How the scope of our audit responded to the risk
Audio Visual ("AV") Inventory	
During the current year, the Group have extended their product offering to include a range of AV inventory to customers. We have therefore refined our inventory risk to focus on the valuation and obsolescence risk on AV inventory given the lack of history in selling these items and increased inherent risk of obsolescence. There are a number of risks that can therefore have a material impact on the AV inventory balance in the financial statements: – The book valuation of AV inventory which should include the purchase cost of inventory net of supplier rebates; and – Provision requirements for slow-moving, obsolete, or damaged inventory as a result of the investment in inventory in the period. See critical accounting judgements and key sources of estimation uncertainty on pages 86 to 87.	We tested the cost of the AV inventory by reference to a sample of supplier invoice costs and assessed the amount of rebate that has been absorbed into the valuation of inventory. We assessed the methodology behind the AV inventory provision to determine whether this is reasonable based on the nature of the business and have considered the risk regarding additional provision being required by reviewing any inventory losses made during the financial year and considering post year end sales to identify any further sales made at a loss. Inventory counts have also been performed at locations in the UK and Germany. We have also reviewed any specific rebates in relation to repositioning credits received from the suppliers.
Commercial income agreements	
The Group has a number of rebate agreements with its suppliers that are based on the volume of purchases during the calendar year multiplied by an agreed rebate percentage scale (which can vary based on purchase levels). At the end of the financial year, the Group accrues the rebate debtor owed by reference to the percentage rebate at the expected level of purchases for the full calendar year. The percentage accrued at the Group's financial year end may differ to the percentage achieved for the 2015 calendar year given the estimate of forecast purchases is made early in the calendar year. See critical accounting judgements and key sources of estimation uncertainty on pages 86 to 87.	We have worked with management and the commercial team and have inspected the key rebate agreements and assessed the criteria for recognition of the rebates on the balance sheet based on the contracted rebate percentage and the volumes of purchases forecast. We have assessed the commercial income recognised in the Income Statement and have vouched a sample back to supporting documentation to confirm whether they have been recognised in the Income Statement in line with the signed terms of the agreement. We have sent out confirmations to 26 suppliers asking them to confirm the nature and specific terms of the any rebate agreements for amounts recognised in the year and held at the balance sheet date. We agreed a sample of rebates received to credit notes received from the suppliers.

Last year our report included a significant risk for Accounting for costs associated with the Initial Public Offering (IPO) which is not included in our report this year as all costs have passed through the Consolidated statement of comprehensive income in the previous financial year. We have also refined our inventory risk to be specific to the AV inventory as noted above.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 54.

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

Our application of materiality

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

We determined materiality for the Group to be £603,000 (2014: £392,000), which is 5% (2014: 5%) of normalised pre-tax profit. Pre-tax loss has been normalised by adjusting for the start-up investment and losses incurred in the European operations as described in note 8 and for the costs incurred in relation to the Performance Share Plan (PSP), which was specific to the IPO in the previous financial year, as described in note 29.

The losses incurred in the European operations are considered to be part of an investment and start-up phase therefore not representative of the underlying pre-tax profit forecast in future periods. The charge in relation to the PSP relates specifically to an incentive plan to reward the management team for their successful IPO and accordingly reflect a much greater value compared to the other on-going share-based payment schemes in the Group. For these reasons, both items are considered to be required to be adjusted to give a true reflection of materiality relevant to the underlying trade of the Group.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £12,000 (2014: £8,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

The Group's trading subsidiaries are AO Retail Limited, Expert Logistics Limited, AO Deutschland Limited and Elek Direct Limited. Our audit work within all four entities was executed at levels of materiality applicable to each individual entity which were lower than Group materiality.

We engaged a local component audit team to complete the inventory count procedures at AO Deutschland Limited and the location has been visited by the Group audit team during the audit.

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

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

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

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with 10 provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

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

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

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

Respective responsibilities of Directors and Auditor

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

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

Scope of the audit of the financial statements

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

Damian Sanders BA ACA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
2 June 2015

Consolidated income statement
For the year ended 31 March 2015

	Note	2015 £000	2014 £000
Continuing operations			
Revenue	5	**476,663**	384,918
Cost of sales		**(389,095)**	(310,741)
Gross profit		**87,568**	74,177
Administrative expenses	7	**(89,789)**	(65,976)
Operating (loss)/profit before exceptional items		**(2,221)**	8,201
Exceptional items	10	**–**	(15,441)
Operating loss	8	**(2,221)**	(7,240)
Finance income	12	**346**	80
Finance costs	13	**(1,006)**	(391)
Loss before tax		**(2,881)**	(7,551)
Tax	14	**364**	(2,022)
Loss for the year		**(2,517)**	(9,573)
Loss per share			
Basic and diluted loss per share (in pence per share)	16	**(0.60)**	(2.38)

Consolidated statement of comprehensive income
For the year ended 31 March 2015

	2015 £000	2014 £000
Loss for the year	**(2,517)**	(9,573)
Exchange differences on translation of foreign operations	**382**	–
Total comprehensive loss for the year	**(2,135)**	(9,573)

Consolidated statement of financial position

As at 31 March 2015

	Note	2015 £000	2014 £000
Non-current assets			
Intangible assets	17	**14,336**	12,830
Property, plant and equipment	18	**13,485**	11,409
Trade and other receivables	21	**17,103**	11,255
Deferred tax asset	23	**759**	575
		45,683	36,069
Current assets			
Inventories	20	**31,473**	15,881
Trade and other receivables	21	**30,268**	21,711
Corporation tax receivable		**672**	–
Cash and bank balances		**44,943**	55,050
		107,356	92,642
Total assets		**153,039**	128,711
Current liabilities			
Trade and other payables	25	**(86,640)**	(62,918)
Current tax liabilities		**–**	(1,146)
Borrowings	22	**(2,132)**	(1,996)
Provisions	26	**(766)**	(209)
		(89,538)	(66,269)
Net current assets		**17,818**	26,373
Non-current liabilities			
Borrowings	22	**(4,949)**	(4,403)
Total liabilities		**(94,487)**	(70,672)
Net assets		**58,552**	58,039
Equity			
Share capital	27	**1,053**	1,053
Merger reserve	28	**4,368**	4,368
Capital redemption reserve	28	**(1,068)**	(1,068)
Share premium account	28	**55,665**	55,665
Share-based payments reserve	28	**2,843**	195
Translation reserve	28	**382**	–
Retained losses		**(4,691)**	(2,174)
Total equity		**58,552**	58,039

The financial statements of AO World Plc, registered number 05525751 on pages 78 to 107 were approved by the Board of Directors and authorised for issue on 2 June 2015. They were signed on its behalf by:

John Roberts
Director
AO World Plc

Steve Caunce
Director
AO World Plc

Consolidated statement of changes in equity

As at 31 March 2015

	Share capital £000	Merger reserve £000	Capital redemption reserve £000	Translation reserve (£000)	Share premium account £000	Retained losses £000	Share-based payments reserve £000	Total £000
Balance at 1 April 2014	1,053	4,368	(1,068)	–	55,665	(2,174)	195	58,039
Loss for the year	–	–	–	–	–	(2,517)	–	(2,517)
Foreign currency gains arising on consolidation	–	–	–	382	–	–	–	382
Share-based payments charge	–	–	–	–	–	–	2,648	2,648
Balance at 31 March 2015	**1,053**	**4,368**	**(1,068)**	**382**	**55,665**	**(4,691)**	**2,843**	**58,552**

Consolidated statement of cash flows
For the year ended 31 March 2015

	Note	2015 £000	2014 £000
Cash flows from operating activities			
Loss for the year		**(2,517)**	(9,573)
Adjustments for:			
Depreciation and amortisation		**3,939**	2,796
Finance income	12	**(346)**	(80)
Finance costs	13	**1,006**	391
Profit on disposal of property, plant and equipment	8	**(13)**	–
Taxation (credit)/charge		**(364)**	2,022
Exceptional items	8 & 10	**–**	15,441
Increase/(decrease) in provisions		**766**	(647)
Share-based payment charge	29	**2,648**	195
Operating cash flows before movement in working capital		**5,119**	10,545
Increase in inventories		**(15,692)**	(7,173)
Increase in trade and other receivables		**(12,404)**	(6,141)
Increase in trade and other payables		**25,915**	18,314
		(2,181)	5,000
Taxation paid		**(1,639)**	(1,906)
Cash generated from operating activities		**1,299**	13,639
Cash flows from investing activities			
Interest received	12	**346**	80
Proceeds from sale of property, plant and equipment		**69**	–
Acquisition of property, plant and equipment		**(4,418)**	(2,788)
Acquisition of intangible assets		**(1,709)**	(493)
Cash used in investing activities		**(5,712)**	(3,201)
Cash flows from financing activities			
Interest paid	13	**(442)**	(391)
Repayment of preference shares		**–**	(1,010)
Repayment of shareholder loan		**–**	(269)
New/(repayment of) borrowings		**1,233**	(1,627)
Payment of finance lease liabilities		**(2,047)**	(1,771)
Dividends paid	15	**–**	(2,807)
(Costs settled)/net proceeds from issue of new shares		**(4,352)**	40,277
Net cash (used in)/generated from financing activities		**(5,608)**	32,402
Net (decrease)/increase in cash		**(10,021)**	42,840
Cash and cash equivalents at beginning of year		**55,050**	12,210
Exchange losses on cash and cash equivalents		**(86)**	–
Cash and cash equivalents at end of year		**44,943**	55,050

Notes to the consolidated financial statements
For the year ended 31 March 2015

1. Authorisation of financial statements and statement of compliance with IFRSs
AO World Plc is a public limited company and is incorporated in the United Kingdom under the Companies Act. The Company's ordinary shares are traded on the London Stock Exchange. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 March 2015.

The address of the registered office is given on page 108. The nature of the Group's operations and its principal activities are set out in note 19 and in the Strategic Report on pages 12 to 41.

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

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

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

There are no new endorsed standards, amendments to standards and interpretations that are not yet effective for the year ended 31 March 2015 and which will have a significant impact on the information reported by the Group in future years. The impact of amendments to IAS 27, IAS 32, IAS 36, IAS 39, IFRS 10, IFRS 11 and IFRS 12 is not significant.

The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed by the European Union and require adoption by the Group in future reporting years, this includes IFRS 7, IFRS 9 and improvements to IFRS 2010-2012, improvements to IFRS 2011-13 and IFRIC interpretation 21.

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

IFRS 9	*Financial Instruments*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interest in Other Entities*
IAS 27	*Separate Financial Statements*
IAS 28	*Investments in Associates and Joint Ventures*
IFRS 14	*Regulatory Deferral Accounts*
IFRS 15	*Revenue from Customers with Contracts*
IFRIC Interpretation 21	*Levies*

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

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

3. Significant accounting policies
Basis of consolidation
The Group's financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group").

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

Going concern
The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. This takes into consideration the proceeds received from the Group's IPO in March 2014 where the Group continues to maintain substantial cash headroom. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' Report on page 70.

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

Financial liabilities and equity components

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and in conjunction with the application of IFRS. Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called-up share capital and share premium account exclude amounts in relation to those shares.

Intangible assets

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

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

Asset class	Depreciation method and rate
Domain names	5 years straight-line
Computer software	3 to 5 years straight-line

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

Property, plant and equipment

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

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

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

Freehold land is not depreciated.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

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

Inventories

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

Leases

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

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

Impairment of tangible and intangible assets

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

Goodwill is not amortised but is reviewed for impairment annually, or more frequently where there is an indication that the goodwill may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") expected to benefit from synergies of the combination.

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

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

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

Employee benefits

The Group operates a defined contribution pension scheme. A defined contribution scheme is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the years during which services are rendered by employees.

Revenue recognition

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

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

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

Finance income and costs

Finance costs incurred on finance leases are recognised in profit or loss using the effective interest method. Finance costs also includes foreign exchange losses arising on financing.

Finance income comprises interest receivable on funds invested.

All other interest income and interest payable is recognised in profit or loss as it accrues.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment for items of income or expense that are taxable or deductible in other years or that are never taxable or deductible.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and 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 statement of financial position date.

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

Exceptional items

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

Non-statutory measures

One of the Company's key performance indicators is Adjusted EBITDA. EBITDA is adjusted for one-off items that do not reflect the underlying trading of the business. Such adjustments include:

- Share-based payment charges attributable to the IPO LTIP Award which the Board considers one-off in nature (all other share-based payment charges as part of the normal course of the business are not adjusted).
- Set-up costs of expanding into overseas territories.
- Early stage strategy costs relating to the overseas territories incurred in the UK when overseas businesses are in the start-up phase. The start-up phase is defined by a suite of KPIs determined by management which are used in the day-to-day running of the business.
- IPO costs in the prior year.

3. Significant accounting policies (continued)

Share-based payments

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

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

No expense is recognised for awards that do not ultimately vest, except for awards under the AO Sharesave scheme which are cancelled. These awards are treated as if they had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value of the settled award being treated as an expense in the income statement.

At each statement of financial position date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of service and non-market vesting conditions and of the number of equity instruments that will ultimately vest or, in the case of cancelled options in the AO Sharesave scheme, be treated as vesting as described above. The movement in cumulative expense since the previous statement of financial position date is recognised in the income statement, with a corresponding entry in equity. Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the terms of the original award continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Foreign currency translation

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

The trading results and cash flows of overseas subsidiaries are translated at the average monthly exchange rates during the period. The Statement of Financial Position of each overseas subsidiary is translated at year-end exchange rates with the exception of equity balances which are translated at historic rates. The resulting exchange differences are recognised in a separate Translation Reserve within Equity and are reported in other comprehensive income.

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at the rates of exchange at the reporting date. Exchange differences on monetary items are recognised in the income statement.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation.

Commercial income

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

Commercial income can be recognised as volume rebates or as strategic marketing investment funding. Volume rebates are recognised in the income statement as a reduction in cost of sales in line with the recognition of the sale of a product. Strategic marketing investment funding is recognised in one of two ways.

- In cost of sales to offset directly attributable marketing costs incurred by the Group on behalf of the suppliers.
- The remainder of funding is recognised in income.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation.

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

Revenue recognition of product protection plans

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

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

Inventory valuation

Inventories are valued at the lower of cost and net realisable value. Cost comprises direct purchase cost net of rebates. Net realisable value represents the estimated selling price less all estimated and directly attributable costs of selling and distribution. Net realisable value includes, where necessary, provisions for slow-moving and damaged inventory. Provisions have been made for MDA and SDA products based on last purchase and sold date. Due to the relevant infancy of the AV range a provision has been made based upon a percentage of stock, where stock days are greater than 90 days and suppliers do not provide a stock reposition. As this category matures the business will continue to monitor and evolve the AV provision policy. Both provisions represent the difference between the cost of inventory and its estimated net realisable value compared to stock holding at the year end. Calculation of these provisions requires judgements to be made which include forecast consumer demand, the promotional, competitive and economic environment and inventory loss trends.

Goodwill impairment review

Goodwill is required to be tested for impairment annually. Impairment testing on goodwill is carried out in accordance with the methodology described in note 17. Such calculations require judgement relating to the appropriate discount factors and long-term growth prevalent in a particular market as well as short and medium-term business plans. The Directors draw upon experience as well as external resources in making these judgements.

Commercial income

The industry context around commercial income has changed significantly in recent months. AO notes that the Financial Reporting Council (FRC) has urged companies to provide clarity in this area, and the Board considers greater transparency appropriate. Commercial income comes from two major sources; volume rebates and strategic marketing investment funding.

Volume rebates are deducted from cost of sales in line with the sale of the product to which the rebate is attributable. Calculation of the volume rebate for the final month of the financial year includes judgements for expected rebate values.

Strategic marketing investment funding is recognised in income and cost of sales. Where incremental third-party costs are incurred as a result of marketing support, income is offset against these costs. The remainder of the strategic marketing fund is recognised in income.

Calculation of the income recognised requires judgements to be made which include forecasting expected total marketing funding and third-party expected marketing spend.

5. Revenue

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

	2015 £000	2014 £000
Own website sales	**387,386**	287,109
Third-party website sales and trade sales	**70,259**	79,323
Third-party logistics services	**19,018**	18,486
	476,663	384,918

6. Segmental analysis

The Group has two reportable segments, online retailing of domestic appliances to customers in the UK and online retailing of domestic appliances to customers in Europe (excluding the UK).

Operating segments are determined by the internal reporting regularly provided to the Group's Chief Operating Decision Maker. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors and has determined that the primary segmental reporting format of the Group is geographical by customer location, based on the Group's management and internal reporting structure.

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 all segments is based on a number of financial and non-financial KPIs as well as on EBITDA.

6. Segmental analysis (continued)

a. Income statement

The following is an analysis of the Group's revenue and results by reportable segments.

Year ended (£000)	31 March 2015			31 March 2014	
	UK	**Europe**	**Total**	UK	Total
Own brand revenue	**381,548**	**5,838**	**387,386**	287,109	287,109
Third-party retail revenue	**70,259**	**–**	**70,259**	79,323	79,323
Third-party logistics	**19,011**	**7**	**19,018**	18,486	18,486
Total revenue	**470,818**	**5,845**	**476,663**	384,918	384,918
Cost of sales	**(381,141)**	**(7,954)**	**(389,095)**	(310,741)	(310,741)
Gross profit/(loss)	**89,677**	**(2,109)**	**87,568**	74,177	74,177
Administrative expenses	**(80,917)**	**(8,872)**	**(89,789)**	(65,976)	(65,976)
Exceptional items	**–**	**–**	**–**	(15,441)	(15,441)
Operating profit/(loss)	**8,760**	**(10,981)**	**(2,221)**	(7,240)	(7,240)
Net finance cost	**(86)**	**(574)**	**(660)**	(311)	(311)
Profit/(loss) before tax	**8,674**	**(11,555)**	**(2,881)**	(7,551)	(7,551)
EBITDA	**12,540**	**(10,822)**	**1,718**	(4,444)	(4,444)
Add back share-based payments charge	**2,506**	**–**	**2,506**	195	195
Add back Europe set-up costs	**1,437**	**2,808**	**4,245**	–	–
Professional fees in relation to IPO	**–**	**–**	**–**	15,441	15,441
Adjusted EBITDA	**16,483**	**(8,014)**	**8,469**	11,192	11,192

b. Geographical analysis

Revenue by location is the same as that shown in section (a) by reportable segment. Information on additions to non-current assets by geographical location is shown in section (c).

c. Other information

	Additions				**2015 £000**
	Intangible assets	**PP&E**	**Depreciation**	**Amortisation**	**Share-based payments**
UK	**1,434**	**2,736**	**3,587**	**193**	**2,648**
Europe	**287**	**3,109**	**137**	**22**	**–**
	1,721	**5,845**	**3,724**	**215**	**2,648**

	Additions				2014 £000
	Intangible assets	PP&E	Depreciation	Amortisation	Share-based payments
UK	493	7,006	2,546	250	195
Europe	–	–	–	–	–
	493	7,006	2,546	250	195

Due to the nature of its activities, the Group is not reliant on any individual major customers or Group of customers.

No analysis of the assets and liabilities of each operating segment is provided to the Chief Operating Decision Maker in the monthly Board presentation, therefore no measure of segmental assets or liabilities is disclosed in this note.

7. Administrative expenses

	2015 £000	2014 £000
Marketing and advertising expenses	**21,363**	18,186
Warehousing expenses	**18,193**	13,304
Other administrative expenses	**50,233**	34,486
	89,789	65,976

8. Operating loss for the year

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

	2015 £000	2014 £000
Depreciation of:		
Owned assets	**1,808**	1,284
Assets held under finance leases	**1,916**	1,262
Amortisation	**215**	250
Operating lease expenses of:		
Plant and machinery	**4,348**	3,476
Other assets	**3,506**	2,254
Profit on disposal of property, plant and equipment	**(13)**	–
Exceptional items (see note 10)	**–**	15,441
Staff costs (see note 11)	**46,480**	32,375

Adjusted EBITDA

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

	2015 £000	2014 £000
Operating loss	**(2,221)**	(7,240)
Add: Depreciation	**3,724**	2,546
Add: Amortisation	**215**	250
Add: Share-based payment charge relating to LTIPs	**2,506**	195
Add: Overseas set-up costs	**4,245**	–
EBITDA	**8,469**	(4,249)
Add: Professional fees in relation to IPO	**–**	15,441
Adjusted EBITDA	**8,469**	11,192

Adjusted EBITDA on a segmental basis is disclosed in note 6 to the financial statements.

Adjustments

Overseas set-up costs

These are costs in connection with our European expansion strategy prior to the "go-live" of that territory, namely the launch of AO.de and our continuing research into other further countries along with strategic post "go-live" costs.

During the reporting period AO.de was launched. The bulk of these costs relate to staffing and services provided by the Group, together with professional fees.

Share-based payment charges

At the time of the IPO a share-based payment award was made to a number of senior staff. The Board considers that the magnitude and timing of this award is one-off in nature and so add this charge back to adjusted EBITDA. The AO Sharesave schemes and any future LTIP charges will be included in trading numbers.

The accounting policy for non-statutory measures is disclosed in note 3 to the financial statements.

9. Auditor's remuneration

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

	2015 £000	2014 £000
Fees payable to the Company's Auditor and their associates for the audit of the Company's annual accounts	**24**	20
Fees payable to the Company's Auditor and their associates for other services to the Group		
– the audit of the Company's subsidiaries	**186**	75
Total audit fees	**210**	95
Non-audit fees		
– other services relating to taxation	**19**	4
– IPO reporting accountant services	**–**	651
Non-audit fee	**19**	655
Total Auditor's remuneration	**229**	750

Details of the Company's policy on the use of auditors for non-audit services, the reasons why the Auditor was used rather than another supplier and how the Auditor's independence and objectivity was safeguarded are set out in the Audit Committee Report on page 55. No services were provided on a contingent fee basis.

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

10. Exceptional items

Non-recurring IPO costs

During the prior year, AO World Plc floated on the London Stock Exchange. Non-recurring IPO costs totalled £19.7m of which £15.4m was charged to the income statement and £4.3m was charged to the share premium account as being directly related to newly issued shares.

11. Staff costs

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

	2015 Number	2014 Number
Sales, marketing and distribution	**1,509**	1,186
Directors (Executive and Non-Executive)	**8**	7
	1,517	1,193

Their aggregate remuneration comprised:

	2015 £000	2014 £000
Wages and salaries	**41,193**	29,067
Social security costs	**3,914**	2,793
Contributions to defined contribution plans (see note 31)	**1,373**	515
	46,480	32,375

12. Finance income

	2015 £000	2014 £000
Bank interest	**346**	80

13. Finance costs

	2015 £000	2014 £000
Interest on borrowings	**222**	100
Interest on obligations under finance leases	**220**	291
Foreign exchange losses on financing	**564**	–
	1,006	391

14. Tax

	2015 £000	2014 £000
Corporation tax:		
Current year	**–**	2,281
Adjustments in respect of prior years	**(180)**	18
	(180)	2,299
Deferred tax (see note 23)	**(184)**	(277)
Total tax (credit)/charge	**(364)**	2,022

Corporation tax is calculated at 21% (2014: 23%) of the estimated taxable loss for the year.

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

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

	Year ended 2015 £000	Year ended 2014 £000
Loss before tax on continuing operations	**(2,881)**	(7,551)
Tax at the UK corporation tax rate of 21% (2014: 23%)	**(605)**	(1,737)
Ineligible expenses	**421**	3,702
Adjustments in respect of prior periods	**(193)**	13
Impact of difference in current and deferred tax rates	**13**	44
Tax (credit)/expense for the year	**(364)**	2,022

15. Dividends

	2015 £000	2014 £000
Dividends declared and paid during the year		
Interim dividend for 2015 of £nil (2014: 280.7p per "G" share)	**–**	2,807

The Directors do not propose a dividend for the year ended 31 March 2015 (2014: £nil).

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

16. Loss per share

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

	2015 £000	2014 £000
Loss for the purposes of basic and diluted earnings per share being loss for the year	**(2,517)**	(9,573)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**421,052,631**	401,672,675
Loss per share (pence per share)		
Basic and diluted loss per share (in pence per share)	**(0.60)**	(2.38)

17. Intangible assets

	Domain names £000	Software £000	Goodwill £000	Total £000
Cost				
At 1 April 2013	391	–	12,196	12,587
Additions	206	287	–	493
At 31 March 2014	597	287	12,196	13,080
Additions	702	1,019	–	1,721
At 31 March 2015	1,299	1,306	12,196	14,801
Amortisation				
At 1 April 2013	–	–	–	–
Charge for the year	65	185	–	250
At 31 March 2014	65	185	–	250
Charge for the year	97	118	–	215
At 31 March 2015	162	303	–	465
Carrying amount				
At 31 March 2015	1,137	1,003	12,196	14,336
At 31 March 2014	532	102	12,196	12,830
At 1 April 2013	391	–	12,196	12,587

Domain name costs and software

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

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

Impairment of goodwill

At 31 March 2015, goodwill acquired through UK business combinations was allocated to the UK cash-generating unit ("CGU") which is also the UK operating segment.

This represents the lowest level within the Group at which goodwill is monitored for internal management purposes.

The Group performed its annual impairment test as at 31 March 2015. The recoverable amount of the CGU has been determined based on the value in use calculations using cash flow projections based on financial budgets and projections approved by the Board covering a three-year period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to this cash-generating unit. The discount rate applied is 12.5% (2014: 12.5%).

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

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

Sensitivity to changes in assumptions

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

18. Property, plant and equipment

	Land £000	Property alterations £000	Fixtures and fittings £000	Motor vehicles £000	Computer and office equipment £000	Total £000
Cost or valuation						
At 1 April 2013	–	118	625	3,345	6,267	10,355
Additions	–	2,106	713	1,551	2,636	7,006
Disposals	–	(159)	(288)	(35)	(6)	(488)
At 31 March 2014	–	2,065	1,050	4,861	8,897	16,873
Additions	493	2,082	488	780	2,002	5,845
Disposals	–	–	–	(179)	(2,194)	(2,373)
Transfer between asset categories	–	2,344	428	–	(2,772)	–
At 31 March 2015	493	6,491	1,966	5,462	5,933	20,345
Accumulated depreciation and impairment						
At 1 April 2013	–	11	153	305	2,937	3,406
Charge for the year	–	297	256	872	1,121	2,546
Disposals	–	(159)	(288)	(35)	(6)	(488)
At 31 March 2014	–	149	121	1,142	4,052	5,464
Charge for the year	–	856	410	1,103	1,355	3,724
Exchange differences		(2)	(2)	(2)	(3)	(9)
Disposals	–	–	–	(125)	(2,194)	(2,319)
Transfer between asset categories	–	600	162	–	(762)	–
At 31 March 2015	–	1,603	691	2,118	2,448	6,860
Carrying amount						
At 31 March 2015	493	4,888	1,275	3,344	3,485	13,485
At 31 March 2014	–	1,916	929	3,719	4,845	11,409
At 1 April 2013	–	107	472	3,040	3,330	6,949

At 31 March 2015 the net carrying amount of finance leased plant and machinery was £6,820,873 (2014: £6,500,899). The leased equipment secures lease obligations (see note 24).

19. Subsidiaries

The Group consists of the parent Company, AO World Plc, incorporated in the UK and a number of subsidiaries held directly by AO World Plc.

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

Name of subsidiary	Place of incorporation	Principal place of business	Proportion of ownership interests and voting rights held by AO World Plc	Principal activity
AO Retail Limited (formerly known as DRL Limited)	United Kingdom	United Kingdom	100%	Retail
Expert Logistics Limited	United Kingdom	United Kingdom	100%	Logistics and transport
Worry Free Limited	United Kingdom	United Kingdom	100%	Dormant
Elekdirect Limited (formerly known as Dallas Acquisitions Limited)	United Kingdom	United Kingdom	100%	Retail
Appliances Online Limited	United Kingdom	United Kingdom	100%	Dormant
AO Deutschland Limited (formerly known as DRL Warranty Services Limited)	United Kingdom	Germany	100%	Retail
AO Limited	United Kingdom	United Kingdom	100%	Dormant
AO.BE SA	Belgium	Belgium	99.99%*	Retail
AO.NL BV	Netherlands	Netherlands	100%	Retail

* A proportion (0.01%) of the investment held in AO.BE SA is indirectly held by AO World Plc through AO Limited, with the remainder (99.99%) being held directly.

The investments in subsidiaries are all stated at cost.

20. Inventories

	2015 £000	2014 £000
Finished goods	**31,473**	15,881

21. Trade and other receivables

	2015 £000	2014 £000
Trade receivables	**7,957**	6,294
Accrued income (see note 32)	**26,054**	18,551
Other receivables and prepayments	**13,360**	8,075
Amount due from related parties	**–**	46
	47,371	32,966

The trade and other receivables are classified as:

	2015 £000	2014 £000
Non-current assets	**17,103**	11,255
Current assets	**30,268**	21,711
	47,371	32,966

IFRS 7 disclosures are included in note 32. Accrued income relates to expected future commission payments in respect of product protection plans, discounted at 5% (2014: 5%).

22. Borrowings

	2015 £000	2014 £000
Secured borrowing at amortised cost		
Bank loan	**1,463**	–
Invoice discounting loan	**–**	287
Finance lease liabilities (see note 24)	**5,618**	6,112
Total borrowings	**7,081**	6,399
Amount due for settlement within 12 months	**2,132**	1,996
Amount due for settlement after 12 months	**4,949**	4,403
Total borrowings	**7,081**	6,399

Finance leases relate primarily to certain fixtures and fittings and motor vehicles where lease terms are five years. The effective borrowing rate on individual leases ranges between 0.00% and 32.02%. Interest rates are fixed at the contract date and all leases are on a fixed repayment basis with no contingent rental payment arrangements.

23. Deferred tax

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

	Share options £000	Accelerated depreciation £000	Short-term timing difference £000	Total £000
At 1 April 2013	–	18	280	298
Credit to profit or loss	39	28	213	280
Effect of change in tax rate	–	(3)	–	(3)
At 31 March 2014	39	43	493	575
Credit/(debit) to profit or loss	427	206	(449)	184
At 31 March 2015	**466**	**249**	**44**	**759**

A deferred income tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred income tax assets and liabilities are all expected to be recoverable or payable after more than one year and are attributable to the following: accelerated depreciation, future tax relief on the provision of share options and short-term timing differences including provisions.

24. Obligations under finance leases

	Minimum lease payments	
	2015 £000	2014 £000
Amounts payable under finance leases:		
Within one year	**2,132**	1,709
In the second to fifth years inclusive	**3,486**	4,403
	5,618	6,112

	Present value of minimum lease payments	
	2015 £000	2014 £000
Amounts payable under finance leases:		
Within one year	**2,098**	1,709
In the second to fifth years inclusive	**2,946**	4,403
	5,044	6,112

25. Trade and other payables

	2015 £000	2014 £000
Trade payables	**66,438**	45,006
Non-trade payables and accrued expenses	**20,186**	17,662
Amounts owed to related parties	**16**	250
	86,640	62,918

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 59 days (2014: 58 days).

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

26. Provisions

	2015 £000	2014 £000
Dilapidations provision	**766**	209

	Dilapidations provision £000
At 31 March 2014	209
Provisions created in the year	557
At 31 March 2015	**766**

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

27. Share capital

	2015 £000	2014 £000
Issued and fully paid:		
421,052,631 ordinary shares of £0.0025 each	**1,053**	1,053

28. Other reserves

	Share-based payments reserve £000	Share premium account £000	Merger reserve £000	Capital redemption reserve £000	Translation reserve £000	Total £000
Balance at 31 March 2014	195	55,665	4,368	(1,068)	–	59,160
Share-based payment charge	2,648	–	–	–	–	2,648
Foreign currency gains arising on consolidation	–	–	–	–	382	382
Balance at 31 March 2015	**2,843**	**55,665**	**4,368**	**(1,068)**	**382**	**62,190**

29. Share-based payments

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

The awards under the LTIP have been made to senior employees. The vesting of awards under the LTIP is subject to the attainment of performance conditions.

Two-thirds of the IPO LTIP Award is based on Total Shareholder Return (TSR) performance measured against the price per share offered to investors under the terms of the flotation.

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

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

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

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

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options granted under the LTIP scheme:

	2015 No. of options	**2015 WAEP(£)***	2014 No. of options	2014 WAEP(£)*
Outstanding at the beginning of the year	**4,210,504**	**–**	–	–
Granted during the year	**–**	**–**	4,210,504	–
Forfeited during the year	**(684,208)**	**–**	–	–
Outstanding at the end of the year	**3,526,296**	**–**	4,210,504	–

* Weighted Average Exercise Price.

The fair value of the share options granted under the LTIP scheme which are dependent on TSR performance is estimated as at the date of grant using the Monte Carlo model. The volatility rate was revisited as at the statement of financial position date and adjusted per the table below. The following table gives the assumptions made during the years ended 31 March 2015 and 31 March 2014:

	2015	2014
For options granted on	**3 March 2015**	3 March 2014
Risk-free rate	**0.76%**	0.76%
Expected volatility	**28.17%**	16.25%
Expected dividend yield	**0.00%**	0.00%
Option life	**3 years**	3 years

The fair value of the share options granted under the LTIP scheme which are dependent on EPS performance was estimated as at the date of grant using the Black-Scholes model. The following table gives the assumptions made during the years ended 31 March 2015 and 31 March 2014:

For options granted on	**2015** **3 March 2015**	2014 3 March 2014
Risk-free rate	**0.00%**	0.00%
Expected volatility	**N/A**	N/A
Expected dividend yield	**0.00%**	0.00%
Option life	**3 years**	3 years

The weighted average fair value of options granted during the previous year was £2.14 (2014: £1.81). The increase relates to the change in volatility rate as a result of the valuation being revisited. For the shares outstanding at 31 March 2015, the remaining average contractual life is 1.92 years (2014: 2.92 years).

AO Sharesave scheme (referred to as SAYE scheme)

The Group has a savings-related share option plan under which employees save on a monthly basis, over a three-year period, towards the purchase of shares at a fixed price determined when the option is granted. The price is usually set at a discount being 20% of the average share price during a specified averaging period prior to the grant date. The option must be exercised within six months of maturity of the SAYE contract, otherwise it lapses.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options granted under the Sharesave scheme:

	2015 No. of options	**2015 WAEP(£)***	2014 No. of options	2014 WAEP(£)*
Outstanding at the beginning of the year	**–**	**–**	–	–
Granted during the year	**1,082,918**	**2.44**	–	–
Forfeited during the year	**(215,552)**	**(2.52)**	–	–
Outstanding at the end of the year	**867,366**	**2.42**	–	–

* Weighted Average Exercise Price.

During the year ended 31 March 2015, options were granted on 28 April 2014 and 30 January 2015. For the shares outstanding at 31 March 2015, the remaining weighted average contractual life is 2.42 years (2014: nil). The weighted average fair value of options granted during the year was £0.65 (2014: £nil).

The fair value of options granted under the AO Sharesave scheme is estimated at the date of grant using the binomial model. The following table gives the assumptions made during the year ended 31 March 2015:

For options granted on	28 April 2014	30 January 2015
Risk-free rate	1.41%	0.64%
Expected volatility	27.99%	24.74%
Expected dividend yield	0.00%	0.00%
Option life	3 years	3 years

Expected volatility under both the LTIP and the SAYE scheme was calculated by using the historical daily share price data of the constituent companies of the FTSE 250 index over the previous three years.

In 2015 the Group recognised total expenses of £2,648,362 (2014: £194,467) related to equity-settled share-based payment transactions.

30. Operating lease arrangements

Non-cancellable operating lease rentals are payable as follows:

	2015 £000	2014 £000
Within one year	**8,456**	6,928
In the second to fifth years inclusive	**18,878**	20,846
After five years	**18,806**	21,809
	46,140	49,583

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

During the year to 31 March 2015, £7,853,929 (2014: £5,729,981) was recognised as an expense in the income statement in respect of operating leases.

31. Retirement benefit schemes

Defined contribution schemes

The Group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £1,373,447 (2014: £514,521).

Contributions totalling £145,806 (2014: £69,409) were payable to the scheme at the end of the year and are included in creditors.

32. Financial instruments

a) Fair values of financial instruments

Receivables and payables

For receivables and payables classified as financial assets and liabilities in accordance with IAS 32, fair value is estimated to be equivalent to book value. These values are shown in notes 21 and 25, respectively. The categories of financial assets and liabilities and their related accounting policy are set out in note 3.

Cash and cash equivalents

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

Borrowings

The fair value of interest-bearing borrowings is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the date of the statement of financial position.

Fair values

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

	2015 Carrying amount £000	**2015 Fair value £000**	2014 Carrying amount £000	2014 Fair value £000
Financial assets designated as fair value through profit or loss				
Accrued income (note 21)	**26,054**	**26,054**	18,551	18,551
Loans and receivables				
Cash and cash equivalents	**44,943**	**44,943**	55,050	55,050
Other loans and receivables (note 21)	**7,957**	**7,957**	6,340	6,340
Total financial assets	**78,954**	**78,954**	79,941	79,941
Financial liabilities measured at amortised cost				
Trade and other payables (note 25)	**(66,454)**	**(66,454)**	(45,256)	(45,256)
Borrowings (note 22)	**(7,081)**	**(6,507)**	(6,399)	(6,399)
Total financial liabilities	**(73,535)**	**(72,961)**	(51,655)	(51,655)
Total financial instruments	**5,419**	**5,993**	28,286	28,286

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 2015	–	–	26,054	26,054
At 31 March 2014	–	–	18,551	18,551

Accrued income represents the expected future commission payments in respect of product 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 2015.

b) Credit risk

Financial risk management

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

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

Exposure to credit risk

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

	2015 £000	2014 £000
Other receivables	**26,054**	18,551
Other loans and receivables	**7,957**	6,340
	34,011	24,891

Credit quality of financial assets and impairment losses

The ageing of trade receivables at the statement of financial position date was:

	Gross £000	Net £000
Not past due	5,732	5,732
Past due 0-30 days	1,747	1,747
Past due 31-120 days	298	298
More than 120 days	180	180
At 31 March 2015	**7,957**	**7,957**
Not past due	4,791	4,791
Past due 0-30 days	1,413	1,413
Past due 31-120 days	44	44
More than 120 days	92	92
At 31 March 2014	6,340	6,340

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

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.

32. Financial instruments (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	Carrying amount £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	5,618	6,140	2,368	3,772	–
Trade and other payables	81,069	81,069	81,069	–	–
Bank loans	1,463	1,597	27	1,570	–
At 31 March 2015	**88,150**	**88,806**	**83,464**	**5,342**	**–**

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

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

Refer to section 32f.

Interest rate risk

The principal interest rate risks of the Group arise in respect of borrowings. As the interest expense on variable rate financial instruments is immaterial, the Group does not actively manage the exposure to this risk.

At the statement of financial position date the interest rate profile of the Group's interest-bearing financial instruments was:

	2015 £000	2014 £000
Fixed rate instruments		
Finance lease liabilities	**5,618**	6,112
Bank loans	**1,463**	–
Variable rate instruments		
Invoice discounting facility	**–**	287
	7,081	6,399

The invoice discounting facility is no longer utilised by the Group.

e) Capital management

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

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

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

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

f) Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies and consequently exposure to exchange rate fluctuations arise.

The Group's presentational currency is sterling; as a result the Group is exposed to foreign currency translation risk due to movements in foreign exchange rates on the translation of non-sterling assets and liabilities.

The Group's policy is to hedge against foreign currency transaction exposures where appropriate.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2015 £000	2014 £000	**2015 £000**	2014 £000
Euros	**5,113**	–	**8,627**	–

The balances shown above include intercompany loan balances held between group companies which create a foreign currency exposure to the income statement.

The following table details the Group's sensitivity to a 10% increase and decrease in sterling against the relevant foreign currencies. The sensitivity rate of 10% represents the Director's assessment of a reasonably possible change. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below represents an increase in profit before tax.

	Euro currency impact	
	2015 £000	2014 £000
Sterling strengthens by 10%	**(1,249)**	–
Sterling weakens by 10%	**1,527**	–

The Group's sensitivity to foreign currency has increased during the current year due to beginning to trade in Europe. The impact above is mainly as a result of intercompany loans held in a foreign currency.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

33. Related party transactions

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

Trading transactions

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

	Sale of goods and services		Purchase of goods and services	
	2015 £000	2014 £000	**2015 £000**	2014 £000
Atticus LLP	**–**	–	**1**	535
Mark Two Distributors Ltd	**–**	8	**–**	23
Re-Gen (Logistics) Limited	**179**	881	**–**	–
ElectroSwitch Limited	**–**	–	**–**	30
Booker Limited	**–**	–	**92**	121

The following amounts were outstanding at the statement of financial position date:

	Amounts owed by related parties		Amounts owed to related parties	
	2015 £000	2014 £000	**2015 £000**	2014 £000
Atticus LLP	**–**	–	**–**	250
Re-Gen (Logistics) Limited	**–**	46	**–**	–
Booker Limited	**–**	–	**16**	–

33. Related party transactions (continued)

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

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

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

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

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

Transactions with Directors and key management personnel

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

	2015 £000	2014 £000
Key management emoluments including social security costs	**2,604**	2,128
Awards granted under a long-term incentive plan	**1,924**	146
Company contributions to money purchase plans	**226**	190
	4,754	2,464

During the year there were transactions totalling £2,247 with B Holroyd a Director of the Company. As at the 31 March 2015 the amount due to B Holroyd was £nil (2014: £nil).

Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 63 to 67.

Company statement of financial position
As at 31 March 2015

	Note	2015 £000	Restated for IFRS 2014 £000	Restated for IFRS 2013 £000
Non-current assets				
Intangible assets	5	**1,629**	–	–
Property, plant and equipment	6	**735**	–	–
Investment in subsidiaries	7	**11,009**	10,454	10,454
Deferred tax asset	8	**458**	39	–
		13,831	10,493	10,454
Current assets				
Trade and other receivables	9	**33,557**	44,670	3
Cash and bank balances		**2**	134	–
		33,559	44,804	3
Total assets		**47,390**	55,297	10,457
Current liabilities				
Trade and other payables	10	**(883)**	(5,778)	(2,139)
Non-current liabilities				
Preference shares		**–**	–	(1,010)
Directors' loans		**–**	–	(269)
Total liabilities		**(883)**	(5,778)	(3,418)
Net assets		**46,507**	49,519	7,039
Equity				
Share capital	11	**1,053**	1,053	31
Share premium	12	**55,665**	55,665	–
Merger reserve	12	**4,368**	4,368	5,337
Capital redemption reserve	12	**(1,068)**	(1,068)	(1,068)
Share-based payments reserve	12	**2,843**	–	–
Retained (losses)/earnings	13	**(16,354)**	(10,499)	2,739
		46,507	49,519	7,039

The financial statements of AO World Plc, registered number 05525751, were approved by the Board of Directors and authorised for issue on 2 June 2015. They were signed on its behalf by:

John Roberts
Director
AO World Plc

Steve Caunce
Director
AO World Plc

Company statement of changes in equity
As at 31 March 2015

	Share capital £000	Merger reserve £000	Capital redemption reserve £000	Share premium account £000	Retained (losses)/ earnings £000	Share-based payments reserve £000	Total £000
At 1 April 2013	31	5,337	(1,068)	–	2,739	–	7,039
Total comprehensive loss for the year	–	–	–	–	(10,626)	–	(10,626)
Dividends paid	–	–	–	–	(2,807)	–	(2,807)
Issue of share capital (net of expenses)	1,022	–	–	55,665	–	–	56,687
Expenses incurred as a result of bonus issue	–	(969)	–	–	–	–	(969)
Share-based payments charge	–	–	–	–	195	–	195
Balance at 31 March 2014	1,053	4,368	(1,068)	55,665	(10,499)	–	49,519
Transfer between reserves	–	–	–	–	(195)	195	–
Total comprehensive loss for the year	–	–	–	–	(5,660)	–	(5,660)
Share-based payments charge	–	–	–	–	–	2,648	2,648
Balance at 31 March 2015	**1,053**	**4,368**	**(1,068)**	**55,665**	**(16,354)**	**2,843**	**46,507**

Company statement of cash flows
For the year ended 31 March 2015

	Note	2015 £000	Restated for IFRS 2014 £000
Cash flows from operating activities			
Loss for the year		**(5,660)**	(15,626)
Adjustments for:			
Depreciation and amortisation	5	**13**	–
Taxation charge	4	**(419)**	(39)
Exceptional items		**–**	15,441
Share-based payment charge		**2,648**	195
Operating cash flows before movement in working capital		**(3,418)**	(29)
(Increase)/decrease in trade and other receivables		**(478)**	3
(Decrease)/increase in trade and other payables		**(564)**	5,778
(Decrease)/increase in intercompany		**11,591**	(46,809)
		10,549	(41,028)
Taxation paid		**–**	–
Cash generated/(used) in operating activities		**7,131**	(41,057)
Cash flows from investing activities			
Increase in investments		**(555)**	–
Dividends received		**–**	5,000
Acquisition of property, plant and equipment	6	**(735)**	–
Acquisition of intangible assets	5	**(1,642)**	–
Cash used in investing activities		**(2,932)**	5,000
Cash flows from financing activities			
Repayment of preference shares		**–**	(1,010)
Repayment of shareholder loan		**–**	(269)
Dividends paid		**–**	(2,807)
(Costs settled)/net proceeds from issue of new shares		**(4,331)**	40,277
Net cash (used in)/received from financing activities		**(4,331)**	36,191
Net (decrease)/increase in cash		**(132)**	134
Cash and cash equivalents at beginning of year		**134**	–
Cash and cash equivalents at end of year		**2**	134

Notes to the Company financial statements
For the year ended 31 March 2015

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

The accounting policies set out in note 2 have been applied in preparing these financial statements.

In preparing its opening IFRS statement of financial position, no adjustments have been made and the opening IFRS statement of financial position is consistent with that reported previously in financial statements prepared in accordance with its old basis of accounting (generally accepted accounting practice in the UK (UK GAAP)).

No new accounting standards or amendments issued during the year have had or are expected to have any significant impact on the Company.

2. Significant accounting policies
The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union.

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

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

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

4. Tax

	Year ended 2015 £000	Year ended 2014 £000
Corporation tax:		
Current year	**–**	–
Adjustments in respect of prior years	**–**	–
	–	–
Deferred tax (see note 8)	**(419)**	(39)
Total tax credit	**(419)**	(39)

Corporation tax is calculated at 21% (2014: 23%) of the estimated taxable loss for the year.

The credit for the year can be reconciled to the loss in the income statement as follows:

	Year ended 2015 £000	Year ended 2014 £000
Loss before tax on continuing operations	**(6,079)**	(15,665)
Tax at the UK corporation tax rate of 21% (2014: 23%)	**(1,276)**	(3,603)
Ineligible expenses	**91**	3,551
Group relief surrendered for nil payment	**740**	7
Impact of difference in current and deferred tax rates	**26**	6
Tax credit for the year	**(419)**	(39)

5. Intangible assets

	Domain names £000	Software £000	Total £000
Cost			
At 1 April 2012, 31 March 2013 and 31 March 2014	–	–	–
Additions	688	339	1,027
Group transfer	461	154	615
At 31 March 2015	1,149	493	1,642
Amortisation			
At 1 April 2012, 31 March 2013 and 31 March 2014	–	–	–
Charge for the year	12	1	13
At 31 March 2015	12	1	13
Carrying amount			
At 31 March 2015	1,137	492	1,629
At 1 April 2012, 31 March 2013 and 31 March 2014	–	–	–

Domain name costs and software
Software and domain names are amortised over three to five years.

6. Property, plant and equipment

	Computer and office equipment £000
Cost or valuation	
At 1 April 2012, 31 March 2013 and 31 March 2014	–
Group transfer	735
At 31 March 2015	735
Accumulated depreciation and impairment	
At 1 April 2012, 31 March 2013 and 31 March 2014	–
Charge for the year	–
At 31 March 2015	–
Carrying amount	
At 31 March 2015	735
At 1 April 2012, 31 March 2013 and 31 March 2014	–

7. Subsidiaries

Details of the Company's subsidiaries at 31 March 2015 are as follows:

Name	Place of incorporation (or registration) and operation	Place of operation	Proportion of ownership interest %	Proportion of voting power held %
AO Retail Limited (formerly known as DRL Limited)	United Kingdom	United Kingdom	100%	100%
Expert Logistics Limited	United Kingdom	United Kingdom	100%	100%
Worry Free Limited	United Kingdom	United Kingdom	100%	100%
DRL Warranty Services Limited	United Kingdom	United Kingdom	100%	100%
Elekdirect Limited (formerly known as Dallas Acquisitions Limited)	United Kingdom	United Kingdom	100%	100%
Appliances Online Limited	United Kingdom	United Kingdom	100%	100%
AO Deutschland Limited (formerly known as DRL Warranty Services Limited)	United Kingdom	Germany	100%	100%
AO Limited	United Kingdom	United Kingdom	100%	100%
AO.BE SA	Belgium	Belgium	99.99%*	99.99%*
AO.NL BV	Netherlands	Netherlands	100%	100%

* A proportion (0.01%) of the investment held in AO.BE SA is indirectly held by AO World Plc through AO Limited, with the remainder (99.99%) being held directly.

The investments in subsidiaries are all stated at cost.

8. Deferred tax

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

	Short-term timing difference £000	Share options £000	Accelerated tax depreciation £000	Total £000
Deferred tax asset/(liability) at 1 April 2013	–	–	–	–
Credit to profit or loss	–	39	–	39
Deferred tax asset/(liability) at 31 March 2014	–	39	–	39
Credit/(debit) to profit or loss	9	427	(17)	419
Deferred tax asset/(liability) at 31 March 2015	9	466	(17)	458

A deferred income tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred income tax assets and liabilities are all expected to be recoverable or payable after more than one year and are attributable to the following: accelerated capital allowances, future tax relief on the provision of share options and short-term timing differences including provisions.

9. Trade and other receivables

	2015 £000	2014 £000	2013 £000
Other receivables and prepayments	**478**	–	3
Amounts owed by Group undertakings	**33,079**	44,670	–
	33,557	44,670	3

Amounts receivable from subsidiaries are short-term and carry no interest.

10. Trade and other payables

	2015 £000	2014 £000	2013 £000
Trade payables	**440**	1,001	–
Non-trade payables and accrued expenses	**443**	4,527	–
Amounts owed to Group undertakings	**–**	–	2,139
Amounts owed to related parties	**–**	250	–
	883	5,778	2,139

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

11. Share capital and share premium account

The movements on these items are disclosed in notes 27 and 28 to the consolidated financial statements.

12. Other reserves

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

13. Retained earnings/(losses)

	£000
Balance at 1 April 2012	2,915
Net loss for the year	(176)
Balance at 31 March 2013	2,739
Dividends paid	(2,807)
Net loss for the year	(10,626)
Share-based payment charge	195
Balance at 31 March 2014	(10,499)
Movement between reserves	(195)
Net loss for the year	(5,660)
Balance at 31 March 2015	**(16,354)**

14. Share-based payments

The Company recognised total expenses of £2,648,362 (2014: £194,467) in the year in relation to both the Performance Share Plan (referred to as LTIP) and the AO Sharesave scheme (referred to as SAYE). Details of both schemes are described in note 29 to the consolidated financial statements.

15. 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 9 and 10, respectively. The categories of financial assets and liabilities and their related accounting policy are set out in note 3 to the consolidated financial statements.

Cash and cash equivalents

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

Fair values

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

	2015 Carrying amount £000	2015 Fair value £000	2014 Carrying amount £000	2014 Fair value £000
Financial assets designated as fair value through profit or loss				
Cash and cash equivalents	**2**	**2**	134	134
Amounts owed by Group undertakings (note 9)	**33,079**	**33,079**	44,670	44,670
Total financial assets	**33,081**	**33,081**	44,804	44,804
Financial liabilities measured at amortised cost				
Trade and other payables (note 10)	**(883)**	**(883)**	(5,778)	(5,778)
Total financial liabilities	**(883)**	**(883)**	(5,778)	(5,778)
Total financial instruments	**32,198**	**32,198**	39,026	39,026

b) Credit risk

Financial risk management

The Company's credit risk is considered to be the same as the Group. The Group's approach to financial risk management is discussed in note 32c to the consolidated financial statements.

Exposure to credit risk

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

	2015 £000	2014 £000
Amounts owed by Group undertakings	**33,079**	44,670

There has been no impairment charged to amounts owed by Group undertakings in the current year.

c) Liquidity risk

Financial risk management

The Company's liquidity risk is considered to be the same as the Group. The Group's approach to financial risk management is discussed in note 32c to the consolidated financial statements.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	Carrying amount £000	Contractual cash flows £000	Within 1 year £000	Between 1 and 5 years £000	In more than 5 years £000
Non-derivative financial liabilities					
Trade and other payables	883	883	883	–	–
At 31 March 2015	**883**	**883**	**883**	**–**	**–**

	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					
Trade and other payables	(5,778)	(5,778)	(5,778)	–	–
At 31 March 2014	(5,778)	(5,778)	(5,778)	–	–

d) Capital management

The Company's capital management is considered to be the same as the Group. The Group's approach to capital management is discussed in note 32e to the consolidated financial statements.

16. Related parties

During the year the Company entered into transactions with Group entities as follows:

	2015 £000	2014 £000	2013 £000
Cost recharged to subsidiary undertakings	**6,310**	837	–
Dividends received from subsidiary undertakings	**–**	5,000	–

Transactions with subsidiaries relate to management charges.

Trading transactions

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

	Purchase of goods and services		
	2015 £000	2014 £000	2013 £000
Atticus LLP	**–**	394	–
ElectroSwitch Limited	**–**	30	40

An amount owed of £nil (2014: £250,000) was outstanding at the year end to Atticus LLP.

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

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

During the year there were transactions with Bill Holroyd (a Director) of £2,247. At 31 March 2015 the amount outstanding was £nil (2014: £nil).

Important Information

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

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

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

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

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

Everyone's a winner

The awards we won in 2015

Etail Awards 2014
Overall Award for Excellence
Best Use of Content
Best Use of Social Media
Best Customer Experience

eCommerce Awards for Excellence 2014
Large eCommerce Retailer of the Year
Best Electronics, Computing, DVD, Film, Games & Music eCommerce
Best eCommerce Customer Service Award
Online Gold Award (OLGA) for eCommerce

Social Buzz Awards
Best Social Media Customer Service Strategy

Which? Top Online Shops 2014
Number 5

Retail Week Awards 2015
Best Employer

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