



The destination for electricals

AO World PLC
Annual Report and Accounts 2022

Company number: 5525751

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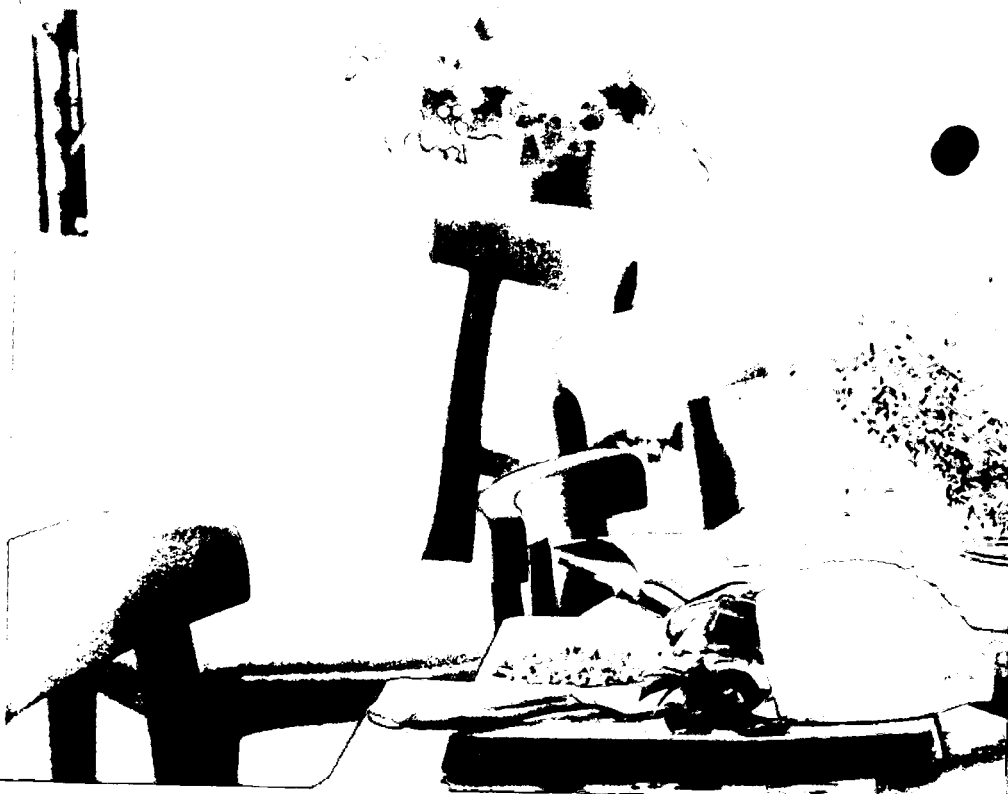
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We make customers' lives easier by helping them brilliantly

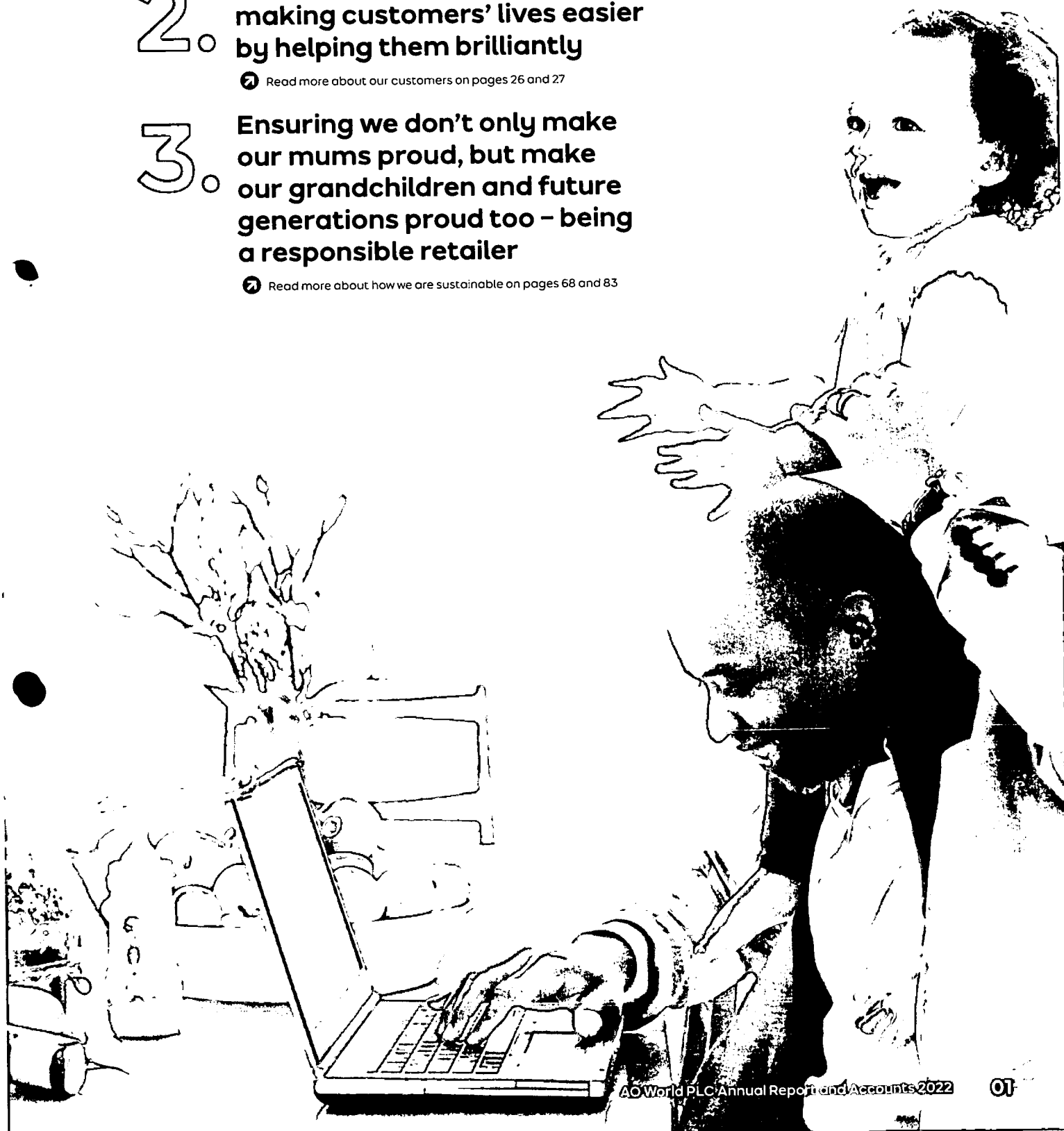
We are a leading online electricals retailer

In 2000, we started by selling white goods, big items like fridge freezers, cookers and washing machines. We now sell all kinds of electricals: major domestic appliances, small domestic appliances, audiovisual equipment, computing, mobile, gaming and smart home technology. We sell over 6,000 different products on ao.com to millions of happy customers, and we are able to deliver these at speed with our tried-and-tested logistics network. It doesn't stop there: we install these products and recycle our customers' old ones and finance and insurance are offered on them too.



Our mission is to become the destination for electricals

1. **A strategy focused on five crucial pillars**
[Read more about our strategy on page 44 and 45](#)
2. **Lead by our purpose: making customers' lives easier by helping them brilliantly**
[Read more about our customers on pages 26 and 27](#)
3. **Ensuring we don't only make our mums proud, but make our grandchildren and future generations proud too – being a responsible retailer**
[Read more about how we are sustainable on pages 68 and 83](#)



The page is decorated with numerous white, curved, abstract shapes of various sizes and orientations, scattered across the background. Some shapes have small black dots on them.

Year in review

AO was founded on the belief that online was a better way to buy and sell electricals. That belief is as strong as ever, even – and especially – as we go through one of the most challenging environments we’ve weathered as a Group. Our purpose is as important now as ever, to make customers' lives easier by helping them brilliantly.

The past 12 months have been a turbulent time for retail and AO - of course - hasn't been immune to those effects. The initial view, both in AO and beyond, was that the Covid-enforced consumer behavioural change would meaningfully stick in both the UK and Germany, and with it would create lots of opportunity to accelerate growth and expansion. It was seen as a once-in-a-generation opportunity to leverage our scale and market position, and to really take advantage of the opportunity while it existed, and we invested accordingly.

When Covid restrictions eased, the picture was very different to that planned. It became clear as we progressed through the new financial year, that there was a whole raft of new challenges to navigate.

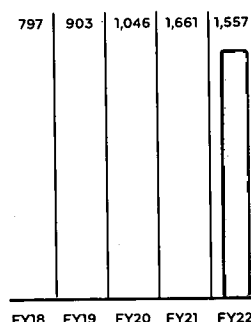
Our markets and our business have all undergone extraordinary change over the past year. Our focus now is on responding to those changes with AO's usual agility, determination and innovation.

The qualities that have made our business a success - brilliant customer service, strong supplier relationships and innovation - still underpin our strategy and are an integral part of our corporate culture. Our business remains resilient, and the actions we have taken over the past year have increased our ability to respond to changing market dynamics with strengthened financial foundations. We therefore look forward to the year ahead with cautious optimism.

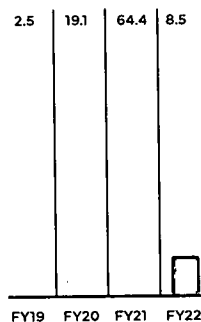
Performance

Key Performance Indicators

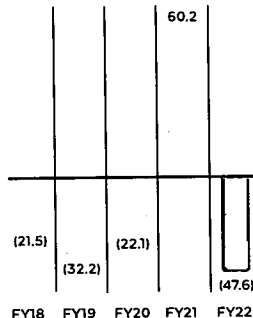
Group revenue (£m)



Group Adjusted EBITDA¹ (£m)



Cash flow² (£m)



Loss before tax:

£37m
(FY21: £20m profit)

Net debt⁵:

£33m
(FY21: £58m net funds)

¹ For consistency, only FY19-FY22 figures are shown as these have been restated for IFRS 16 Lease liabilities. Adjusted EBITDA is defined on page 204.

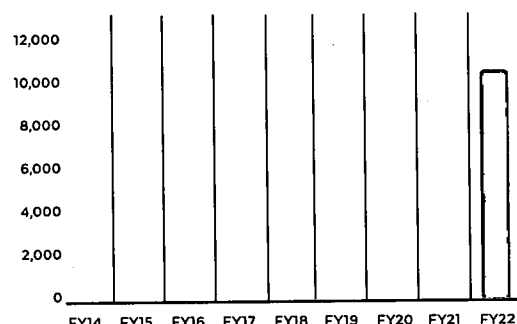
² Net (decrease) / increase in cash.

³ A customer is defined as an individual customer who has purchased through us via ao.com in the UK

⁴ NPS is an industry measure of customer loyalty and satisfaction; UK NPS is based on a turnover weighted average of ao.com and MPD, adjusted for responses.

⁵ Net debt is defined as cash less borrowings less owned asset lease Liabilities but excluding right of use asset lease liabilities.

UK customers³ ('000)



UK NPS

86⁴
(FY21:85)

UK Trustpilot average rating

4.6/5
(FY21:4.7/5)

Operational highlights

- AO remains a UK market leader in MDA with an 18% market share and 32% overall online share
- Over 4 million new customers³ experienced AO's brilliant customer service (FY20-FY22), with notable step changes in post Covid repeat purchase rates
- c.350,000 Trustpilot ratings, averaging an excellent 4.6 out of 5 stars and UK Net Promoter Score averaging 86⁴
- New agreement with Homebase to supply appliances and installation and recycling services to its customers over an initial five year term
- Over two million fridges have now been recycled at our AO Recycling facility and we are now working with manufacturers to use our recycled plastic in new products
- Decision taken to close German business; orderly closure of the business in progress



Investment case

The destination for electricals

The electricals market has grown 20% over the last nine years, and moved increasingly online over this period. Despite extraordinary market conditions caused by Covid we expect this to continue. As one of the market leaders in digital retailing of electricals, we are focused on cementing this change in consumer habits to ensure that AO is the destination of choice in electrical retailing.

Through The AO Way, we leverage our centres of expertise across all our businesses to deliver a seamless and compelling customer offer. Our scale, supplier relationships, customer focus and market expertise have resulted in consistently high customer satisfaction ratings.

Our strong and sustainable cash flow and solid UK market positions underpin our long-term investment case.

1.

The destination of choice for digital electrical retailing

We are a digital retailer of electricals with a leading market share in major domestic appliances ("MDA") and a significantly growing market share in small domestic appliances ("SDA"), computing, consumer electronics and mobile. We are a natural market disrupter with an ambitious mindset, underpinned by strong partner relations and efficient logistics operations.

2.


A compelling customer offering is at the heart of our strategy

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



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

We operate a centralised and vertically integrated model where experts in our disciplines create best practice solutions and drive innovation efficiently and consistently across our businesses. This operating model enables us to gain maximum operational gearing at the lowest cost per sale. It also guarantees a consistently high-quality customer experience across our businesses.

 Read more about how we create value on pages 12 and 13

4.

Long-term partner relationships

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

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

[Read more about our business model on pages 12 and 13](#)



5.

Supporting sustainability to create a better world

Our culture to always do the right thing, our customers' concerns about sustainability and changing government regulation, means that sustainability is at the heart of our corporate culture and strategy. We manage our own high-quality recycling services for both our own operations as well as for third-party customers, handling packaging waste, waste electricals ("WEEE") plastics and metals. We are a signatory to the British Retail Consortium's Climate Action Roadmap goal of Net Zero 2040 and look forward to defining our carbon reduction strategy as technology improves.

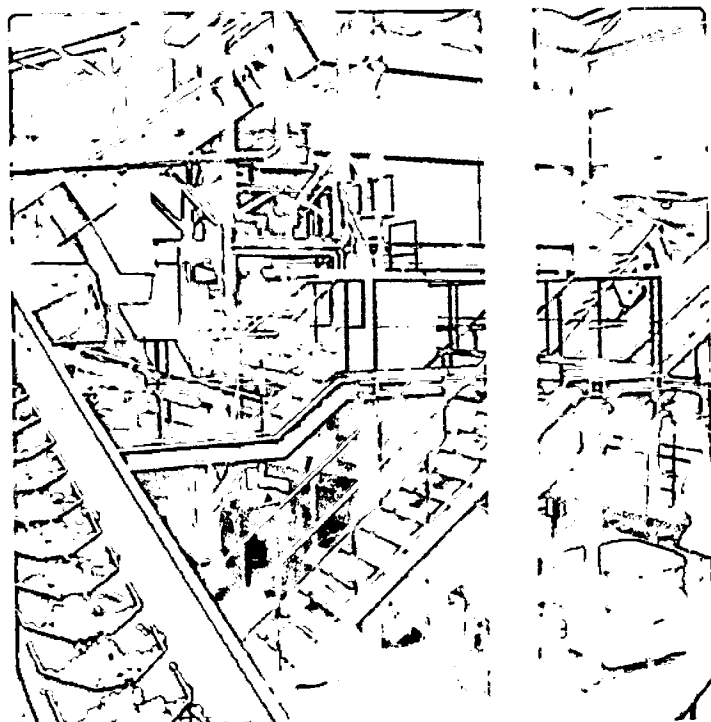
[Read how we have had a positive impact this year on pages 68 and 85](#)

6.

Our amazing culture

Our excellent 4.6 star Trustpilot rating and world-class net promoter scores are the result of our enthusiastic and dedicated AOers. Our people are at the heart of our strategy, and we inspire them to be innovative and bold in delivering for our customers. We encourage collaboration and innovation across our businesses and motivate them to work at AO speed to deliver today rather than tomorrow. This entrepreneurial spirit of developing new opportunities and relentlessly striving to do better is at the heart of our corporate culture and helps us keep growing and adapting to changes in our fast-moving markets. It is the combination of all these factors and the alignment of our people to our purpose, values, business strategy and priorities that creates our AO culture supporting our continued growth.

[Read how we have had a positive impact this year on pages 22 and 23](#)







Strategic Report

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66

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

Janet
AO Customer

Chair's statement



66

The qualities that have made our business a success - brilliant customer service, strong supplier relationships and constant innovation - are still at the heart of our strategy and are an integral part of our corporate culture."

Geoff Cooper
Chair



Read more about UK retail business on pages 30 and 32



Read more about our suppliers on pages 34 and 35

A challenging year in the face of unprecedented volatility

This has been a tumultuous year for business, and for the retail sector in general. The Covid restrictions during 2020 and most of 2021 curtailed consumer spending in traditional shops and accelerated the longer-term trend to online shopping. We invested significantly and boldly to meet consumer demand and capture new customers, which brought new pressures for our business in logistics, warehousing, staffing levels, inventory and delivery but enabled us to expand our category reach and to introduce over 4 million new customers to the brilliant AO service since the pandemic started in 2019.

We entered the year with optimism but as the year progressed, our business faced increasing macroeconomic headwinds including global supply chain disruption, labour shortages and a well-documented growing cost of living crisis for consumers. As a result of this combination of global factors, our markets weakened considerably as the year progressed.

Our UK business

Despite the market challenges, our UK business showed resilience, with reported revenues of £1.37 billion, which decreased by 4.6% from FY21 at the height of the Covid pandemic, but increasing 52% on a two year like-for-like basis. We have an exceptionally strong customer base that surpassed the 10 million customers mark, adding 4 million customers in the past two years alone, achieving market-leading customer satisfaction scores on NPS and Trustpilot. We also retained our market share, both online and of the total market, and remain one of the leaders in the retail of major domestic appliances ("MDA") with a 32% online market share in the UK, even as customers returned to traditional bricks and mortar stores to a greater degree than was originally anticipated. Opportunities to leverage this customer base underpin our business and our future strategy.

Like many businesses, we faced a number of challenges as we emerged from the Covid lockdown. Global supply chains have struggled to cope as the global economy emerged from Covid restrictions, which led to component shortages and hugely increased container shipping rates. As a result, product and range availability was constrained for certain lines although as one of the market leaders, we were still able to offer a wider range than many others electrical retailers.

This was compounded by inflationary pressures in other costs right across the business, from staffing, to vehicles, energy, and fuel.

Our flexible and agile operating model meant that we could respond rapidly to the shortage of drivers in the second quarter of FY22 which temporarily impacted service levels. Through a mixture of flexing our model of self-employed drivers, introducing a limited employed model and leveraging our apprenticeship programmes, we successfully met these challenges, although at a higher ongoing operating cost. Crucially, despite these challenges the quality of our customer service throughout the never wavered.

We anticipate that the UK consumer will continue to be challenged by cost-of-living pressures in the near term, but that our strong market position and customer proposition will continue to underpin our resilience and our market position.

Germany closure

Following a significant migration to online shopping during the pandemic, German customers returned to traditional channels as Covid restrictions lifted to a much greater extent than we expected. However, the strong performance of the online channel through this period prompted traditional retailers to create and promote online customer acquisition models. This resulted in a huge increase in the cost of customer acquisition, as competition for online sales intensified, with the extra capacity of the online channel created through the pandemic competing for pre-pandemic levels of sales.

These factors, unfortunately, outweighed the economies of scale that we had achieved. After six months of intense competition, we undertook a strategic review of the business which resulted in the eventual decision to close our German business. We sincerely thank all our employees in Germany who worked so hard to build the business. We are continuing to carry out an orderly closure of the business and expect the total cash costs to be between £nil and £5m in FY23.

Employees are at the heart of our success

Our dedicated and talented employees are the face of AO to our customers, and they are the reason that we consistently win market leading customer satisfaction ratings. Our AO culture is how we deliver for our customers which is what sets us apart as a business. Behind every happy customer are around 3,600 AOers, making our customers' lives easier by helping them brilliantly. Our AOers have lived our values to make their mums proud, and we thank each and every one of them for their hard work, this year and every year.

We are acutely aware that our people have continued to deliver brilliant service whilst dealing with enormous change and uncertainty. We are determined to repay their professionalism, dedication and resilience, and we look forward to further engagement.





Chair's statement continued

Value Creation Plan ("VCP")

Over recent months the Board and the Remuneration Committee has spent substantial time considering the current VCP, its terms and the rationale for introducing such a plan. The VCP was aimed at incentivising and rewarding exceptional performance and retaining the talented team whilst driving exceptional value creation for shareholders. The scheme is currently significantly underwater; it is therefore neither incentivising nor retaining our people. Since the introduction of the VCP, our strategy is much changed following our decision to exit Germany and to focus on generating profitable growth in our UK markets together with cash generation. We believe that this revised strategy will deliver significant value to shareholders in the medium to long term; we still want to reward exceptional value creation and believe an all employee VCP scheme will galvanise our people in delivering that value. Having consulted our major shareholders, all of whom have indicated their support, we will be putting forward a new VCP for shareholder approval at the 2022 AGM which will replace the current VCP.

We have retained many features of the original VCP - with a maximum plan value of £300m - capable of being achieved at a £6bn market cap (as before). However, in order to fully incentivise and reward employees from the current share price, we are proposing the plan will begin funding at a share price of £1. In recognition of the reduced threshold target, the funding rate of the scheme has been reduced significantly from 10% of value created above the threshold to 5.5%. As before, John our CEO has committed to gift any shares received under the scheme to charity. Further details of the proposal are set out in the Directors Remuneration Report on page 116.

ESG and sustainability

During the year the Board reviewed the development of the Group's ESG strategy, commissioning an externally led materiality assessment. We approved six long-term commitments set out on page 70 and look forward to making progress against these initiatives. In relation to our climate pledge, we support the British Retail Consortium's Net Zero Targets and will work with third party experts to define our path to net zero in the coming years.

Board changes

In January 2022, Luisa Delgado stepped down from the Board at the end of her three-year term to pursue other personal interests. We are extremely grateful for her service to AO and wish her well in her future projects. Shaun McCabe replaced Luisa as interim chair of the Remuneration Committee, and we are currently looking to recruit two to three new Board members to complement the experience and skill-set of the existing Board. A fuller discussion of the Board's work over the year is included in the Corporate Governance section starting on page 88.

Outlook

The new financial year marks a period of realignment for the business as we undertake a strategic pivot to focus on cash and profit.

In June, following a strategic review of our Germany, we announced the decision to close that operation, with estimated cash costs in FY23 of nil to £5m, a significant improvement on our original estimate of nil to £15m.

In July, to strengthen the balance sheet and increase liquidity back to historical levels relative to revenue, we conducted a placing of new ordinary shares, raising c.£40m of capital. This also provides the flexibility to capitalise on significant long term growth opportunities in the UK. Our addressable market in the UK has grown to £23.4bn as our proposition has extended into new categories. The online segment of the market in those categories remains AO's key opportunity as the overall migration to online retailing continues. We are also successfully leveraging our logistics expertise and have signed an extendable five-year contract with Homebase to supply appliances and installation and recycling service to Homebase's customers, where Homebase agrees to purchase from AO exclusively, MDA and audio-visual appliances. We are discussing similar partnerships with other kitchen retailers.

As the business focusses on the significant opportunity we see in the UK, the process of simplifying operations and optimising our cost base is already underway. The focus of this is to rationalise, simplify and refocus our UK operations, which entails exiting some lines of business that do not fit our model. This, combined with driving operational efficiencies and overhead reduction, is estimated to generate significant benefits by FY25. In the short term, we expect our strategic pivot and business realignment will reduce both sales and costs, but in the medium term it is our ambition to deliver average revenue growth of 10+% per annum with an EBITDA margin of 5+% and improved cash generation.

This is an unprecedented volatile environment for business planning as the post-pandemic retail environment is substantially shifting, which presents both challenges and opportunities for AO as a leading online electricals retailer. Trading through the first quarter of FY23 has remained broadly in-line with the Board's expectations for FY23 revenues in the approximate range of £1bn to £1.25bn and Group adjusted EBITDA for the full year in the range of £20m - £30m with the usual weighting towards the second half of the year.

Geoff Cooper

Chair

17 August 2022





How we create value

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

Key resources



Our competitive advantage



How we create value

Culture

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

Talent

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

Supplier partnerships

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

Customer relationships

We obsess about customers and want them to be fans of The AO Way. Through our customer-centric service, competitive pricing and full cradle to cradle service, we provide our customers with the best possible service. That encourages them to come back to buy from us, time after time.

Technology and infrastructure

Technology is and always has been at the heart of our focus on delivering a brilliant customer experience. From our website to our logistics infrastructure, our technology underpins our business.

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

- Our amazing culture: Our Trustpilot ratings (4.6 out of 5 on over 339,000 ratings) don't just happen by accident. We live the service pledge every day and truly care about being better.
- Our One AO approach: We are a vertically integrated business that is united behind one mission. This enables us to invest directly with a holistic group view of what is right for customers. We are also then able, with a centralised model, to invest for all areas of the Group for maximum operational gearing.
- Our compelling customer proposition: We keep investing to ensure our proposition is better, faster and more convenient.
- Our technology and infrastructure: We invest in platforms that are scalable across categories and different markets, leveraging our logistics infrastructure to become a low cost operator and create structural advantage.

5 Pivot to profitable growth
Operational gearing
Focus
Repeat

Invest & innovate
Grow profitable sales and "Total Addressable Market"
Leverage AO platform
New categories and channels

Our flywheel creates a virtuous model that serves all our key stakeholders.

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

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



Who The AO Way benefits

1

The destination for electricals

Product information

Choice

Price

Service

2

Amazing service

Market leading customer satisfaction NPS scores

AO Culture & Values

Customer loyalty

55% repeat purchase rate

Cross category purchase

Increasing share of wallet

3

Obsessing about customers, behaving as One AO, united behind the same mission are the foundations of value creation.

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

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

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

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



Our customers

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



Our employees

We spend the majority of our awake lives at work and so it should be enjoyable. Our people are able to be the best versions of themselves at AO. We create the environment for them to grow and flourish.



Our suppliers

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



The environment

Through our vertically integrated supply chain we can ensure both disposal and recycling of electricals and packaging and by collecting these as part of our delivery process we reduce carbon emissions on transportation.



Our communities

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



Our shareholders

We take a long-term view to build value in our business. We are entrepreneurial, looking for new ways to connect with our customers and drive growth by investing in new products, services and markets. We have the ability to scale through our vertically integrated model creating value through operating leverage.

Our markets



Macroeconomic factors

The Russia/Ukraine conflict has created significant uncertainty in the world economy and its impact is expected to continue throughout 2022. The conflict, when compounded with lagging Covid impacts, continues to cause disruption to global supply chains and increasing raw material prices are driving up manufacturing and delivery costs. This has affected commodity prices, with significant price rises experienced and forecasting uncertain. In addition to oil and gas, nearly all other essential manufacturing materials for electricals have seen significant price increases in the last 12 months, notably aluminium, tin and nickel¹. Further, the energy price cap increase in April 2022 resulted in a 54% rise in energy prices², with additional increases of more 50% expected in October 2022³. The fixed price electricity and fuel contracts which the Group has secured for the majority of FY22 will however provide AO with some short-term stability.

High fuel and energy prices are driving UK inflation, which hit a new 40-year high⁴. Inflationary pressures on fuel, food and electricity prices are expected to continue during 2022 and the Bank of England suggests inflation to peak above 10% for 2022 Q4.⁵

It is predicted that these macro pressures will result in a 2.2% fall in real wages for 2022 as pay rises are unable to keep up with surging inflation rates⁶ and real living standards are not expected to recover to their pre-pandemic level until 2024-25⁷.

Taxes on workers and businesses have increased and are set to do so further over the next 12 months. A 1.25ppt increase in National Insurance Contributions from April 2022 has weakened consumer spending power even further.

The Cfk Consumer Confidence index fell to a historic low of -41 in June 2022, down by nine points from June 2021⁸ due to concerns over surging inflation, higher interest rates, soaring living costs, record-high fuel and food prices and continued uncertainty over the Ukraine conflict.

The majority of MDA sales are driven by distressed purchases⁹, thus providing AO with some resilience in an economic downturn. We expect this trend to continue throughout the year. Given the macro-economic uncertainty, we expect consumers to reduce discretionary spending and instead reprioritise essential purchases.

The British Chambers of Commerce predict that Interest Rates will rise to 2% by Q4 2022 and then to 3% in Q4 2023¹⁰. With borrowing more expensive, homeowners outside of fixed rate mortgages will see monthly costs increasing and purchasing products on finance will become more expensive, which may impact spend on big ticket items. Given this trend, we expect to see an increase in customers using "Buy Now Pay Later" providers where available.

The above factors are reflected in the Major Purchase Index ("MPI"), which decreased by five points year-on-year to -35 in June 2022¹¹. The MPI is based on the following question to consumers: "In view of the general economic situation, do you think now is the right time for people to make major purchases such as furniture or electrical goods?". The June 2022 figure has been stable over the previous two months demonstrating that consumers are not expecting to spend on big-ticket electrical items unless needed. We expect less of an impact to distressed purchasers given the need for essential white goods in the home.

Macro-economic section sources:

¹ indexmundi.com/commodities.

² <https://commonslibrary.parliament.uk/research-briefings/cbp-9491/>

³ themoneyedit.com/household-bills/energy/october-energy-price-cap.

⁴ Bank of England; cnbc.com/2022/06/22/uk-inflation-hits-new-40-year-high-of-9point1percent-as-food-and-energy-price-surge-persists.html.

⁵ theguardian.com/business/2022/may/05/bank-england-raises-interest-rates-inflation-cost-of-living.

⁶ personneltoday.com/hr/cost-of-living-2022-real-wages-fall/#:~:text=Cost%20of%20living%202022%3A%20real%20wages%20fall%202.2%25.

⁷ obr.uk/overview-of-the-march-2022-economic-and-fiscal-outlook/.

⁸ UK Confidence sinks to -41 in June to set new record low (gfk.com).

⁹ Mintel, Major Domestic Appliances, UK report 2022, 62%.

¹⁰ britishchambers.org.uk/news/2022/06/bcc-economic-forecast-testing-times-as-quarterly-growth-dries-up#:~:text=UK%20Economic%20Outlook%20%E2%80%93%202022,comfortably%20outpacing%20average%20earnings%20growth.

¹¹ UK Confidence sinks to -41 in June to set new record low (gfk.com)

Our markets

In June 2022, against the backdrop of a challenging local trading environment, we took the decision to close our German business (see page 33 for further details). Our short term strategy is to now focus solely on the UK electricals market.

As at 31 March 2022, the UK B2C electricals¹ market was worth £30.5bn², an increase of 47%² over the previous two years, with all categories experiencing growth. Although the market declined by 4%² year-on-year, MDA and mobile categories continued to see growth at 3%² and 2%² respectively.

AO's current UK addressable market (which comprises MDA, SDA, AV, consumer electronics, gaming, mobile, garden and DIY, smart home and personal care) is £28bn,² and has increased 552% since our IPO in 2014 given our expansion into new categories (and growth in MDA), representing a 26% compound annual growth rate.

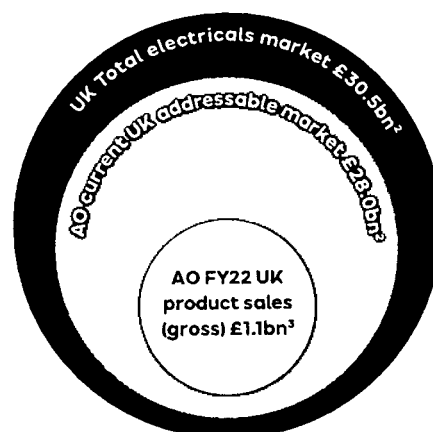
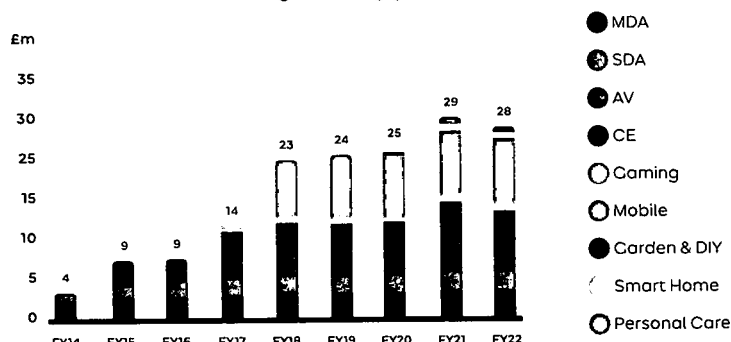
Although AO's UK total addressable market declined by 5%² year-on-year, the market growth gains driven by Covid were largely retained, with growth of 13%² between FY20 and FY22².

AO remains a UK market leader in MDA, with an 18%⁴ market share, and a 32%⁴ overall online share.

Category opportunity

Being the destination for electricals means having an expansive, curated range of products across all electrical categories to serve the widest possible customer base. During FY22, we launched personal care products in the UK adding £909m² to our UK total addressable market. In addition to new category launches, we continued to build out ranges in existing categories ensuring our customers have access to a broad assortment of electrical products. One of our primary strategic objectives is to have comprehensive category coverage and we will achieve this by continuing to review and develop our ranges, improving availability and expanding into new subcategories to ensure we keep up to date with the latest products and trends.

AO Addressable market growth by year²



Our markets sources:

- 1 Electricals is defined by Cfk as MDA, SDA, AV, Computing, mobile, smart home, photography equipment, office equipment and personal care.
- 2 Cfk, gross value, for the 12 months to 2 April 2022. Company data, gross value.
- 3 Company data, gross value.
- 4 Cfk to 2 April 2022.

Our markets continued

Key market trends for AO

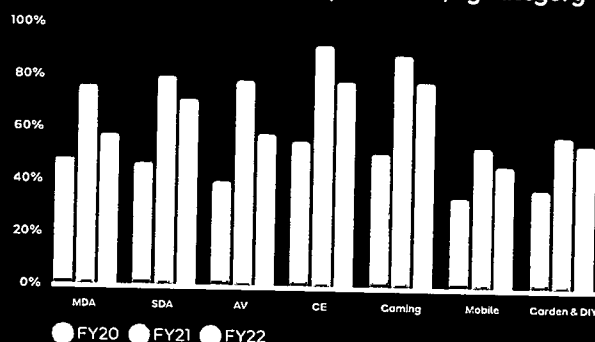
1.

Online shopping is here to stay

Covid lockdowns transformed the online market overnight and retailers saw an unprecedented shift to online shopping. This trend continued as employees worked from home and as lockdown restrictions were lifted. Over the coming year, ecommerce spending is expected to marginally slow as consumers migrate back to bricks and mortar stores, however a notable step change in online penetration levels has stuck. A recent UK study showed that 60% of adults shopped mainly in person pre-pandemic, but post-pandemic this figure has fallen to 37%¹.

Online Market Penetrations across all our categories have seen minimal fluctuation during the calendar year 2022 to date and penetration rates are expected to remain broadly flat for the remainder of the year. Marginal increases in online penetration levels of around 0.5% are expected during 2023.

UK Online Penetration, pre vs post Covid, by category²



How is AO responding to this trend

We understand how important it is for our customers to have a better digital shopping experience, therefore one of our priorities in FY23 is to invest in improving product visualisation and interactive product information as we invest in continually improving and enhancing our brilliant customer experience. Digitalisation will transform how customers buy their electricals, and we are at the forefront of leveraging our position as a leading online retailer.

Key market trend sources:

- 1 Verizon Look Forward study reported by Retail Customer Experience influencermarketinghub.com/retail-trends/.
- 2 Cfk.
- 3 ticketyboocreative.co.uk/blog/our-2022-retail-trend-predictions-2-back-to-basics-nbsp/loyalty.

2.

Buy now, pay later ("BNPL") is likely to grow in popularity

BNPL has radically altered consumers' behaviour by allowing them to buy goods and pay the cost back in a series of interest-free instalments. 45% of UK based 18 to 34 year olds used BNPL in 2021³. Given that Millennials and Gen Z (those currently aged 18 to 24) will soon be the largest demographics (both numerically as well as in terms of purchasing power), market sources expect BNPL to continue to rise in importance. The top three categories UK consumers used BNPL to buy are electronics (33%), clothes (29%) and white goods (24%)⁴.

What do people use BNPL to buy?



33% used it to buy electronics



29% used it to buy clothes



24% used it to buy white goods

How is AO responding to this trend

During the last financial year, various BNPL promotions were trialled across different categories, price points, and payment terms (six and 12 months), alongside various interest-free credit promotions. Since November we increased our promotional offering, so now all customers are eligible for promotions which has been improving our conversion. Promotional mix has shifted as an increasing number of customers look for finance promotions. With the upcoming increase in the cost of living, we expect more customers will look to spread the cost in order to make purchases more affordable and we have created various plans and initiatives to improve the customer journey. We continue to work with our finance provider, NewDay, to ensure the best customer experience.



- ⁴ [citizensadvice.org.uk/Global/CitizensAdvice/Debt%20and%20Money%20Publications/BNPL%20report%20\(FINAL\).pdf](https://citizensadvice.org.uk/Global/CitizensAdvice/Debt%20and%20Money%20Publications/BNPL%20report%20(FINAL).pdf).
- ⁵ time.com/6138147/augmented-reality-shopping/.
- ⁶ hfashiondiscounts.uk/ecommerce-statistics/.

- ⁷ insiderintelligence.com/insights/future-retail-trends-industry-forecast/.
- ⁸ afterpay-corporate.yourcreative.com.au/wp-content/uploads/2021/08/Clearpay_NextGen_UK.pdf.

3.

Technology and automation continue to be crucial to the online shopper experience

Emerging retail technology trends are shifting the landscape of online shopping. From easy automation to artificial intelligence ("AI") customer service, technology has already been paving the way for a more seamless customer experience. Integrated augmented reality ("AR") experiences mean that consumers can try a product digitally before buying it by using their smartphones. Social media platforms have recently expanded their in-app shopping offerings (such as Snapchat and catalogue-powered shopping lenses, TikTok and Shopify, YouTube & livestreaming live feature and Instagram and AR-powered makeup try-ons)⁵. AI is already making a massive impact on ecommerce with personalised suggestions, chatbots and virtual shopping assistants. Its importance will continue to grow, and the revenue made by AI shopping is forecast to grow by around 43% by 2025⁶. By capitalising on the ubiquity of smartphones, retailers can offer 24/7 shopping with both ecommerce and social media selling.

How is AO responding to this trend

We run automated advertising across Google and Meta (Facebook and Instagram) using a digital product catalogue to serve users with relevant products based on their browsing behaviour. We have made improvements to this over the last 12 months by partnering with third parties to improve the data feed and implement custom creative designs. This has increased click through rate meaning more people are visiting the AO site in response to seeing our automated product adverts.

During the year we launched a TikTok channel, which now has over 27k followers. This is a great platform for showcasing AO's expertise in all things electrical and appliance related keeping AO front of mind for viewers' next purchase.

Engagement in AO's social content has never been higher with growth of over 150% in the last 12 months based on responding to consumer trends allowing us to reach more people than ever with product and brand content, while users are browsing social channels.



4.

Responsible retailing is gaining traction

A growing population of younger shoppers are wielding influence on consumer spending and pushing the agenda on responsible retailing. This consumer segment prioritises brands that embed social and environmental responsibility to their everyday business model⁷. In 2021, Gen Z and Millennials accounted for 25% of the total retail spend in the UK. Their share of spend is forecast to grow to 39% by 2030, as more of Gen Z enter the workforce⁸. Building and communicating a clear sustainability strategy around product sourcing, packaging, delivery, and recycling is critical for retailers as consumer expectations change in this space.

How is AO responding to this trend

As a responsible retailer, AO continues to invest in developing its ESG strategy to cover the following three key pillars: sustainable living, fair, equal and responsible, and fit for the future. Please see our ESG strategy on page 70. We already have well established WEEE and plastics recycling plants and are looking to establish cradle-to-cradle product cycles in partnerships with manufacturers and are looking at ways to best promote "Green" and energy efficient products.



Our brand



Brand

Our strong brand, focused on customer service, is what differentiates AO and this is proven through our market leading Net Promoter Scores. Customer first is in our DNA. Or what we like to call - the AO way.

Our brand is one of our biggest growth opportunities, and this is reflected in our key approach to grow trust, fame and love. These metrics guide every decision across our brand and marketing departments, and allow us to remain focused.

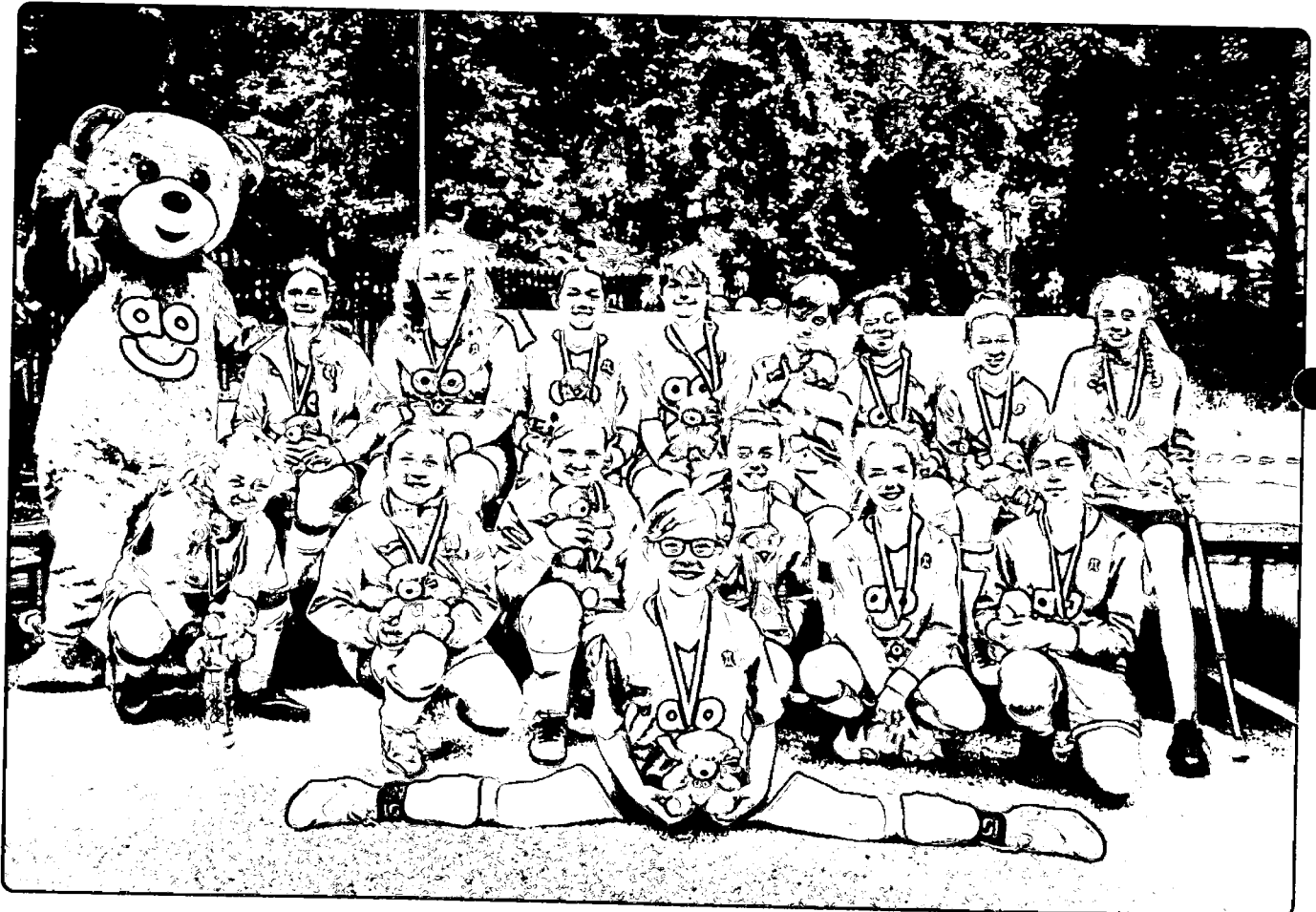
To build customer love for the AO brand we have focused on improving brand salience and positive brand association through:

Driving engagement: inviting more people to understand our brand better. By creating key moments through our sponsorship, marketing and communications, we are able to attract new customers and ensure existing ones come back; and

Creating positive brand association: after a positive and consistent experience, customers are more likely to be able to recall AO and consider us when they shop again.

66

Two delivery men were brilliant. Quick and efficient and even gave the kids a cuddly toy :) would always recommend AO."



Making AO locally famous!

Over recent years we have deployed a “locally famous” strategy to understand how we can build brand love. We intend to learn and build on this strategy.

As part of this approach, we put AO in front of the eyes and ears of potential customers in an iconic space, by gaining the naming rights of Manchester Arena – or as it's now known, the AO Arena.

Building our customer loyalty requires customers to connect with us. This year our brand initiatives have included local sponsorships as, for example we became the principal, front-of-shirt sponsor for Sale Sharks Rugby Club. As part of the partnership we also unveiled our “Are you AO-K?”, programme – a mental health programme devised for schools across the North West. This programme was created in collaboration with Sale Sharks to teach children how to look after their mental health and well-being and will be rolled out across 125 schools in the region over the forthcoming year.

We have already started to see small, but positive, impacts of these changes in our heartland, with a higher awareness of the AO Arena and Sale Sharks sponsorships in the North West vs the rest of the UK.

We continue to maintain our long-term relationship with Lancashire County Cricket Club, furthering our support to include the Club's age group sides and medical department. Alongside that, we have renewed our sponsorship of the Bolton Lads and Girls club Multi Sports facility, providing young people in Bolton the opportunity to take part in a range of sporting activities.

We have also released 400 AO-branded taxis on to the streets of Manchester and London.



How do you feel about AO?

Number of customers who "Like" us

All of this activity has allowed us to increase engagement with our customers. While logo placement goes some way to building brand fame, brand love is all about the experiences we create. That's why we've hosted lots of AO events to delight customers and show off our unique personality in a positive and inclusive way, and as a result, we've been able to connect greater consideration and love for the brand amongst those aware of our sponsorships in the North West. Our brand activations really sing true to our AO personality.

We believe that by replicating this model across different regions we can drive engagement and positive brand association, as we have experienced over the past two years in the North West.



Our brand continued



Bear

Bear, the AO Teddy, continues to drive positive sentiment for our Brand. Since we launched our little green mascot back in May 2021, we've seen an upward trend in brand impact and love for the idea. Bear helps us to engage with customers, making sure we spread smiles and positivity. We chose to introduce Bear to our customers during moments that matter, which could be at the point of delivery through driver giveaways or via our brand activations at Sale Sharks and the AO Arena. We continue to increase the reach for Bear through our social channel - he's making regular appearances on TikTok and Instagram, with positive engagement.



66

The delivery team were polite, friendly and courteous. They are both a credit to your company. Please give them a personal thanks from me even though I did thank them in person. Not once did they moan about the amount of stairs or grumble about how heavy the fridge freezer was. They also gave me an AO teddy bear as a gift. I'm really impressed, and I will definitely use this company again. I'm a very satisfied customer!"



Marketing

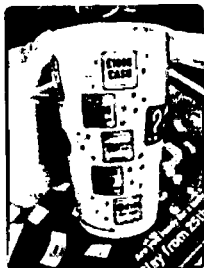
We continued to invest in marketing channels during the year, and we saw a significant uplift in orders from existing customers.

Upgrading our MarTech¹ capability remained a priority in FY22 following on from large-scale migrations in FY21. As a result of these upgrades, we expect to see improved efficiency, driven by an ever-increasing adoption of machine learning and automation. Our bespoke data-driven attribution model launched earlier this year, and this has delivered a step change in how we measure and optimise marketing performance.

This year we will launch our new state of the art studio space in central London. The studio is a 15,000 sq ft. space and includes a full film studio, a green room, an innovation hub and three edit suites enabling us to create world-class content.

This innovation space, along with our Manchester office, will focus on explaining stories brilliantly both for our customers and manufacturer partnerships.

¹ Also known as Marketing Technology, this describes a range of software and tools that assist in achieving marketing goals or objectives.



Social

Social remains an important channel for AO, with our objective being to create an engaged audience of followers who love us for our fun, smile inducing content. This year a specific focus has been TikTok, with the audience reaching over 20,000 followers in just a few months. The top performing TikTok video received over 1.2 million views and was picked up by The Sun newspaper.

This year AO also featured in McDonalds Monopoly, offering customers exclusive discounts to use online. The AO logo featured throughout the marketing collateral, being seen daily by three million customers.



AO @ao - May 4

How many AO teddies are in the dishwasher? 🐻

If you guess correct we'll send you your own AO teddy 🐻



2,061

185

851



66

I've just had a delivery by two lovely delivery personnel who weren't only accommodating and very helpful but also gave my 3-year-old daughter a teddy bear. It absolutely made her day! We've just had another daughter, so she's been feeling overwhelmed with the attention the baby gets. This little gesture gave her something that was hers and made her very happy! A big thank you to the delivery guys for being so helpful and a lovely generous gesture."

Our culture



“

We are so lucky to be surrounded by like-minded people who generally want to do whatever it takes. The people make all the difference and are the main reason I love what I do.”

AOer



Read more about our values on pages 24 and 25

One AO - where brilliant people deliver incredible things. Our AO culture is how we deliver for our customers and make AO a great place to work. Our exceptional 4.6 star Trustpilot rating and market-leading NPS results don't just happen by accident, nor do our expanding competencies. Behind every happy customer are around 3,600 AOers, making our customers' lives easier by helping them brilliantly.

Our ambition is to be a business that:

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

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

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

One AO

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

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



Operations teams are responsible for the on-the-ground execution, tasked with delivering amazing efficient service.

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

Operating as One AO and stitching the different parts of our business, together results in decisions that mean we serve our customers brilliantly and benefit the Group as a whole.

Our purpose

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

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



How we drive our culture

To achieve our mission, purpose and strategy, we need a high-performing culture and the values that underpin this have to be real for all AOers and we achieve this by: Bringing AO to life - all AOers connect with and understand our culture by sharing practical experiences of our culture and values in action.

Living our values - we bring the values to life by using role models to show how our values are lived each day, helping AOers build trust in them, create shared understanding and provide guidance.

- Changing behaviours - our leaders are empowered to manage our business and guide their teams by using the values in a practical way every day.
- We're always AO - our customers, suppliers and partners' experience of interacting with AO should be consistent with our culture and values.
- Measuring our progress - we use our people data on engagement, learning, turnover, inclusion and well-being, as well as feedback, to tell us whether our actions are driving change and understand whether what we say matches what we do.

Our values

We treat every customer like our gran

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

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

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

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



We have a growth mindset

Creativity and thinking big is what we do

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

We challenge ourselves to seek better ways of doing things.

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



We make decisions that make our mums proud

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

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

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

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

We operate at AO speed

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

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

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

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

Our customers

Our AO Smile is more than just a logo because being magical in the moments that matter comes naturally for every AOer

“

The person I spoke to when ordering, the two delivery drivers and the customer service team I spoke to subsequently have all been friendly, professional and customer obsessed. Please pass on our thanks to the whole team as I know this kind of company culture doesn't happen by accident.”

Darren
AO customer

“

The team who delivered my washing machine today delivered excellent customer service, Chris and Dave. They are probably the best delivery team I have had from AO.com. I love your brand purely because the customer service is fantastic. Once again, I would like to thank you for delivering what you promise!”

Shekila
AO customer

AO.com followers on Social Media

Total Followers¹ FY22



1.88m

FY21: 1.87m



85k

FY21: 76k



82k

FY21: 77k



26k

FY21: 24k



24k

FY21: -k



9k

FY21: -k

Total 2.1m

UK Trustpilot FY22



339k

Total reviews

339k

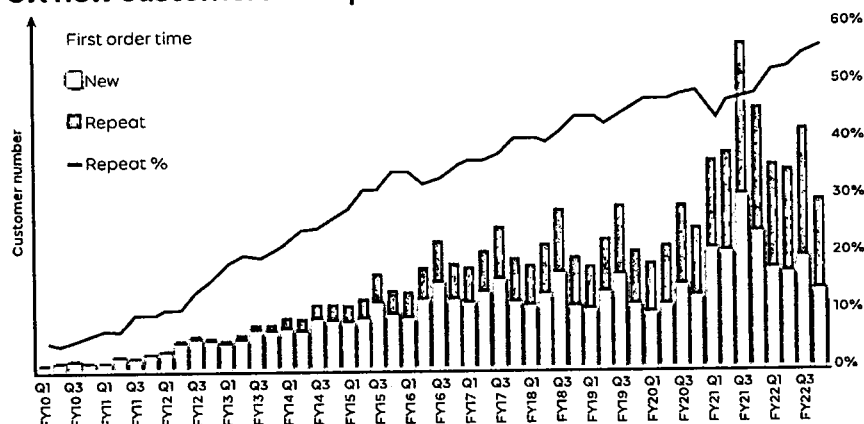
FY21: 260k

Average FY22 Rating 4.6/5

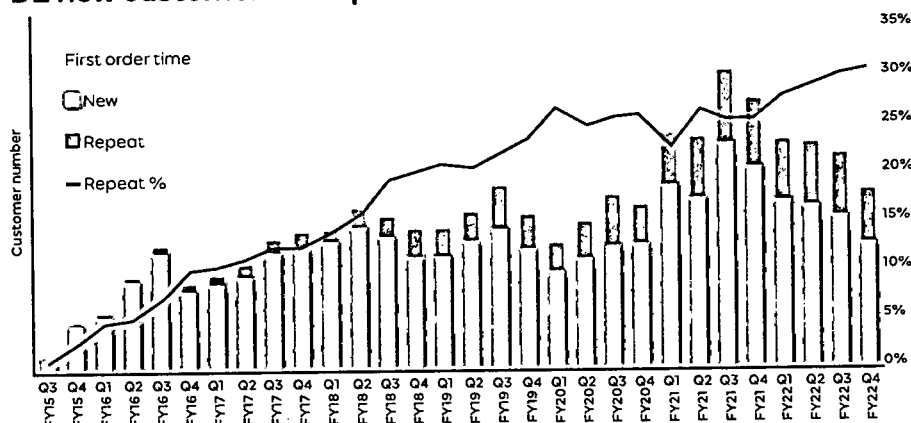
FY21: 4.7/5

¹Data during week ending 28 March 22.

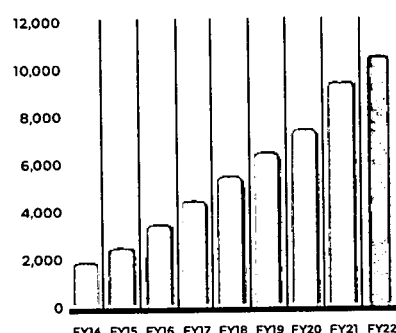
UK new customers vs repeat customers* %



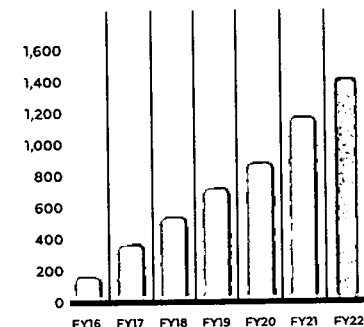
DE new customers vs repeat customers* %



UK Customers* ('000s)



Germany Customers* ('000s)



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

Net promoter score¹ FY22

86

UK² average
(FY21: 85)

¹ NPS is a measure of customer loyalty and satisfaction.

² UK is based on a weighted average of ao.com and MPD responses.

88

Germany average
(FY21: 89)

Our technology



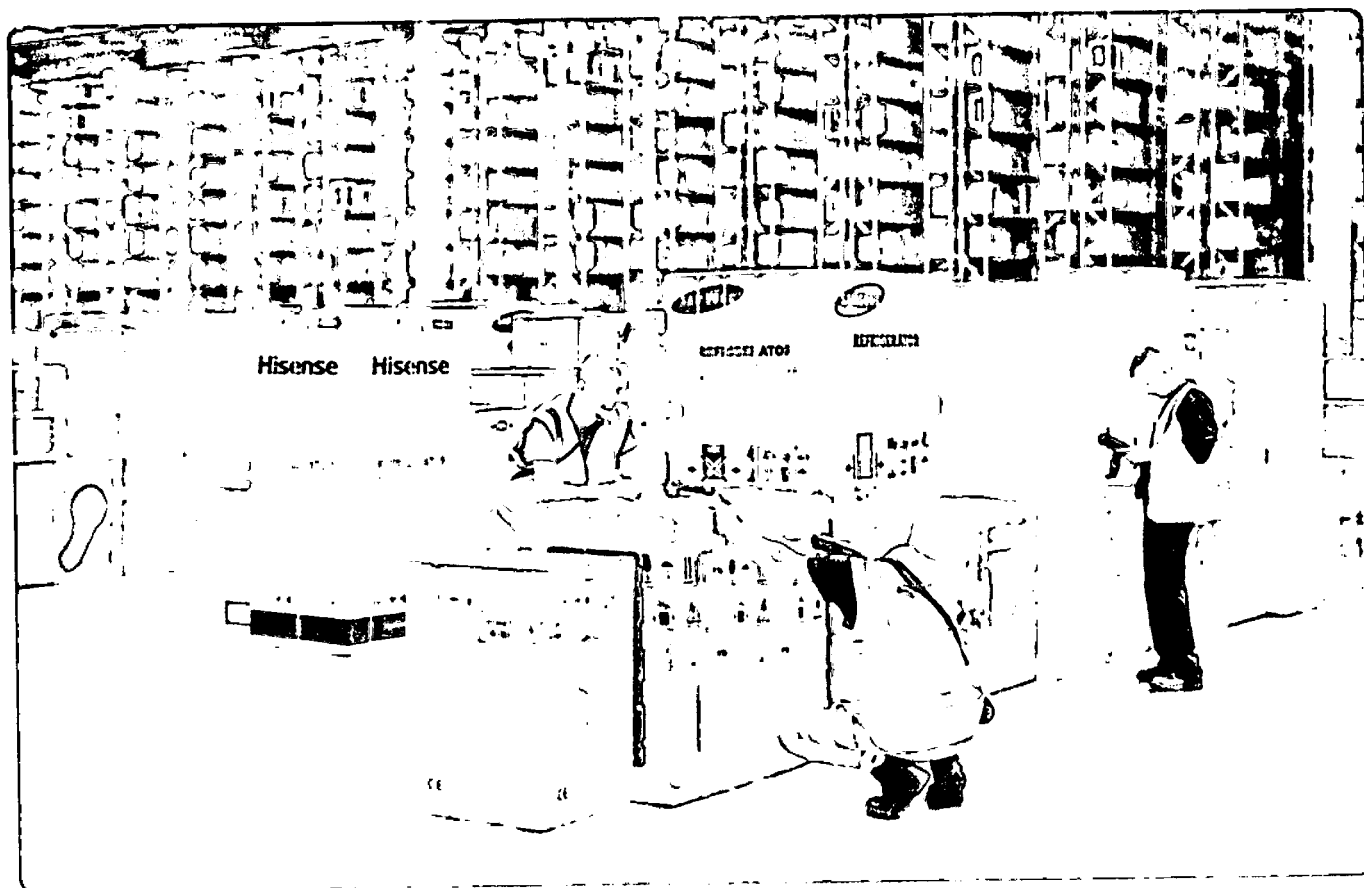
Technology is, and always has been, at the heart of our focus on delivering a brilliant customer experience.



From our website navigation structure to our customer insights that inform customer choice, to our logistics network and follow up, our technology infrastructure underpins our business. It ensures that our logistics network performs seamlessly between our suppliers and our customers.

Our technology architecture continues to develop as more of the market moves online and our customer offering expands. Technology knits together the various stages of the customer journey and our supply chain to ensure we can deliver the best possible experience to our customers as well as providing a high-quality environment that showcases our partners' offering. Manufacturers increasingly consider digital the preferred brand environment for new and popular products and providing a quality online environment for their products is one of our objectives.

We regularly collaborate with our partners and suppliers to ensure that our stock levels and customer demand are matched to ensure we meet our commitment for next day delivery. We sweep the market multiple times per day to ensure that our prices are competitive and continually improve our customer proposition through additional delivery capacity, payment options and more services such as customer financing, warranties and proprietary recycling.



An efficient technology architecture also allows us to serve both our retail and corporate customers, supporting our B2B and Third-Party Logistics ("3PL") operations, which continue to expand, delivering cost efficiencies. Our current core technology systems are a blend of commercial off-the-shelf and custom-built components. This affords us an agile, highly configurable enterprise technology estate that is also integrated with our key suppliers, with a shared ownership model for integrations. We continue to build and enhance our model.

Year in review

This year we announced a multi-year strategy to invest and develop further our architecture, focusing on further developing our customer model, logistics infrastructure and leveraging data and automation for faster decision making and increased efficiencies. We developed a long-term roadmap for investment decisions, prioritising development of customer-facing modules that encourage retention, repeat purchase and increased share of wallet.

During the year we began our Enterprise Resource Platform transformation, that would improve our systems to enable us to operate optimally and efficiently on a global scale. Given the changes to our strategy this transformation, which would have also benefitted the UK business, has been postponed for the short to medium term.

Our strategy in the medium term is to migrate undifferentiated and generic applications onto established enterprise platforms to create a stable and efficient foundation for future growth, whilst maintaining the flexibility of our custom-built components to continue to push the boundaries.

Priorities for 2023

Information is vital to the effective and efficient operation of our business and as such this year we will continue to transform the way information is captured, stored, transmitted and surfaced around our business – increasing accuracy and timeliness and affording better business decisions.

Automation of routine tasks will give our colleagues more time to create the next level of value for customers and partners, and increasingly we will augment our decisions with sophisticated data analysis.

Technology will also play a key role in enhancing customer experience, through increased personalisation of experience and creation of value-add experiences and propositions.

UK retail



“

Please pass on my thanks to all in team AO for their role in the supply chain and my special thanks for creating and managing a company where magic can and does happen.”

Roger
AO Customer



Read more about
Our markets on
page 14

Our UK Retail business is one of the market leaders in MDA electrical retailing. Established over 20 years ago, we offer customers a full range of MDA products, complemented by a growing range of smaller domestic appliances (“SDA”), computing, AV, mobile phones, consumer electronics, gaming, and smart home products. Our UK business benefits from significant economies of scale as a market leader and generates strong and sustainable cash flows.

AO.com, our UK website, is the main business in UK Retail and is usually the first introduction customers have to our brilliant customer service, range of products and competitive pricing. We continually seek to improve our customer experience through enhanced product information, payment options, flexible delivery and installation options and recycling services. By sweeping the market several times a day, we keep our prices competitive.

UK Retail also comprises Mobile (MobilePhonesDirect), B2B trade sales, consumer financing, warranties and services such as installation.

Review of the year

UK Retail

Our UK Retail business reported a disappointing performance for the year against an exceptionally strong comparative performance in the prior year, which included the surge in customer demand during Covid restrictions on store openings. Over 1.3m new customers experienced the AO Way this year, bringing our total historical ao.com customer base in the UK to 10.5 million. Of the customers who shopped with us during FY22, over 55% were repeat. Over a two year period, we broadly maintained our share of the MDA online market, with a 32% share for FY22. As traditional retailers reopened their stores this year following the lifting of the Covid-related restrictions, our overall market share was 18% which increased on a two-year basis from our pre-Covid market share of 14%. We continued to invest in broadening our customer proposition building market share in newer products such as televisions and laptops. We also once again reported market-leading, outstanding customer satisfaction scores averaging 86 on NPS and 4.6/5 stars on Trustpilot, based on nearly 350,000 reviews, demonstrating our laser focus on service and customer satisfaction.

The global economy experienced a number of macro-economic shocks over the year, which impacted on the growth of our UK business. Treating our customers like our gran and making our mums proud are our corporate values, and we always put our customers first. In some cases, that meant we had to restrict promotional activity to ensure that we did not compromise our outstanding customer service. Supply chain disruptions, component shortages and increased container pricing all reduced the product range in electricals across the industry, which limited upgrades and customer choice as manufacturers focused manufacturing capacity on their most popular products. Reliable next day delivery is a service our customers particularly value, and the national shortage of delivery drivers in the first half of the year forced us to scale back our delivery options, which further impacted sales growth.



Read more about
our customers on
page 26

During the second half of the year, while driver issues had eased, albeit at significantly higher cost, customer demand progressively weakened across the sector, as consumer spending shifted to travel and leisure activities, which had been restricted during the Covid pandemic. The war in Ukraine, rising inflation and the increasing cost of living pressures on UK consumers further weakened consumer confidence and spending on consumer discretionary products. Overall, the total electricals market in the UK contracted 4% in FY22 from FY21 highs during Covid. We are pleased that in these challenging market conditions, we maintained both our outstanding customer satisfaction ratings and increased our overall market share in a contracting market.

We continued to explore new initiatives to introduce new customers who prefer viewing products by shopping in stores to the AO Way. Whilst customer feedback was good, the economic output has caused us to terminate our in-store trial with Tesco just after the end of the financial period.

Our Financial Services business performed resiliently over the year as customers recognised the value and peace of mind our warranties offer. Our long-term successful partnership with Domestic & General (AO Care) and NewDay (AO Finance) helped us ensure high customer service levels, and we continue to work closely with both partners to enhance our customer proposition. We continue to expand and service our customer bases and have developed, with Domestic & General, an in-life service Customer

Relationship Management ("CRM") tool. We expect this to be increasingly important given the expected upcoming consumer environment.

During the last two months of the period (which coincided with the macro effects of inflation, particularly with energy and the onset of the Ukraine conflict) we saw a significant increase in warranty customer cancellations. This effect, which has been seen historically at times of macroeconomic events, seems to have settled back to more normalised levels following the end of the year.

Mobile

AO Mobile (MobilePhonesDirect) refocused its customer proposition on traditional network contract connections through our network partners, O2, Vodafone and Three. Our focus is on being affordable, providing value for money offers, connecting through robust eligibility gateways, and appealing to a genuine customer grouping/base. Despite rising inflation costs, Mobile performed well, gaining market share in a highly competitive market. The global shortage of components led to restricted allocations of the new Apple iPhone during the year, which impacted sales to some degree, but the successful launch of Samsung's flagship handset, together with an adaptive purchasing model, underpinned good growth and allowed us to increase our overall market share.

UK retail continued



Read more about our logistics on page 36

Our customer quality is reflected through our Net Promoter Scores and network tenures, and we were delighted to win two independent industry recognition awards this year: *What Mobile* - "Best Online Retailer" and *uSwitch* - "Mobile Reseller of the Year".

B2B

Our B2B division recorded another year of revenue growth and remains a significant opportunity for us. We also launched a partnership with Homebase during the year to support their kitchen-fitting service through our logistics network and the supply and delivery of AO products. There are further opportunities to develop our B2B services with new partners such as insurers and other kitchen furniture retailers, which are under discussion. Whilst we have had some success in winning sites and plots from housebuilders, it has not best suited our trading or delivery model. Shortly after the year end we made the decision to exit the housebuilder sector, and to focus on the B2B channels that work with our core flywheel.

Priorities for FY23

As we transition from the Covid high growth environment to a more challenging macro-economic context, we are ensuring that our business is fit for purpose going forward. We are simplifying our business to become leaner with a laser focus on profitable growth in view of continuing uncertainty and the worst cost of living crisis UK have experienced in 30 years.

Our strategy will focus on leveraging our market-leading position in MDA to broaden our customer proposition for other growing categories such as SDA, Mobile and

B2B where our strong customer satisfaction ratings set us apart. The categories in which we currently operate have a net total addressable market of £23.4bn*, which underpins our future growth along with our long-term relationships with manufacturers, suppliers and partners. The consistent growth in our customer base, now totalling 10.5m historic ao.com customers, and our exceptional customer satisfaction ratings further support our strategic refocus. Customers love what we do for them.

Mobile is now fully integrated into our culture and organisation, offering another entry point to our customers to experience The AO Way. Our customer proposition is now refocused and attracting a high-quality customer base as well winning market share.

B2B also has shown a consistently strong growth profile and we hope to expand our kitchen furniture retail partnerships further, alongside the SME and insurance replacement markets. We anticipate that this will be an attractive growth area going forward.

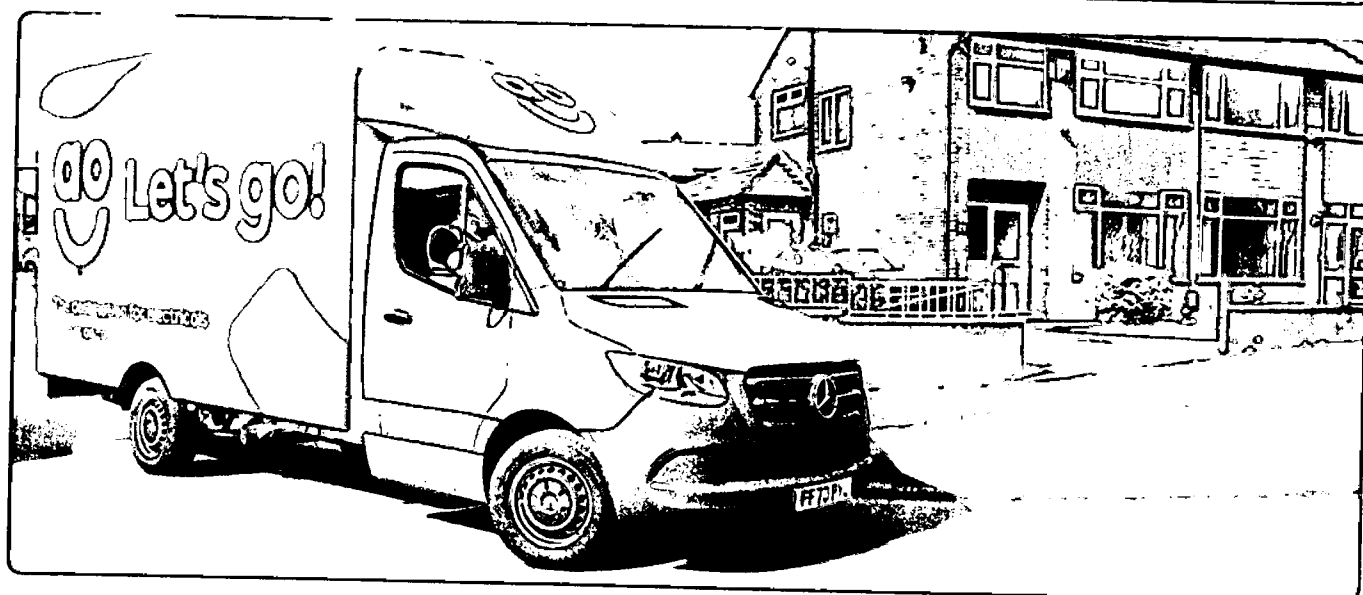
Visualisation, interactive product information and a creative customer experience will be further areas of focus as we invest in continually improving and enhancing our brilliant customer experience. Digitalisation will transform how customers buy their electrics, and we are at the forefront of leveraging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

* Defined by Cifk as MDA, SDA, AV, Computing, mobile, smart home, photography equipment, office equipment, gaming and personal care.

FY22 UK Net
Promoter Score
86

ao.com
customers
10.5m

Excellent Trustpilot
score of
4.6/5



Germany

In 2014, we launched our business in Germany. We chose Germany as our first step into Europe because it is the largest consumer electricals market in Europe and had a significantly underdeveloped e-commerce offering. From opening in 2014 to FY22, our German business increased revenues by 62% on a compound annual growth rate. The Covid pandemic provided a step-change for that business, as traditional retailers shut their doors under government restrictions, and we saw increased demand for electricals online. On a two-year comparable basis, German revenues grew 54% from March 2020 to March 2022, as our customers were delighted in our next day delivery, competitive pricing and wide product choice. Our market-leading Trusted Shops scores and a Net Promoter Score of 88 reflected the quality of our customer proposition.

Over the last three years we had right-sized our cost base, significantly improved our margins with an operating model, that with increased sales post Covid, was expected to improve its profit performance.

At the beginning of FY22, we planned for continued revenue growth, anticipating that the online proportion of sales of electricals would continue to be significantly higher than pre-pandemic levels. To support this growth, in the first half of the year we continued to improve our proposition; we opened three new outbases, we invested in our warehouse and delivery fleets. We also secured three new third-party logistics clients, bringing our total third-party contracts to seven, which helped us further leverage our logistics infrastructure.

Through our One AO approach, Germany benefited from our category developments growing choice in both MDA and non-MDA to further strengthen our customer proposition. The market opportunity in Germany remains large and our suppliers supported our growth strategy in this market. At the start of the year, product margins were materially commensurate with the UK, delivery costs appropriate for volume levels and would reduce with scale following the right-sizing of our overhead base. Given how much younger we are in Germany, we invested in raising the profile of our brand and increased marketing investment to build brand awareness through SEO, PR and our first TV ad for years during peak trading.

However, at the start of the second half of the year, our German business became significantly impacted by a number of material changes to the local trading environment: customers returned to bricks and mortar retailers at a higher rate than we had forecast and competition in the online market intensified as traditional retailers realised the online opportunity alongside manufacturers who developed their direct-to-consumer offerings. As a result, whilst online penetration began to return to pre-pandemic levels, digital marketing costs substantially increased against pre-pandemic levels to unsustainable levels and supply remained constrained. As we expected these trends to continue for the foreseeable future in the German market, and given our relative lack of scale and brand awareness to compete, in January 2022 we announced a strategic review of our German business to evaluate a number of options.



The conclusion of the strategic review was announced in June 2022. Having evaluated a range of strategic options during the review process, the Board decided that closure of the German business was the best course of action, this decision based on the continuing deterioration in the outlook for the German business, as well as the Board's responsibilities to shareholders and other stakeholders.

The oo.de website remained open until the start of July. Our priority over the coming months is to wind-down the business in an orderly manner. We anticipate the cash costs of closure to be in the range of £nil to £5m in FY23.

We thank all our employees, customers, clients and suppliers for their support over the past eight years. AO will now increase its focus on its leading online position in the UK electricals market and optimising the Group's profit and cash generation potential.

Our suppliers



Our suppliers are essential partners in helping us delight customers.

Our suppliers are essential partners in helping us delight our customers. A consistent, exceptional customer experience in product choice, delivery and installation, recycling and additional services is what sets us apart and results in our outstanding NPS and Trustpilot scores year after year.

We enjoy a collaborative relationship with our supplier ecosystem, building trust and long-term relationships. Through regular meetings with our suppliers, we have developed a deep understanding of their strategic and operational context and can establish high-quality service level agreements to ensure suppliers can meet our expectations and those of our customers. This may manifest itself differently across our business units; for example, manufacturer suppliers supporting the formalisation of our B2B offering or the collaborative approach undertaken with the supplier for the design and build of our Recycling and Plastics plants. Our relationships with our suppliers are extremely important as we seek to develop new opportunities, driving value as part of a two-way relationship.

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

Manufacturer suppliers

Customers begin their journey with us when they search our websites for product information, pricing and range of features. We have long-standing relationships with all the leading global manufacturers of MDA products, who help us provide customers with a wide range of products to suit all customers. During the Covid pandemic and subsequent supply chain disruptions, our close relationships with manufacturers remained strong and consistent, despite moving to virtual instead of physical, allowing us to maintain good stock levels to meet customer demand, although the ongoing component shortages have reduced the range of available products across the industry, reducing customer choice.

Our partnerships with our manufacturer suppliers go deeper than just product distribution. We are working with several manufacturers on innovation in recycling, turning waste plastic into new high-quality product components such as base plates, ducts, grill covers and connectors as part of our cradle-to-cradle approach to recycling and sustainability.

Product delivery and installation

Contracted drivers and delivery crews are the face of AO when they visit our customers and, as with all our suppliers, we expect them to deliver great service. Most of the drivers are employed through smaller companies that provide a reliable team resource to AO. In return, they receive competitive market rates and have the

opportunity to grow their own businesses. Our Five Star driver programme allows the best drivers to share in the value we create for customers.

In Q2 of 2022, industries across the UK experienced a severe shortage of drivers. This led to regional increases in driver costs and some modification of our self-employed driver model as we sought to secure our delivery capability for peak period. Later in the year, the driver shortage eased, although regional driver costs remained elevated.

Corporate partners

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

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

NewDay have worked with AO Financial Services since 2019, offering customers the ability to spread the cost of purchases through easy and affordable payment options using a flexible finance account. Customers have access to a range of convenient finance options to help fund their purchases, which gives them lots of choices.

Domestic and General have been a trusted provider of service plans and insurance for millions of domestic appliances for over 100 years and are the UK's leading provider of appliance breakdown protection for a broad range of domestic products and consumer electronics, ranging from televisions to washing machines. AO has been working with Domestic and General since 2004, as its agent, to provide peace of mind for millions of our customers by ensuring that their essential electricals are protected with a plan that goes materially beyond basic manufacturer guarantees and consumer rights legislation. Our warranties offer features like accidental damage cover and access to an accredited network of expert engineers who provide high-quality repairs with the right parts and no hidden costs.

AO Care is individually priced to the product, starting from £1.99 per month, fixed for at least two years, and its protection features give customers great value for money. It is an insurance policy, meaning customers can be confident knowing that their plan is regulated by the Financial Conduct Authority ("FCA").

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



Logistics



Our market-leading in-house logistics infrastructure enables the delivery of millions of products a year.

Our market-leading in-house logistics infrastructure enables the delivery of millions of products a year, nationwide, seven days a week, to customers on behalf of AO's Retail business and a growing number of third-party retail clients.

Our scalable delivery network operates from our hub in Crewe, comprising our warehouses and distribution centres, with a total of over 1.1m sq ft of space, and via our network of 20 delivery depots ("outbases") across the UK. We also have an additional 270,000 sq ft of storage capacity in Stoke. Our current fleet comprises around c.100 trucks, c.750 home delivery vans and c.300 trailers.

We offer a broad range of logistics services to our customers, from the basics of unpacking and inspecting customers' products to complex installations for large appliances, wall hanging, fitting integrated appliances and the removal and recycling of old appliances. Our specialist expertise in the two-person delivery of large items offers a fast, expert and reliable service to our customers, as well as to a number of third-party customers including Hisense, Simba Sleep, Aldi and several white goods manufacturers. Our end-to-end logistics platform provides our third-party customers control over when, how and where their products are delivered. Our modular service offering allows third-party clients to choose from a range of other services we provide, such as returns processing, storage and back haul services, to suit their needs.

Review of the year

Following the significant increase in demand during FY21, during the first half of FY22 we increased our warehousing footprint, adding 305,000 sq ft of warehousing space and outbases, in addition to our main warehouses in Stafford and Crewe. This allowed us to manage stock levels and delivery schedules more efficiently despite holding higher stock levels to meet demand.

As Covid restrictions lifted and the hospitality and travel sectors reopened, we experienced serious shortages of qualified delivery drivers across our driver classifications as customer demand outpaced our ability to meet desired delivery dates. We also experienced shortages of qualified gas and electricity fitters, together with incurring higher costs in our warehouse operatives base due to shortages and increased overtime rates. As a result, we took a number of actions to cope with the volatile market conditions. Recruitment efforts in the regions most effected by driver shortages, primarily the Southeast and Southwest of the UK, were successful, as was our 5 Star driver programme which attracted new high-quality self-employed drivers, albeit at significantly increased rates.

As a further measure to address shortages, we introduced a new employed driver model. This operates alongside our self-employed driver model and allows us to tap into a different pool of resource from those who run their own businesses and want flexibility. Within this employed model we've launched a number of apprenticeships providing the opportunity for people to grow and develop new skills with the option for some drivers to obtain full HGV qualifications. Whilst this has allowed us to meet driver capacity requirements, it has added additional complexity into the business as we are now running two very distinct operational driver models with different requirements and controls.

The apprenticeship programme has been expanded to gas fitters and over 80 apprentices are now working through their licence acquisition across three streams for gas installations, HGV and 7.5t drivers whilst supporting our home delivery fleet.

In the second half of FY22, as sales growth decreased we were able to flex our driver resource down and began to rationalise our warehousing and outbases.

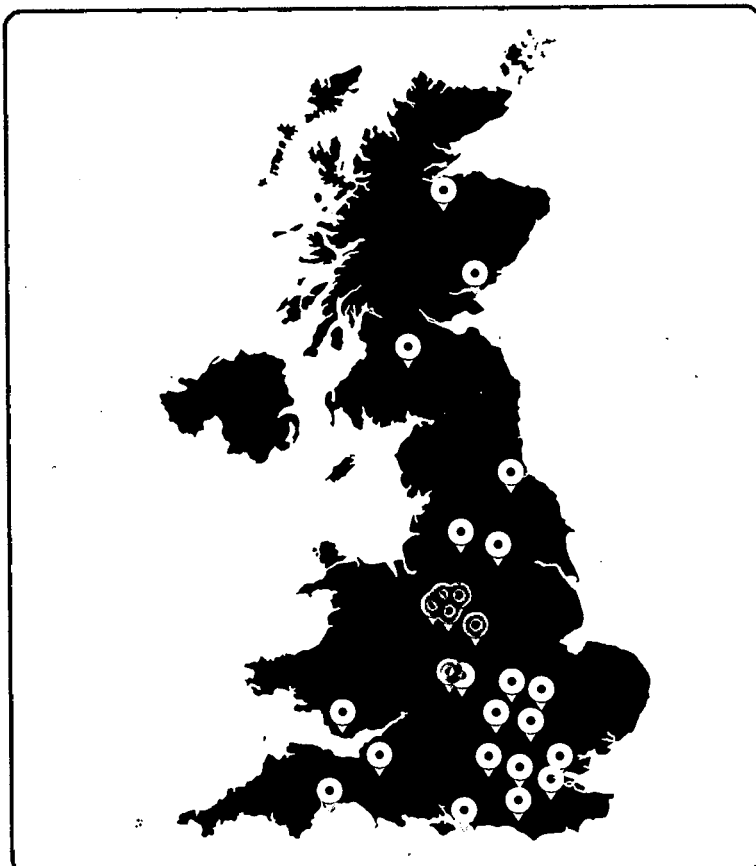
Despite the challenges we were pleased that we retained our market leading NPS/Trustpilot customer satisfaction scores. We thank our dedicated self-employed drivers and employees for delivering excellent service for our customers.

Priorities for FY23

The shift in consumer demand in the post-Covid environment now gives us the opportunity to rationalise our warehousing and outbase footprint to ensure we are operating at optimal efficiency whilst still offering our customers a high-quality delivery and installation service.

The reduced warehousing will also lead to anticipated cost-savings in staffing and operating costs, although the materially increased driver rates and higher fuel and utility costs will remain with us for the foreseeable future. We anticipate that operational efficiencies will offset these increases to a significant degree.

As discussed above, we are continuing our apprenticeship programme for drivers and gas fitters, with the first qualified leavers expected to complete their apprenticeships in October 2022. This valuable initiative will help address the national shortage of skilled labour and also helps to build loyalty and job satisfaction. Our investment in people and infrastructure provides us with a strong foundation to continue to provide our customers with brilliant customer service.



We continue to trial electric vehicles for last mile delivery as we consider whether continuing to lease diesel vehicles is appropriate given the adverse environmental effects these have and the drive towards net zero (both politically, morally and legislatively). Given the high payload and range requirements of our vehicles we do not believe the technology exists yet for us to move to a full electric fleet. We are in regular contact with manufacturers and suppliers to keep up to date with new technology so that we can move quickly when the proposition meets our requirements. We are trialling Compressed Natural Gas ("CNG") vehicles, but this is at an early stage, and we are keeping a watchful eye on other initiatives such as hydrogen powered vehicles. We are looking to develop a net zero road map for the logistics fleet over the medium term. In the interim we mitigate some of the harmful effects of diesel by using AdBlue which reduces the amount of air pollution created by diesel engines.

Key
 📍 Recycling operations
 📍 Distribution centres
 📍 Outbases

20

outbases across the UK, driving efficiencies of scale

UK warehousing capacity

1.4m sq ft

Delivery seven days a week; next day delivery available for over

90%

of UK postcodes

Recycling



We've continued to work to perfect the recycling of plastics into new white goods components to complete true circularity.

We don't only make our mums proud, but make our grandchildren and future generations proud of our actions too.



Read more about how we recycle fridges on pages 40 and 41

Our business model is vertically integrated, which allows us to offer customers a cradle-to-cradle service, from buying a new product to collection and recycling of their old products when it is time to replace them.

How we help customers dispose of electrical goods responsibly at the end of their useful life is just as important as what happens when they decide to buy from us.

Our Recycling plant in Telford is one of the largest fridge recycling plants in Europe, operating to UK industry-leading standards and the highest European standards, ensuring that gases and oils harmful to the environment are safely and efficiently captured. Refrigeration products, including large American style fridges, are our speciality, but we collect all the old fridges and other white goods (also known as waste electrical and electronic equipment or WEEE).

AO Recycling also has its own highly skilled repairs team, which refurbishes appliances delivered to the plant that still have a useful life. These are then sold with warranty via an established base of trade customers. We also recycle packaging collected from customers' homes. We stay true to our values by delivering and collecting using our own logistics company so just one journey is made - which, of course, is better for the environment.

Over the past few years, our Recycling operations have been working to perfect the recycling of plastics into new white goods components to complete true circularity of recycling. Extracting high-quality plastics from recycled materials is a complex process with multiple steps to separate the various degrees of plastic quality. We are working with our manufacturing partners to design suitable high-quality components for use in new appliances and other long-life applications.

Our plastics plant, like our appliance recycling process, aims to be state of the art, working to the highest European standards. We continue to invest in our recycling processes to ensure that we keep improving our processes to meet ever higher recycling standards.

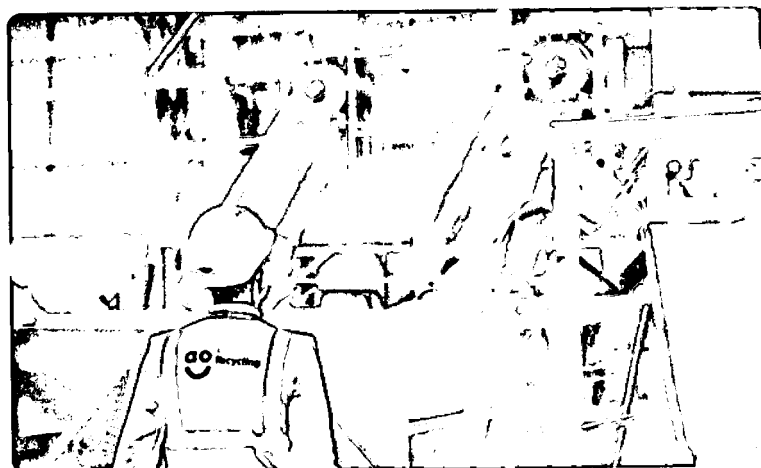


Review of the year

After last year's challenges under Covid restrictions, this year Recycling operations benefited from a more stable operating environment. Overall volumes were lower due to the slowing of the overall market for MDA as well as supply chain challenges, but strong output pricing compensated for the lower recycling volumes, across all key metals and plastics outputs. During the year, we hit two key milestones: recycling our two millionth fridge and five millionth appliance (white goods including fridges) since the recycling site went live in early 2017.

Last year we used our UK-wide logistics network and routing capabilities to grow our "Collect & Recycle" proposition allowing more consumers to arrange the collection and recycling of old products whether or not they had purchased a new appliance from AO. This provided an efficient and convenient doorstep collection and introduce current and future customers to our exceptional customer service, encouraging new and repeat purchases.

This year we continued trialling various initiatives with both manufacturers and customers. We used our wide range of customer contact capabilities to encourage customers to consider sustainability in their purchasing habits, alongside a broad and detailed customer survey to understand, post Covid, how customer behaviours



with recycling had changed. We are continuing to evaluate how to leverage our unique eco-system to maximise recycling volumes, whilst limiting the impact of our activities on the environment, both in our operations, and also against alternative recycling approaches (such as council amenity sites).

Our "Closing the Loop" partnership with key manufacturers to supply recycled plastic to make electrical appliances continued to progress, although Covid restrictions hampered the pace of the project. Our plastics have met the required manufacturer and legislative standards and proven to create parts imperceptible from existing parts moulded from virgin plastics. This represents the first steps in our journey to have appliances for sale on ao.com made with a meaningful amount of recycled plastics components.

We are also continuing to collect third-party volumes utilising our own logistics network, again providing efficient service from council amenity sites, whilst reducing the amount of miles driven.



Read more about how our plastics plant works on pages 42 and 43

Recycling continued

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

Step

1.

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

Step

2.

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



Step

3.

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

Step

4.

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

Step

5.

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

Step

6.

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

Step

7.

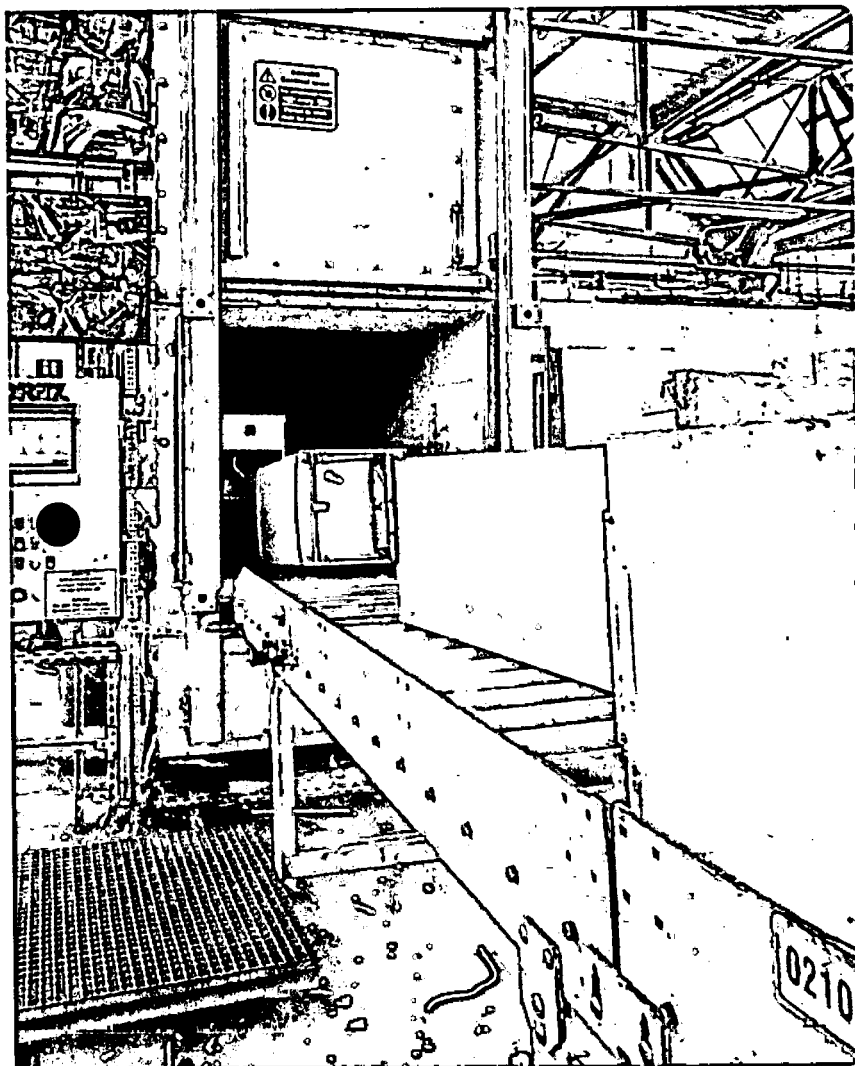
What's left of the fridge's remains is sent through four different filtration systems, to separate the different materials from each other.

Step

8.

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





Priorities for FY23

Sustainability is an ever-increasing part of our lives, and at AO recycling is an essential part of our cultural values of making our mums proud. Working with large, complex appliances poses complex disposal challenges requiring specialist skills to be able to do this to a consistently high standard. We are continually challenging the status-quo to improve our recycling processes (efficiency, environmental standards and quality) for white goods and plastics recycling, whilst ensuring we are part of a broader unified AO Group service proposition. As a vertically integrated company, providing a cradle-to-grave service for our appliances is a fundamental part of our strategy.

We have the capacity to process more appliances and plastics following improvements to both sites during Covid and by continuing to develop our recycling propositions to ensure our customers get a simple, trouble-free service, with the knowledge their old appliance will be recycled to the highest possible standards, we have a unique opportunity to leverage the AO eco-system, demonstrating how we can vertically integrate our supply chain.

We continue to work further on aligning the properties of different plastics with the goal to get our recycled plastics into an increasing number of long-life products.

Our focus over the coming year will be to:

- Deliver a cost-effective recycling service to all our businesses and customers.
- Drive the highest possible environmental and safety standards, continuing the ROSPA Gold awards and WEEELABEX recycling standards (covering fridge recycling, ammonia fridge recycling, reuse & repair, plastics recycling).
- Continue to develop the operation (by training, process improvement and best available techniques) to transition from fixed to variable cost bases.
- Grow our plastics volumes and create a sustainable supply of high-quality plastics components for our manufacturers and strategic partners.

Recycling continued

Plastics Plant – how it works

Step

1.

We remove large pieces of plastic, which will require further shredding, and also dust/small particles of plastics that won't separate.



Step

3.

We sink off the heavy plastics using a water/calcium carbonate solution, and these go for further processing by a trusted partner.

Step

4.

We wash off the calcium carbonate and using water, float off polypropylene for granulation in a separate on-site process.

Step

5.

We dry the plastics which sank in Step 4 (high impact polystyrene (HIPS) and acrylonitrile butadiene styrene (ABS)), granulate to create plastic flakes of consistent size, and remove any which are outside our size distribution parameters.

Step

7.

The plastics are electrostatically separated, either being attracted to or repelled from an electrode now they are electrically charged. This creates single polymer plastics.



Step 2.

We wash the material to remove surface contamination and prepare the plastics for density separation.

Step 6.

We optically sort the plastics (targeting white - the coloured plastics are processed later through Steps 7-10), gently heat and then electrically charge the plastics.



Step 8.

Every bag produced is quality tested through a leading-edge technology flake scanner for polymer purity, colour, contamination content, and only those which pass the quality test are then prepared for shipment.

Step 9.

Our trusted extrusion partners, heats and pushes the melted plastic flakes (now an individual polymer such as high impact polystyrene [HIPS]) through a filter to make extruded pellet. Dependent on customer requirements, additives for colour or to help the plastic flow into a moulding, are added.

Step 10.

The plastics are sold to manufacturers of high-quality, long-life parts and products, to replace virgin plastics with an environmentally friendly alternative.

Our strategy

The rapid online growth seen throughout Covid, which has settled during FY22, coupled with macro-economic challenges has led us to review our strategy. Where previously we were focused on top line growth, both in the UK and internationally, we have pivoted the strategy to focus on our leading online position in the UK electricals market and optimising the Group's profit and cash generation potential. In the medium term, our ambition is to achieve:

- Average revenue growth of 10+% per annum
- EBITDA margin of 5+%
- Improved cash generation with FY23 capex expected to be c.£5m

To achieve these ambitions and ultimately our mission we have five key strategic objectives as set out below:



1 Acquisition

We are a leading online retailer of major domestic appliances and we have a great repeat customer rate. But we need to ensure that:

- we have a strong brand identity, which remains relevant in today's climate;
- we stay at the forefront of digital acquisition techniques; and
- we create reasons for customers to come back to us time and time again to shop for appliances but also our newer categories, increasing share of wallet.



2 Brilliant customer journey

Delivering a brilliant customer experience and creating a seamless shopping experience is all about having:

- a slick, intuitive and engaging website, with excellent and inspiring product information, the ability to easily add supporting services and "add-on" products and with a choice of payment options;
- self-serve options to amend orders post purchase;
- support from a friendly team on the phone where needed; and
- making it right, when things go wrong (which they occasionally do with such big stuff!).



Read more about UK retail on pages 30 and 32



Read more about logistics on pages 36 and 37

For progress against these objectives and to understand how we plan to drive forward in FY23, please refer to our business update sections on pages 30 to 43



3 Comprehensive category coverage at great prices

Through expanding our product ranges, we will position AO as a broad electricals retailer, serving the widest possible customer base. We need to ensure that we are offering great prices to customers, whilst maintaining appropriate levels of margin to meet our financial targets.



4 Delivering supporting services

AO is known for outstanding service and we need to maintain and enhance this by:

- offering a full range of services, for both existing and new categories;
- improving our best-in-class delivery, easy returns, product installation and set-up, and recycling propositions; and
- enhancing the customer lifecycle through services such as warranties, repair and maintenance and product trade-ins in relevant categories.



5 Leverage expertise whilst simplifying

We have a number of centres of expertise throughout the business and we aim to leverage these and our operating model to enhance and grow the business but without adding additional complexity. A more focused approach on our opportunities, whether it be through other retail categories, B2B, 3PL, or recycling, provides economies of scale, which can help us achieve revenue growth and our profit and cash targets.

By focusing on these strategic objectives and our values, we can fulfil our purpose and strive towards our mission.

We treat every customer like our gran

We make decisions that make our mums proud

We have a growth mindset

We operate at AO speed

To fulfil our purpose:

To make customers' lives easier by helping them brilliantly

Chief Executive Officer's strategic review



“

I've always said that once customers find a better way to shop, they don't go back. We want to do more for them and capitalise on their love for AO.”

John Roberts
Founder and Chief Executive Officer



Read more about the impact of macroeconomic factors on pages 14 and 17

AO was founded on the belief that online was a better way to buy and sell electricals. That belief is as strong as ever, even – and especially – as we go through one of the most challenging environments we've weathered as a Group. Our purpose is as important now as ever, to make customers' lives easier by helping them brilliantly.

The past 12 months have been a turbulent time for retail and AO – of course – hasn't been immune to those effects. The initial view, both in AO and beyond, was that the Covid-enforced consumer behavioural change would meaningfully stick in both the UK and Germany, and with it would create lots of opportunity to accelerate growth and expansion. It was seen as a once-in-a-generation opportunity to leverage our scale and market position, and to really take advantage of the opportunity while it existed, and we invested accordingly.

When Covid restrictions eased, the picture was very different to that planned. It became clear as we progressed through the new financial year that there was a whole raft of new challenges to navigate.

In Germany customers reverted to an online mix materially the same as before Covid, but associated marketing costs were three times higher as the competition for online sales intensified. The UK, meanwhile, maintained a 30% year-on-year step change in the online mix of MDA sales, but with both geographies experiencing supply chain disruption, reduced margins and increased costs of operation through fuel prices and people, not least as a result of the UK driver shortages, which are well documented.

Forecasting for peak trading was an almost impossible task and relied on being able to predict – four months ahead of time – the online share of the market, as well as all the factors influencing the overall size of the electricals market, the job market, oil prices, wage inflation, container shipping prices and overall consumer demand. There continued to be material price inflation across the business as just about every input cost from chips to containers and oil to steel increased.

This has been compounded in recent months by a demand gap in both territories. This is the result of a combination of inflationary-driven household spending squeeze and demand pull forward in some categories. We are less affected by the latter and more by the former. The Russian invasion of Ukraine has only made a challenging situation worse.

Even with that all said, in FY22 we served over 1.5m new customers in the UK and Germany. And we did so with a consistently high and indeed market-leading

Net Promoter Score and a 4.6 star rating on Trust Pilot. Amazing service continues to be the fuel for our flywheel and the way we're able to attract and retain customers, while delighting and innovating for them.

Through the year, we were pleased to see an improving rate of returning customers and frequency of purchases, with Covid first-time buyers coming back faster than pre-Covid. Over 55% of our orders came from repeat customers and this share is increasing, with strong cross-category purchase rates.

In the UK, two and a half years ago, newer categories were a drag on our profitability as we built scale. All categories are now – at worst – contribution neutral. Over the next 12 months we will ensure that all contribute to overheads. A full range of services comes with these expanded categories as we continually improve our best-in-class delivery, easy returns, product installation and set-up, and recycling propositions. In February 2022, our recycling team reached the milestone of processing five million white goods through the plant, including more than two million fridges.

We're in no doubt that we'll drive higher customer lifetime value and share of wallet through this approach. I've always said that once customers find a better way to shop, they don't go back. We want to do more for them and capitalise on their love for AO.

So, as we closed the financial year and faced further macro-economic uncertainty and tighter consumer spending, we turned our focus to delivering our cash and profit plan, simplifying our business and developing our winning culture.

Our core major domestic appliance category has proven to be resilient over time, given the natural replacement cycle of white goods and their non-discretionary nature. In addition, expanding into newer categories remains a key priority and a major opportunity for us.

Strategically, scale matters on many fronts. We've optimised our warehouse and outbase footprint to ensure we're delivering to our high standards while reducing costs. Manufacturers are also now wide awake to the possibilities of online, where they firmly see AO as best in class. We're as committed as ever about being the long-term partner of choice for manufacturers. The attractiveness of the quality and scale of the AO platform is also presenting more new opportunities for partnerships to leverage our capability.

In recycling, we continue to be proud of our ownership of one of Europe's largest and state-of-the-art recycling plants. Future changes to WEEE regulation on extended producer responsibility for retailers create attractive recycling opportunities in future. Further, we're already seeing recycled polymers being used in new appliances in our cradle-to-cradle, circular economy strategy.

Looking ahead, we have more volatility to navigate, but the core fundamentals of the business are strong. AO becomes the first-choice destination for electricals through our absolute obsession with customers which is at the heart of our culture: the range of choice and service we provide, personalisation and price that we

can offer. We are unchanged in our belief that we can do that better than anyone else in the market over the long term.

We're entering the new financial year with a period of realignment, undertaking the strategic pivot to focus on cash and profit generation.

In January, the Board announced a strategic review of our German business which, in June, led to a decision to close that operation.

This was based on the continuing deterioration in the outlook for the German business, as well as the Board's responsibilities to shareholders and other stakeholders. We expect this to have a cash cost in the short term, but improve cash and profit by c.£1.5m per month going forward.

In response to current volatility across the sector and economy, the process of addressing the overheads and operations of the business is underway into the beginning of FY23. Short term, we anticipate sales and costs will reduce, but profitability will increase.

To strengthen the balance sheet and increase liquidity back to historic levels relative to revenue, in July, we conducted a placing of new ordinary shares, which was strongly supported by investors, raising c£40m of capital. This also provides the flexibility to pursue our significant long-term growth opportunities in the UK.

We're turning to invest in multiple opportunities in different sectors, categories, channels and territories as future engines of growth in the medium term. We'll put customers first – as we've always done – while also taking action to strengthen the balance sheet.

I'd like to thank the AO team, our Chair, and the Board, as well as our committed investors and stakeholders for their continued support and passion. We've said goodbye to a number of colleagues over the past twelve months, including the incredible people in Germany, and I'd also like to thank them again for everything they contributed during an exceptional time with the company.

As shareholders will note, we are seeking approval to restructure our Value Creation Plan following our change in strategy. Full details are set out in the Directors' Remuneration Report; however the philosophy behind it remains the same; it's an opportunity for every AO employee to receive a meaningful reward for creating exceptional value over the long term, which I'm confident we can achieve through our passion to serve customers brilliantly. And, as before, I have committed to gift 100% of the shares I receive from the VCP to help disadvantaged young people in the UK, a cause I and all at AO are passionate about.

We remain mindful of the current macroeconomic environment, but we have confidence in the resilience of our business model and the positive actions we are taking.

John Roberts
CEO and Founder

17 August 2022



Read more about our German business on page 33



Read more about our culture on pages 22 and 23

Chief Financial Officer's review



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Given the challenging market conditions and pressures on consumer wallets, we are shifting our strategic focus from high growth to cash and profit generation. This will allow us to invest prudently in our business, seize market opportunities and leverage our significant customer base. This is a prudent approach given the difficulty of predicting the near-term market dynamics.”

Mark Higgins
Chief Financial Officer



Read more about
our markets on
page 14

At the start of our financial year in April 2021, we planned for the continuation of the elevated growth trends that we experienced during the Covid pandemic. We therefore invested in our business to build upon the foundations of expansion as well as to address some of the operational strains rapid growth had put on our infrastructure and people over the prior year. The strategy to impress as many new customers as possible proved successful, with over four million new customers experiencing the AO way since FY20.

As the year progressed, however, macroeconomic headwinds, including rising interest rates and higher fuel and utility costs impacted customer behaviour as cost-of-living pressures increased. Where the first half of the year was impacted by driver shortages and global supply chain inefficiencies, the second half experienced progressively weaker customer demand across the sector, affecting both revenue growth and profits.

In Germany, as companies invested in building their online proposition and customers simultaneously returned to pre-Covid behaviour, our German business experienced increasingly intense competition. Despite building a competitive platform that achieved breakeven in the prior year, our German business remained subscale in the wider market. As a result, in January we started a strategic review of our business in Germany which resulted in the announcement of its closure in June 2022. As we progress with an orderly wind down of the business, we expect the total cash costs of closure in FY23 to be nil to £5m.

After the financial year end, in July 2022, we undertook a share placing to strengthen the balance sheet and increase liquidity back to historical levels (relative to revenue base), as well as providing the flexibility to pursue our future market opportunities. This was strongly supported by shareholders and raised gross proceeds of approximately £40 million. During the year we also extended our £80m revolving credit facility which is now due to expire in April 2024.

The current financial year marks a period of realignment for the business as we undertake a strategic pivot to focus on cash and profit generation. The process of simplifying operations and optimising our cost base is already underway. AO remains a market leader in MDA in the UK with an 18% market share and 32% overall online share, providing us with a strong and resilient market position. The actions we have taken, both to optimise our cost base and strengthen our balance sheet, will allow us to invest prudently in our business, seize market opportunities and leverage our significant customer base. This is a prudent approach given the difficulty of predicting the near-term market dynamics.

Revenue (see table 1)

For the 12 months ended 31 March 2022, total Group revenue decreased by 6.2% to £1,557.3m (2021: £1,660.9m).

In the UK, total revenues decreased by 4.6% as shortages in key product components and driver availability in H1 impacted on our ability to deliver our traditional full product range and our delivery

proposition. This decline was somewhat offset by higher average product value. The lower product sales also fed through to services revenues due to reduced installations and delivery charges.

In Germany, total revenues declined 16.5% against a strong performance in the prior year during Covid restrictions on traditional in-store retailers and the effect of changes in consumer behaviour and intense competition.

Product revenue

Total product revenue, comprising sales generated from ao.com, ao.de, marketplaces and third-party websites, decreased by 8.8% as the overall market in the UK for consumer discretionary purchases weakened considerably in H2. In Germany, the lifting of Covid restrictions resulted in consumers returning to traditional bricks and mortar shops to a greater degree than anticipated. This was exacerbated by the ongoing supply chain disruption and a global shortage of components at manufacturers' facilities resulting in reduced product ranges across our industry.

In the UK, MDA revenue decreased by 7.3% as consumer demand weakened in H2, compounded by challenges in our logistics operations in H1, with the wide-spread shortage of drivers and skilled installers. Non-MDA revenues, comprising SDA, computing and gaming but excluding AV, declined by 10.9%, in part due to shortages of gaming products. AV revenue, which includes televisions and audio visual, saw a decline of 22.0% over the comparable period last year, which was inflated by Covid lockdown purchases and the televised European football championships in the summer of 2021. B2B recorded strong growth across all its routes to market, albeit from a modest base, as we continue to gain market share and build further capabilities, winning attractive contracts.

Product revenue in Germany declined by 17.8% (a decline of 13.9% in Euros). Revenue was impacted by highly competitive market conditions and unsustainably high customer acquisition costs, as traditional retailers sought to expand their online capability. We therefore took the short-term decision to reduce our online marketing efforts in Germany which impacted sales growth.

Services

Services revenues, include fees for delivery, recycling, installation and related services, declined in line with the reduction in product revenue as well as being affected by a shortage of qualified fitters in the UK during H1. In Germany, the decline in services revenues reflected the decline in product sales.

Commission

Commission revenue, which includes commissions generated by network connections in our Mobile business and from AO Care warranties, showed an improvement of 7.6% against prior year revenues. Overall, commissions from the sale of warranties remained broadly flat against the prior year. The number of plans sold in FY22 reduced from the highs seen in FY21 although the prior year was impacted by a c.£8m reduction of previously recognised revenue due to a significant change in customer behaviour. The business also recorded slightly elevated but temporary levels of customer cancellations in Q4, primarily due to the initial reaction from consumers to the cost-of-living crisis, similar to that we experienced at the start of the Covid pandemic. Post period end cancellations have returned to a more normalised level as customers adjusted.

In Mobile, following adjustments to our customer proposition and the removal of the redemption cashback offer, the average life of new contracts has continued to improve and with the RPI increases imposed by the networks, revenue has increased in the year.

Third-party logistics

Third-party logistics performed well, increasing 48.9%, albeit off a modest base. Our expertise in complex two-person delivery is highly valued in our industry, and we undertake a number of deliveries on behalf of third-party clients in the UK including Hisense, Simba ADD. The shortage of delivery drivers during the year resulted in some limits being put on our ability to accept incremental third-party business, but overall, we were able to satisfy partner demand and build on the number of entities we service. We continue to develop this revenue opportunity as it leverages our operational gearing.



Read more about UK Retail business on page 30

1 Revenue

12 months ended £m	12 months to 31 March 2022			12 months to 31 March 2021			% change		
	UK	Germany	Total	UK	Germany	Total	UK	Germany	Total
Product revenue	1,114.4	181.7	1,296.1	1,200.3	220.9	1,421.2	(7.2%)	(17.8%)	(8.8%)
Service revenue	50.3	3.0	53.3	54.0	4.0	58.0	(6.8%)	(23.3%)	(8.1%)
Commission revenue	156.8	0.7	157.5	146.0	0.3	146.3	7.4%	175.6%	7.6%
Third-party logistics revenue	22.7	3.6	26.3	16.5	1.2	17.7	37.7%	202.1%	48.9%
Recycling revenue	24.1	-	24.1	17.7	-	17.7	35.8%	-	35.8%
Total revenue	1,368.3	189.0	1,557.3	1,434.5	226.4	1,660.9	(4.6%)	(16.5%)	(6.2%)

Chief Financial Officer's review continued

Recycling

Recycling revenues performed well, increasing 35.8% over the year. Operations recovered from the periodic closures during the prior year whilst operating under Covid restrictions when councils closed household waste and recycling centres. Processed volumes have increased overall year on year and the business benefitted from a strong recovery in output prices for recycled materials.

Gross margin (see table 2)

Gross margin for the Group remained broadly stable as a percentage of revenues but decreased in absolute terms due to the dilutive effect of reduced product volumes in Germany. In the UK, gross margin reflected the increased costs in fuel and driver rates but, as an overall percentage of revenue, improved slightly due to increased product pricing. These inflationary cost increases were largely offset by an improvement in our Mobile business profitability which in the prior year had been impacted by changes in consumer behaviour.

In Germany, gross margin reduced to 3.2% as competition in the market impacted on pricing and the reduced volumes resulted in inefficiencies within delivery costs. Gross margin was also impacted by a £6.9m charge relating to the impairment of certain assets in the business.

Selling, General & Administrative Expenses ("SG&A") (see table 3)

Group SG&A costs as a percentage of revenue increased during the period to £303.6m (2021: £263.6m), or as a percent of revenues from 15.9% to 19.5%.

The largest increases were in warehousing and other administrative costs, mainly in response to Covid pressures.

In the UK, SG&A costs increased to £272.7m (2021: £235.6m), or as a percent of revenues from 16.4% to 19.9%. The largest cost increase was in warehousing, which increased to £69.6m (2021: £58.7m), or as a percentage of revenues from 4.1% to 5.1%. The drop in sales volumes impacted on the recovery of the full year costs of new property leases entered into in the previous year to manage additional warehouse capacity during the pandemic. Wage inflation also contributed to cost rises. We are currently reviewing and rationalising our warehousing footprint in view of the changing demand dynamics.

Advertising and marketing costs in the UK increased to £46.1m (2021: £43.3m), or as a percent of revenues from 3.0% to 3.4% due to increased spending on brand awareness and customer acquisition post Covid. This was offset by a reduction in television advertising as the business changed to more targeted social media channels.

Other admin costs in the UK increased to £138.6m (2021: £118.2m), or as a percentage of revenues from 8.2% to 10.1%. This primarily reflects the investment in people made in the business in the second half of FY21 to support the significantly increased growth, particularly in our Retail business and in IT. In reaction to the slowdown seen in the market in H2, the Group has undertaken a right-sizing exercise across a number of areas to align costs with a reduced level of activities and, therefore, costs are expected to reduce as we move into FY23. Other areas of increase include insurance premiums and costs related to re-opening office premises following the Covid-related restrictions in the prior year.

In Germany, although shoppers returned to traditional retailers to a greater degree than anticipated, companies continued to build their online presence. Competition in the online space therefore intensified, which also drove up marketing costs as the cost per clicks, in some cases, up more than 100%. Warehousing and other admin increased as a percentage of sales primarily as result of lower volumes with absolute levels of spend being broadly equivalent to the prior period.

Operating loss and adjusted EBITDA

As a result of the above, our operating loss for the period was £32.3m (2021: £29.7m profit).

Alternative performance measures

The Group tracks a number of alternative performance measures in managing its business. These are not defined or specified under the requirements of IFRS because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS or are calculated using financial measures that are not calculated in accordance with IFRS. The Group believes that these alternative performance measures, which are not considered to be a substitute for, or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These alternative performance measures are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these alternative performance measures are also used for the purpose of setting remuneration targets. These alternative performance measures

② Gross Margins

12 months ended £m	31 March 2022			31 March 2021			Better/(worse)		
	UK	Germany	Total	UK	Germany	Total	UK	Germany	Total
Gross profit	263.4	6.0	269.4	273.0	19.5	292.5	(3.5%)	(59.5%)	(7.9%)
Gross margin	19.3%	3.2%	17.3%	19.0%	8.6%	17.6%	+3ppts	(54ppts)	(3ppts)

should be viewed as supplemental to, but not as a substitute for, measures presented in the consolidated financial statements relating to the Group, which are prepared in accordance with IFRS. The Group believes that these alternative performance measures are useful indicators of its performance.

EBITDA

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

Adjusted EBITDA

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

The Adjusting Item in the current year is:

- Due to the continued losses in the German business, the Group has undertaken a strategic review during the year. As a result of these losses and the subsequent decision to close that business, management have performed a full impairment review of the assets at 31 March 2022. As a consequence, management have made impairment provisions of £7.3m at 31 March 2022 of which £1.2m relates to inventory and £6.1m relates to Right of use assets and other property, plant and equipment. In addition, legal advice and other costs of the review totalled £0.9m as at the year-end resulting in a total of £8.2m of impairment and other charges in the income statement. Given the nature of these costs, they have been added back in arriving at adjusted EBITDA.

The Adjusting Items for the prior year were as follows:

- In FY21, management reassessed the impact on future expected cancellation rates as a result of an increase in cancellations seen through the second half of the prior year. As a result, revenue for FY21 was constrained by £8.1m with a corresponding reduction in the contract asset. Given the size and nature of the adjustment, the amount has been added back in arriving at Adjusted EBITDA.
- In December 2017, the Group entered into a marketing contract in Germany which was anticipated to generate significant additional revenue. In subsequent years, the performance of this contract was reassessed due to significant losses being incurred and the benefits expected from the contract not materialising. The Group renegotiated the contract with new terms taking effect from April 2021. However, the existing terms up to 31 March 2021 resulted in the cost of fulfilling the contract over its life exceeding any benefit gained from it and therefore management added back the full cost in the prior period of £2.2m.

The reconciliation of statutory operating (loss)/ profit to Adjusted EBITDA is set out in table 4 overleaf.

③ Selling, General & Administrative Expenses ("SG&A")

12 months ended £m	31 March 2022			31 March 2021			Increase/(Decrease) %		
	UK	Germany	Total	UK	Germany	Total	UK	Germany	Total
Advertising and marketing	46.1	9.6	55.7	43.3	7.2	50.4	6.5%	34.6%	10.5%
% of revenue	3.4%	5.1%	3.6%	3.0%	3.2%	3.0%			
Warehousing	69.6	7.3	76.9	58.7	6.9	65.6	18.5%	6.6%	17.2%
% of revenue	5.1%	3.9%	4.9%	4.1%	3.0%	3.9%			@
Research and development	17.5	-	17.5	15.4	-	15.4	13.6%	-	13.6%
% of revenue	1.3%	-	1.1%	1.1%	-	0.9%			
Other admin	138.6	13.5	152.1	118.2	13.9	132.1	17.3%	(2.9%)	15.1%
% of revenue	10.1%	7.2%	9.8%	8.2%	6.2%	8.0%			
Adjustments	0.9	0.4	1.3	-	-	-	100.0%	100.0%	100.0%
% of revenue	0.1%	0.2%	0.1%	-	-	-			
Administrative expenses	272.7	30.9	303.6	235.6	27.9	263.6	15.7%	10.5%	15.2%
% of revenue	19.9%	16.3%	19.5%	16.4%	12.4%	15.9%			

Chief Financial Officer's review continued

Taxation

The tax credit for the year was £7.1m (2021: tax charge of £3.1m), resulting in an effective rate of tax for the year of 19.0%.

The Group is subject to taxes in the UK and Germany. The Group continued to be able to offset its German losses against profits within the UK through its registered branch structure in Germany. No overseas tax is attributable to Germany in the year due to its trading results.

A prior period adjustment to deferred tax of £0.6m had been recognised in the period due to an increase in carried forward losses.

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

Retained loss and loss per share (see table 5)

Retained loss for the period was £30.1m (2021: £17.1m profit).

Basic loss per share was 6.33p (2021: 3.73p profit) and diluted loss per share was 6.33p (2021: 3.68p earnings). Basic loss per share is reconciled to adjusted basic loss per share (after excluding the impact of foreign exchange differences) of 6.10p (2021: 5.15p earnings) as set out in table 5.

The diluted loss per share has been restricted to the basic loss per share for the 12 months ended 31 March 2022 to prevent having an anti-dilutive effect.

Foreign exchange differences are deducted to arrive at adjusted (loss) / earnings. The loss of £1.1m (2021: £6.8m) relates to the impact of the euro/sterling exchange rate on the value of intra-Group loans held in GBP in Germany.

Cash resources and cash flow

At 31 March 2022, the Group's net debt was £32.8m (31 March 2021: £57.5m net funds). Net debt comprises cash balances less borrowings and owned asset lease liabilities. At 31 March 2022, the Group's Total net debt, being net debt less right of use asset lease liabilities, was £134.1m (31 March 2021: £28.2m).

Cash balances at 31 March 2022 were £19.5m (31 March 2021: £67.1m). The decrease in cash since 31 March 2021 is largely driven by the outflow from working capital (see opposite), capital expenditure and the repayment of lease liabilities offset by drawdown on the Group's revolving credit facility.

Borrowings of £45.0m (31 March 2021: £nil) relate to short-term funding drawn from the Group's revolving credit facility.

Lease liabilities increased by £13.4m to £108.6m (31 March 2021: £95.3m) reflecting new right of use lease liabilities of £45.4m and the downward reassessment of lease terms net of lease payments in the period. The new leases in the year principally relate to an additional warehouse in Crewe, four new outbases, the new London creative studio and delivery fleets in both the UK and Germany.

During the year, the Group extended the term of its £80m revolving credit facility by 12 months and this now expires in April 2024. At 31 March 2022, the Group had £30.1m available on this facility. The amount utilised represents £45.0m of cash borrowings (see above) and £4.9m of letters of credit/guarantees.

Working capital (see table 6)

At 31 March 2022, the Group had net current liabilities of £91.5m (31 March 2021: £59.0m).

④ Operating Income and adjusted EBITDA

12 months ended £m	31 March 2022			31 March 2021			% change		
	UK	Germany	Total	UK	Germany	Total	UK	Germany	Total
Operating (loss)/profit	(7.5)	(24.8)	(32.3)	38.1	(8.4)	29.7	(119.6%)	(195.1%)	(208.7%)
Depreciation	24.9	3.6	28.5	18.6	3.2	21.8	33.7%	13.9%	30.8%
Amortisation	3.8	-	3.8	2.8	-	2.8	33.6%	-	33.6%
Loss / (profit) on disposal of non-current assets	0.4	(0.1)	0.3	-	-	-	100.0%	100.0%	100.0%
EBITDA	21.6	(21.3)	0.3	59.4	(5.2)	54.2	(63.6%)	(307.3%)	(99.3%)
Adjusting items	0.9	7.3	8.2	8.1	2.2	10.3	(88.9%)	(233.9%)	20.7%
Adjusted EBITDA	22.5	(14.0)	8.5	67.5	(3.0)	64.4	(66.7%)	(359.6%)	(86.8%)
Adjusted EBITDA as % of revenue	1.6%	(7.4%)	0.5%	4.7%	(1.3%)	3.9%			

£1.6bn
Group revenue

£8.5m
Group Adjusted
EBITDA

£37.2m
Group loss
before tax

At 31 March 2022, UK inventories were £82.0m (31 March 2021: £115.1m) and UK stock days were 34 days (31 March 2021: 39 days). Inventory levels were high at the end of the previous year in response to the ongoing impact of the pandemic and to ensure that we could respond to customers with our excellent AO customer service. As traditional retailing started to open in FY22, stock levels returned to more normal levels and, as the overall market remained soft throughout H2, we further realigned inventory levels to reduced levels of sales.

UK trade and other receivables (both non-current and current) were £243.9m as at 31 March 2022 (31 March 2021: £230.5m) reflecting an increase in trade with our B2B customers, which are on longer working capital cycles, and the timing of supplier marketing commissions.

UK trade and other payables were £296.9m at 31 March 2022 (31 March 2021: £391.7m). Investment in inventory at the end of FY21 drove up payables at the prior period end with the working capital benefit unwinding as purchasing patterns returned to more normal levels during FY22. Trade payables days at 31 March 2022 were 47 days (31 March 2021: 52 days).

Net working capital decreased from £17.9m to £9.8m in Germany, driven primarily by a significant reduction in inventory levels from the abnormal levels seen at the prior year end as well as reduction to align with the lower level of sales seen during the latter part of FY22.

Capital expenditure

Total cash capital expenditure for the 12-month period was £7.6m (2021: £6.3m), largely related to ongoing investment in our recycling facility, new outbase fit out costs and investment in our new creative studio in London.

Post balance sheet event

During FY22, the Group's German business incurred losses EBITDA losses of £21.3m. A strategic review was started in Q4 FY22 and on 9 June 2022 it was announced that the Group had taken the decision to close the business.

As a consequence of the losses and the post year end decision to close, management have reviewed the carrying value of that businesses assets. This has been performed using third party information regarding fixed assets, including ROU assets, together with an assessment of the realisable value of any remaining inventory.

As a result, provisions of £7.3m have been made at 31 March 2022 to impair the relevant assets and this, together with £0.9m of adviser costs accrued prior to 31 March 2022, have been included as "Adjusting" items in note 6 to the financial statements.

The closure process is expected to be completed during FY23.

On 11 July 2022, the Company completed a capital raise through the issue of 93,801,251 new ordinary shares of 0.25p each in the Company raising £40.3m (before expenses). The net proceeds of the Capital raise will strengthen the balance sheet and increase liquidity back to historic levels (relative to revenue base), and provide the flexibility to pursue our market opportunities.

Mark Higgins

Chief Financial Officer

17 August 2022

5 Retained profit for the year and earnings per share

12 months ended £m	31 March 2022	31 March 2021
(Loss)/earnings		
(Loss) / profit attributable to owners of the parent Company	(30.4)	17.7
Add back of foreign exchange movements on intra-Group loans	1.1	6.8
Adjusted (loss) / earnings attributable to owners of the parent Company	(29.3)	24.5
Number of shares		
Weighted average shares in issue for the purposes of basic loss per share	478,558,948	475,626,353
Potentially dilutive share options	7,028,898	6,337,186
Diluted weighted average number of shares	485,587,846	481,963,539
Earnings/(loss) per share (in pence)		
Basic (loss) / earnings per share	(6.33)	3.73
Diluted (loss) / earnings per share	(6.33)	3.68
Adjusted basic (loss) / earnings per share	(6.10)	5.15

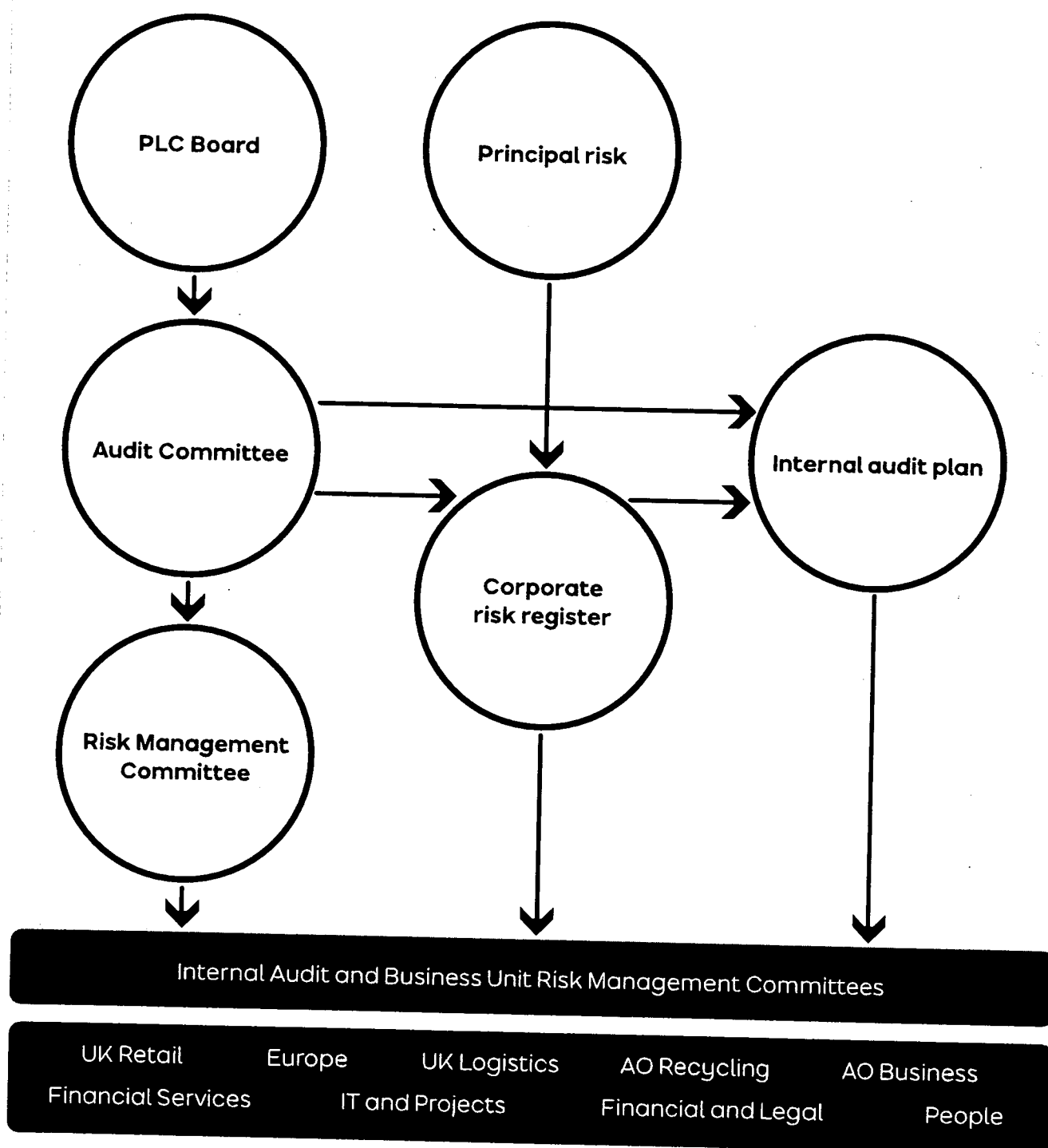
6 Working capital

As at £m	31 March 2022			31 March 2021		
	UK	Europe	Total	UK	Europe	Total
Inventories	82.0	15.0	97.0	115.1	24.5	139.6
Trade and other receivables	243.9	18.2	262.1	230.5	21.0	251.5
Trade and other payables	(296.9)	(23.4)	(320.3)	(391.7)	(27.6)	(419.3)
Net working capital	29.0	9.8	38.8	(46.1)	17.9	(28.2)
Change in net working capital	75.1	(8.1)	67.2	(66.2)	8.1	(58.2)

Our risks

How do we manage risk?

In common with many businesses, AO faces a broad range of risks due to the scale and nature of operations. In order to manage our risks, we have developed a risk management framework with policies in place for identifying and addressing risks and with clearly defined lines of responsibility, accountability and delegation of authority. Effective risk management allows us to identify, appropriately monitor and, to the extent possible, mitigate these risks in line with our risk appetite, so that we can deliver our strategic objectives and protect value for our key stakeholders.



Internal Audit

The Internal Audit function shares risk management information and best practice across the AO Group, provides independent assurance on key projects and controls and monitors compliance, identifying gaps and improvements and recommending corrective action.

Business Unit Risk Management

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

Risk Management Committee ("RMC")

Our RMC, in which our Executives participate, meets quarterly to review the Business Unit Risks, the status of the existing Corporate Risk Register ("CRR") and whether all risks are still current and relevant, and to appraise newly identified risks to determine whether these impact existing risks or require inclusion on the CRR in their own right. The review includes an assessment of how each risk is being mitigated, its inherent and residual risk and any changes. The likelihood and impact of each risk is assessed against the Group's Risk Assessment matrix, which determines its risk factor and resulting risk category that ranges from minimal to aggressive. This is then balanced with an "intuitive" assessment: Do these scores look right both from an individual perspective and comparatively? Are we missing anything? This process allows us to regularly understand the strength and performance of the controls in place and to address any potential gaps and weaknesses.

Audit Committee

The Corporate Risk Register is reviewed by the Audit Committee at least annually and it is notified of any significant changes in perceived risk as appropriate. Individual risks that are considered to be AO's principal risks are reviewed by the Board annually and assessed against the Group's risk appetite and capacity. The Audit Committee annually appraises the Group's Risk Management and Internal Control Framework, and makes a recommendation to the Board as to its effectiveness.

PLC Board

The PLC Board has overall responsibility for effectiveness of AO's internal control and risk management process. It approves risk appetite and risk capacity and agrees on the principal risks and mitigation strategy.

Principal risks

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

These can be categorised as follows: Culture and People; IT Systems Resilience and Agility; Business Interruption; Compliance with Laws and Regulation; Macro-Economic Conditions and the Competitive Environment; Key Commercial Relationships; and Funding and Liquidity.

In addition, we carry some significant accounting risks, namely the accounting in relation to product protection plans, Network Commission receivables and AO Mobile carrying value of goodwill and intangible assets, Germany impairment and Going Concern which are set out on pages 111 and 112.

Our risks have varying likelihoods and impacts, they range from operational risks in our day-to-day activities to strategic risks that are inherent in progressing our strategy - in particular external risks such as the market environment; and legal risks given the regulatory frameworks to which we are subject.

Other risk management bodies

In addition to the above, we have:

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

Our risks continued

New for this year we have established an Information Security Steering Group and an ESC Steering Group. These groups will assess risks in the relevant areas and feed into the RMC.

Previously we also had a Brexit Risk Management Group and a specific Covid Business Continuity Group, however, these have now been disbanded.

How are emerging risks identified?

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

The legal team performs regular horizon scanning to understand emerging regulatory or legal risks and developments in governance and the ESC team raise developments in the ESC field – in particular relating to environmental and climate risk. As noted above, we have established an ESC steering group to identify, mitigate and manage climate risk (both physical and transitional) going forward. We have a strategy team that monitors market developments and macro-economic developments, together with the Group Head of Audit and Risk. The other risk management bodies mentioned above also help to identify emerging risks specific to their areas. Updates are provided as relevant to the leaders of each business units who also identify new risks in their operations.

New for this year, we have also introduced a risk survey. Sixty senior leaders from across the Group were asked to have their say on threats to AO in the short and medium to long term by taking part in a short risk survey. The results of the survey are fed into the Risk Management Committee, reconciled to the Corporate Risk Register and be included in the Board discussions on risk.

What is our risk appetite?

Overall, the Group has a “balanced” approach to risk taking; we will not be unduly aggressive with our risk taking but, being mindful of our strategy for entrepreneurial growth and the consequential appetite for strategic, operational and legal risk, we may accept a number of significant risks at any one time in order to foster innovation and to facilitate growth. We recognise that it is not possible or necessarily desirable to eliminate some of the risks inherent in our activities. However, these must be reviewed against the assessment of other principal risks to ensure that the level of net risk remains within the overall accepted risk appetite. For example, where we have already accepted an aggressive or material risk, this would then limit the acceptance of additional material risks.

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

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

This year's achievements

- Better understanding of risks; increased – quantification of what can go wrong and better understanding of drivers/triggers that would make risk material
- Built risk home page – more ownership/more proactive approach to risk management – more interactivity
- Better understanding of three lines model
- Survey to senior leaders
- Right-sizing risk work
- Built formal risk management process into forecast and budgeting
- ESC risk assessment as part of TCFD
- Tooling for onboarding of suppliers
- Increased assurance oversight of tech

Actions for next year

- Building inter-action with business units, more proactivity through home page
- Better embedding of risk within forecasting and budgeting process
- Following cessation of ERP transformation project, find alternative solutions to address or mitigate risks that were meant to be addressed through ERP
- Formalisation of risk tolerance process and sign off in accordance with current risk appetite

What are our principal risks?

Risk	Nature of risk	Mitigating activities	Overall change during the year
<p>A</p> <p>Culture and People</p> <p>Relevant strategic pillar</p> <p>1 2 3 4 5</p> <p>Risk trend</p> <p>↑</p>	<p>Culture is a key ingredient in the success of the business and a unique differentiator from our competitors. If we fail to maintain the culture this could affect all areas of the business including our ability to attract customers, our dealings with suppliers and the way we deliver.</p> <p>We rely on our senior leadership team to provide strategic direction to the business. Significant erosion of this team would have a material impact on our strategy being realised.</p> <p>We fail to keep or attract exceptional people in business critical roles across the Group given wage inflation, and particularly in areas of national skills shortage.</p>	<p>The Group leadership team have a shared responsibility to drive culture throughout the business on the basis of AO's values.</p> <p>Senior employees receive attractive remuneration packages and we have an incentive package to drive motivation and retention.</p> <p>Operational management teams in each business unit give the benefit of localised decision making.</p> <p>We aim to benchmark our packages against the market to ensure they remain competitive.</p>	<p>AO's culture was put to the test last year with the continuing backdrop of Covid-19 and also labour shortages in certain key areas including the driver population. The eNPS score over the year significantly decreased.</p> <p>With the exception of front line workers, AO have operated a hybrid working model and we have welcomed our people back into our offices to increase innovation and collaboration, whilst at the same time recognising the shift in working habits and the increase in remote working. We continue to review working practices to ensure that culture is maintained within a more flexible model to consider work/life balance.</p> <p>Employee attrition levels increased during the year due to a number of critical factors. In office-based roles many new joiners were onboarded remotely and, in some cases, did not integrate into the AO culture. The ability to work remotely also removed geographical restrictions that previously existed for support function workers, whilst this enabled AO to recruit from a wider labour pool, conversely some AOers left the business in the opposite direction. Retaining and attracting labour has been a challenge nationally due to a record number of job vacancies in the market, high labour demand and significant wage inflation. An example of this was seen during the first half of FY22 where we experienced significant challenges due to the national shortage of driver labour. This was partially addressed through introducing a new employed driver model. We have also conducted "right sizing" of our headcount against current business needs and continue to do so following the extraordinary growth in FY21, which has affected, and continues to effect, employee morale.</p>

→ Details on our significant accounting risks, namely the revenue recognition and contract asset recoverability in respect of both product protection plans and mobile commissions, AO Mobile carrying value of goodwill and intangible assets impairment of assets in relation to AO Deutschland Limited, and Going Concern and viability assessments are set out on page 112.

Link to strategy

1 Acquisition

2 Brilliant customer journey

3 Comprehensive category coverage at great prices

4 Delivering supporting services

5 Leverage expertise whilst simplifying

Risk trend

↑ Increase

↓ Decrease

→ No change

Our risks continued

Risk	Nature of risk	Mitigating activities	Overall change during the year
<p>B</p> <p>IT systems resilience and agility</p> <p>Relevant strategic pillar</p> <p>1 2 3</p> <p>Risk trend</p> <p>↑</p>	<p>AO's main IT systems are interlinked and critical for ongoing operations. Therefore, failure of one system may disrupt others.</p> <p>The majority of customer orders are taken through our proprietary websites, and, therefore, significant downtime as a result of a successful systems breach or failure would affect the ability to accept customer orders, and may affect customer loyalty, AO's reputation or our competitive advantage and result in reduced growth.</p> <p>The loss of sensitive information relating to strategic direction or business performance may compromise our future strategies or the loss of data relating to individuals may result in regulatory complaints/investigations and negative publicity.</p> <p>Failure to develop our technological systems and stay abreast with a rapidly changing digital world could affect our ability to attract customers and cause us to rely on costly back-end processes.</p>	<p>AO's system estate is comprised of bespoke self-built applications and enterprise-grade commercial off-the-shelf ("COTS") products.</p> <p>All self-built applications are built with high levels of redundancy, operational monitoring, active alerting, security controls and fault tolerance. These systems are supported 24/365.</p> <p>COTS products are subject to a procurement and review process to ensure that their failure modes, availability service levels and security qualities are well understood.</p> <p>Change is tested and follows release processes before being deployed in a live environment.</p> <p>Disaster recovery plans are in place to ensure business can recover from interruptions with minimal impacts.</p> <p>In addition, AO takes a multi-layered, continuously improvement approach to information security, including physical, digital and human controls.</p>	<p>The cyber threat landscape continues to become more complex and the frequency of organisations experiencing cybercrime and ransomware has continued to increase. Against this, AO have placed additional focus on this area over the past year, particularly through the recruitment of specialist cyber security roles, although further investment is needed.</p> <p>Through the year, we have continued to review the operational qualities of our systems estate, with regard to availability, performance, recovery and security as we have built out additional features and systems to support the enterprise. We have increased awareness of our security environment and our understanding of how to further enhance our defences.</p> <p>During the year we began our Enterprise Resource Platform transformation, that would improve our systems to enable us to operate optimally and efficiently on a global scale. Given the changes to our strategy this transformation, which would have also benefitted the UK business, has been postponed for the short to medium term.</p>

Link to strategy

- 1** Acquisition
 2 Brilliant customer journey
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Risk trend

- ↑** Increase
↓ Decrease
→ No change

Risk	Nature of risk	Mitigating activities	Overall change during the year
<p>C</p> <p>Compliance with laws and regulation</p> <p>Relevant strategic pillar</p> <p>1 2</p> <p>Risk trend</p> <p>➔</p>	<p>Changes in regulations or compliance failures may affect our strategy or operations, in particular to the following areas:</p> <ul style="list-style-type: none"> • Data protection and privacy; • The basis upon which the Company offers and sells product protection plans or the basis upon which revenue from the sale of such plans is accounted for; • Driver employment status; • Health and safety and; • Environmental, Social & Governance ("ESG"). 	<p>Regulatory developments are routinely monitored both in the UK and in Europe to ensure that potential changes are identified, assessed and appropriate action is taken.</p> <p>AO is supported by a legal team who promote awareness and best practice, and an internal audit team who provide assurance on compliance. We further have specific governance and steering committees who oversee key regulatory risks such as data protection, health and safety and SM&CR.</p> <p>Third-party legal advice is sought where necessary and any recommendations are implemented and subject to ongoing monitoring.</p>	<p>In our key "legal" risk areas:</p> <p>Data protection and privacy:</p> <ul style="list-style-type: none"> • Whilst we have not seen significant changes in legislation over the period under review, we are mindful of (i) how strictly the regulators are interpreting the legislation; (ii) the additional guidance being issued by regulators in this area; and (iii) the extent of enforcement by the regulators. Our e-commerce businesses rely heavily on the ability to conduct direct and electronic marketing, and, as we look to develop more personalised and targeted approaches, we need to be mindful of developing legislation. • Drivers - we have introduced an employed driver model this year, which sits alongside our self-employed model. The two models are distinctive and should reduce the risk of employment status claims from drivers, however, it could increase the likelihood of tax challenges. • Health and safety - AO continued to operate safely through the pandemic, maintaining a balance of protecting our people without disruption in our service proposition to customers. We recognise the learnings and increased resilience we have developed from the experience as we now transition from pandemic to endemic that will enable prompt and robust response if there is a repeat of events. • ESG - The extent of ESG-related legislation and reporting requirements is significant. In the past year, we have utilised specialist knowledge in this area to help us understand how to comply and what ESG really means to AO; where we need to focus future efforts, and on ensuring alignment to strategy. An ESG Steering Group has been established with members of the senior leadership team accountable for developing and implementing critical ESG plans.

Our risks continued

Risk	Nature of risk	Mitigating activities	Overall change during the year
<p>D</p> <p>Business interruption</p> <p>Relevant strategic pillar</p> <p>1 2 4</p> <p>Risk trend</p> <p>↓</p>	<p>A disastrous event occurring at or around one or more of the Group's sites, including our main distribution centres in the UK, may affect the ongoing performance of our operations and negatively impact the Group's finances and our customers.</p>	<p>Multiple National Distribution Centres ("NDCs") in the UK reduce single point of failure risk and reliance on any one distribution centre.</p> <p>Dedicated engineering teams on-site with daily maintenance programmes to support the continued operation of the NDCs and Head Office.</p> <p>A number of standalone controls are in place to mitigate a major event occurring at one of the Group's sites.</p> <p>Insurance policies are also in place to further mitigate this risk.</p>	<p>The Group has operated successfully throughout the Covid-19 pandemic with increased physical controls at AO sites and in the delivery operation to ensure the safety of employees and customers. AO's offices are fully open following the removal of government restrictions/ advice, and many of our office-based employees have adopted a hybrid approach to work with a combination of onsite and remote working. This has in turn increased our resilience in the event of a disruptive incident occurring at any of our offices.</p> <p>The physical warehousing estate operates across more than one main site, therefore, reducing risk through decreasing the reliance on an individual NDC.</p> <p>There is ongoing work towards implementation of an improved business continuity plan ("BCP") across the Group with the assistance of a third-party tool. This is a SaaS solution with increased usability and availability if a disastrous event occurred.</p>

Risk	Nature of risk	Mitigating activities	Overall change during the year
<p>E</p> <p>Macro-economic conditions and competitive environment</p> <p>Relevant strategic pillar 1 2 3 4 5</p> <p>Risk trend ↑</p>	<p>The macro-economic environment has seen the level of risk increase to almost unprecedented levels in the past year, which is expected to continue through FY23. Uncertainty in the UK (and global) economy has been increasing since Brexit and the Covid-19 pandemic but has since been superseded by the conflict in Ukraine, and the cost of living crisis, particularly with price rises on fuel, energy and food. These issues are exacerbated by wage growth failing to match inflation, therefore, real wage decline. Additionally, stock available from our suppliers may be affected by global supply chain issues and due to materials and labour shortages, and increased operating and transportation costs it can be expected that suppliers will increase cost prices.</p> <p>The risk factors above are also expected to increase operating costs to AO.</p> <p>Macro-economic risks may result in slowing sales, increased cancellation of product, protection plans (or initial sales of them) and may impact the upgrade sales we make on mobile phone contracts. The pressures in the market subsequently are likely to result in market decline and increased competitor activity.</p> <p>All these factors make forecasting challenging.</p>	<p>Customer proposition remains strong and in our core category of MDA it is difficult to replicate our infrastructure and processes.</p> <p>Robust relationships with suppliers ensure we receive our fair supply of stock.</p> <p>Our price match promise and technology ensure that customers get the best deals, and our digital acquisition capabilities ensure strong levels of traffic to our websites.</p> <p>Outside of MDA we continue to learn and grow into other categories.</p> <p>We have a good finance proposition, which enables more customers to easily spread the cost of their purchase.</p> <p>We closely monitor competitor activity and have the ability to react quickly to ensure our proposition remains competitive. We continue to develop our customer retention strategies.</p>	<p>There is a high level of uncertainty in the economy due in part to rising fuel and energy costs driving up inflation, which has affected, and is likely to continue to affect, disposable household income and consumer confidence, and, therefore, reducing demand for electricals, mobile phones and product protection plans (and potentially increasing cancellations of existing Product Protection Plans ("PPPs")). The conflict in Ukraine has compounded this uncertainty, particularly as there is an unknown timeline as to how long it will last. With this backdrop forecasting also remains uncertain. These macro-economic factors affect the overall electricals market and AO are not immune.</p> <p>Additionally, whilst the overall trend towards online retail continues, online penetration has naturally decreased since the re-opening of store-based retail following ease and then removal of Covid-19 restrictions. AO expect the migration to online retail to continue but there is increased online competitor activity (including manufactures seeking to go directly to consumer), which has intensified in a market that has seen recent decline following the pandemic, reduced disposable income, and given the risk factors highlighted above.</p>

Link to strategy

1 Acquisition**2** Brilliant customer journey**3** Comprehensive category coverage at great prices**4** Delivering supporting services**5** Leverage expertise whilst simplifying

Risk trend

↑ Increase**↓** Decrease**→** No change

Our risks continued

Risk	Nature of risk	Mitigating activities	Overall change during the year
<p>F</p> <p>Key commercial relationships and supply chain</p> <p>Relevant strategic pillar</p> <p>3 4</p> <p>Risk trend</p> <p>➔</p>	<p>The achievement of our strategy is partly dependent upon relations, support and the service provided by key suppliers. If there was failure on the part of the suppliers or partners, or a breakdown in our relationship, this would affect our proposition to the customer.</p> <p>Key partners include:</p> <ul style="list-style-type: none"> • Manufacturers and distributors; • Delivery providers; • Plant and information technology systems suppliers; • Network operators; and • B2B and Third-Party Logistics clients. <p>The risk includes the ability to achieve favourable terms, competitive rebates being agreed and the ability to attract premium brand suppliers to work with AO and further the risk that we fail to ensure we get a fair allocation of stock where it is available in limited quantities.</p> <p>It also includes our relationship with D&C, whom we act for as agent in selling product protection plans.</p>	<p>There is ongoing management of relationships with key suppliers to ensure strong business relations.</p> <p>We are careful to listen to the concerns of all suppliers and clients and act accordingly; have regular meetings at both operational levels and strategic levels with key suppliers, and put in place clear service level agreements to ensure suppliers have a good understanding of and are able to meet our expectations.</p> <p>In terms of rebates, these are formally agreed with suppliers via annual trading terms. Rebates for stretch targets are not included in financial reporting until the targets are achieved.</p> <p>There is ongoing management of stock availability and stock procurement to minimise supply chain disruption and customer dissatisfaction. This is balanced with continuous management of working capital to ensure cash liquidity and headroom.</p>	<p>Our manufacturer relationships have been further strengthened as we have worked together to ensure essential products can be delivered to customers.</p> <p>Our relationship with D&C remains strong as we work through a demanding landscape where agility and flexibility are key. Transparency, collaboration and trust continue to be the cornerstones of this relationship.</p> <p>Our relationships with our network partners have become much clearer as we continue to roll our revised (de-risked) operating and commercial models. Clarity, consistency and candour, together with results, have been the key building blocks here.</p> <p>We have continued to develop our client relationships in B2B and Logistics.</p>

Link to strategy

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Risk trend

- Increase
 Decrease
 No change

Risk	Nature of risk	Mitigating activities	Overall change during the year
<p>C</p> <p>Funding and liquidity</p> <p>Relevant strategic pillar</p> <p>1 2 3 4 5</p> <p>Risk trend</p> <p>↑</p>	<p>In general the macro-economic environment remains uncertain heading into FY23 which could have an impact on our profits and cash generation and, ultimately, liquidity and ameks forecasting challenging.</p>	<p>Given the financial resources available to the Group including its cash resources, the Revolving Credit Facility ("RCF") that was renewed in March 2022, and which runs to April 2024 and the recent placing which raised c.£40m of capital, we currently have sufficient funding and cash resources to continue to support the investment in the UK.</p> <p>Our three-year plan models the impact of reduced market share in the UK; a number of different scenarios have been modelled to ensure we continue to be viable - please refer to page 64.</p>	<p>Throughout FY22, AO had to contend with a high degree of uncertainty and crystallisation of a number of critical risks:</p> <ul style="list-style-type: none"> As Covid-19 measures changed throughout the year, before being eased, consumer shopping behaviour was difficult to predict and the growth seen in online penetration in FY21 fluctuated causing volatility in sales and revenue patterns. No more so was this evident in the German market. The driver shortage, due in part to the impact of Brexit, required AO to adjust the driver model due to operational constraints. Ongoing supply chain disruption led to difficulty in forecasting stock holding requirements leading to periods of being either over or under stocked. The high growth achieved in FY21 led to increased overheads across the Group as AO invested in additional people and buildings. <p>We have extended our RCF facility in March 2022, which now matures in April 2024. We have significantly reduced overheads following "right sizing" of our headcount and infrastructure against current business needs following the extraordinary growth in FY21.</p> <p>We recognise that we are reliant on suppliers offering us credit terms. If action from any of our suppliers credit insurers cause them to reduce our payment terms this could have an effect on our cash resources.</p>

Emerging risks

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

- We have discussed the government's Resources and Waste Strategy, which includes the design and development of more sustainable products in its desire to move to a more circular economy. Should the average life of products be increased, this could affect the market dynamics of sales of electricals. Further, we note the government's intention to introduce extended producer responsibility with the possibility that retailers are forced to take back customers' waste electricals for free (and no longer be able to charge transportation costs). This, in the short term, could cause operational challenges with regard to van fill and recycling capacity.
- Linked to this is the risk of climate change, and as we seek to move towards reducing our carbon footprint and operating in a more environmentally friendly way, we could face increased operating costs and inefficiencies.
- Covid-19 has potentially accelerated the migration of shoppers online and has increased the risk that competitors, manufacturers who wish to sell direct to consumer or other new market entrants are likely to invest sooner and deeper into their online propositions, and competition could further intensify.

Our risks continued

Viability assessment

In accordance with paragraph 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the viability of the Company and the Group over a three-year period to 31 March 2025. The Directors believe this period to be appropriate as the Company's and the Group's strategic planning encompasses this period, and because it is typically a reasonable period over which the impact of key risks can be assessed within a fast-moving retail business, and changes in the economic environment that may alter customer demand patterns. The Directors are mindful, however, of the heightened uncertainty driven by the current macro-economic climate post Covid-19 and accept that forecasting across this time frame is more challenging.

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

- A robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency, or liquidity. These risks and how they are mitigated are set out above on pages 54 to 65 and in the Corporate Governance Statement on page 90; and
- Financial analysis and forecasts showing current financial position and performance, cash flow and covenant requirements. It assumes that a new like-for-like revolving credit facility is obtained on the expiry of the current facility in April 2024.

The Directors have reviewed the Group's annual and longer-term financial forecasts and have considered the resilience of the Group using sensitivity analysis to test these metrics over the three-year period. This analysis involves varying a number of main assumptions underlying the forecasts (including, without limitation, overall market share, the share of the online market and their impact on revenue, margin and working capital requirements), and evaluating the monetary impact of severe but plausible risk combinations and the likely degree of mitigating actions available to the Company over the three-year period if such risks did arise.

Based on the Company's current position, the Board has a reasonable expectation that the Group and Company will be able to continue in operation and meet its liabilities as they fall due, retain sufficient available cash and not breach any covenants under any drawn facilities over the remaining term of the current facilities. As is customary when dealing with longer-term debt facilities, the Board would expect these to be renewed well in advance of their next term.

Going concern statement

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 46 to 47. The financial position of the Company and its cash flows are described in the Chief Financial Officer's review on pages 48 to 53. In addition, the Notes to the Financial Statements include the Company's policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk. Further information on our risks is on pages 54 to 65.

Notwithstanding net current liabilities of £91.5m as at 31 March 2022, a cash outflow of £47.6m, and an increase in net debt of £105.9m in the year ended 31 March 2022, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons:

The Group meets its day-to-day working capital requirements from its cash balances and the availability of its £80m revolving credit facility (which was extended by 12 months to now expire in April 2024). At the date of approval of these financial statements total liquidity amounted to £60.7m.

The Directors have prepared base and sensitised cash flow forecasts for the Group covering a period of at least 12 months from the date of approval of these financial statements ("the going concern period") which indicate that the Group will remain compliant with its covenants and will have sufficient funds through its existing cash balances and availability of funds from Revolving Credit Facility to meet its liabilities as they fall due for that period. The forecasts take account of current trading, management's view on future performance and their assessment of the impact of market uncertainty and volatility.

In assessing the going concern basis, the Directors have taken into account severe but plausible downsides to sensitise its base case and have run these in combination. These primarily include:

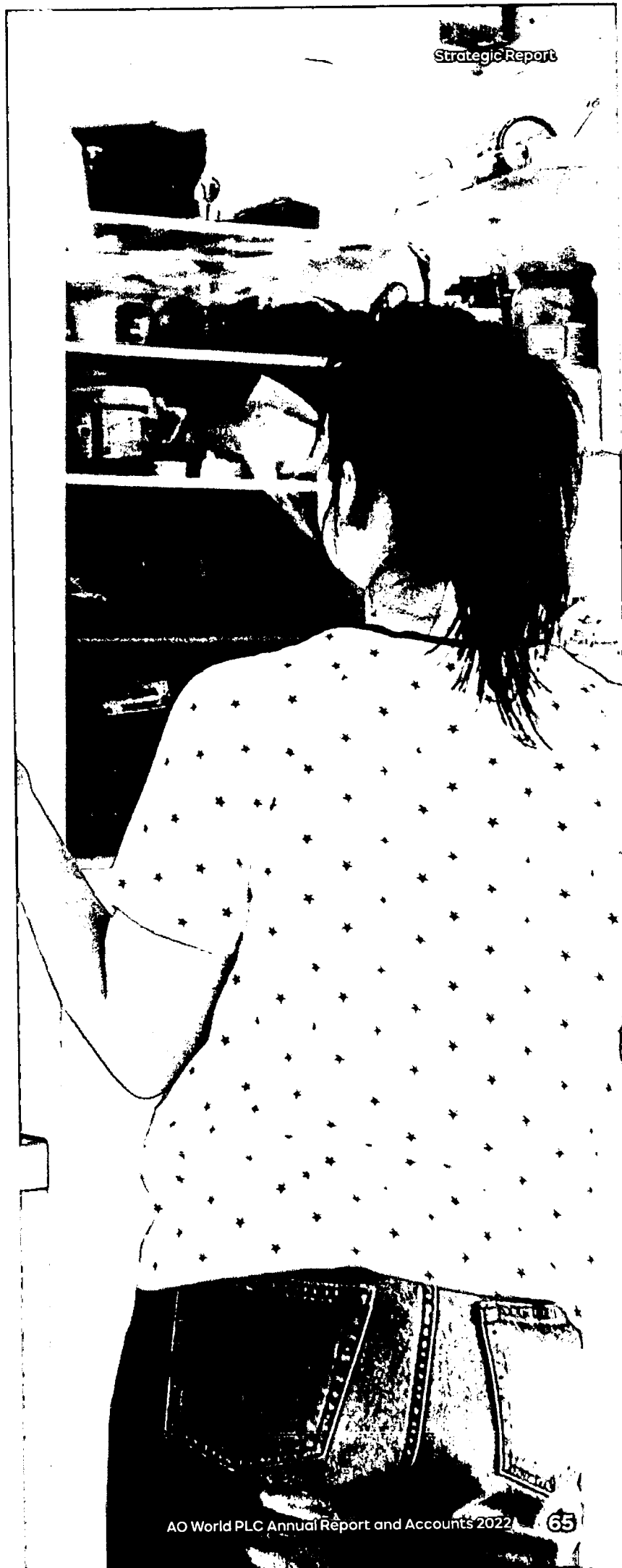
- A downside of negative growth in the financial year 2023 and in the subsequent periods to account for how the overall electrical online market could be impacted by the continuing macro-economic factors exacerbated by the conflict in Ukraine, such as inflation, consumer confidence, interest rate increases.
- the cost of exit from Germany and potential volatility in the timing and amount of cash inflows as a result of this exit;
- product protection plan cancellation increases as a result of macroeconomic trends;
- cost inflation being higher than anticipated particularly in relation to wages; and

Significant accounting policies

- a tightening of credit terms with suppliers as a result of potential withdrawals or reductions of credit insurance which could in turn, result in a reduction in trade creditor days. The severe but plausible downside has been considered at a reduction of 34 % on the cumulative average trade creditor days over the previous 5 years.

Under this severe but plausible downside scenario the Group continues to demonstrate headroom on its banking facilities and remains compliant with quarterly covenants which are linked to interest cover, dividend cover and leverage and its annual covenant linked to net assets.

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



Engaging with our stakeholders

We depend on a range of different resources and relationships and recognise that effective engagement with our key stakeholders is critical to achieving our purpose and strategic objectives in a sustainable way. Understanding the perspectives of our stakeholders and building and maintaining good relationships enables their views to be taken into account in management or Board and Committee discussions and decision making. The examples that follow demonstrate consideration of the matters set out in Section 172 of the Companies Act 2006. The Corporate Governance section (starting on page 88) sets out in more detail how the Board has approached its duty under section 172.

s.172 statement

The Board confirms that, during the reporting period, in using its good faith and judgement, it has acted in a way that would be most likely to promote the success of the Group for the benefit of its shareholders, whilst having due regard to the matters set out in section 172(1)(a) to (f) of the Companies Act. This statement includes the information demonstrating how the Board has had regard to these matters in its actions as set out in this section and in the Corporate Governance Report on page 94.



Customers

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

How we engage

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

What matters to them/ key topics raised

- Customer service
- Product range and value
- Ease of journey and convenience
- Reputation
- Data protection, compliance and environmental impacts

How we have responded

- Enhanced customer communications during the pandemic including creation of dynamic videos to provide expectation and requirements around AO installation services
- Improvements in communications and process in the event of order issues, delays or faulty products
- Introduction of customer self-serve functionality around Returns, including Drop @ Shop capability in My Account
- Launch of 5* service level agreement with drivers to promote excellent customer service
- Continued to serve customers safely through social distances measures and enhanced cleaning regimes throughout the pandemic period



People

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

How we engage

- Regular business updates, such as our "State of the Nation", monthly management meetings and dedicated sharepoint site, "The Green Room"
- Use of Yammer, an internal social network and YouTube, to enable a continued conversation with and between our people
- Feedback mechanisms including employee survey, engagement forums and confidential whistleblowing hotline
- Formal partnership with USDAW (in Logistics business)
- Recruitment, retention and annual development plans
- Apprenticeship programmes
- Designated Non-Executive Director as employee voice representative
- Policies, procedures, and employee handbook

What matters to them/ key topics raised

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

How we have responded

- Introduced an Always Listening strategy to inform our improvement plans
- Launched an app-based well-being service with 24/7 virtual GP
- Extended company bonus scheme and private medical insurance
- Restructure of the Value Creation Plan, allowing all AOers to share in the success of the business, together with the AO Sharesave scheme
- Flexible working arrangements to support positive work and life balance
- Development of health and well-being initiatives
- Continued focus on diversity and inclusion



Suppliers and partners

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

How we engage

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

What matters to them/ key topics raised

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

How we have responded

- We have developed a supplier onboarding manual to help suppliers understand and meet AO's required standards
- CEO meetings with manufacturers and suppliers
- Opening of new London creative hub
- Supplier Conferences



Community

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

How we engage

- Liaison with charity partners
- Support to charities and fundraising initiatives
- Encourage employee volunteering through Make A Difference days
- Promotion of career opportunities with universities
- Employability forums
- Participation in recycling forums and events
- Good relations with the Environment Agency and bodies such as WEEELABEX

What matters to them/ key topics raised

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

How we have responded

- Regular donation of appliances and electricals to charities and good causes
- Worked with FareShare to donate 96 fridges nationwide to support the supply of fresh food into food banks
- Inspired by employee feedback, AO's Smile Foundation donated £60k to UNICEF's relief effort for children and families affected by the war in Ukraine. AO also donated fridges to a charity supplying temperature controlled medicines to refugee camps in Poland



Shareholders

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

How we engage

- Financial results presentations
- Institutional investor roadshow and investor conferences
- Management meetings
- Engagement with Board Committee Chairs and Senior Independent Director
- Capital markets days
- View of investors a regular Board agenda item

What matters to them/ key topics raised

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

How we have responded

- Strategic review of German business unit
- Proactive communication from Chair

Sustainability

Our operations, behaviour and how we treat our people and communities have a wide-reaching impact on the environment and society.

We understand the importance of aligning our purpose, values and strategy with the needs of our stakeholders to build long-term value in a sustainable way. We see sustainability as an investment to stay relevant for customers, suppliers and our people, while driving down costs and realising efficiencies in our operations.

Across AO's business, there are a variety of sustainable living initiatives in place, for example our continued investment in our vertically integrated recycling facilities, continually seeking efficiencies to our logistics operations, the well-being of our people and community outreach projects. We believe that customers and talent are increasingly gravitating towards companies that are properly addressing areas of sustainability and inclusion. This year we have focused on streamlining our approach and developing an over-arching ESG strategy to support the long-term performance and sustainability of the business.

Working towards the UN Sustainable Development Goals

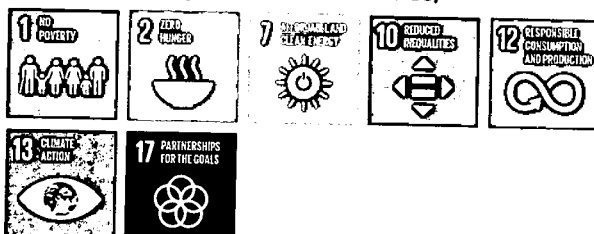
AO's business strategy contributes to a range of the United Nations Sustainable Development Goals ("SDG"), identified during our ESG Materiality Assessment (see page 69) and now embedded within our ESG Strategy. We are committed to progressing on those areas where we feel uniquely placed to make a positive difference.

AO SDG contribution

Environment



Social (our people and communities)



Governance



Our sustainability journey

2020/21

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

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

2030:

- Target for net zero emissions from purchased electricity

2035:

- Target for net zero emissions from fleet vehicles and heating

2040:

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

2021/22

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

2021/22:

- ESG strategy defined as part of overall strategy work
- Baseline carbon footprint determined, including Scope 3
- Full implementation of TCFD recommendations
- ESG Governance Structure approved by the Company Board, including ESG Steering Committee chaired by the Chief Financial Officer

Plans for 2022/23

- Consider targets and metrics related to key focus areas of the ESG Strategy
- Further consider the setting of science-based targets ("SBTs") in line with the Paris Agreement on Climate Change
- Evidence continued improvement in managing ESG risks within our supply chain

Material sustainability issues

During the year, we conducted a materiality assessment to identify the topics that are driving AO's current and future ESG performance defining these as risks, impacts or opportunities.

A landscape review was undertaken to understand and identify the potentially relevant ESG topics that might significantly influence AO's sustainability performance in the next three to five years, generated internally through benchmarking and stakeholder interviews. The topic list was then refined and discussed in more detail with external stakeholders to ensure a richer insight. A deeper dive benchmarking review into AO's peers was also carried out to determine what was industry practice on AO's priority topics.



Landscape review and topics list

Develop and refine list of material topics

What is the industry best-practice? What topics are relevant for AO?

Stakeholder engagement

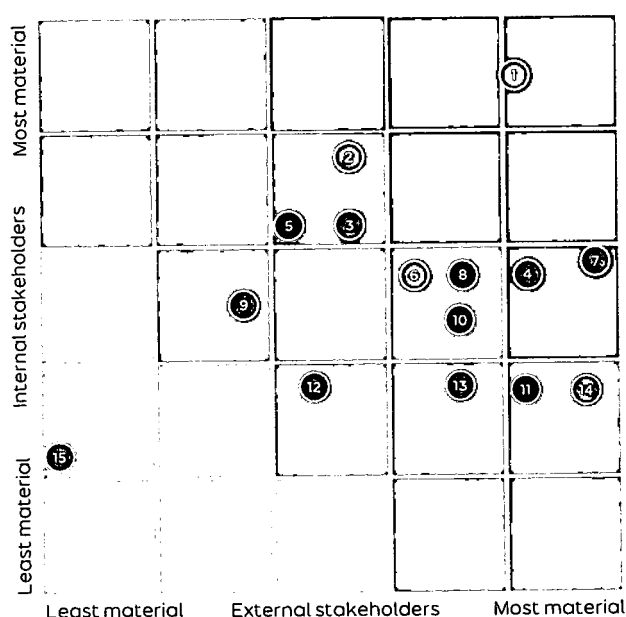
Who cares about these topics, and how?

Moving forward: options for strategy

How could these topics be formalised as part of strategy?

Visualisation and Validation

How should topics be visualised?
Are leaders comfortable with the priorities?



Materiality Matrix

The findings of the materiality assessment are represented on our materiality matrix to help us understand the importance to internal and external stakeholders.

Materiality matrix

- | | |
|--|---------------------------------|
| ① Waste and Recycling | ⑧ Employee Talent and Retention |
| ② Carbon (and CHGs) | ⑨ Resource consumption |
| ③ Diversity and Inclusion | ⑩ Plastic and Packaging |
| ④ Customer privacy and data protection | ⑪ Community investment |
| ⑤ Supply chain management | ⑫ Transparency |
| ⑥ Ethical supply chains | ⑬ Health and Safety |
| ⑦ Internal governance | ⑭ Sustainable products |
| | ⑮ Natural material |

Key:

- Priority topics
- Extend action
- Table stakes

ESG strategy and pillars

Our ESG pillars have been derived from the materiality assessment as follows:

Pillar	High Level Material Topic	Key Challenges	AO Long-term Commitments
Sustainable Living	Plastics and Packaging Waste and Recycling Sustainable Products Carbon	Unsustainable Consumption Climate Change	Supporting people to live low carbon lifestyles Promoting circular and sustainable consumption and recycling
Fair, Equal and Responsible	Talent Retention and Attraction Diversity, Equality and Inclusion Health and Safety	Inequality	Being an equitable and inclusive business Providing safe, decent and meaningful work across the value chain
Fit for the Future	Data Protection/ Cyber Security Internal Governance Ethical and resilient Supply Chains Charity	Value proposition	Transparent and robust supplier management Supporting and respecting customers' rights to shop safely online



Sustainable living

Promoting Circular and Sustainable Consumption and Recycling

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

Moving towards circularity

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

For the fifth year running, our Telford recycling facility has been awarded the Gold RoSPA for Health and Safety.

This year we have continued to make investments in our recycling facilities including new dock bays and improvements in our packaging system to further increase the take-back of product packaging from our customers. We will continue to innovate and do the right thing for customers by caring about products at all the stages of life.

When appliances are no longer wanted, we can pick them up and take them back to our rework facilities (including products that were not purchased from AO) collecting products not just from houses, but also on behalf of local authority recycling centres.

Our priority approach is to repair the pre-owned appliances to the highest of standards and give them a new lease of life so that they can be resold.

Whilst our experts work hard to repair and service pre-owned or return appliances, when this is not possible, they are recycled to the highest standard.

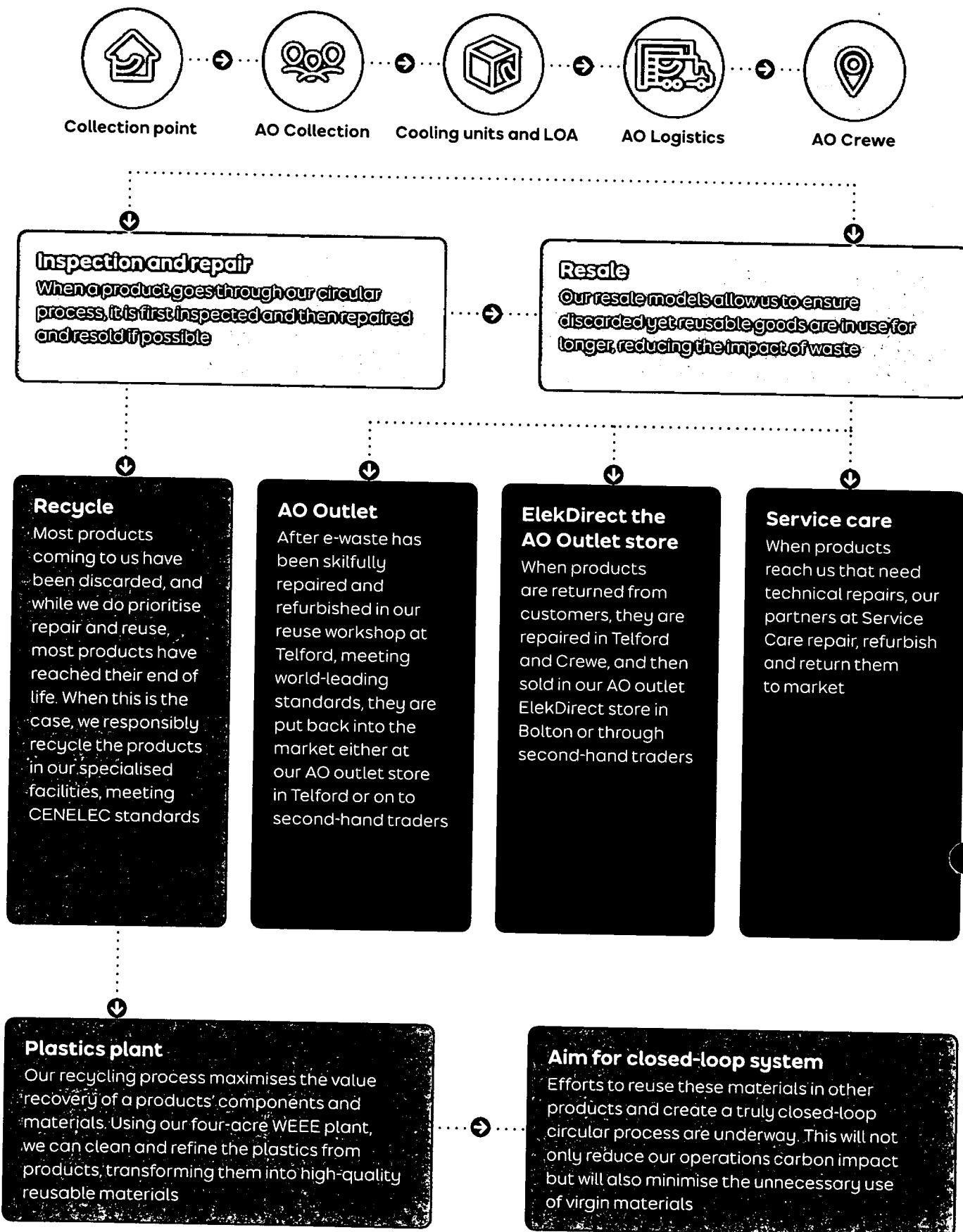
Through collaborating with our brand partners, we continue to work to create a closed-loop process where the appliances that have reached the end of their first life are broken down and used to make new appliances.

Our plastics refining facility is now fully operational and this year we have succeeded in meeting the plastic recycling standards required to include recycled content from our old appliances within a new fridge that can be purchased on our website. The collaboration with Beko continues to develop and our shared vision of increasing the volume of recycled plastics from old appliances within new appliances continues to gather pace.

While we pursue circular recycling options within those products we retail, we have continued to develop further partnerships with third parties who can utilise our recycle plastics in sustainable products. An example of this is a partnership with domestic ventilation fan manufacturer Volution Group, who have utilised plastics recycled from old fridges collected from customers and processed at our recycling facility in Telford.



Sustainable living continued



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

What's next?

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

We continue to be ambitious within our own operations when it comes to creating a truly closed-loop recycling process and exploring more circular and fair models of consumption. We also continue to seek ways of extending the life of electrical products through innovative customer care offerings and our in-house AO repair and recycling services, which this year were expanded to include our new AO Rework facility at Crewe.

Supporting people to live low carbon lifestyles

Our journey to net zero

To aid world efforts in limiting global warming to 1.5 degrees, we are considering how we can reduce our own greenhouse gas emissions. During the year we have worked with a third-party expert to calculate our Scope 1 and 2 (based on FY21 data) emissions and, for the first time, our Scope 3 emissions. Through accurately measuring our value chain emissions we have been able to establish the year to 31 March 2021 as our future Greenhouse Gas ("GHC") baseline year and we will continue to explore Science-based Targets and suitable KPI's to ensure we align with those commitments made as part of the BRC Net Zero Roadmap.

By completing our Scope 3 emissions calculations we can understand the role we can play in supporting customers to reduce the GHC emissions created in using the products they have purchased from AO. FY22 has seen changes in energy labelling and spiralling rises in household energy prices, both of which are already leading customers to further prioritise lifetime running costs during their purchasing decisions. We continue to monitor changes in consumer behaviour and look at ways we can support customers who wish to reduce their environmental impact, or simply reduce the running costs of electrical products through buying premium products with higher energy efficiency ratings and other sustainability-related features. Executive remuneration this year incorporated metrics linked to our stakeholder relationships, which we recognise are important to drive sustainable growth. They included a performance underpin requiring the development of a Group-wide ESC strategy, which was approved by the Board in January 2022.

Initiatives to improve our environmental performance

Close to 90% of electricity used by our UK operations is renewable. We are continually working towards our target of 100% renewable energy supply by 2030 and we continue to explore opportunities to collaborate with property owners on the development of on-site renewables via Power Purchase Agreements.

We maximise our fuel efficiencies using vehicle telematics and, by employing double-decker trucking, we can deliver more products per journey to our outbases.

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

The transition to a decarbonised fleet is a strategic priority over the coming years. Four electric vehicle charge points have been installed between our Potters Bar and Heywood outbases and have been used to trial two different brands of electric vehicles. The charge points have adapted data interfaces allowing for the results of further trials to be monitored to help inform our medium to long-term strategic plan for decarbonisation. We introduced a number of carbon fibre home delivery vehicles to the AO Logistics fleet, significantly lowering the weight of each vehicle which resulted in an improved payload meaning fewer vehicles on the road and a reduction in fuel usage. The vans have been specifically designed so that they can be transferred to electric vehicles at the appropriate time. We also purchased ten CNC vehicles and continue to monitor their performance as a potential low emission bridging technology. We continue to monitor developing technology in this field, in particular for heavy payload vehicles such as ours, before fully developing our fleet strategy.

In line with the British Retail Consortium's Climate Action Roadmap, we have set a target to operate 100% LED coverage in all new buildings by 2025 and we continually assess where investments in our existing property can support energy reductions and reduce operating costs. During the year our 360,000 sq ft Alpha and 380,000 sq ft. Omega warehouses in Crewe, responsible for c.30% of electricity usage across our estate, were retrofitted with LED lighting. This project reduced energy consumption at these sites.

Industry collaboration

Around five million people work within the UK's retail industry, making it the largest private sector employer, providing vital goods and services for customers. The industry also contributes significantly to the drivers of climate change, with value chain emissions of over 215 MtCO₂e (million tonnes CO₂-equivalent) per year.

AO remains an active member of the British Retail Consortium ("BRC") Climate Action Roadmap, which aims to ensure that British Retail takes the steps necessary to achieve a Net Zero UK ahead of the UK Government's 2050 target.

The Climate Action Roadmap describes action in five key areas:

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

Sustainable living continued

Task force on climate-related financial disclosures ("TCFD")

The Board recognises the importance of understanding and managing the impact of potential climate-related risks and opportunities on AO's business and strategy. AO has engaged the support of a third-party expert to support us in preparing to make, for the first time, the relevant disclosures for the year.

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

We confirm that, save as disclosed, the annual report includes all climate-related financial disclosures required to be consistent with the TCFD recommendations and recommended disclosures and is in line with the current Listing Rules requirement (as referred to in Listing Rule 9.8.6R(8)) having considered section C of the TCFD Annex "the Guidance for all sectors". Overall, we are partially compliant. This is a highly complex topic and given the challenges we have faced during the year and our pivot on strategy we have not made as much progress in this area as we would have liked. Our disclosures in future years will reflect our progress on addressing climate-related risks and opportunities and establishing appropriate goals, metrics and targets, and we will refine the quality of our reporting.

Where to find our TCFD recommended disclosures:

Governance		
<ul style="list-style-type: none"> Board's oversight of climate-related risks and opportunities 	The Board has oversight of material climate-related risks and opportunities, receiving regular updates from the Risk and Audit Committees. Page 75	Continue with Board oversight and embed within decision making.
<ul style="list-style-type: none"> Management's role in assessing and managing climate-related risk and opportunities 	Management are responsible for identification, assessment and management of climate-related risks and opportunities, as part of our integrated risk management processes, which are maintained at a business unit level, with the support of the Risk and Audit team. Page 75	Continue assessing climate-related risks with a holistic view of the Group's climate related risk-landscape through the ESC Steering Committee
Strategy		
<ul style="list-style-type: none"> Climate related risks and opportunities identified over the short, medium, and long term 	During FY22, we partnered with an expert third party to help our management team identify relevant climate-related risks and opportunities that might be material to AO over the short, medium and long term. Page 75	Revisit climate-related risks and opportunities to ensure relevant and any new ones are identified.
<ul style="list-style-type: none"> Impact of climate-related risks and opportunities on our businesses, strategy, and financial planning 	Partially compliant - risk assessment performed and integrated in short term (1-3 year) financial and strategic planning (for example fuel and energy price impacts) but longer term assessment needed	Climate-related risk and opportunities to be specifically considered in longer term strategic and financial planning, particularly with regard to decarbonisation of fleet which we see as a medium to longer term initiative
<ul style="list-style-type: none"> Resilience of our strategies, taking into consideration different climate-related scenarios, including a 2°C or lower scenario 	Non-compliant. This is a highly complex topic and given the challenges we have faced during the year and our pivot on strategy we have not made as much progress in this area as we would have liked	Full scenario planning to be undertaken at the appropriate time, expected to be within the next 3 years

Risk management

<ul style="list-style-type: none"> Processes for identifying and assessing climate-related risks 	<p>Risks are identified and assessed by each of the business units, as part of our integrated risk management processes, which are maintained at a business unit level, with the support of the Risk. Climate-related risks are subject to the same assessment criteria as other risks, and these are classified as either short term (1-3 years), medium term (3-5 years) and longer term (5+ years), and are subject to the same assessment of likelihood and impact in alignment with our wider risk management procedures. See pages 76 and 77 and Audit risk section from page 55</p>	<p>Continue with our processes to ensure climate-related risks are identified and assessed.</p>
<ul style="list-style-type: none"> Process for managing climate related risks 	<p>All risks are assigned a risk manager, to ensure that risk is properly managed and mitigated against</p>	<p>Continue with our processes to ensure climate-related risks are managed.</p>
<ul style="list-style-type: none"> How processes identifying assessing, and management climate-related risks are integrated into the organisation's overall risk management 	<p>Partially compliant - as per above.</p>	<p>As noted on page 56, one of our actions for the next financial year is formalise our process of risk tolerance and acceptance of risk.</p>

Metrics and targets

<ul style="list-style-type: none"> Metrics used to assess climate-related risks and opportunities in line with our strategy and risk management processes. 	<p>Non-compliant. Whilst the Board has now set an over-arching ESG strategy and established its (Scopes 1,2 and 3) baseline it has not yet set specific metrics or goals in line with its strategy</p>	<p>Consider setting specific metrics and goals within the next 3 years</p>
<ul style="list-style-type: none"> Scope 1, Scope 2, and Scope 3 CHG emissions, and related risks 	<p>Partially compliant. Scopes 1 and 2 reported for FY22 - Scope 3 reported for FY21.</p>	<p>Further analysis to be done on emissions, related risks and action plan to reduce emissions</p>
<ul style="list-style-type: none"> Targets used to manage climate related risks and opportunities and performance against targets 	<p>Non-compliant. Whilst our Remuneration Committee has considered climate-related targets in the context of Executive Compensation, given the challenging market conditions and focus on driving profitable growth whilst maintaining appropriate cash resources, coupled with the assessment that climate-related risks facing the Group are currently considered "low", it has not incorporated climate-related metrics in its incentive schemes to date</p>	<p>Science Based targets to be considered alongside any other climate related performance targets at the appropriate time, expected to be within the next 3 years</p>

Sustainable living continued

Governance

The Board has oversight of material climate-related risks and opportunities, receiving regular updates from the Risk and Audit Committees. ESG matters, including environmental topics are scheduled agenda items at least twice per year.

The Board considers climate-related issues in key decision making as part of its s.172 obligations. For example this year the Board considered the appropriateness of renewing diesel vehicle leases in the context of aiming to reduce the Group's carbon footprint.

During FY22 we have reviewed our Principal Risks for climate change-related drivers, to help demonstrate the importance of considering climate change in our risk management processes. Please refer to the paragraph below and our Risk Management section on page 54 as to how management of climate-related risks fall within our general risk management processes.

Whilst the Board has now set an over-arching ESG strategy it has not yet set specific goals and targets to address climate-related issues. However we now have our (Scopes 1,2 and 3) baseline from which to do so at the appropriate time.

The Remuneration Committee is responsible for determining whether ESG goals generally, and specifically climate-related targets, should be encompassed into Executive remuneration. Please refer to the Directors' Remuneration report for the Remuneration Committee's approach to these targets during FY22 and looking forward into FY23.

Management are responsible for identification, assessment and management of climate-related risks and opportunities, as part of our integrated risk management processes, which are maintained at a business unit level, with the support of the Risk and Audit team. As noted overleaf management were involved in a series of climate-screening workshops to understand our climate-related risks and opportunities. Risks raised have been incorporated into relevant risk registers. On a quarterly basis, business unit risk registers are reviewed by the Risk and Internal Audit team, with critical risks recorded on the corporate risk register. These risks are subject to periodic review to determine whether the risks are being mitigated within risk appetite.

Our ESG Steering Committee was also formed during the year. Chaired by the CFO, this Committee will oversee the management of climate risks and opportunities through the formation of working groups covering key topics and reporting on risks and progress to the Risk and Audit Committees and PLC Board.

Strategy

During FY22, we partnered with an expert third party to help our management team identify relevant climate-related risks and opportunities that might be material to AO over the short, medium and long term. This included both physical risks and opportunities of climate change, and risks and opportunities associated with the transition to a low carbon society. Our work suggested that, while climate-related risks are not currently considered to pose a substantive risk to our business, we need to continually monitor climate-related risks and opportunities. The risks and opportunities listed below are relevant to our UK-only business going forward, taking into account the sectors in which we operate; retail (e-commerce); transportation (trucking services) and recycling but based on a Group-wide assessment.

Short-term

Those climate-related risks that we deem most material to AO in the short term are:

- Increasing regulatory drivers for retailers to take responsibility for WEEE take-back and packaging which could increase operational complexity and costs (Retail).
- Failing to meet the demands of an increasingly environmentally conscious customer base, in terms of product ranges and information which could result in a reduction of sales and market share (Retail).

In order to keep pace with consumer and market pressures to respond to climate change and provide services to an increasingly environmentally conscious customer base, we will continue to use our market insights to respond to consumer interests. This allows us to adapt and move quickly to shifts in consumer demands, and as new technologies become commonplace.

Medium to long-term

Those climate-related risks that we deem most material (but in any event low to moderate) to AO in the medium to long term are:

- Transitional risks in relation to carbon reduction policies and decarbonisation of our logistics fleet (Logistics).
- Physical risks impacting our sites: increased frequency of power outages at our Recycling facility would interrupt operations; damage and a loss in sales due to increases in ambient temperatures, flood risks and heatwaves (Long-term) (Retail, Logistics & Recycling).
- Physical risks impacting our ability to deliver; be this flood risk and heat waves or conversely very cold events resulting in national road infrastructure problems and therefore impacting effective logistics (Retail & Logistics).

In terms of the opportunities linked to climate change, we see the most material being:

- Diversification of our product ranges and product categories in response to physical risk of climate change, e.g. an increase in heatwaves leading to increased demand for air conditioning technology (Retail).
- Increasing regulatory drivers for retailers to take responsibility for WEEE take-back and packaging which could drive additional income for our recycling business (Retail & Recycling).

These risks and opportunities pose different challenges to our business depending on how successful we are at mitigating the impacts of physical climate change as a global society.

We have used the Network for Greening the Financial System ("NGFS") scenario narratives to consider two alternate transition scenarios - Divergent Net Zero 2050 and Nationally Determined Contributions. We will use these scenarios to help inform how we think of climate-related risks and opportunities as a business.

Under a Net Zero by 2050 scenario, emissions are kept in line with more ambitious climate goals, which give us the best chance of limiting global warming to 1.5 degrees by the end of the century. However, under the Divergent scenario proposed by the NGFS, it is achieved with different policies across sectors and geographies and a quicker phase out of fossil fuels. This scenario is also characterised by fast change in technologies. AO will need to be agile in response to new technologies coming on the market, whilst responding to potentially less disposable income for consumers, as a result of higher costs of living (due to increased energy costs and varying, and, in places, stringent, climate policies). Decarbonising our operations

will require investment and policies to support decarbonisation may be implemented quickly, with little foresight to allow for financial or strategic planning. Consumer and market pressure to demonstrate our response to climate change could increase, and will inform the allocation of capital investment, so it will become increasingly important to communicate our actions to mitigate climate change and support a 'just' transition.

Under a limited climate action future, for which we have used the NCFS Nationally Determined Contributions scenario, all current pledges, even if not yet implemented, are actioned. Climate ambition is moderate and consistent globally, resulting in 2.5 degrees of global warming by the end of the century. Under this scenario, AO may see lower impact from the transition risks we have deemed most material to us, as we already have sight of the proposed policies and interventions needed in this scenario. This is particularly relevant for energy-intensive recycling operations and major logistics sites in Crewe and ensuring we can build a strong long-term competitive advantage as retailer of choice for our customers. Keeping pace with consumer and market expectations on our response to climate change will be easier than the alternate Net Zero 2020 scenario over the long term but still poses a challenge for the immediate future.

Risk management

Risks are identified and assessed by each of the business units, as part of our integrated risk management processes, which are maintained at a business unit level, with the support of the Risk and Audit team. On a quarterly basis, business unit risk registers are reviewed by the Risk and Audit team. Critical risks are recorded on the corporate risk register and are subject to periodic review to determine whether the risks are being mitigated within risk appetite. Principal risks are approved by the Board.

Our business unit and Corporate Risk registers include ESC-related risks. Climate-related risks are subject to the same assessment criteria as other risks, and these are classified as either short term (1-3 years), medium term (3-5 years) and longer term (5+ years), in alignment with our wider risk management procedures and subject to the same assessment of likelihood and impact as discussed in our Risk Management section on page 55. All risks are assigned a risk manager, to ensure that risk is properly mitigated against. Our Risk and Audit team are supporting the business units to better identify and assess environmental risks to ensure these are appropriately managed.

During 2021, our management team took part in a series of climate risk workshops, facilitated by a third party to improve awareness of climate-related issues and support better risk and opportunity identification and assessment. This year we continue to improve business unit management of, and information sharing regarding, risk evaluation and management, to ensure this is managed on a continuous basis across the business.

Metrics and targets

We aim to become a net zero carbon business by 2040 (from our baseline of 2021). In addition to this, we intend to set our own interim science-based targets across our Scope 1, 2 and 3 emissions medium term. However, whilst our Remuneration Committee has considered climate-related targets in the context of Executive Compensation, given the challenging market conditions and focus on driving profitable growth whilst maintaining appropriate cash resources, coupled with the assessment that climate-related risks facing the Group are currently considered "low", it has not incorporated climate-related metrics in its incentive schemes to date and, for the same reasons, nor have any other any (non-remuneration linked)



goals or targets been set by the Board or management. During the year, the Board and Remuneration Committee will further consider putting in place appropriate climate-related goals, metrics and targets.

Our Scope 1, 2 and 3 emissions are provided in the table below. Over the course of this year, we have improved the calculation method used to estimate our Scope 3 emissions and are now able to provide estimated CHG emissions for use of sold goods, as well as purchased goods and services, business travel, employee commuting and fuel-energy-related emissions. This methodology and further information is available below.

Greenhouse gas emissions

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

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

Our carbon footprint is calculated by estimating the individual greenhouse gases that result from AO's activities, converted into a carbon dioxide equivalent (tCO₂e). We report Scope 1 and 2 emissions, and this year, we partnered with an expert third party to complete the mapping of our Scope 3 emissions for the year ended 31 March 2021. This will now act as AO's baseline year for the establishment of science-based targets in future years and aid us in prioritising our impact and investments.

Sustainable living continued

AO reports on all of the Greenhouse Gas ("GHG") emission sources as required pursuant to The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, which implement the Government's policy on Streamlined Energy and Carbon Reporting (please note the adjustments detailed below for the current reporting year). The methodology used to calculate our GHG emissions and energy use is the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and ISO 14064.

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

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

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

The total calculated Scope 1, 2 and 3 emissions for the reporting year are shown on the following page.

Scope 1, 2 & 3 Greenhouse Gas Emissions

Year ending 31 March

	2022 ^{1,3} tCO ₂ e	2021 tCO ₂ e	2020 tCO ₂ e
Scope 1 Direct emissions: Total emissions from operations and combustion of fuel	38,081	31,958	26,587
Scope 2 (Indirect emissions): Total emissions from energy purchased:			
Market-based	2,992	1,284	1,697
Location-based	3,396	3,411	3,679
Total gross Scope 1 & 2:			
Market-based	41,073	33,242	28,284
Location-based	41,477	35,369	30,266
Carbon Intensity ratio:			
Tonnes of CO₂e per £m of revenue	30.32 ³	21.29	28.55
Scope 3			
Category 1: Purchased goods & services	-	260,044	-
Category 11: Use of sold products	-	928,296	-
Other scope 3 emissions	-	14,564	-
Total gross scope 3 emissions	-	1,202,904	-
Total gross scope 1, 2 & 3 emissions	-	1,238,273	-
Energy use kWh (Scope 1 and 2)			
UK	2022	2021	2020
Global (excluding UK)	15,769,141	13,156,641	14,573,240
	n/d ¹	2,991,426	3,047,216

¹ Due to difficulties in compiling data from our German business following the recent decision to close the business, UK only figures for FY22 are reported. This will provide the appropriate comparison in future reporting years.

² Based on UK revenue only for FY22

³ FY22 Scope 3 data not compiled

Fair, Equal and Responsible

Fair, Equal and Responsible

Our c.3,600 AOers are the foundation of our business and their dedication, innovation and ambition contribute to our success and sustainability. We believe that happy people care more and do the right thing. So, we make sure they are happy by giving them autonomy where appropriate, support where needed and a great and safe environment to work in, where they are treated fairly and with respect. They are empowered, they are incentivised and they know they are trusted. We love watching them grow and thrive. We aim to recruit and retain the best talent and look for people who live our values. They care not only about our customers but other AOers too, our suppliers and, of course, do it all with a sense of fun.

Talent attraction and retention

The last year brought a number of challenges that we couldn't have anticipated including transitioning to living with Covid and the concept of work becoming increasingly flexible, unprecedented cost inflation affecting customer behaviour and volatile supply chains.

The labour market has seen an impressive revival from the pandemic and the year has been challenging in critical talent segments both in the UK and Germany with a candidate driven market and competitors inflating salaries, all of which has contributed to high levels of employee turnover.

Against this highly competitive external landscape we have evolved our people proposition, to give candidates a compelling reason to join AO and develop a fulfilling career. We have developed our hiring programme; "Hiring the AO Way", designed to ensure our processes, ways of working and hiring teams are all focussed on making exceptional hires at AO and our selection processes are underpinned by AO's values and a great candidate experience. Part of this programme has also enabled us to design a focused and robust selection programme to raise the bar for all senior hires into AO. This programme is designed to ensure alignment to AO leadership behaviours and values.

During the reporting period, we experienced an unprecedented national shortage of HCV drivers. Against this backdrop, our AO "Always Listening" strategy enabled us to understand what was most important to this population, with AO successfully recruiting and retaining drivers by incorporating flexible shift patterns and gaining a reputation for the options we offered.

As we navigate these challenges we are proud of how AOers continue to deliver exceptional service to all our customers. Our immediate focus is to re-create our AO culture within the framework of "Always Listening", to recognise and act on the impact of the changes to our ways of working; and delivering our people proposition ensuring a clear and compelling reason to join and remain at AO, so every AOer across the Group can come together as a One AO team, adjust and steer the business through a more challenging environment.



We continue to review our hybrid ways of working, forming principles, rather than a rigid policy, that works for AOers. We are already seeing marked improvements in culture over the last few months as AOers spend more time face to face and feedback from our recent engagement survey indicates that for AOers our new, more flexible ways of working, has improved their work-life balance, mental health and happiness.

Engagement

We recognise that strong employee engagement will help drive business sustainability through increasing customer satisfaction, boosting productivity, retaining the best talent and enhancing Company culture. Chris Hopkinson, a Non-Executive Director, is our People Champion and has Board responsibility for our engagement initiatives. Chris reports back to the Board and this, along with our regular People updates, allows the Board to assess and monitor culture.

To support our engagement strategy, we use a variety of ways to engage with AOers to understand what matters to them. Our UK Group-wide engagement survey in March 2022 achieved a completion rate of 73% and, therefore, represents the views of a significant proportion of our workforce. The engagement survey included questions around basic needs, individual and team needs and personal growth, with results indicating positive levels of satisfaction across each area across the group, with work to do with our Tech function and more broadly around access to opportunities for personal growth. Our ENPS result was two, down from 22. Naturally we are disappointed to see such a drop and are working through the qualitative comments received from the survey to drive improvements. Notably, our proportion of passive voters has increased rather than detractors and with targeted improvements and once a clear strategy for the business in the medium term is defined, we are confident ENPS results will improve.



Read more about our culture pages 22 and 23



Read more about how we engage with our stakeholders on pages 66 and 67

Fair, Equal and Responsible continued

Our listening channels are also an important way of providing a credible voice from AOers to ensure their views form part of decisions that are likely to affect their interests. As well as employee surveys, we have AO Engagement Champions and a people forum network, where AOers from across the business get together to share experience and create solutions to improve how we work.

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

To ensure there is a broad awareness and understanding of business wide performance, and the financial and economic factors affecting AO, we hold a monthly "State of the Nation" led by our CEO who provides a business update followed by a live Q&A session. There are also monthly meetings with the top 160 leaders, from which we provide a structured cascade so that all AOers hear the latest messages from their senior manager. We also use a number of internal social media channels, such as Yammer and YouTube, to ensure all AOers are kept up to date with the latest news and developments across the Group and to enable two-way conversations between AOers across the business.

Focus over the coming year will be on engaging and connecting all AOers to our Group values, through a lens of what this means at a local level, which will provide AOers with a better opportunity to connect personally.

Learning and Development

Our learning philosophy is accessible, engaging, personalised and scalable, with a clear focus on AOers being the best version of themselves and understanding their role in a high-performing team. It is important we provide a clear development journey.

Building on earlier progress, development continues as a priority with investments at all levels. Senior Executives benefited from Critical Eye membership to enable expansion to their external networks, build personal development pathways and benefit from an external Board Mentor. Aligned with this we invested in leadership development with a focus on self-awareness and team leadership skills to accelerate growth and transformation.

AOers make AO unique, led by the best team managers. Appreciating the continuing volatile business climate, we have equipped our middle and senior managers in areas such as change management, resilience, brave leadership by introducing Henley Business School Partnership online masterclasses.



Working with an external provider we launched our first virtually delivered line manager programme - License to Manage - which supports our commitment to ensure our line managers can be the best; focusing on building collaborative high performing teams. To further support our line managers, we have introduced Manager Toolkits; easy to follow "How Do I" guidance, advice and support to help Managers with all those moments that matter, from hiring to retiring and everything in between. Alongside the toolkit we have launched a manager advice line, employee relations advisors on hand to guide managers.

Apprenticeships continue to be a key focus for our Learning and Development Team, unlocking existing potential as well as enabling us to recruit new talent. As at April 2022 we had 266 AOers participating across 16 different apprenticeship programmes including leadership and management qualifications. Our HGV driver apprenticeship programme is reaping rewards in reducing attrition and increased performance. Attrition in the apprentice population is tracking at a rate much lower than that of employed drivers. Given the success of this approach, we are currently developing an apprenticeship pathway for Gas engineers and will look at other roles in Logistics.

We have also embedded Group talent and succession planning, especially for strategically critical roles, to build a shared understanding and calibration of potential and high performance across the business.

Over the next year, we will look to optimise our target operating model through roles, structures and ways of working. We will continue to raise the bar in the quality of new hires, extend our learning opportunities and continue to focus on high-performance leadership teams. All of this, together with streamlined people processes to improve efficiencies and make it easier for all AOers to get the information and advice they need, will ensure that we are fit for the future and that our people are set-up for personal and business success.

Reward

We believe that a fair and attractive reward package makes an important contribution to both employee engagement and the attractiveness of AO as a place to work. Whilst we strive to ensure our reward package is attractive and competitive, the post pandemic demand for talent is inflating salaries across all sectors of our business resulting in a challenge for us to compete for, and retain, the best talent.

Despite a tough trading year, to remain competitive and to support our workforce against the impact of increases in the cost of living, we have awarded a minimum of 3% pay increase to all qualifying AOers together with enhancing our holiday benefits to introduce holiday buying and flexible bank holidays.

We have responded to AOer feedback around well-being support and healthcare benefits by introducing free flu jabs and life cover for all. In the UK we have enhanced our employee assistance programme to introduce an app-based well-being service that supports AOers and managers to get the help they need, the way they want it, anytime, anywhere - in and out of work, day and night. Additionally, in the UK we have launched a digital

healthcare benefit for all, allowing AOers 24/7 access to a virtual GP service, physio and mental health counselling.

AO's reward philosophy and principles support an enhanced reward package for leaders. As such we have extended the company bonus scheme and private medical insurance, bringing our leadership reward package more in line with the market.

We also offer an annual Sharesave scheme to all UK employees, providing them with the opportunity to purchase ordinary shares in the Company and continue with our value creation plan, which all employees participate in. This helps to encourage employee interest in the performance of the Group.

Diversity and inclusion ("D&I")

We are proud of AO's inclusive environment where everyone can succeed, grow their career and be rewarded for their efforts. There is no doubt that as well as being simply the right thing to do, this diversity of thought and contribution can make AO a better business for our customers and all stakeholders.

We continue to work to make our culture even more inclusive and develop inclusive leaders. To enable this, we have established a diversity and inclusion advocates group to support our D&I action planning. The group includes senior representation from across the group and is led by the CFO. It has set out AO's D&I statement as:

AO is for everyone.

We should all feel that we belong. That's why we are creating a welcoming and inclusive place to work.

and our D&I priorities of:

- One AO Approach to Inclusion - closing the gap between our intent and our outcome;
- Supporting under-represented AOers to be the best they can be; and
- Promoting AO's Internal Inclusion Networks.

Our Women's network has enjoyed good traction this year developing its strategy and commencing regular menopause support sessions. We also ran a number of sessions to celebrate International Women's Day, with a focus on well-being and confidence, and will look to build on the great feedback we received. Our other networks have had less success and, in the year ahead, we will look to apply some of the tactics used in the Women's group to drive other inclusion initiatives.

We will continue to raise awareness through celebration of key dates across the Group, as well as building a programme of activities to build inclusive leadership skills with all line managers including a focus on improving our listening skills, using data to drive our decision making and recruiting The AO Way.

To support AOers whose first language is not English we have been trialling a language app, encouraging AOers to use the tool with their families and friends - to help them socially in their communities, not just at AO.

Our aim with these priorities is to engage all, and prospective, AOers to build a fully inclusive environment where people feel safe, respected, included and themselves.

Gender representation and gender pay gap

AO's 2022 Gender pay gap report highlighted that our Gender Pay Gap continues to narrow with a 15% reduction in the Group's median gap; AO's overall Group median of 3.4% is significantly below the ONS average of 15.4%. Our gap is predominantly due to stronger representation of men at more senior levels and, to some degree, because of industry-led higher pay in male dominated Tech roles.

Our Logistics and Recycling businesses are typically male dominated, with only 20% female representation. Retail and enabling functions have c.50% female representation and, whilst Tech is a male dominated industry, we have been promoting Tech careers for women and have experienced some small gains in diversity.

We will continue to support, develop and promote female AOers and ensure our recruitment processes are gender neutral. Our focus on developing a diverse and inclusive culture will continue to be a key focus for us this year. To continue to reduce our gender pay gap and improve diversity we have and will continue to work towards AO's diversity and inclusion strategy that is based on closing the gap between our intent and outcomes through:

- Career opportunities and progression routes that are clear and accessible to all
- Support for under-represented groups to proactively develop their career
- Ensuring that the people we hire at AO match the local demographic
- Diverse candidate shortlists
- Hiring teams who are diverse and knowledgeable to mitigate biases
- Guarding against bias in our job design and advertising

Our latest Gender Pay Gap report with a snapshot date of 5 April 2021 can be found at ao-world.com.

At the end of our reporting period, whilst our Executive Committee did not have any female representation, our Senior Leadership team (which reports directly into our Executive Committee) was 26% female (FY21: 25%). The number of female AOers across the whole business was 30% (FY21: 31%).

Disabled people

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

Ethnicity

We currently do not report on ethnicity representation. We are working towards improving our population data levels through building awareness and transparency about the reasons why we wish to hold such data, the value such insight can bring and how the data will be stored. We anticipate making improvements to this during the next year, to be able to better understand the backgrounds of our teams and, from there, commence reporting.

Equal opportunities

AO is committed to maintaining good practice in relation to equal opportunities and reviews its policies on a regular basis in line with legislative changes and best practice benchmarking. It is Company policy that no individual (including job applicants) is discriminated against, directly or indirectly, on the grounds of colour, race, ethnic or national origins, sexual orientation or gender, marital status, disability, religion or belief, being part time or on the grounds of age, or frankly anything else. This policy underpins our talent attraction and recruitment process. Once people join AO, we aim to ensure that:

- working practices, career progression and promotion opportunities are free from discrimination or bias; and
- AOers are aware of their own personal responsibility in ensuring the support of the policy in practice.

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

We have improved the visibility and openness of our recruitment selection criteria and make sure that, wherever possible, there is more than one woman in shortlists for mid and senior level roles.

We have put an inclusion lens over our leadership pipeline and succession process and built inclusive practices into our leadership programmes. This is coupled with comprehensive inclusion learning content on our learning hub for all AOers.

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Every day I wake up and I know I'm going to have a good day at work. I feel supported and my own personal development goals feel recognised."

AOer

Health and safety

Safety with a smile

At AO we are committed to maintaining a safe working environment for all our employees and customers. We drive a culture aimed at continuous improvement and maintaining consistently high standards. Health, Safety and Well-being is always on the agenda at AO and to ensure we have a structured way of communicating health and safety through the entire business, we operated under the following structure consisting of three separate tiers:

- Health and Safety Steering Group - designs and leads the strategy for Health and Safety across the Group
- Health and Safety Working Group - creates the agenda for the Steering Group by highlighting the highest risks, issues, and current performance
- Health and Safety Committees - Individual business unit committees that meet regularly and feed into the Working Group

As a business we deliver a thorough inspection schedule to ensure that all our departments and premises are managing risk to the highest standard. We use the inspections and a range of KPI's to monitor the performance in each business unit.

Maintaining our health and safety accreditations and management systems allows us to measure our performance using external benchmarks.

The ISO45001 management system in Recycling and RoSPA awards in Recycling and Logistics are two examples of how we achieve this.

After managing the challenges of the pandemic, the next 12 months will be focused on being brilliant at the basics by using these key principles from our Group Health and Safety Policy;

- Regularly update the Board of Directors on our performance
- Provide all stakeholders with support to manage the risk in their departments
- Inspect each operational area of the business on a risk-based frequency
- Assess risks to the business and our people, providing measures to control these risks
- Provide adequate information, instruction and training to all people working on behalf of the business
- Investigate all workplace incidents with the aim of preventing a reoccurrence

Non-financial information statement

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

Reporting requirement	Policies and standards that govern our approach	Information necessary to understand our business and its impact, policy due diligence and outcomes
Environmental	<ul style="list-style-type: none"> • Environmental policy 	Sustainable living, pages 71 to 78 SECR/CHG emissions, pages 77 and 78
Employees	<ul style="list-style-type: none"> • Group employee handbook • Whistleblowing policy • Health and safety policy • Equal opportunities policy • Flexible working policy • Data protection policy 	Our culture, pages 22 and 23 Fair, Equal and Responsible, pages 79 to 83
Social matters	<ul style="list-style-type: none"> • Modern slavery policy • Data protection policy • Hospitality and gifts policy 	
Human Rights	<ul style="list-style-type: none"> • Modern slavery policy • Code of conduct • Hospitality and gifts policy 	Fit for the Future, pages 84 and 85
Anti-corruption and bribery	<ul style="list-style-type: none"> • Anti-bribery policy • Hospitality and gifts policy 	
Principal risks and impact on the business		Risk report, pages 54 to 65
Description of business model		Our business model, pages 12 and 13
Non-financial KPIs		KPIs, page 03

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

Fit for the Future

Ethical and resilient supply chains

Our Modern Slavery statement for the year ended 31 March 2021 was published during the year. We have continued to look at our due diligence processes in this area to ensure we are complying with the law, but above all doing the right thing in accordance with our values. Our Modern Slavery statement can be found at ao-world.com/responsibility. We also have in place formal anti-bribery policy and whistleblowing procedures. Our whistleblowing procedures allow our people to raise any issues of impropriety in confidence. As noted in the governance section, we have undertaken an assessment of these procedures during the year and are confident these continue to work effectively.

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

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

Our policies, including cyber security, GDPR, modern slavery and anti-bribery are supported through our employee learning hub, which helps to ensure that these principles are fully understood and are at the forefront of minds.

Internal governance

Board independence, diversity and Executive remuneration

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

Risk management

Details of our risk management practices can be found on pages 54 to 65.

Tax strategy

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

Our key objectives include:

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

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

Data protection and cyber security

As an online retailer serving millions of customers, protecting their data, and ensuring safe online shopping, is critical to our business. We have data protection and cyber security teams, which set out our policies in this area and support stakeholder training with employee modules included in an online learning hub – helping to ensure that the GDPR principles are fully understood and at the forefront of our minds. The Data Protection Steering Committee meets quarterly to oversee our data protection strategy, assess risk and monitor market developments. We continue to invest in this area.

Community/Charity

Ukraine

Following overwhelming expressions of sympathy and support for people in Ukraine from across AO, we donated £60,000 from the AO Smile Foundation to an international charity appeal for young people affected by the war. This donation has contributed towards the charity delivering life-saving equipment and first aid kits to 14 hospitals, which has helped 4,000 pregnant women and newborns, dispatching 85 trucks carry 858 tonnes of emergency supplies, establishing support zones in 29 Metro stations where children and families have been sheltering in Kharkiv and opening five special hubs in Moldova and Romania to provide shelter and protection for refugee families with up to 5,000 people a day passing through them.

We also donated eight fridges from AO Recycling to a charity that ships temperature-controlled medicines to refugee camps and a team of AOers from Germany took much needed supplies to the Polish border.



In addition, AOers have been doing their own volunteering and fundraising across the business to support people affected by the war,

AOers who chose to host a Ukrainian refugee family in the UK are also able to use our Make A Difference days to settle them in.

Supporting care givers during Covid-19

Following the efforts to support NHS staff during FY21, through the donation of products to NHS hospitals and care facilities, we have continued to donate much needed products for patient and staff communal areas.

Are you AO-K

As part of our sponsorship of Sale Sharks, AO funds the "Are You AO-K?" Programme in partnership with the Sale Sharks Community Trust. It is an educational initiative designed to teach young people how to start taking care of their mental and physical well-being early on in life.

Delivered through a unique blend of classroom workshops and mood-boosting rugby tag sessions led by Sale Sharks players, the six-week course has so far reached 20 primary schools in Greater Manchester with new schools being registered each term.

At the end of the first season, Sale Sharks and AO hosted a rugby tournament for over 450 pupils with appearances from 19 Sale Sharks players including England International, Jason Robinson.

AOer volunteering

To facilitate volunteering, we offer two paid Make A Difference ("MAD") days a year to every AOer. We encourage AOers to support their local communities and the causes that matter to them, while also offering volunteering roles related to AO Smile charity partners such as Onside Youth Zones and through corporate

partnerships such as that of Sale Sharks. The AO Smile Foundation continues its role as a founding ambassador for Onside's HideOut Youth Zone, through a £25,000 a year donation and provision of volunteering opportunities to AOers from our neighbouring Manchester and Bolton offices.

Product donation

At AO we assess requests and need for product donation on an individual basis and this year donated over £9,000 worth of products. Recipients include Glasgow A&E, London Ambulance Service, Electricity North West and YMCA Brighton.

AO Smile

We support our people to make a positive contribution to the wider community. Smile holds the top award of Diamond Payroll Giving Award by the Government's Cabinet Office for the second year running. In addition, when AOers raise money for a charity close to their hearts, AO Smile foundation boosts the money raised by up to 50%

AO Smile has supported numerous charities this past year by providing fundraising boosts to AOers' chosen charities including Shelter, Children Today and the Teenage Cancer Trust, donating £17,000 in total. During the year, AOers donated £37,000 to AO Smile through payroll giving.

The Company's Strategic Report is set out on pages 08 to 85 and was approved by the Board on 17 August 2022 and signed on its behalf by:

Julie Finnemore
Company Secretary

17 August 2022







Our Governance

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66

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

Jean
AO Customer

Chair's letter and introduction



66

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

Geoff Cooper
Chair

Dear Shareholder

On behalf of the Board, I am pleased to present our Corporate Governance report for the year ended 31 March 2022.

At AO, we believe that a healthy culture, positive values and high-quality team members are the key to delivering our strategic objectives and to supporting the long-term success of the Company. This, together with the "backstop" of a robust corporate governance framework, which provides effective control and oversight, is instrumental to promoting the long-term sustainable success of the Group.

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

Last year's report highlighted how the Board had moved quickly to oversee the Group's response to Covid-19 and the steps needed to support sustained growth. This included the design of a five-year strategy.

Our priority was and continues to be ensuring the safety of our people and customers and I am proud of what our people achieved, particularly during periods of rapid growth as our markets shifted to online during lockdown.

This year the Board has focused on assessing and supporting the actions undertaken by management to mitigate the impact of volatility in the macro-economic environment in the aftermath of lockdown measures. These adversely impacted on the Group's operating model during the reporting period. Impacts included: challenges in finding self-employed drivers, which constrained the Group's ability to service demand in the first half of the financial year; actions required to drive efficiencies across the Group's operating model following a reduction in levels of demand against the prior year and the strategic review of the German business. Following the conclusion of this strategic review in June 2022, the Board has more recently concentrated on resetting the strategy of the Group as a UK business, focused on driving profit and cash.

In January 2022 Luisa Delgado stepped down as a Non-Executive Director of the Company to pursue personal interests. Luisa made a valued contribution during her three years with AO and on behalf of the Board, and from me personally, I thank her for her significant and active input and wish her well in her future endeavours. In particular, Luisa led the development of an innovative



incentive scheme (fully described in the Remuneration report) which won near-universal approval and is being increasingly copied across other companies.

Following Luisa's resignation from the Board and the committees of which she was Chair or a member, Shaun McCabe was appointed as interim Chair of the Remuneration Committee, (being an existing member of the Committee) and I was appointed as an additional member and Marisa Cassoni was appointed as an additional member of the Nomination Committee. The Board is now seeking to appoint three additional NEDs to enhance its skill set and to address aspects of Code non-compliance. During the year, the Nomination Committee defined the brief for the new appointments and has engaged a third-party search firm to assist. This will continue to be a focus over the coming months and we will conduct our search as broadly as possible as we seek to increase the level of diversity in our Boardroom, with our priority being to recruit individuals with suitable experience and skills and who are the best fit for the Group.

The Code requires a FTSE 350 Board (of which the Company was a member for part of the reporting period) to conduct an externally facilitated review of its effectiveness at least every three years. Our last such review was conducted for the year ended 31 March 2018 with an external review due in the previous financial year. However, the Board determined that, given the pace at which the business was moving and the impact of Covid on the usual workings of the Board, any such review would be conducted in somewhat artificial circumstances and not give a true reflection of the way in which the Board was operating. It was therefore the

Board's intention to conduct an externally facilitated review during the FY22 reporting period but, having regard to the impending appointment of three new NEDs and wider business challenges, the Board again determined that an internal review of its effectiveness, led by me, was more appropriate. The results of the internal review indicated that the Board is working well and that there are no significant concerns about its effectiveness. We intend to conduct an external review once we have appointed additional NEDs who have settled into the workings of the Board.

In accordance with section 172 of the Companies Act 2006, the Board recognises the importance of our wider stakeholders to the sustainability of our business. This has been particularly important during the last two years and it has been clear that the relationships we have previously built have served us well. We were able to collaborate with our employees and suppliers to resolve issues relating to the pandemic and the impact on our supply chain and we continue to serve our customers brilliantly by adapting to the challenging environment.

AO exists "To make customers' lives easier by helping them brilliantly". The culture to underpin and enable this begins by the tone set in the Boardroom. In light of the pandemic-driven increase in employee numbers and also recognising the challenges homeworking and recruitment have on our culture, the Board has increased its level of focus and discussion with management on protecting culture and engagement.

Chair's letter and introduction continued

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

This year the Board has also defined AO's ESG strategy, approving the materiality assessment and defining its governance arrangements. The Board will have direct oversight of all ESG matters (including climate) with a dedicated ESG steering committee established to take responsibility for the pillars. You can read more about this work in our Sustainability report (pages 68 to 85).

Finally, I look forward to meeting shareholders at our next Annual General Meeting which will be held on 28 September 2022 at AO Bolton, 5a The Parklands, Lostock, BL6 4SD. As was the case last year, all Directors wishing to remain in office will seek election and re-election at the AGM. Should shareholders wish to discuss any governance matters in advance of the meeting, I am more than happy to do so and would ask that contact is made initially through the Company Secretarial team at 2022AGM@ao.com.

Geoff Cooper
Chair

17 August 2022

AO's compliance with the 2018 UK Corporate Governance Code

This Corporate Governance Statement ("Statement"), together with the rest of the Corporate Governance report, explains key features of the Company's governance structure and how it has applied the provisions set out in the 2018 UK Corporate Governance Code (the "Code") during the reporting period. The Financial Reporting Council is responsible for the publication and periodic review of the UK Corporate Governance Code. The Code and associated guidance are available on the Financial Reporting Council website at frc.org.uk.

This Statement also includes items required by the Listing Rules and the Disclosure Guidance and Transparency Rules, save that the disclosures required by the Disclosure Guidance and Transparency Rules DTR 7.2.6, regarding share capital, are set out in the Directors' report on page 147. Disclosures required by DTR 7.2.8 relating to the Group's diversity policy are detailed in the Sustainability: Fair, Equal and Responsible on page 81 and in the Corporate Governance report on page 106 and Directors' biographies and membership of Board Committees are set out on pages 92 and 93.

The table below summarises how the Directors have applied the key principles of the Code during the year and where key content can be found in the report. Save as disclosed, the Directors consider that the Company has, throughout the period under review, complied with the provisions of the Code. The Directors confirm that, through the activities of the Audit Committee described on pages 108 to 115, it has reviewed the effectiveness of the Company's system of risk management and internal controls.



Selection of the code		Further information
Board leadership and Company purpose	The Board's role is to provide leadership to the Company to promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. The Board sets the Company's values and standards, making sure that they align with its strategic aims and purpose.	<ul style="list-style-type: none"> ➤ Business model - pages 12 and 13 ➤ Risk management - pages 54 to 65 ➤ Board of Directors - pages 92 and 93 ➤ Board leadership and purpose - page 95 ➤ Shareholder and stakeholder engagement - pages 66 and 67 ➤ People and culture - pages 22 and 23 ➤ Workforce engagement - pages 79 and 80
Division of responsibilities	There exists a clear division of responsibilities between the Chair and the Chief Executive Officer. The Chair's primary role includes ensuring the Board functions properly, that it meets its obligations and responsibilities, and that its organisation and mechanisms are in place and are working effectively.	<ul style="list-style-type: none"> ➤ Governance framework - page 94 ➤ Board of Directors - pages 92 and 93 ➤ Division of responsibilities - page 95 ➤ Independence and time commitments - page 101 ➤ Nomination Committee report - pages 104 to 107
Composition, succession and evaluation	The Nomination Committee is responsible for regularly reviewing the composition of the Board. It appraises the Directors and evaluates the skills and characteristics required on the Board.	<ul style="list-style-type: none"> ➤ Board evaluation - page 100 ➤ Nomination Committee report - pages 104 to 107 ➤ Board skills and experience - page 99
Audit, risk and internal control	The Audit Committee plays a key role in monitoring and evaluating our compliance and risk management processes, providing independent oversight of our external audit and internal control programmes, accounting policies and ensures the Board reports are fair, balanced and understandable.	<ul style="list-style-type: none"> ➤ Risk Management report - pages 54 to 65 ➤ Audit Committee report - pages 108 to 115
Remuneration	The Remuneration Committee sets levels of remuneration that are designed to promote the long-term success of the Group and structures remuneration to link it to both corporate and individual performance, thereby aligning management's interests with those of shareholders.	<ul style="list-style-type: none"> ➤ Remuneration Committee report - pages 116 to 146

Areas of Code non-compliance:

- The Board did not complete an externally facilitated review of the Board during the reporting period but expects to do so once new NED appointees have settled into their roles. More details on the approach to the review of the Board during the reporting period can be found on page 100.
- Whilst we have had more engagement with our workforce on reward in general, we recognise the need to further engage with the workforce to explicitly set out how Executive compensation aligns with the rest of the workforce.
- Following the resignation of Luisa Delgado, an independent Non-Executive Director of the Company and as a member of the Audit and Nomination Committees, and as Chair of the Remuneration Committee on 31 January 2022, for part of the reporting period:
 - at least half the Board, excluding the Chair, did not comprise independent Non-Executive Directors
 - the Audit Committee comprised only two independent NEDs (which is required for FTSE350 companies, but not small-cap companies where only two are required (and to which class the Company now belongs))
- Notwithstanding the addition of independent Non-Executive Director Marisa Cassoni as a member of the Nomination Committee in place of Luisa, the majority of this committee (excluding the Chair) was not independent during the reporting period.

The Board intends to appoint three independent Non-Executive Directors during the current financial year (and to appoint them to appropriate committees) to address any shortfalls to independence requirements prescribed by the Code.

Board of Directors

Key

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



Geoff Cooper
Non-Executive Chair

Committee membership

N R

Appointment to the Board
1 July 2016

Relevant skills and experience

- Over 25 years' UK public company board experience, including chair and chief executive officer roles
- Significant retail and customer-facing industry experience across the UK
- Ability to steer boards through high-growth strategies and overseas expansion
- Former non-executive chair of Bourne Leisure Holdings, Dunelm Group Plc and Card Factory Plc, and former chief executive officer of Travis Perkins Plc
- Member of the Chartered Institute of Management Accountants

Significant current external appointments
None

Independent
Yes



John Roberts
Founder and
Chief Executive Officer

Committee membership
None

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

Relevant skills and experience

- Co-founded the business over 20 years ago, giving him thorough knowledge and understanding of the Group's business
- Extensive CEO experience: led the management team to successfully develop and expand the business during periods of challenging market conditions
- Innovator and visionary lead
- Significant market knowledge and understanding



Mark Higgins
Chief Financial Officer

Committee membership
None

Appointment to the Board
1 August 2015

Relevant skills and experience

- Group Finance Director for four years prior to appointment as AO's Chief Financial Officer
- Senior finance roles held at Enterprise Managed Services Limited and the Caudwell Group
- Member of the Chartered Institute of Management Accountants



Marisa Cassoni
Senior Independent
Non-Executive Director

Committee membership

A R N

Appointment to the Board
5 February 2014

Relevant skills and experience

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

Significant current external appointments

Non-executive director at Calliford Try Plc

Independent
Yes



Chris Hopkinson
Non-Executive Director
and Employee Champion

Committee membership

N P

Appointment to the Board
12 December 2005

Relevant skills and experience

- Former City financial analyst
- Significant industry experience
- Holds a Masters degree in Logistics

Significant current external appointments

Executive director of Clifton Trade Bathrooms Limited

Independent

No, due to length of tenure only



Shaun McCabe
Non-Executive Director

Committee membership

R* A

Appointment to the Board
24 July 2018

Relevant skills and experience

- ICAEW chartered accountant with a strong mix of knowledge of consumer-focused businesses and digital expertise
- Significant international, finance and general management experience
- Previous senior positions held at several online market leaders including international director at ASOS Plc and vice president, chief financial officer for Amazon Europe

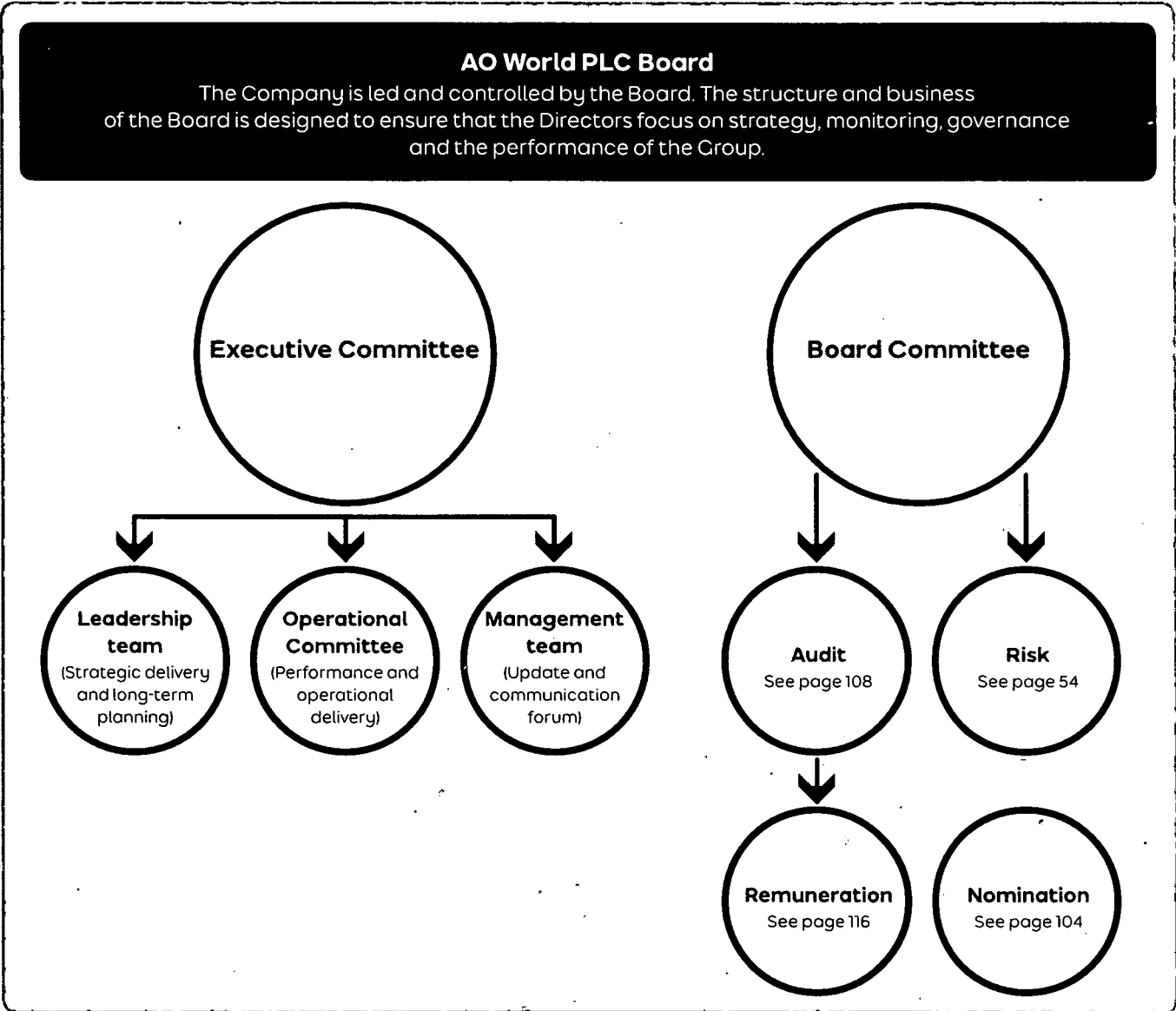
Significant current external appointments

Currently the Chief Financial Officer of Trainline Plc and non-executive director and audit and risk committee chair at boohoo group plc, Shaun has been appointed as Chief Financial Officer of boohoo group plc and will take up the position later this year, stepping down as Chief Financial Officer of Trainline plc on 15 September 2022

Independent
Yes

*Interim

Corporate governance report



Governance framework

The Board is responsible for maintaining a strong and effective system of governance throughout the Group. Day-to-day management of the implementation of the matters approved by the Board, the Group's activities, governance and oversight is delegated to the Executive Committee comprising the CEO, CFO and COO. The Executive Committee is supported by the leadership team, who are the direct reports of the Executive Committee, and comprise a team of highly skilled and experienced senior management including the Managing Directors of the Group's Business Units, and leaders from our enabling and supporting functions including IT, finance, HR and legal. The leadership team meets with the Executive Committee monthly and is focused on the strategic direction and achievement of the Group's priorities.

Operational Committee meetings, led by the COO, are held weekly. This Committee focuses on performance, operational delivery, forecasting and resolution of any business issues with escalation to the leadership team as required. It is formed by leadership team

members with operating responsibility. The Group's management team is led by the CFO and comprises our work level three AOers (defined as those who lead, run key operations, or have specialist knowledge to lead projects and processes). The management team meets monthly and receives an update from the Executive Committee on the financial performance and strategic priorities of the Group, as a two-way communication session.

Steering Committees are also in place for key areas of compliance such as the General Data Protection Regulation ("GDPR"), Senior Managers and Certification Regime ("SM&CR"), and health and safety and are also formed for specific projects as required. During the year we defined our ESG strategy, creating an ESG Steering Committee to drive our objectives.

Formal Board meetings of our operating subsidiary companies are also held on a regular basis. Our Risk Management Committee, which reports to the Audit Committee and which includes the members of the Executive Committee, also meets at least quarterly to ensure robust risk management procedures are implemented and to critically review the Group's register.

Board leadership and Group purpose

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

The Board regularly reviews its composition, experience and skills to ensure that the Board and its Committees continue to work effectively and that the Directors are demonstrating a

commitment to their roles. Further details of the relevant skills and experience of the Board are set out in their biographical details on pages 92 and 93.

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

Role	Key responsibilities
Chair Geoff Cooper	<ul style="list-style-type: none"> • Providing leadership of the Board • Setting the Board's agenda to emphasise strategy, performance and value creation • Monitoring the effectiveness of the Board • Ensuring good governance • Facilitating both the contribution of the Non-Executive Directors and constructive relations between the Executive and Non-Executive Directors
Founder and Chief Executive Officer John Roberts	<ul style="list-style-type: none"> • Day-to-day running of the Group and effectively implementing the Board's decisions • Leading the performance and management of the Group • Proposing strategies and business plans to the Board • Providing entrepreneurial leadership of the Company to ensure the delivery of the strategy agreed by the Board
Chief Financial Officer Mark Higgins	<ul style="list-style-type: none"> • Providing strategic financial leadership of the Company and day-to-day management of the finance function • Day-to-day running of the Group and implementing the Board's decisions
Senior Independent Director Marisa Cassoni	<ul style="list-style-type: none"> • Acting as an internal sounding board for the Chair and serving as an intermediary for the other Directors, with the Chair, when necessary • Being available to shareholders if they require contact both generally and when the normal channels of Chair, CEO or CFO are inappropriate
Non-Executive Directors Marisa Cassoni Chris Hopkinson Shaun McCabe	<ul style="list-style-type: none"> • Bringing independence, impartiality, experience and special expertise to the Board • Constructively challenging the Executive Directors and Group management team, and helping to develop proposals on strategy and ensuring good governance, to scrutinise and hold to account the performance of management and Executive Directors against performance objectives
Designated Non-Executive Director – People Champion Chris Hopkinson	<ul style="list-style-type: none"> • Providing an appropriate avenue for AOers to raise any areas of concern • Ensuring a regular dialogue between employees and the Board to aid information flow and to communicate the views and concerns of the workforce • Working with the Board to take appropriate steps to evaluate the impact of Board proposals on the workforce • Assessing and monitoring the Group's culture • Ensuring workforce policies and practices are consistent with the Company's values

Corporate governance report continued

Committees of the Board

The Board has delegated authority to its Committees to carry out certain tasks on its behalf and to ensure compliance with regulatory requirements, including the Companies Act 2006, the Listing Rules, the Disclosure Guidance and Transparency Rules

and the Code. This also allows the Board to operate efficiently and to give the right level of attention and consideration to relevant matters. A summary of the Terms of Reference of each Committee is set out below and the reports of the Committee Chairs are set out on pages 104 to 146.

Committee	Role and Terms of Reference	Membership required under Terms of Reference	Minimum number of meetings per year under Terms of Reference	Committee report on pages under Terms of Reference
Audit	Reviews and reports to the Board on the Group's financial reporting, internal control and risk management systems, whistleblowing, internal audit and the independence and effectiveness of the External Auditors	At least three Independent Non-Executive Directors (or such number as is required from time to time by the UK Corporate Governance Code)	Three	108 to 115
Remuneration	Responsible for all elements of the remuneration of the Executive Directors and the Chair, the Company Secretary and the direct reports of the CEO	At least three Independent Non-Executive Directors (or such number as is required from time to time by the UK Corporate Governance Code)	Three	116 to 146
Nomination	Reviews the structure, size and composition of the Board and its Committees, and makes appropriate recommendations to the Board	At least three members (or such number as is required from time to time by the UK Corporate Governance Code) and a majority shall be Independent Non-Executive Directors	Two	104 to 107

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

Board meetings

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

The Board has an annual rolling plan of items for discussion, which is reviewed and adapted regularly to ensure all matters reserved

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

At each meeting, the Chief Executive Officer updates the Board on key operational developments, provides an overview of the market, and other key operational risks, and highlights the important milestones reached in the delivery of the Group's strategic objectives. The Chief Financial Officer provides an

update on the Group's financial performance, banking arrangements, AO's relationships with investors and potential investors and shareholder feedback and analysis. Meeting proceedings and any unresolved concerns expressed by any Director are minuted by the Company Secretary who, as Director of Group Legal, provides the Board with an update on any legal issues. Whilst not a formal member of the Board, the Group's Chief Operating Officer attends Board meetings to update on operational performance and reports on health and safety. Other members of management are also invited to attend Board meetings to present on specific business issues and proposals. This way, the Board is given the opportunity to meet with the next layers of management and gain a more in-depth understanding of key areas of the business. External speakers are also invited to present to the Board on topical industry and regulatory issues.

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

Key Board activities during the year to 31 March 2022

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

Strategy

- Oversaw the strategic review of the Group's German operation, considering the strategic direction of the business and the available options
- Reviewed the introduction of an employed driver-model to sit alongside the Group's existing self-employed driver model to help mitigate the impact of the national driver shortage on business operations
- Reviewed and approved a new creative studio hub to assist with the creative transformation of the Group's content to best showcase and market products

Operational performance

- Review of regular reports from senior management on trading, business performance and health and safety
- Supported management in the continual review of current trading and reforecasting and reviewed the actions proposed to drive efficiencies and to tailor the Group's cost base appropriately
- Reviewed business case for new vehicles leases to replace existing fleet and support future growth

- Oversaw the initiation of a business transformation project (subsequently approving its indefinite pause until trading conditions improve) focusing on the cultural impact, performance measurement and key milestones, project governance and risks to delivery

Finance and investor relations

- Reviewed and approved the Group's full-year and half-year results, together with trading statements and the Group's Viability Statement and going concern status
- Reviewed the monthly reports produced by the CFO
- Received reports and updates on investor relations activities and the views of shareholders (including engagement with key shareholders by the Chair to understand, in particular, current investor sentiment on governance arrangements and the strategic development of the Group)
- Approval of extension of the Group's existing Revolving Credit Facility for an additional year

Governance

- Defined the Group's ESG strategy, validated the materiality assessment and agreed the governance arrangements.
- Continuing review of compliance with the Code
- Consideration of the composition and effectiveness of the Board
- Received updates from the HR Director on people issues, for example, Gender Pay Gap analysis
- Improved workforce engagement process with updates provided from the Non-Executive Director People Champion on the results and key matters highlighted in people engagement forums and feedback from employee surveys
- Conducted the annual review and approved the appropriate updates of matters reserved for the Board and other policies and statements including the Company's Gender Pay Gap statement, annual Modern Day Slavery statement and Supplier Code of Conduct

Risk management

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

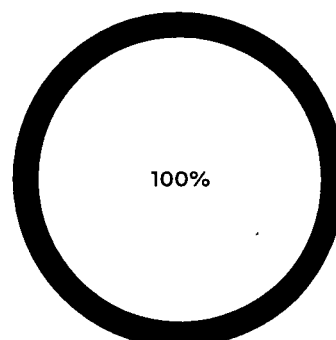
Corporate governance report continued

Board meeting attendance

The table below summarises the attendance of the Directors during the year ended 31 March 2022.

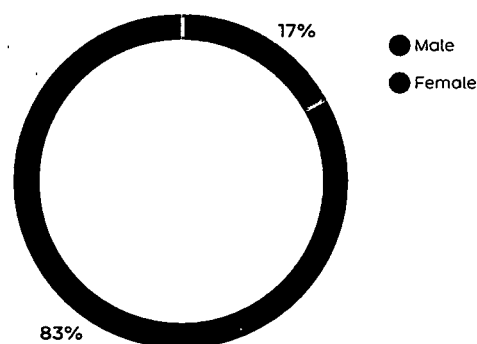
Director	Meetings eligible to attend
Geoff Cooper	10/10
John Roberts	10/10
Mark Higgins	10/10
Chris Hopkinson	10/10
Marisa Cassoni	10/10
Shaun McCabe	10/10
Luisa D. Delgado	7/8

Board Meeting Attendance*

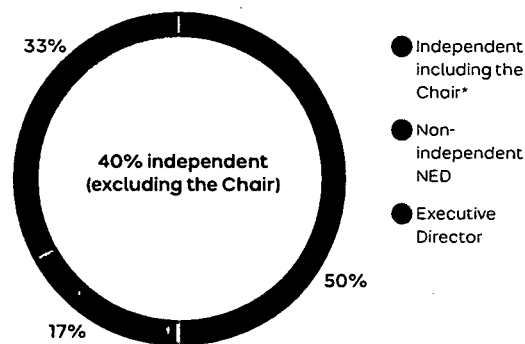


*Excluding Luisa Delgado who resigned from the Board on 31 January 2022

Board Gender

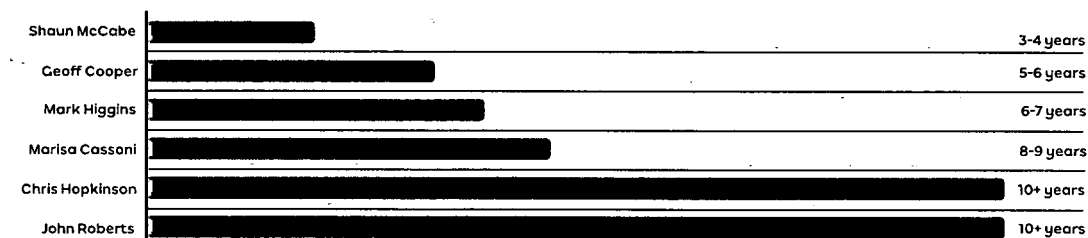


Board Role and Independence



*Chris Hopkinson is considered non-independent in respect of his Board tenure only

Board Tenure at 31 March 2022



Skills matrix

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

Composition, succession and evaluation

Composition

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

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

Following the resignation of Luisa Delgado as a Non-Executive Director towards the end of the reporting period, our Board currently includes one woman, representing 17% of its membership (2021: 29%). During the year, the Nomination Committee defined the process and brief for the recruitment of three additional Independent Non-Executive Directors as we seek to enhance the skill set of the Board, address areas of Code non-compliance and as part of succession planning. A specialist third party has been engaged to assist with the search.

The Directors remain supportive of the recommendations of the Parker and Hampton-Alexander reviews and are committed to increasing female and ethnic representation on the Board and throughout the wider organisation, as they believe that the business should have a culture that truly accepts diversity of thought, equity and inclusion. Therefore, in making new appointments, the Board will conduct the search as broadly as possible, exploring all avenues and opportunities to identify suitable candidates, with our priority being to recruit individuals with suitable experience and skills and, who are the best fit for the Group.

The Nomination Committee has delegated authority for any new appointments to the Board following a formal, rigorous and transparent procedure with the decision for any appointment a matter reserved for the Board. Further detail on the work of the Nomination Committee during the year, including the Board's policy on diversity, can be found on page 106. The disclosure relating to gender diversity within the Company and further information on the work being undertaken across the Group to further diversify our workforce is included in the Sustainability: Fair, Equal and Responsible report

on pages 79 to 83. For information on our procedures concerning the appointment and replacement of Directors, please see the Directors' report on page 142.

For the purposes of assessing compliance with the Code, the Board considers that Marisa Cassoni and Shaun McCabe are Non-Executive Directors who are independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Board also considers that Geoff Cooper, Chair of the Company, was independent at the time of his appointment in July 2016 and remains so. Chris Hopkinson is not considered to be independent for the purposes of the Code given his long-term involvement with the business, but otherwise exercises independent judgement.

Having regard to the character, judgement, commitment and performance of the Board and Committees to date, and following the internal Board evaluation conducted during the year, the Board is satisfied that no one individual will dominate the Board's decision making and considers that all of the Non-Executive Directors are able to provide objective challenges to management. A key objective of the Board is to ensure that its composition is sufficiently diverse and reflects a broad range of skills, knowledge and experience to enable it to meet its responsibilities. As can be seen from the biographies on pages 92 and 93 and the skills matrix on page 95, the Chair and the Non-Executive Directors collectively have significant industry, public company and international experience, which will support the Company in executing its strategy and which we are expecting to enhance with the recruitment of further NEDs.

Directors' skills and experience

The Board skills and experience matrix opposite details some of the key skills and experience that our Board has identified as particularly valuable to the effective oversight of the Company and execution of our strategy. An audit of Board member skills and experience was conducted in the year, as the base for setting out search criteria for new NEDs.

Induction process

In line with the Code, we ensure that any new Directors joining the Board receive appropriate support and are given a comprehensive and tailored induction programme organised through the Company Secretary, with each Director's individual experience and background taken into account in developing a programme tailored to their own requirements. The induction typically includes the provision of background material on the Company, one-to-one meetings with the CEO, CFO and COO and briefings with senior management as appropriate. Any new Director will also be expected to meet with major shareholders if required. New Directors also receive appropriate guidance on key duties as a Director of a listed company.

Corporate governance report continued

Evaluation and effectiveness

The effectiveness and performance of the Board is vital to our success. The Code requires that there should be a formal and rigorous annual evaluation of the performance of the Board, its Committees, the Chair and individual Directors and that consideration should be given to conducting a regular, externally facilitated Board evaluation, which, for FTSE 350 companies, should be at least every three years. Our last external evaluation was carried out in the year ended 31 March 2018 with an external review due in the previous financial year. However the Board determined that, given the pace at which the business was moving and the impact of Covid on the usual workings of the Board, the review would have been conducted in somewhat artificial circumstances and not given a true reflection of the way in which the Board was operating. It was therefore the Board's intention to conduct an externally facilitated review during the FY22 reporting period but, given the changing dynamics of the Board and wider business challenges, the Board again determined that an internal review of its effectiveness was more appropriate. We intend to conduct an external review once we have appointed additional NEDs who have settled into the workings of the Board.

The internal evaluation was led by the Chair. As part of this process, one-to-one meetings were conducted with all Directors, the Company Secretary and the COO who were given the opportunity to express their views about:

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

The results of the evaluation were collated by the Chair and an assessment was provided to the Nomination Committee for further discussion. The results of the evaluation indicated that the Board is working well and that there are no significant concerns among the Directors about its effectiveness. Some actions were agreed and will be progressed over the coming year, for example strengthening the Non-Executive Director component of the Board to ensure the correct mix of skills and to provide appropriate support to the Executive Directors in pursuit of achieving the Group's strategic objectives.



During the year, the Chair met with the Non-Executive Directors without the Executive Directors present to discuss Board balance, monitor the powers of individual Executive Directors and raise any issues between themselves as appropriate. An annual appraisal of the performance of the Chair by the Non-Executive Directors, led by the Senior Independent Director, was also conducted. Following evaluation, it was agreed that all Directors contribute effectively, demonstrate a high level of commitment to their role and together provide the skills and experience that are relevant, and necessary for the leadership and direction of the Company.

Information, support and development opportunities available to Directors

All Board Directors have access to the Company Secretary, who advises them on governance matters. The Chair and the Company Secretary work together to ensure that Board papers are clear, accurate, delivered in a timely manner to Directors and of sufficient quality to enable the Board to discharge its duties. Specific business-related presentations are given by members of the Group Management team when appropriate and external speakers also attend Board meetings to present on relevant topics.

During the prior year, we procured the services of a third party to assist with improvements to Board information. This included improvements to Board papers through training for report writers to produce streamlined, high-impact papers to facilitate effective discussion and contribution from the Board at meetings. The new approach has been well embedded during the year.

As well as the support of the Company Secretary, there is a procedure in place for any Director to take independent professional advice at the Company's expense in the furtherance of their duties, where considered necessary; for example, Deloitte advise on remuneration matters, and Audit Committee members have received guidance from the External Auditor on new developments in reporting standards. As part of the Board Evaluation process, training and development needs are considered and training courses are arranged, where appropriate. Directors are encouraged to be proactive and identify areas where they would like additional information to ensure that they are adequately informed about the Group.

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

External directorships and time commitment

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

During the year, Luisa D. Delgado requested approval from the Board to accept external non-executive directorships with Telia Company AB (publ) and Fortum Oyj. In June 2022, Shaun McCabe requested approval to accept the external directorship as Chief Financial Officer of boohoo group plc (where he is currently non-executive director), stepping down as Chief Financial Officer of Trainline plc at the same time. The Board assessed the appointments and was satisfied that the time commitment required would not prevent Luisa D. Delgado or Shaun McCabe from performing their duties to AO effectively and approval was granted. As part of its annual review, the Nomination Committee has also considered the external directorships and time commitment of all the Directors and agreed that these do not impact on the time that any Director devotes to the Company, and believes that such experience only enhances the capability of the Board. Save for Crystalcraft Limited, a dormant company, and the charities OnSide Youth Zones Limited and AO Smile Foundation, for which he receives no fees, John Roberts does not hold any external directorships. Mark Higgins holds no external directorships. Details of the Directors' significant external directorships can be found on pages 92 and 93.

Directors' conflicts of interest

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

Corporate governance report continued

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.

Director election

Following the Board evaluation process and the subsequent recommendations from the Nomination Committee, the Board considers that all Directors continue to be effective, committed to their roles and are able to devote sufficient time to their duties. Accordingly, all Directors will seek re-election at the Company's AGM.

Whistleblowing and anti-bribery and corruption procedures

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

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

Shareholder engagement

The Company recognises the importance of communicating with its shareholders to ensure that its strategy and performance are understood and that it remains accountable to them. The Company has established an Investor Relations function, headed by the Investor Relations Director, who reports to the Chief Financial Officer. The Investor Relations Director ensures that there is effective communication with shareholders on matters such as strategy and, together with the Chief Executive Officer and Chief Financial Officer, is responsible for ensuring that the Board understands the views of major shareholders on such matters.

There is an ongoing programme of dialogue and meetings between the Executive Directors and institutional investors, fund managers and analysts. This includes formal meetings with investors to discuss interim and final results, and maintaining an ongoing dialogue with the investment community through regular contact with existing and potential shareholders, attendance at investment conferences and holding investor roadshows as required. At these meetings, a wide range of relevant issues, including strategy, performance, management and governance



are discussed within the constraints of information that has already been made public. The Investor Relations Director generally deals with ad hoc queries from individual shareholders. The Remuneration Committee Chair also engages in discussion with shareholders on significant matters relating to Executive remuneration, in particular any amendments or material changes to our remuneration policy and the Chair of the Board also engages with shareholders as and when requested or required. During the year the Chair of the Board also engaged individually with a number of shareholders to understand, in particular, current investor sentiment on governance arrangements and the strategic development of the Group.

The Board is aware that institutional shareholders may be in more regular contact with the Company than other shareholders, but care is exercised to ensure that any price-sensitive information is released to all shareholders – institutional and private – at the same time, in accordance with legal and regulatory requirements. The Senior Independent Director is available to shareholders if they have concerns that cannot be raised through the normal channels or if such concerns have not been resolved. Arrangements can be made to meet with her through the Company Secretary. The Board obtains feedback from its joint corporate brokers, Jefferies, Numis Securities and Goldman Sachs, on the views of institutional investors on a non-attributed and attributed basis. Any concerns of major shareholders would be communicated to the Board by the Executive Directors. As a matter of routine, the Board receives regular reports on issues relating to share price and trading activity, and details of movements in institutional investor shareholdings. The Board is also provided with current analyst opinions and forecasts. All shareholders can access announcements, investor presentations and the Annual Report on the Company's corporate website (ao-world.com).

Annual General Meeting

The AGM of the Company will take place at 8:00 am on 28 September 2022 at the Company's head office at 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 that is being mailed out at the same time as this Report, and can also be found on our website ao-world.com. The notice of the AGM sets out the business of the meeting and an explanatory note on all resolutions. Separate resolutions are proposed in respect of each substantive issue. Whether or not you are able to attend, the Board encourages all shareholders to vote as soon as possible and, in any event, by no later than 8:00 am on 26 September 2022 by taking advantage of our registrar's secure online voting service (via aoshareportal.com) by using the CREST system, or by using a proxy voting form which is available on request from the Company's registrars, Link Group.

Shareholders have the opportunity to submit questions on the ACM resolutions electronically before the meeting and such questions, limited to matters relating to the business of the ACM itself, should be sent to 2022AGM@ao.com and these will be responded to on an individual basis.

The results of the voting will be announced to the London Stock Exchange and made available on our corporate website as soon as practicable after the meeting. At last year's AGM, all resolutions were passed with votes in support ranging from 92% to 100%.

Stakeholder voice into the Boardroom

Section 172 of the Companies Act 2006 requires a Director of a Company to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. Further information on how the Group engages with its key stakeholders including suppliers, employees and the community and the Group's s.172 statement can be found on pages 66 and 67. In setting and monitoring strategy, the Board is mindful of the impact that its decisions will have on the Group's stakeholders.

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

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

- Board papers include consideration of section 172 factors to ensure that decision making is fully informed and to enable discussion
- Regular updates are received from the HR Director on people, culture, diversity, talent and engagement
- The Non-Executive Director People Champion, Chris Hopkinson, provides regular feedback and updates from the Employee Voice to the Board forum
- The CEO holds a monthly State of the Nation, a live update given to all employees including an interactive Q&A session
- The Board's strategy sessions include the potential impact to stakeholders when deciding and agreeing on strategic priorities
- The CEO and CFO meet with major shareholders and feedback is provided to the Board
- The Board receives regular presentations from the Group management team, Legal Director and external advisers

Nomination Committee report



66

Delivering a balanced Board with the right skills mix.”

Geoff Cooper
Chair

I am pleased to introduce the report of the Nomination Committee for the year ended 31 March 2022. Full details of the Committee and its activities during the year are given below.

Committee members and meetings attended

	Meetings eligible to attend
Geoff Cooper	4/4
Chris Hopkinson	4/4
Luisa D. Delgado*	1/2
Marisa Cassoni*	2/2

*Marisa Cassoni was appointed as a member of the Committee following the resignation of Luisa Delgado from the Board on 31 January 2022

Membership and meetings

- During the year, the Nomination Committee comprised three Non-Executive Directors.
- The Code requires that the majority of the Committee are Independent Non-Executive Directors. I am Chair of the Board and of the Committee and was deemed independent on appointment and the Board considers that I continue to be so. Luisa D. Delgado was deemed independent and Marisa Cassoni who has replaced Luisa on the Committee is also deemed independent. Chris Hopkinson is not deemed to be independent due to his historic involvement with the Company; however, the continuity, experience and knowledge of Chris made a significant contribution to the work of the Committee, ensuring it was run effectively. Therefore, the Board considers that the Committee comprises a majority of Independent Non-Executive Directors and complies with the requirement of the Code.
- Detailed experience, skills and qualifications of all Committee members can be found on pages 92 and 93.
- The Group Legal Director and Company Secretary serves as Secretary to the Committee. By invitation, the meetings of the Nomination Committee may be attended by the Chief Executive Officer, Chief Financial Officer, Chief People Officer and the other Non-Executive Directors.
- Under its Terms of Reference, the Committee is required to meet no less than twice a year. This year the Committee met four times; this number being deemed appropriate to the Committee's role and responsibilities during the year.
- The timing of meetings is scheduled to coincide with key dates in the Group's financial cycle and in advance of a Company Board meeting to maximise effectiveness. As Chair of the Committee, I provide an oral report to the next Board meeting after each meeting of the Committee to report on its activity and matters of particular relevance to the Board in the conduct of their work.

Key responsibilities and Terms of Reference

The Committee is responsible for regularly reviewing the structure, size and composition of the Board, and has responsibility for nominating candidates for appointment as Directors to the Board, having regard to its composition in terms of diversity and ensuring it reflects a broad range of skills, knowledge and experience to enable it to meet its responsibilities. It also ensures that plans are in place for orderly succession for appointments to the Board. The Nomination Committee makes recommendations to the Board on its membership and the membership of its principle Committees.

The Nomination Committee also makes recommendations to the Board concerning the reappointment of any Non-Executive Director as they reach the end of the period of their initial appointment (three years) and at appropriate intervals during their tenure. The Committee also considers and makes recommendations to the Board on the annual election and re-election of any Director by shareholders, including Executive Directors, after evaluating the balance of skills, knowledge and experience of each Director against the Company's strategy and with regard to the results of the review of Board effectiveness.

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

The Chair does not chair the Nomination Committee when it is dealing with the appointment of a successor Chair. In these circumstances, the Committee is chaired by an independent member of the Nomination Committee elected by the remaining members.

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

Board appointment process

The Nomination Committee has a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. When the need to appoint a Director is identified, the Committee determines the role profile including the skills, knowledge and experience required. This takes into account the existing composition of the Board and any required experience and understanding of our stakeholders. We use a combination of external recruitment consultants and personal referrals in making any required appointments. We consider the gender, nationality, ethnic background, educational and professional background of candidates, as well as individual characteristics that will enhance diversity of thinking of the Board and delivery of our strategy. Suitable candidates are interviewed by Committee members, the Executive team and the Company Secretary. We give careful consideration to

ensure proposed appointees have enough time available to devote to the role and that the balance of skills, knowledge and experience on the Board is appropriate. When the Nomination Committee has identified a suitable candidate, we then make a recommendation to the Board which has responsibility for making the final decision. All appointments are made on merit, against objective criteria and with due regard to the benefits of diversity on the Board.

Board composition and succession planning

Following the resignation of Luisa Delgado, an Independent Non-Executive Director, the Board became non-compliant with an aspect of the Code namely the provision requiring that half the Board, excluding the Chair, are Independent Non-Executive Directors. Whilst the Board has previously determined that additional Independent Non-Executive Directors be appointed to the Board to further strengthen and diversify its work, the impact of Covid-19, and other changes in the business recently has, thus far, delayed this. However, the Nomination Committee has now recommenced this search in earnest (having particular regard to the requirements of the Code). It conducted a skills audit of the current Board, matched against expected challenges and requirements, and has engaged a specialist third-party search firm to assist with the recruitment of three independent Non-Executive Directors; focusing on candidates with a mixture of PLC Board, Remuneration Committee, technology, digital and financial skills and experience with a requirement on the firm to identify and present qualified people from differing ethnic backgrounds to be considered for the appointments. The Committee has designed the brief based on its review of succession planning, together with its ongoing requirement to ensure that the Board maintains the appropriate balance of skills, experience and independence, as well as providing the appropriate challenge. We will conduct our search as broadly as possible as we seek to increase the level of diversity in our Boardroom. This will be a key area of focus for the Committee over the coming months as we look to identify individuals who can help expand the Board's experience and skill set, to provide new avenues of thought to drive growth and we hope to make appointments during the current financial year. However, we are cognisant of the current challenges in our business and those of the external market for NED recruitment and therefore our priority will be to recruit individuals with suitable experience and skills and who are the best fit for the Group.

During the year, the Committee reviewed the succession planning of senior management; it recognises that effective succession planning is fundamental to the success of the Company and that ensuring the continued development of talented employees and appropriately rewarding them helps to mitigate the risks associated with unforeseen events, such as key individuals leaving the business.

Nomination Committee report continued

Diversity and inclusion

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

The Directors remain supportive of the recommendations in both the Hampton-Alexander Review on gender diversity and the Parker Review on ethnic diversity, and are seeking to increase female representation, and appoint at least one Director from an ethnic minority background to the Board. The Board and the Committee will look to drive the agenda on diversity and inclusion across the Group over the coming year.

Female representation on our Board is currently 17% (2021: 29%), and 26% at senior management level (which comprises our Executive Committee (none of whom are female) and their direct reports). Currently we have no ethnic diversity at any of these levels. The section above on Board composition details the Board's intention to commence a search to identify an additional three Non-Executive Directors.

The disclosure relating to gender diversity within the Company and further information on the work being undertaken across the Group to further diversify our workforce is included in the Sustainability: Fair, Equal and Responsible report on pages 79 to 83.

Board effectiveness

Pursuant to the recommendation set out in the Code, an externally facilitated review of the Board was due in the previous financial year but as previously reported, it was determined that, given the pace at which the business was operating and the impact of Covid-19 restrictions on the usual workings of the Board (such as reduced face-to-face meetings), an externally facilitated review should not be prioritised. It was therefore the Board's intention to conduct an externally facilitated review during the FY22 reporting period but, given the changing dynamics of the Board, wider business challenges and the ongoing appointment of additional Non-Executive Directors, the Board again determined that this was not appropriate. An internal

process of evaluating the performance of the Board, led by me, was instead undertaken. We intend to conduct an external review once we have appointed additional NEDs who have settled into the workings of the Board.

Highly productive and effective strategy days were held during the reporting period which, together with holding Board meetings face to face again, have helped to foster relationships and encourage a more open culture of debate and challenge between Board members.

Further details of this year's internal review and its results can be found on page 100 of the corporate governance section. Overall, the evaluation indicated that the Board is working well and that there are no significant concerns about its effectiveness.

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

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

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

In its assessment of the effectiveness of the Board, the Committee gave consideration to the number of external appointments held by the Non-Executive Directors, including the time commitment required for each. No instances of over boarding were identified and the Nomination Committee confirms that all individual Directors have sufficient time to fulfil their responsibilities and are fully engaged with the Group's business. During the year, Luisa Delgado requested and was granted approval from the Board to accept external non-executive directorships with Telia Company AB (publ) and Fortum Oyj.

Reappointment of Directors

On the recommendation of the Nomination Committee and in line with the Code, all currently appointed Directors will retire at the 2022 AGM and offer themselves for reappointment. The biographical details of the current Directors can be found on pages 92 and 93. The Committee considers that the performance of the Directors standing for election and re-election continues to be effective and that they each demonstrate commitment to their role and devote sufficient time to attend Board and Committee meetings and any other duties.

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

Looking ahead

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

Geoff Cooper

Chair, Nomination Committee
AO World PLC

17 August 2022



Audit Committee report



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

Marisa Cassoni
Chair, Audit Committee

On behalf of the Committee, I am pleased to present this year's Audit Committee report for the year ended 31 March 2022. The report provides an overview of the Committee's role and how it has discharged its responsibilities in monitoring and reviewing the integrity of financial information and in ensuring appropriate challenge and oversight across the Company's internal control environment and financial reporting, setting out the significant issues we have reviewed and concluded on during the year.

Overview

Committee members and meetings attended

	Meetings eligible to attend
Marisa Cassoni	5/5
Shaun McCabe	5/5
Luisa D. Delgado*	3/4

*Luisa Delgado resigned from the Board and its Committees on 31 January 2022.

An additional meeting between the Chair of the Committee, management and the Auditor was also held during the year. Committee members unable to attend this meeting received papers in advance and fed back to the Chair as appropriate. Following the meeting members were fully briefed on the matters discussed with those matters requiring approval by the Committee ratified at the following meeting.

Membership

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

Key responsibilities and Terms of Reference

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

Effectiveness of the Audit Committee

The effectiveness of the Committee is assessed annually and as part of the annual Board and Committee effectiveness review, further details of which are set out in the report on Corporate Governance on page 100. The review for the year to 31 March 2022 concluded that the Committee continued to operate effectively during the year.

Key work during the year

- Focused on financial reporting, to ensure the Annual Report and Accounts is fair, balanced and understandable.
- Reviewed interim results statements and financial results presentations, including going concern statements.
- Reviewed the effectiveness of external and internal audit processes and the effectiveness and appropriateness of our system of internal controls.
- Conducted a detailed review of: i) business controls around contract approval processes; ii) financial and commercial controls for the mobile business; iii) improvements to the German governance environment and iv) proposed KPIs for shared services.
- Approved the appointment of an external third party to conduct an Internal Audit Quality Assessment, supported the assessment process and reviewed the outcome of the Assessment setting actions to respond to its key recommendations.
- Reviewed the quarterly internal audit reports together with management responses and reviewed the progress on required actions to improve the controls environment.
- Recommended the reappointment of the External Auditor, terms of engagement and reviewed audit and non-audit fees.
- Reviewed the Group's risk management procedures.
- Reviewed the Group's whistleblowing and anti-bribery and fraud prevention procedures and controls.
- Reviewed the Group's finance function

Assessment of the Group's internal controls and risk management

The Board acknowledges its responsibility for establishing and maintaining the Group's system of internal controls in the achievement of its objectives. Good internal controls also facilitate the effectiveness and efficiency of operations, help to ensure the reliability of internal and external reporting and assist in compliance with applicable laws and regulations. However, the system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

During the year, the Committee continued to oversee and review AO's internal financial controls and risk management processes, notably reviewing the actions identified by the Internal Audit function to improve certain aspects of the Group's control environment.

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

Internal Audit

Through the Committee, the Group's Internal Audit function provides independent assurance to the Board on the effectiveness of the internal control framework through an agreed calendar of reviews under its annual audit plan. The Head of Group Audit and Risk reports to me and, as a Committee, we are responsible for ensuring that the Internal Audit team has adequate skills and resource levels that are sufficient to provide the level of assurance required.

The Audit Committee receives reports from the Internal Audit functions on a quarterly basis. These reports, along with risk management updates, enable the Committee to discuss key findings, recommendations and any plans by management to address any areas of weakness, with management action tracked and reviewed as appropriate. Progress against the audit plans is also reviewed and any proposed amendments to the plans is approved by the Committee. During the year, following the recruitment of a dedicated IT Auditor, the Committee approved a specific IT Audit Plan and has received regular updates thereon.

Audit Committee report continued

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

- IT/Tech: The initial audits completed under the IT Audit Plan indicated some deficiencies in the control environment that could leave the business susceptible to respond to cyberattack or data breach.
- From a thematic perspective, there have been recurring audit concerns raised regarding reliance on compensating manual controls, legacy systems and deficiencies at the second line of defence. These themes are consistent across the Group and not specific to a particular business area. The ability to improve in these areas has been restricted by tough trading conditions.

Internal Audit effectiveness review

We monitor and assess the role, effectiveness and independence of the Internal Audit function in the overall context of the Group's risk management systems annually. In line with guidance from the Institute of Internal Auditors and the International Professional Practice Framework (IPPF), the Committee determined that an External Quality Assessment ("EQA") of AO's Internal Audit activities be conducted during the reporting period and approved the appointment of EY to carry out the assessment.

As part of this process the extent of compliance with the IPPF and the Code of Practice was assessed, the function was benchmarked against peer and comparable organisations and the current views of stakeholders on Internal Audit and its performance and future expectations were considered via a series of interviews.

The result of the review highlighted that the Group's Internal Audit function was mostly compliant against the IPPF with only minor enhancements required, and met the key principles set out in the Code of Practice. The assessment had been delayed as a result of Covid-19 working practices. The Committee reviewed the outcome of the assessment and determined and assigned appropriate actions.

Overall, the External Quality Assessment did not raise any significant concerns and confirmed that the Internal Audit function is fulfilling its role with positive feedback from stakeholders. Many of the recommendations identified through the review have already been addressed by Internal Audit during the current financial year, and a status update to the remaining recommendations has been provided as part of FY23 Internal Audit Planning.

Following the External Quality Assessment, and when taken with its review of the annual plan and Internal Audit reports outlined above, the Committee confirms that it is satisfied that, throughout the reporting period, the Internal Audit function provided the level of assurance required and had an appropriate level of resources in order to carry out its responsibilities effectively and that it continues to do so. The necessary procedures are also in place to ensure the appropriate independence of the Internal Audit function.

Whistleblowing

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

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

The Board has confirmed that, through the Audit Committee's review of the key financial and internal control matters for 2022 as detailed above, it has reviewed the effectiveness of the system of internal, financial, operational and compliance controls and risk management.

Review of financial statements and reporting

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

Fair, balanced and understandable

The Directors are responsible for preparing the Annual Report and Accounts, and at the request of the Board, we have considered whether the Annual Report and Accounts for the year ended 31 March 2022 when taken as a whole, are fair, balanced and understandable and whether they provided the information necessary for members to assess the Group's position, performance, business model and strategy.

Following the Committee's review, we were pleased to provide assurance to the Board that the Annual Report and Accounts for the year ended 31 March 2022 are fair, balanced and understandable and that the Directors have provided the necessary information for our shareholders to assess the Company's position, prospects, business model and strategy. This was confirmed to the Board, whose statement in this regard, is set out on page 147 of the Directors' report.

Significant financial statement reporting issues

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

Significant financial matters	
Revenue recognition and contract asset recoverability in respect of product protection plans	<p>The Company sells product protection plans to customers purchasing electrical appliances, as agent, for Domestic & General, who administer the plans, collect money from the customers and pay a commission to the Company for each plan sold. Commission for sales of product protection plans for which the Group acts as an agent are included within revenue and as a contract asset based on the estimated value of future commissions receivable over the life of the product protection plan. Revenue is recognised at the point of sale on the basis that the Group has fulfilled its obligations to the customer in line with accounting standards relating to revenue recognition. The calculation takes into consideration the anticipated length of the plan, the historical rate of customer attrition and any other matters which could affect future attrition and is discounted to reflect the time value of money but also risks around the recoverability of the receivable balance attributable to the product protection plans.</p> <p>During the final quarter of the reporting period, the Company expressed an increase in cancellations which management believe was a reaction to the macro-economic challenges facing consumers. Management has, as is normal practice, reassessed the estimates and judgements used in recognising revenue which are detailed in Note 22.</p> <p>Management has prepared detailed updates to its policies setting out the key assumptions in the model in addition to the impact on the current year accounts of any changes in estimates. The Committee has reviewed these changes and the judgements and estimates used in this area by management and, following appropriate challenge, we consider the policy and practice appropriate.</p>
Revenue recognition, contract asset recoverability in our Mobile business	<p>The Group's Mobile business receives commission from the Mobile Network Operators. The network commission revenue is based on the value of commissions due over the expected life of the network contract. As this requires subjective estimates the future outcomes of these estimates could be different which would affect the amount of revenue recognised.</p> <p>Management reassesses the judgements and estimates used on a half-yearly basis, taking into account any changes in customer behaviour particularly with regard to cancellations and cashback redemptions. During the current year, management has seen a reduction in the level of cancellations as well as cashback redemptions which supported the variable consideration constraints put in place in the prior year. Changes in contractual entitlement, particularly with regard to significant RPI increases invoked by the Mobile Network Operators has resulted in management reassessing the estimates and judgements used in quantifying revenue and in particular the amount of variable consideration which should be constrained. The impact of this exercise is seen in Notes 22 and 23 to the Annual Report and Accounts.</p> <p>As a result of the changes made, the management team has prepared updated detailed policies setting out the key assumptions used in recognising revenue. The Committee has reviewed the judgements and estimates made in this area by management and, following appropriate challenge, we consider the policy and practice appropriate.</p>

Audit Committee report continued

Significant financial matters

AO Mobile – carrying value of goodwill and intangible assets

On the acquisition of Mobile Phones Direct Limited (since renamed AO Mobile Limited) in December 2018, the Group recognised goodwill and intangible assets which at 31 March 2022 had a carrying value of £25.2m. The carrying value is assessed by performing a value in use calculation at each balance sheet date based on a discounted cash flow using the Company's three-year plan as a base. Sensitivity analysis is performed against the base case predominantly in relation to forecast revenue and EBITDA growth. Should performance and the assumptions made by management not be in line with expectations, there is a risk that the carrying value could be impaired.

At 31 March 2022, the amount of headroom above the carrying value was £0.7m. Note 16 to the Annual Report and Accounts sets out the key assumptions used in the value in use calculation in addition to the impact of a change in these assumptions on the amount of headroom.

The management team has prepared a detailed paper setting out the key assumptions, estimates and judgements in this area and the sensitivities applied to the base case. The Committee has reviewed the estimates and judgements made in this area by management and, after due challenge and debate, was content with the assumptions made, the judgements applied, and the sensitivity analysis undertaken.

Impairment of assets in relation to AO Deutschland Limited

As a result of the continued losses in our German business, management commenced a strategic review in Q4 which concluded post year end in the decision to close the business. Management has, as is normal practice, assessed the whether the continued losses indicated any impairment of the German business's assets at 31 March 2022. The decision to close the business post year end has provided further evidence of potential impairment and management have therefore reviewed the carrying value of all assets in that business. This has utilised third party information where available particularly with regard to owned and leased properties as well as information arising from the closure process itself. Further details of the review undertaken and the impact on asset values at 31 March 2022 is included in note 17. Management has prepared a detailed paper assessing each asset and setting out the key sources of for the assumptions used for the valuation as well as the appropriate disclosures required. The Committee has reviewed the judgements and estimates used by management to assess the carrying value of the relevant assets and, following appropriate challenge, we consider the exercise undertaken and the resulting carrying values to be appropriate.

Going Concern and viability assessments

The Committee reviewed the Group's going concern and viability statements as set out on pages 64 and 65. It considered the reports prepared by management in support of such statements and obtained the External Auditor's views on the work undertaken by management to assess the Group's resilience to its principal risks under various scenarios. The Committee was satisfied that the viability statement set out in the Strategic report presented a reasonable outlook for the Group to March 2025 and recommended to the Board the adoption of both the going concern and viability statements for inclusion in this report.

External audit

The Audit Committee has primary responsibility for leading the process for selecting the External Auditor and overseeing the relationship and performance. It is required to make appropriate recommendations on the appointment, reappointment and removal of the External Auditor, through the Board, to the shareholders to consider at the Company's AGM. It is also required to assess the independence of the External Auditor on an ongoing basis and to negotiate the terms of engagement, audit fee and to ensure that they have an appropriate audit plan in place. Following approval by shareholders at the AGM held on 29 September 2021, KPMG LLP was reappointed as AO's External Auditor for the financial year ended 31 March 2022. The External Auditor was not asked to look at any specific areas by the Audit Committee during the review period.

Review of effectiveness of external audit process

A key responsibility of the Committee is to review and monitor the effectiveness of the external audit process and independence of the External Auditor. The assessment of the audit effectiveness for the year ended 31 March 2021 was undertaken at the completion of that audit as part of an ongoing process of review throughout the year.

In conducting its review, the Committee had regard to:

- openness of communication between the External Auditor and senior management;
- any risks to audit quality that the External Auditor identifies;
- the key controls that the External Auditor relied on to address any identified risk to audit quality such as appropriate audit methodologies;
- the findings from internal and external inspections of the external audit and audit firm;
- whether the original audit plan was met;
- the reports that are brought to the Committee by the lead audit engagement partner and other senior members of the audit team;
- the quality of the management responses to audit queries;
- the skills and experience of the audit team including whether, in the opinion of the Committee, the External Auditor demonstrated sound understanding of the business;
- whether an appropriate degree of challenge and professional scepticism was applied by the External Auditor through its meetings with management; and
- a review of the independence and objectivity of the audit firm and also the quality of the formal audit report given by the Auditor to shareholders.

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

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

External audit partner rotation

On behalf of the Board, the Committee oversees the relationship with the External Auditor. KPMG were appointed as Auditor to the Company in July 2016 for the financial year ended 31 March 2017, and were reappointed at the 2021 AGM. David Neale replaced the incumbent Audit Partner in September 2020 and has led the audit for the years ending 31 March 2021 and 2022.

External audit tenure

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

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

Audit Committee report continued

Reappointment of External Auditor for the 2023 financial year

Through open and honest dialogue with the External Auditor, as well as feedback received from the CFO and senior management, the Committee is satisfied with the objectivity and independence of the External Auditor. The Committee is also satisfied that KPMG continues to perform its audit work to a high standard and with robust challenge. On this basis, the Committee has recommended to the Board that KPMG be reappointed at the 2022 AGM.

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

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

Non-audit services

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

During the year, KPMG undertook non-audit-related assignments relating to the review of the Group's half-year report amounting to £75,000 and £5,000 in relation to agreed upon procedures in relation to the Group's covenant reporting pack (2021: £50,000), and representing c.9% of the value of the Group Audit (2021: c.7%). This assignment was conducted in accordance with the Group's policy and was consistent with the professional and ethical standards expected of the External Auditor, and the Committee considers that the assurance provided by the Auditor on this item is considered necessary in the interests of the Group. The Audit Committee was satisfied with work performed and considered the level of these fees against the fees paid to KPMG for audit services determining that they are not material relative to the income of the external audit as a whole, and therefore did not conflict with KPMG's objectivity and independence.

The Group has also continued with the appointment of other accountancy firms to provide certain non-audit services to the Group, for example, in connection with tax advisory services, remuneration advice and debt advice, and anticipates that this will continue during the year ending 31 March 2023.

External Auditor fees

During the financial year, the Group External Auditor's fees were £0.8m (2021: £0.8m). The Audit Committee was satisfied that the level of audit fees payable in respect of the audit services provided were appropriate and that an effective audit could be conducted for such a fee.

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

Independence and objectivity

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

Priorities for year ending 31 March 2023

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

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

Marisa Cassoni

Chair, Audit Committee
AO World PLC

17 August 2022



Directors' remuneration report



“

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

Shaun McCabe
Interim Chair,
Remuneration Committee

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

- The annual statement from the Chair of the Remuneration Committee
- The revised Directors' remuneration policy (which will be put to the shareholder vote at the 2022 AGM/which received shareholder approval at the 2021 AGM)
- The Annual Report on Remuneration for FY22 (which will be subject to an advisory vote at the 2022 AGM)

FY22 highlights

Highlights of the work of the Remuneration Committee in FY22 and to the date of this report:

- Considered the restructuring of the Value Creation Plan
- Reviewed the proposed Directors' remuneration policy including consideration of the requirements of the 2018 UK Corporate Governance Code and various investor guidance on remuneration.
- Determined the levels of vesting for the AO Incentive Plan FY22 Award.
- Determined the shares to be released pursuant to the AO Incentive Plan FY19 Award.
- Undertook a deep dive in relation to pay levels against the market for Executives and wider workforce.
- Determined the remuneration for FY23 for our Executive Directors, the Executive Committee and certain senior management.
- Set the performance conditions for the AO Incentive Plan FY23 Award.
- Reviewed the Company's Gender Pay Gap report and recommended actions.

Annual Statement by the Chair 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 2022 (FY22).

Pay for sustainable performance; our remuneration policy

During FY21, the Committee undertook a review of our policy and approach to Executive remuneration, considering the evolving best approaches to support sustained value creation and performance steering along our goals and stretching targets. After careful consideration, the Committee decided that, the AOIP continued to be the most appropriate approach for AO.

The Committee believes that the AOIP, which allows the Committee to refresh targets each year, aligns effectively with AO's strategy of working towards annual milestones to deliver long-term performance, allowing the Company to remain agile and respond to a rapidly changing market, whilst ensuring that both performance measures and targets align with our evolving business strategy.

Under the AOIP, awards are determined based on performance against stretching annual financial and strategic targets. Any amount earned is paid out one-third in cash and two-thirds deferred for three years as conditional deferred share awards (conditional on performance underpins and continued employment). The share portion of Executives' awards are subject to a further one-year holding period such that the total performance, vesting and holding period for this element of the award is five years, in line with the UK Corporate Governance Code.

Whilst the Committee continues to believe that the AOIP remains the most appropriate framework, we have reviewed our approach to performance measures for FY22 as we pivot our strategy to be one focused on the UK, profitable growth and cash generation. For FY23 we intend to re-balance and focus performance measures such that 60% of the AOIP award is based on financial measures (PBT and liquidity headroom) with the remaining 40% based on a strategic transformation measure and stakeholder impact measures (further details below). The Committee believes these are the right balance of measures to reflect the strategic and operational focus for the business over the next 12 months. This approach, however, requires a minor amendment to our Directors' remuneration policy as currently a minimum of 70% of the award must be based on financial performance. We will therefore be submitting a revised policy for shareholder approval at the 2022 AGM; whilst our intention is that financial measures will continue to represent the majority of the award, we are proposing to reduce the minimum proportion from 70% to 50% to provide the Committee with the flexibility to incentivise management to drive some fundamental strategic initiatives.

All variable remuneration will continue to be subject to appropriately stretching performance targets, which are set to reflect the risk appetite of the business, with a focus on delivery of long-term sustainable performance. Variable pay elements are also subject to: (i) recovery provisions to safeguard against payments for failure; (ii) performance underpins; and (iii) scope for the Remuneration Committee to exercise discretion where outcomes are deemed inappropriate in the context of wider business performance.

Value Creation Plan ("VCP")

Over recent months the Committee has spent substantial time considering the current VCP, its terms and the rationale for introducing such a plan. The VCP was aimed at incentivising and rewarding exceptional performance and retaining the talented team whilst driving exceptional value creation for shareholders. The scheme is currently significantly underwater (as the share price threshold for anything to vest is £5.23); it is therefore neither incentivising nor retaining our people.

Since the introduction of the VCP, our strategy is much changed following our decision to exit Germany and to focus on generating profitable growth in our UK markets together with cash generation. We believe that this revised strategy will deliver significant value to shareholders in the medium to long term; we still want to reward exceptional value creation and believe an all employee VCP scheme will galvanise our people in delivering that value. Accordingly, the Committee believes it is in the best interests of shareholders and our people to restructure the original VCP and therefore we will be putting forward a new VCP for shareholder approval at the 2022 AGM which will replace the current VCP.

We have retained many features of the original VCP - with a maximum plan value of £300m - capable of being achieved at a £6bn market cap (as before). However, in order to fully incentivise and reward employees from the current share price, we are proposing the plan will begin funding at a share price of £1. In recognition of the reduced threshold target, the funding rate of the scheme will be significantly reduced from 10% of the value created above the threshold to 5.5%. As before 30% of the plan value will be allocated in total to the two current Executive Directors and COO (10% each), capped at a total payout of £20mn for each Executive Director, with the remaining 70% allocated to current and future employees. The plan would cease funding on achievement of a £10.43 share price.

For any payments to be made under the plan, our share price will need to increase by more than two-fold from our recent placing price of £0.43 and would represent a c.18% compound annual growth rate from that share price over a five-year period (with a compound annual growth rate over a five-year period of c.89% for the plan to pay out in full).

Directors' remuneration report continued

As before, this new VCP:

- will extend to all our current employees and subject to future performance, has the ability to deliver, what we believe to be, substantial rewards for those individuals. All employee participation is a key feature of this incentive plan;
- assist with the retention of our talented team. For our Executives, awards are phased over 5, 6 and 7 year periods, with the maximum opportunity only achievable if our ambitious growth plans are sustained in the long-term. This, therefore, represents exceptional value creation for our shareholders and long-term investors and provides financial motivation for our entire workforce to accelerate profitable growth.
- is designed to provide an effective motivational incentive plan to support extraordinary performance, with sufficient safeguards to underpin sustainable value creation.
- is subject to an overall cap on dilution of 5% of issued share capital (excluding shares issued under other schemes).
- requires that employees must be employed at the vesting date to receive a payment under the scheme; market standard malus and clawback provisions apply; and the Committee has the discretion to override the formulaic outcome.

Details of the proposed Value Creation Plan are set out on page 123.

This new 2022 VCP will replace the current VCP approved in 2020.

UK Corporate Governance Code

When making decisions relating to remuneration, the Committee is mindful of the guidance in the UK Corporate Governance Code around clarity, simplicity, risk, predictability, proportionality, and alignment to culture. As detailed in this report, various steps have been taken to ensure that the approach to remuneration is consistent with these principles, although we will always use discretion to deliver the right outcome for the business where we deem that appropriate.

Performance and reward for FY22

The Annual Report on Remuneration (set out on pages 130 to 141) describes how the policy approved at the 2021 AGM has been implemented in the year under review. It will be the subject of an advisory vote at the forthcoming AGM.

Base salaries and benefits

As outlined in last year's DRR, during the year we conducted an in-depth review in the remuneration of our Executives alongside the broader employee population to assess the market competitiveness of compensation, particularly in light of the evolution of the business in the last three years and against market changes, particularly in key talent clusters. The review of Executive salaries was therefore delayed pending this review. In terms of the remuneration of our Executives we determined that on a total compensation basis, the

packages continued to be appropriate. We therefore awarded a base salary increase to both the CEO and CFO of 2.7% (effective 1 April 2021) in line with the rate given to the wider workforce. No changes were made to benefits or pension entitlements.

AOIP Award FY22

In terms of variable pay, the Executives were granted AOIP FY22 Awards where the performance conditions were set along three sets of deliverables:

1. Revenue, EBITDA and cash targets, as ultimate (short-term) "output" measures;
2. Strategic transformation measures, specifically addressing the progress along the key value creation drivers of our strategic business plan, thus representing the "input" measures (targets that will drive the business forward for the medium to longer term) - specifically these were (i) ao.com revenue growth in the wider electricals category (i.e. excluding MDA) (ii) Germany revenue growth (with a profit underpin) and (iii) a business transformation target; and
3. Stakeholder/ESG impact measures, representing targets for the longer term - specifically (i) maintaining customer NPS scores (across the Group) at high levels and (ii) improving our employee NPS with an underpin that the Group must develop a credible ESG strategy.

As is covered earlier in this report, the Group has had a challenging year in the aftermath of Covid as we have seen customers return to stores at rates greater than we anticipated and also as we have seen online competition intensify affecting the top line, and significant cost-inflation affecting the bottom line. Against this backdrop, Group revenues decreased by 6% year on year to £1.58bn, with Group Adjusted EBITDA falling by 87% year on year to c. £8.5m, with both territories experiencing negative growth. Whilst on a two-year comparison basis (which we monitor to understand underlying growth rates and exclude the extraordinary effects of Covid-19), top line performance is pleasing at 52%, none of the financial performance conditions we set for the FY22 AOIP Award were met and, accordingly, no awards made in respect of them.

The business transformation target related to the design of a target operating model which would be the blue-print of how people, processes and systems would need to be structured and setting out the required capabilities to deliver the strategy and the roadmap to fulfilling these capabilities and structures and would include ERP design and how international expansion would be structured. Given the market challenges faced by the Group, in both the UK and Germany which were unexpected at the time the target was set, the strategic review of Germany and the work that has been done to simplify the business, reduce costs and right-size it accordingly, the Committee judged that it was appropriate that half of the amount pertaining to this metric, i.e. 5%, be awarded.

Customer satisfaction, measured via NPS, has remained strong over the year. For ao.com and ao.de respectively we have achieved average NPS scores of 86 and 87.

Our Mobile Phones Direct business achieved an average NPS of 75 which, whilst lower than the AO branded platforms, is still considered "Excellent". These scores are market leading and an excellent achievement by the team during a rather turbulent year where the business has suffered unexpected challenges and difficult consumer markets. Accordingly, the Committee has determined that this performance condition has been met in full.

The employee NPS score has fallen during the year as we have sought to right-size the business in light of market conditions and to reduce the infrastructure and teams that we had invested in to capitalise on the rapid growth initially presented by Covid. Whilst such a low score was inevitable in the circumstances and the latest employee survey indicated many positive sentiments on culture, the Committee judged that none of the 10% pertaining to this metric should be awarded. Notably however, a credible ESC strategy was developed as can be seen on page 70.

In total, the Committee has awarded 15% of the maximum AO Incentive Plan Award, which we feel is a fair reflection of the progress made in pivoting the strategy and business operations during the year, our customer impact and the hard work and dedication shown by the Executives over the year against extraordinary market conditions and macro-uncertainty. The award will be settled as one-third in cash and two-thirds in deferred shares.

Full details of the cash amount to be paid and share awards to be issued to our Executive Directors under the AO Incentive FY22 Award are disclosed on pages 131 and 132.

The Committee deems that the payout levels over the past years show the AOIP functioning as intended, with a minimal payout this year reflecting the Company's financial performance.

AOIP FY19 Award – release of conditional deferred shares

Mark Higgins was granted a conditional deferred share award pursuant to the FY19 AOIP Award which had a deferral period spanning FY20 to FY22 inclusive and which at the point of grant had a value of £343,400. The Remuneration Committee has deemed that the performance underpin has been met in full and accordingly 371,484 shares will be issued to Mark in August. These shares are not subject to a holding period of one year – this requirement was introduced for FY21 awards onwards.

Approach to remuneration for FY23 Executives

The Remuneration Committee has awarded pay increases to Executives of 3%, in line with the rate of increase awarded to the wider workforce. Benefits and pension entitlements remain as per the previous year.

In terms of variable pay, the Executives will be entitled to participate in the AOIP.

We have continued to set the performance conditions along three sets of deliverables:

1. Financial (output) metrics, focused on profit before tax and liquidity headroom (60% weighting);
2. A strategic transformation measure, specifically aimed at transforming the strategy of the business (away from international top line growth to a more simplified UK-only business focused on profitable growth) (20% weighting); and
3. Stakeholder impact measures, focusing on customers and employees (20% weighting).

Whilst we recognise the importance of ESC, given the extraordinary market dynamics and the cost of living crisis affecting consumers, the focus for this year needs to be on driving profitable growth whilst maintaining appropriate cash resources. Accordingly, we have not set ESC-related metrics per se; albeit the stakeholder measures encompassing customers and employees are aimed at ensuring the goodwill of the business and driving long-term sustainability.

The Committee believes these measures provide the appropriate balance, driving transformation, recognising the importance of key stakeholders, and output measures that should drive the creation of shareholder value.

Non-Executives

Fees for the Non-Executive Directors (including the Chair) were reviewed during the year and no increases were awarded.

Further details regarding the implementation of our policy in the year ahead are provided on pages 137 to 140.

Employees

As set out in the Corporate Governance report on page 95, Chris Hopkinson, our designated People Champion, has headed up engagement with the workforce generally and looked at areas of pay through survey feedback and Voice to the Board sessions.

We plan to continue engaging with employees to ensure both transparency of remuneration, and that employee views are taken into account when setting and determining Executive remuneration in the year ahead.

I hope this sets out clearly how the Committee has implemented the existing policy during FY22, the key features of the policy and how we propose to implement it in FY23.

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

Shaun McCabe

Interim Chair, Remuneration Committee

AO World PLC

17 August 2022

Directors' remuneration report continued



Policy report

This part of the Directors' Remuneration report sets out the Directors' remuneration policy for the Company (the "Policy") and has been prepared in accordance with the Companies Act 2006, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the UKLA's Listing Rules. The Policy has been developed taking into account the principles of the UK Corporate Governance Code (the "Code") as it currently applies.

The Policy will be put to a binding shareholder vote at the 2022 AGM and, subject to approval, will take formal effect from that date. We do not propose any fundamental changes to our Policy (in particular surrounding variable remuneration) as following careful consideration of the remuneration landscape, taking into account our evolving strategy and stakeholder views and, looking at its implementation over recent years, we believe that it is operating effectively and closely aligns to our business strategy. However, we are proposing one small change in relation to the AO Incentive Plan and apportionment between financial performance conditions and non-financial performance conditions; our intention is financial

measures will continue to represent the majority of the award but we are proposing to reduce this proportion from 70% to 50% to provide the Committee with the flexibility to incentivise management to drive some fundamental strategic initiatives. Whilst it is intended that the Policy will apply for three years following approval, the Policy will be kept under review on an annual basis.

We are also proposing to amend the policy to include a new restructured Value Creation Plan.

Role of the Committee in setting the Policy

The Committee is responsible for determining, on behalf of the Board, the Company's Policy on the remuneration of the Executive Directors, the Chair and other senior Executives of the Group.

The Committee's overarching aims in setting the Policy are: to attract, retain and motivate high-calibre senior management for sustained contribution and to focus them on the delivery of the Group's strategic and business objectives; to promote a strong winning and customer orientated culture that builds on accountability of results; to incentivise profitable

growth and innovation; and to align the interests of Executive Directors with those of shareholders and stakeholders. In promoting these objectives, the Committee aims to ensure that Executives are paid fairly. It has set a policy framework that is structured so as to adhere to the principles of good corporate governance and appropriate risk management. The Committee also recognises the importance of promoting a strong "collegiate culture"; this is reflected in the approach to setting pay across the whole senior management population as a team, and to overall principles for remuneration and benefits for the overall employee population of AO. Executive Directors are invited to attend Remuneration Committee meetings when it is considering and developing policy to ascertain their views, particularly given application of the policy beyond executives. However, the executives do not vote on and do not attend parts of meeting where their specific compensation is being considered and approved.

As mentioned previously, following a review of the remuneration policy in the context of the remuneration landscape, taking into account our evolving strategy and stakeholder views, we believe that it is operating effectively and closely aligns to our strategy and, apart from the apportionment between financial performance conditions and non-financial performance conditions and the incorporation of the VCP, we are not proposing any changes to the Policy or its operation. Input was received from the Chair and management whilst ensuring that conflicts of interest were suitably mitigated. The Committee also considered carefully corporate governance developments.

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

How the views of shareholders are taken into account

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

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

Whilst deliberating on the proposed incentive structure, we have welcomed the opportunity to discuss our proposals with a number of key investors.

Consideration of employment conditions elsewhere in the Group

When designing the Policy for Executive Directors, the Committee takes into account the overall approach to reward for, and the pay, benefits and employment conditions of, other employees in the Group. This process ensures that any increase to the pay of Executive Directors is set in an appropriate context and is appropriate relative to increases proposed for other employees, ensuring our reward philosophy is consistently and fairly applied. The Committee is also provided with periodic updates on employee remuneration practices and trends across the Group.

As part of our Policy design put forward at the 2021 AGM we sought feedback from a cross section of the AOIP participants. We have also discussed pay and benefits with our Employee Champions through our Voice to the Board sessions, which Chris Hopkinson (our NED Engagement Champion) has attended.

The Remuneration Committee is, in particular, mindful of the Code requirements to align Executive pension contributions with the wider workforce. During FY21, we aligned the Executive pension contributions with the rate received by other managers at AO and we propose to introduce a flexible benefits plan for the leadership team under which we will ensure that Executive Directors' pension contributions are aligned with the rate received for the majority of the wider workforce in the UK.

Consideration of the impact of remuneration on risk

The Committee is committed to keeping the balance between reward and risk under review to ensure the Policy is aligned appropriately with the risk appetite of the Company. The Committee had conducted this assessment and remains satisfied that the proposed Policy is appropriately aligned with the risk profile of the Company and that the remuneration arrangements, whilst rewarding entrepreneurial spirit and innovation, do not encourage excessive risk taking.

Directors' remuneration report continued

Summary of our remuneration policy

The table below provides a summary of the key aspects of the Policy for Executive Directors

Element	Base salary	Pension	Other benefits
Purpose and link to strategy	<ul style="list-style-type: none"> To aid the recruitment and retention of high-calibre Executive Directors with the expertise and experience to deliver the Company's strategy To reflect individual experience and expertise To provide a fair and appropriate level of fixed basic income 	<ul style="list-style-type: none"> To provide an externally competitive benefit whilst remaining internally consistent with percentages of contributions To provide an appropriate level of percentage of in-service fixed income in retirement 	<ul style="list-style-type: none"> To provide a competitive benefits package to aid recruitment and retention of high-calibre Executive Directors with the expertise and experience to deliver the Company's strategy
Operation	<ul style="list-style-type: none"> Normally reviewed annually, with any increase normally effective on 1 April (increases may be awarded at different times if considered appropriate by the Committee) Set initially at a level required to recruit suitable Executive Directors, reflecting their experience and expertise and in context of other comparable positions Any subsequent increase determined by the Committee may be influenced by (a) the scope of the role; (b) experience and personal performance in the role; (c) average change in total workforce salary; (d) performance of the Company; (e) any changes in the size and complexity of the organisation; (f) any changes in market practice; and (g) external economic conditions, such as inflation Periodic account of practice in comparable companies (e.g. those of a similar size and complexity) may be taken by the Committee 	<ul style="list-style-type: none"> Executive Directors may receive an employer's pension contribution and/or a cash payment in lieu of pension 	<ul style="list-style-type: none"> Directors are entitled to benefits, including a car allowance or company car, private family medical cover, death in service, life assurance and other Group-wide benefits offered by the Company. Executive Directors are also eligible to participate in any all-employee share plans operated by the Company, in line with HMRC guidelines currently prevailing (where relevant), on the same basis as for other eligible employees In certain circumstances, the Committee may also approve additional allowances relating to relocation of an Executive Director or other expatriate benefits (including tax thereon) required to perform the role The Committee may provide other employee benefits to Executive Directors on broadly similar terms to the wider workforce The Committee has the ability to reimburse reasonable business-related expenses and any tax thereon
Maximum opportunity	<ul style="list-style-type: none"> Whilst no monetary maximum has been set, annual increases will generally be linked to those of the average of the wider workforce Increases beyond those awarded to the wider workforce (in percentage of salary terms) may be awarded in certain circumstances, such as where there is a change in responsibility or experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group and where this has also been applied to other employees in similar circumstances The Committee retains the flexibility to set the salary of a new hire at a discount to the market initially, and implement a series of planned increases over the subsequent few years, potentially higher than for the wider workforce, in order to bring the salary to the desired position, subject to Group and/or individual performance 	<ul style="list-style-type: none"> Employer's defined contribution and/or cash supplement of up to 9% of salary (which is the rate received by other managers in the business). We are committing to identify a plan to align pension for the Executive Directors with the rate available to the majority of the wider workforce in the UK by 1 January 2023 	<ul style="list-style-type: none"> As the value of benefits may vary from year to year depending on the cost to the Company and the Executive Director's individual circumstances, no monetary maximum has been set The Committee has discretion to approve a higher cost in exceptional circumstances (such as relocation), or where factors outside of the Committee's control have changed materially (such as increases in insurance premiums)
Framework used to assess performance	<ul style="list-style-type: none"> The Committee reviews the salaries of Executive Directors each year taking due account of all the factors described in how the salary policy operates 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A

AO incentive plan

- To reward the delivery of annual objectives relating to the business strategy
- Through significant deferral into the Company's shares to align the long-term interests of Executive Directors with those of shareholders

- The vesting of awards will be subject to the satisfaction of performance conditions set by the Committee and measured over a performance period
- The performance period will be of at least one year and will normally be one financial year of the Company
- Upon completion of the performance period the Committee will deliver a portion of the award in cash and defer the remaining portion into an award of shares
- No more than one-third of the total award will be delivered in cash
- Deferred share awards will normally be subject to additional performance underpin conditions measured over a period of at least three years running from the end of the performance period
- Normally 62.5% of maximum is payable for target levels of performance with 25% normally paying for threshold levels of performance.
- Following the vesting of deferred shares awards, Executives will normally be required to hold the awards for one further year, bringing the overall period to five years. The shares held may be net of tax if determined by the Committee
- Awards are not pensionable
- Awards are subject to recovery provisions that enable the Committee to withhold or recover the value of awards within five years of the grant date where there has been a material misstatement of accounts, an error in assessing any applicable performance condition or employee misconduct, a material failure of risk management, serious reputational damage; a material corporate failure or any other circumstances that the Board in its discretion considers to be similar in their nature or effect

- Up to 300% of salary for each Executive Director in respect of any financial year

- Awards are based on performance measures with stretching targets as set and assessed by the Committee
- Financial measures (e.g. EBITDA, revenue, cash flow) will represent the majority (at least 50%) of the award, with any other measures representing the balance
- Subject to the above, measures and weightings may change each year to reflect any year-on-year changes to business priorities and ensure they continue to be aligned to the business strategy
- The Committee may, in its discretion, adjust AOIP payouts if it considers that the formulaic outcome is not reflective of the underlying financial or non-financial performance of the Group or the individual performance of the participant over the relevant period, or that such payout level is not appropriate in the context of circumstances that were unexpected or unforeseen when the targets were set. When making this judgement the Committee may take into account such factors as it considers relevant. Any use of discretion will be detailed in the following year's Annual Report on Remuneration
- No vesting will occur below a threshold level of performance as set by the Committee on a year-by-year basis

Value Creation Plan ("VCP")

- To retain and motivate all of our employees and drive exceptional value creation over the long-term

- A conditional share award over ordinary shares in the Company with a value equal to the units in the award. The value of the units will depend on the plan value on the relevant measurement dates
- The plan will be funded based on the creation of shareholder value above share price hurdles as determined by the Committee. The plan will cease funding at a set share price as considered appropriate by the Committee. The plan may be funded at different rates between hurdles if considered appropriate. Details of the share price hurdles are provided in the Annual Remuneration Report.
- For Executive Directors the award will vest (to extent that the share price hurdles are met) with a maximum of one-third following the completion of the performance periods ending 31 March 2027, 31 March 2028 and 31 March 2029 (the measurements dates)
- The level of funding of the plan is subject to a maximum dilution of 5% of the Company's issued share capital.
- Awards are subject to recovery provisions that enable the Committee to withhold or recover the value of awards within three years of each measurement date as set out above where there has been a material misstatement of any Group Member's financial results, an error in assessing the plan value applicable to the award or in the information or assumptions on which the award was granted or vests, a material failure of risk management, fraud or material financial irregularity in any Group Member or a relevant business unit, serious reputational damage to any Group Member or a relevant business unit, serious misconduct or material error on the part of the Participant, a material corporate failure or a material safety failure in any Group Member or a relevant business unit or any other circumstances which the Board in its discretion considers to be similar in their nature or effect.

- The maximum value that an individual can receive from the scheme is capped at £20mn

- Performance will be assessed based on the three-month average share price at each measurement date versus share price hurdles determined by the Committee. These share price hurdles have been disclosed in the Annual Remuneration Report.
- The Committee will have absolute discretion on the vesting of the awards to override the formulaic outcomes. Framework of performance measures (revenue growth profitability, cash, customer satisfaction and employee engagement) for assessing holistic Company performance against macro-economic factors

Directors' remuneration report continued

Historic arrangements

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretion available to it in connection with such payments) notwithstanding that they are not in line with the Policy where the terms of the payment were agreed (i) before 17 July 2014 (the date the Company's first shareholder-approved Directors' remuneration policy came into effect); (ii) before the Policy came into effect, provided that the terms of the payment were consistent with the remuneration policy in force at the time they were agreed; (iii) where otherwise approved by shareholders; or (iv) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Terms of the AO Incentive Plan

Awards under the AO Incentive Plan, may:

- be granted as conditional share awards or nil-cost options or in such other form that the Committee determines has the same economic effect;
- have any performance condition or underpin applicable to them amended or substituted by the Committee if an event occurs that causes the Committee to determine an amended or substituted performance condition or underpin would be more appropriate and not materially less difficult to satisfy;
- incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends, which would have been paid on the shares under a share-based award that vest up to the time of vesting. This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis;
- in respect of the portion of the award granted in shares, be settled in cash at the Committee's discretion (it is intended that this provision would only be used for Executive Directors where it is not possible to settle share portion of the award in shares due to regulatory or legal reasons); and
- be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may materially affect the Company's share price.

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

Choice of performance measures and approach to target setting

The performance metrics and targets that are set for the Executive Directors via the AO Incentive Plan are carefully selected to align closely with the Company's strategic plan.

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

Where possible, the Committee will disclose the targets for each of the Executive Directors' awards in advance in the Annual Report on Remuneration, but targets will generally be disclosed retrospectively where they are considered to be commercially sensitive. The Committee will review the choice of performance measures and the appropriateness of the performance targets prior to each performance year and will consult with major shareholders in the event of any significant proposed change.

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

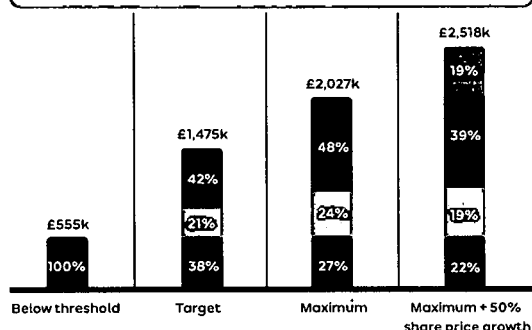
We are seeking to amend the Policy this year in relation to the weightings that apply to financial performance measures against non-financial measures. Whilst our intention is that financial measures together will still comprise a majority of the measures, we are proposing to reduce the minimum level to 50% (previously 70%) to provide the Committee with the flexibility to incentivise management to drive some fundamental strategic initiatives.

Share ownership guidelines

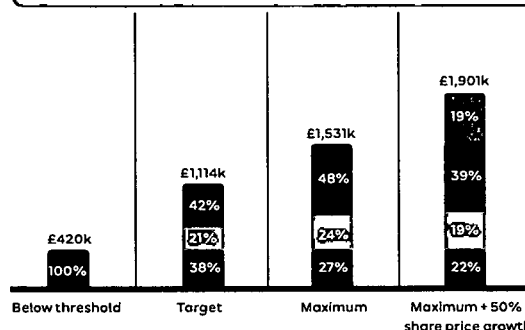
The Committee's Policy is to have formal shareholding guidelines for the Executive Directors, which create alignment between their interests and those of shareholders.

Executive Directors are expected to build a minimum shareholding of 200% of salary. Where the holding is not already attained it is expected to be achieved through retention of at least 50% of shares or the vesting of awards (on a net of tax basis) from share plans.

CEO total remuneration opportunity at different levels of performance



CFO total remuneration opportunity at different levels of performance



- Fixed pay
- AOIP - cash
- AOIP - deferred shares
- ⚡ Share price growth

Post-cessation of office ownership guidelines

Post-employment guidelines were introduced from 1 April 2020 and enhanced in the Policy put forward last year, with Executive Directors now normally being expected to maintain a minimum shareholding of 200% of salary (or actual shareholding if lower) for two years following departure from the Board. The Committee retains discretion to waive this guideline if it is not considered to be appropriate in the specific circumstance.

Differences in remuneration policy for Executive Directors compared to other employees

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

Overall, the remuneration policy for the Executive Directors is more heavily weighted towards performance-related pay than for other employees. In particular, performance-related incentives are generally not provided outside of senior management as they are reserved for those considered to have the greatest potential to influence overall levels of performance. That said, whilst the use of the AO Incentive Plan is confined to the senior managers in the Group, the Company is committed to widespread equity ownership. It has historically rolled out, and intends in the future to roll out, an all-employee SAYE scheme on an annual basis, in which Executive Directors are eligible to participate on a consistent basis to all other employees. Further, as noted above, the VCP implemented during FY21 extends to all current employees, as will the proposed restructured VCP.

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

Reward scenarios

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

Assumptions:

- Below threshold = fixed pay only (i.e. basic salary, benefits and pension).
- Target = fixed pay plus 62.5% of maximum AOIP payout.
- Maximum = fixed pay plus 100% of maximum AOIP payout.
- Maximum + 50% share price growth = fixed pay plus 100% of maximum AOIP payout, with 50% share price appreciation applied to the deferred shares delivered through the AOIP.
- Fixed pay includes the base salaries for each Executive Director applying on 1 April 2022, together with pension (at 9% of base salary), a car allowance of £12,000 for each Executive Director and the value of other taxable benefits (such as medical cover) based on the cost of supplying those benefits in FY22.
- Maximum AOIP Award is equivalent to 300% of salary.

In addition, the Executive Directors will - subject to shareholder approval - also participate in the 2022 VCP, which gives participants the opportunity to share in the value created above a pre-determined share price hurdle. The value of any vested award will be dependent on the Company's share price and performance relative to the targets set. Awards for Executive Directors vest in three equal tranches (with five, six and seven-year performance periods, ending in 2027, 2028 and 2029 respectively), with the total maximum payable capped at £20m for each Executive Director. The VCP is not included in the scenario charts above.

Directors' remuneration report continued

Service contracts, and loss of office payments

Service contracts normally continue until the Executive Director's agreed retirement date or such other date as the parties agree. The Company's policy is that Executive Directors' service contracts must provide that no more than six months' notice to terminate employment (by either party) must be given. However, incumbent Executive Directors' service contracts are subject to 12 months' notice to terminate in line with the historic policy.

A Director's service contract may be terminated without notice and without any further payment or compensation, except for sums earned up to the date of termination, on the occurrence of certain events

such as gross misconduct. The circumstances of the termination (taking into account the individual's performance) and an individual's duty and opportunity to mitigate losses are taken into account by the Committee when determining amounts payable on/following termination. Our Policy is to reduce compensatory payments to former Executive Directors where they receive remuneration from other employment during the notice period. The Committee will consider the particular circumstances of each leaver on a case-by-case basis and retains flexibility as to at what point, and the extent to which, payments would be reduced. Details will be provided in the relevant Annual Report on Remuneration should such circumstances arise. In summary, the contractual provisions are as follows:

Provision	Detailed items
Notice period	12 months from both the Company and incumbent Executive Directors. Six months for newly appointed Executive Directors
Termination payment	Payment in lieu of notice of 115% of base salary, which is calculated 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.

Termination Provisions

AO Incentive Plan

Any cash or share entitlements granted under the AO Incentive Plan will be determined on the basis of the relevant plan rules. During the vesting period, the default position is that where the Executive Director leaves due to ill health, injury or disability, or the sale of their employing company or business out of the Group, the "leaving" Executive Director will be deemed to be a good leaver. In all other circumstances (unless the Committee has exercised its discretion), the "leaving Executive Director" will be classed as a bad leaver and any outstanding awards and unvested share awards will lapse immediately when the Executive Director ceases to be employed by or to hold office with the Group. Where an Executive Director ceases employment during the holding period they shall not normally forfeit their award.

If deemed by the Committee to be a "good" leaver:

- during the performance period, awards will ordinarily continue to be satisfied in accordance with the rules of the plan; and
- during the vesting period, deferred share awards will ordinarily continue to vest on the date when it would have vested as if he had not ceased to be a Group employee or Director.

The extent to which awards may be satisfied and deferred share awards may vest in these circumstances will be determined by the Committee, taking into account the satisfaction of any relevant performance or underpin conditions measured over the original performance period.

Unless the Committee decides otherwise, any outstanding awards will also be reduced to take into account the proportion of the performance period that has elapsed on the individual's cessation of office or employment.

However, the Committee retains discretion to allow awards to be satisfied and deferred share awards to vest as soon as reasonably practicable after the individual's cessation of office or employment. If the participant ceases to hold office or employment prior to the satisfaction of an award, the Committee may also decide to satisfy awards entirely in cash, rather than delivering a deferred share award to the Executive Director.

If a participant dies, unless the Board decides otherwise, their outstanding awards will be satisfied and deferred share awards will vest as soon as reasonably practicable after the date of their death on the basis set out for other "good leavers" above.

Value Creation Plan

Awards normally lapse on cessation of employment. The Committee will have discretion to allow awards to vest in exceptional circumstances as considered appropriate. Awards may be prorated for the proportion of the performance period completed.



Directors' remuneration report continued

Approach to recruitment and promotions

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

- Where new joiners or recent promotions have been given a starting salary at a discount to the mid-market level, a series of increases above those granted to the wider workforce (in percentage of salary terms) may be awarded over the following few years, subject to satisfactory individual performance and development in the role.
- An initial award granted to any new Executive Director under the AO Incentive Plan would operate in accordance with the terms of the Policy. The opportunity would normally be pro-rated for the period of employment unless the Committee determined otherwise. Depending on the timing and responsibilities of the appointment, it may be necessary to set different performance measures and targets in the first year.
- The Committee may also offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company and shareholders. Any such additional payments would normally be based solely on remuneration relinquished when leaving the former employer and would reflect (as far as possible) the nature and time horizons attaching to that remuneration and the impact of any performance conditions. Replacement share awards, if used, will be granted using the Company's existing share plans to the extent possible. Awards may also be granted outside of the Company's existing incentive arrangements if necessary and as permitted under the Listing Rules. Shareholders will be informed of any such payments at the time of appointment.
- Any new Executive Director may participate in the all-employee AO Value Creation Plan on the terms approved by shareholders (subject to approval at the 2022 AGM).
- For an internal Executive appointment, any variable pay element awarded in respect of the former role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment would continue.
- For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as appropriate.

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

Changes of control provisions

AO Incentive Plan

Awards will be satisfied and deferred share awards will vest taking into account the extent to which the performance and/or underpin conditions have been satisfied. In these circumstances, the Committee may determine that any outstanding awards are settled in cash, rather than delivering a deferred share award. Unless the Committee determines otherwise, outstanding awards will also be reduced to take into account the proportion of the performance period that has elapsed. If the Company is wound up or there is a demerger, delisting, special dividend or other event, which, in the Committee's opinion, may materially affect the Company's share price, the Committee may allow awards to be satisfied and deferred share awards to vest on the same basis as a takeover.

Value Creation Plan

Awards will vest based on the value of the plan at the relevant date and any other factors as the Board consider relevant. In these circumstances, the Committee may determine that any outstanding awards are settled in cash.

Chair and Non-Executive Directors' letters of appointment

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

Non-Executive Directors' fees

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

Element	Purpose and link to strategy
Fees	
<p>To recruit and retain high-calibre Non-Executive Directors</p>	<div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> <ul style="list-style-type: none"> • 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 Chair is paid a consolidated all-inclusive fee for all Board responsibilities • The Non-Executive Directors receive a basic Board fee, with additional fees payable for chairing the Audit, Nomination and Remuneration Committees and for performing the Senior Independent Director role • Additional fees may be paid to reflect additional Board or Committee responsibilities as appropriate • The fee levels are reviewed on a periodic basis, with reference to the time commitment of the role and market levels in companies of comparable size and complexity • Non-Executive Directors shall be entitled to have reimbursed all fees (including travel expenses) that they reasonably incur in the performance of their duties. The Company may meet any tax liabilities that may arise on any such expenses • Additional non-significant benefits may be introduced if considered appropriate </div> <div style="width: 35%;"> <p>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.</p> </div> </div>



Directors' remuneration report continued

Annual Report on Remuneration

The Annual Remuneration for FY22 was structured within the framework of the remuneration policy adopted by shareholders in 2021 and has been implemented accordingly. This will be put to an advisory vote at the Company's AGM in September.

Single figure of total remuneration for FY22 (Audited)

The audited table below shows the aggregate emoluments earned by the Directors of the Company during the period 1 April 2021 to 31 March 2022 (or relating to that period in the case of the AO Incentive Plan) (FY22) and, for comparison, the amounts earned during the period 1 April 2020 to 31 March 2021 (or relating to that period in the case of variable remuneration) (FY21).

		Salaries and fees £	Benefits/ taxable expenses £ ¹	Pension ² £	Total fixed £	AOIP cash ³ £	AOIP deferred shares ⁴ £	Total variable £	Total £
Executive Directors									
John Roberts	FY22	476,500	19,960	42,885	539,345	71,475	-	71,475	610,820
	FY21	464,000	19,055	41,200	524,255	452,400	-	452,400	976,655
Mark Higgins	FY22	359,500	16,661	32,355	408,516	53,925	354,210	408,135	816,651
	FY21	350,000	14,536	33,921	398,457	341,250	-	341,250	739,707
Chair									
Geoff Cooper	FY22	200,000	-	-	200,000	-	-	-	200,000
	FY21	200,000	-	-	200,000	-	-	-	200,000
Non-Executive Directors⁵									
Chris Hopkinson	FY22	55,000	-	-	55,000	-	-	-	55,000
	FY21	55,000	-	-	55,000	-	-	-	55,000
Marisa Cassoni	FY22	80,000	-	-	80,000	-	-	-	80,000
	FY21	75,000	-	-	75,000	-	-	-	75,000
Shaun McCabe	FY22	55,000	-	-	55,000	-	-	-	55,000
	FY21	55,000	-	-	55,000	-	-	-	55,000
Luisa D. Delgado ⁶	FY22	62,500	579	-	63,079	-	-	-	63,079
	FY21	65,000	0	-	65,000	-	-	-	65,000
Total	FY22	1,288,500	37,200	75,240	1,400,940	125,400	354,210	479,610	1,880,550
Total	FY21	1,264,000	33,591	75,121	1,372,712	793,650	-	793,650	2,166,362

1 For John Roberts, benefits include medical cover and a car allowance of £12,000 paid in cash and private fuel, and £200 attendance bonus available on the same basis to all employees. For Mark Higgins, benefits include car allowance of £12,000 paid in cash and private fuel and £200 attendance bonus available on the same basis to all employees.

2 Executive Directors were entitled to Company pension contributions of 9% of gross basic salary for FY22. For FY21 they received 12.75% of gross basic salary for the first six months of FY21 with £10,000 being paid into a pension and the balance paid in cash (after deducting employer National Insurance contributions at 13.8%) and from 1 October 2020, the pension contribution rate was reduced to 9% in line with the wider management contribution rate with no NIC deduction.

3 Both John Roberts and Mark Higgins were granted an award under the AO Incentive Plan of 300% of salary for the performance period of FY22. Following partial attainment of the performance conditions 15% of the award has vested of which one-third has been paid in cash with the remaining two-thirds of value payable in the form of a deferred share award. The deferred share award will be released in July 2025 subject to continued employment and attainment of the performance underpin, following which Executives will be required to hold awarded shares for a further year. Given that the deferred shares remain subject to a performance underpin they have not been included in the FY22 single figure. The value of the deferred shares will be disclosed in the single figure in the FY25 Annual Report. As the portion of the AOIP disclosed is in cash, no portion of the value of the award relates to share price appreciation. Discretion has been exercised in respect of the award as noted on page 132.

4 Mark Higgins was granted a conditional deferred share award pursuant to the FY19 AOIP Award which had a deferral period spanning FY20 to FY22 inclusive and which at the point of grant had a value of £343,400. John Roberts was entitled to an FY19 AOIP award in 2018, as founder and Executive Director (but not at that time CEO) but, waived his entitlement to this. The Remuneration Committee has deemed that the performance underpin has been met in full and accordingly 371,484 shares will be issued to Mark in August. For the purpose of the single figure these awards have been valued based on the three-month average share price to 31 March 2022 of 95.35p. The share price used to determine the award in July 2019 was 92.44p. 31% of the value disclosed is therefore attributable to share price growth. The Committee did not exercise discretion in relation to this share price appreciation.

5 Reasonable expenses incurred by any Non-Executive Director will be reimbursed by the Company but they have no other contractual entitlement to benefits. For Non-Executive Directors, certain expenses relating to the performance of a Non-Executive Director's duties in carrying out activities, such as accommodation, travel and subsistence relation to Company meetings, are classified as taxable benefits by HMRC and as such are reported here.

6 Luisa Delgado stepped down from office on 31 January 2022.

Details of variable pay earned in FY22 (Audited)

AO Incentive Plan FY22 Award

John Roberts and Mark Higgins both participated in the AO Incentive Plan (which combines a cash award and conditional deferred share award) under which they could receive an award of up to 300% of salary, for the year ended 31 March 2022.

The targets for the AO Incentive Plan Award were weighted towards financial metrics (70%), with the remaining 30% subject to the achievement of strategic objectives; as set out below.

The following table sets out the targets, actual performance against these targets and accordingly, the applicable payout for the FY22 AO Incentive Plan Award.

Measure (weighting)	Targets		% payout (for this element)	Performance achieved	Award
Group revenue (25%)	Threshold	£1,86bn	25%		
	On target	£1,96bn	62.5%	£1,58bn	0%
	Stretch	£2,06bn	100%		
Group Adjusted EBITDA (20%)	Threshold	£45m	25%		
	On target	£60m	62.5%	£8.5m	0%
	Stretch	£75m	100%		
Cash inflow (10%)	Threshold	£11.2m	25%		
	On target	£26.2m	62.5%	-£47.6m	0%
	Stretch	£41.2m	100%		
AO.com non-MDA revenue growth (5%)	Threshold	10% YOY	25%		
	On target	15% YOY	62.5%	<0	0%
	Stretch	20% YOY	100%		
Germany Revenue (with EBITDA underpin) (10%)	Threshold	£316m	25%		
	On target	£332.6m	62.5%	£189m	0%
	Stretch	£349.2m	100%		
Customer NPS (10%)*	Threshold	70	25%		
	On target	75	62.5%	85	10%
	Stretch	80	100%		
Employee NPS (10%)	Threshold	15	25%		
	On target	30	62.5%	2	0%
	Stretch	45	100%		
Business Transformation (10%)	Committee judgement based on the progress achieved in relation to the transformation of the business			5	5%
				Total	15%

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

Performance against financial targets

As is covered earlier in this report, the Group has had a challenging year in the aftermath of Covid as we have seen customers return to stores at rates greater than we anticipated and also as we have seen online competition intensify. None of the financial performance conditions were met and accordingly, no awards made in respect of them.

Performance against strategic targets

The Committee is delighted that customer satisfaction, measured via NPS, has remained strong over the year. For ao.com and ao.de respectively we have achieved average NPS scores of 86 and 87. Our Mobile Phones Direct business achieved an average NPS of 75 which, whilst lower than the AO branded platforms, is still considered "Excellent". These scores are market leading and an excellent achievement by the team during a rather turbulent year and as the business has suffered unexpected challenges and difficult consumer markets. Accordingly, the Committee has determined that this performance condition has been met in full.

Directors' remuneration report continued

The employee NPS score has fallen during the year as we have sought to right-size the business in light of market conditions to reduce the infrastructure and supporting teams that we had invested in to capitalise on the rapid growth initially presented by Covid. Whilst the latest employee survey indicated many positive sentiments on culture, the Committee did not feel it appropriate for any of the 10% pertaining to this metric to be awarded given the low score.

The business transformation target related to the design of a target operating model which would be the blueprint of how people, processes and systems would need to be structured, and would set out the required capabilities to deliver the strategy and the roadmap

to fulfilling these capabilities and structures and would include ERP design and how international expansion would be structured. Given the market challenges faced by the Group, in both the UK and Germany which were unexpected at the time the target was set, the strategic review of Germany and the work that has been done to simplify the business, reduce costs and right-size it accordingly, the Committee judged that half of the amount pertaining to this metric, i.e. 5% should be awarded.

In total, therefore, we have awarded 15% of the maximum award to our Executive Directors.

	Max opportunity (% salary)	Outcome % max	Cash award (1/3rd) ¹	Share award (2/3rd) ²
CEO	300%	15%	£71,479	£142,958
CFO	300%	15%	£53,918	£107,835

¹ The cash element has been paid following the determination of vesting by the Board.

² The share award will be granted in August 2022 and these shares will be deferred for a period of three years. The vesting of these shares is subject to the performance of the business until the completion of our financial year ending 31 March 2025 as well as the Executive's continued employment. Following release of the award, Executives will be required to hold such shares for a further one-year period.



Release of shares under the FY19 AOIP Award

Mark Higgins was granted a conditional deferred share award pursuant to the FY19 AOIP Award which had a deferral period spanning FY20 to FY22 inclusive and which at the point of grant had a value of £343,400. The Remuneration Committee has deemed that the performance underpin has been met in full and accordingly 371,484 shares will be issued to Mark in August.

Percentage change in remuneration levels (Unaudited)

The table below shows the movement in the salary, benefits and cash element of the AO Incentive Plan Award for each Director between the financial year ended 31 March 2022 and the previous financial year compared to that for the average employee of the Company - AO World PLC - (but not the wider Group). For the benefits and bonus/Incentive Award (cash element) per employee, this is based on those employees eligible to participate in such schemes.

	FY22 vs FY21			FY21 vs FY20		
	Salary ¹	Taxable benefits ²	AOIP cash element ³	Salary ¹	Taxable benefits ²	AOIP cash element ³
John Roberts	2.7%	4.3%	-84%	3%	-10.8%	110%
Mark Higgins	2.7%	1.1%	-84%	3%	-14.3%	110%
Geoff Cooper	0%	0%	0%	0%	0%	0%
Chris Hopkinson	0%	0%	0%	0%	0%	0%
Marisa Cassoni ⁴	6%	0%	0%	0%	0%	0%
Shaun McCabe	0%	0%	0%	0%	0%	0%
Luisa Delgado ⁵	13%	0%	0%	0%	0%	0%
Other employees (AO World PLC)	-1.1%	7.4%	221%	4%	-29.9%	102%

¹ Reflects the average change in pay for employees, calculated by reference to the aggregate remuneration for all employees of AO World PLC in each year divided by the number of employees.

² There are no changes to benefit entitlements for employees or Executives; percentage changes relate only to inflationary costs of providing these benefits.

³ The percentage change in remuneration AO Incentive Plan Award cash element for "other employees" is calculated by looking at the average amount participants in the scheme for FY21 received in cash, compared to the cash element participants in the AO Incentive Plan are expected to receive relating to FY22, in each case excluding Executive Directors.

⁴ Marisa Cassoni received an increase in fees following an increase in the additional fee paid to the Audit Chair.

⁵ Luisa Delgado received an increase in fees following an increase in the additional fee paid to the Remuneration Committee Chair based on the fees payable for a full year.

Directors' remuneration report continued

Performance graph and pay table (Unaudited)

The chart below shows the Company's TSR performance against the performance of the FTSE 250 Index from 25 February 2014 (the date on which the Company's shares were first conditionally traded) to 31 March 2021. This index was chosen as it represents a broad equity market index, of which AO has historically been a constituent, which includes companies of a broadly comparable size and complexity.

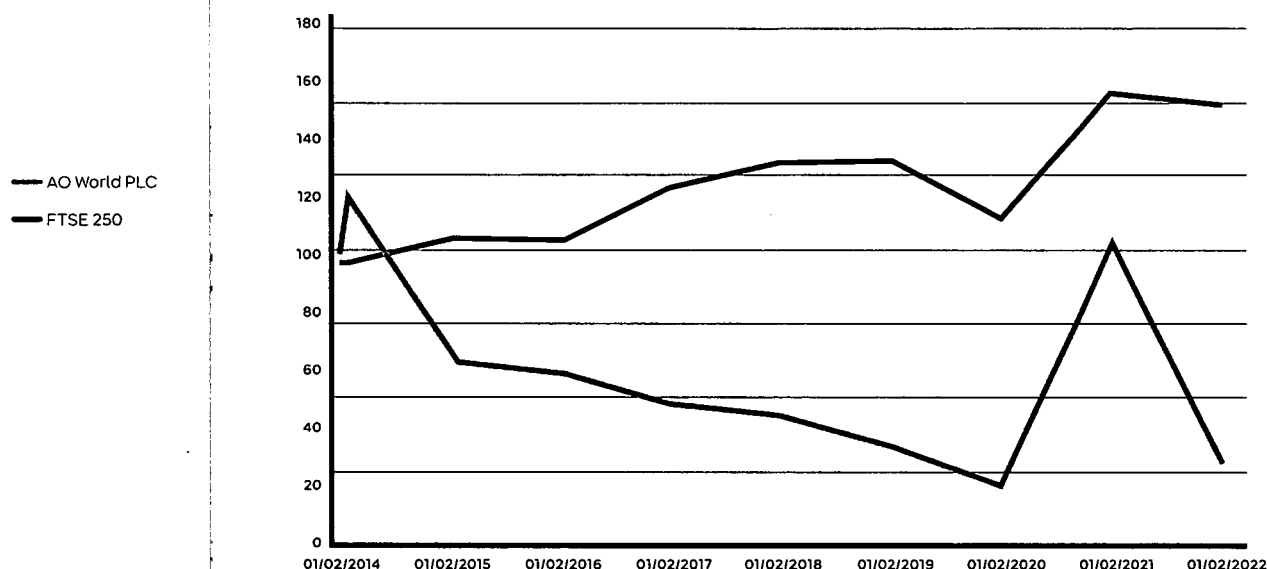


Table 2, below, shows the total remuneration figure for the Chief Executive during the financial years ended 31 March 2013 to 31 March 2022. The total remuneration figure includes the annual bonus payable for performance in each of those years up to FY19 and from FY19 the cash element of the AOIP. The annual bonus percentage shows the payout for each year as a percentage of the maximum.

② Total remuneration of CEO

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Total remuneration (£'000) [†]	227 [†]	537 [†]	537 [†]	588 [†]	575 [*]	781 [*]	551 ^{†*}	733 [†]	977 [†]	611 [†]
Annual bonus (% of maximum)	0%	0%	0%	10%	10%	37.5%	-	-	-	-
AO Incentive Plan Award (% of maximum)	-	-	-	-	-	-	50.5%	47.8%	97.5%	15%
PSP vesting (% of maximum)	-	-	-	-	-	-	8.59%	-	-	-

[†] John Roberts ^{*} Steve Counce [†] Figures calculated for full year pro-rata

Relative importance of the spend on pay (Unaudited)

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

	FY21	FY22	% change
Staff costs ¹	£144.7m	£172.7m	19.4%
Distributions to shareholders	No distributions were made to shareholders in FY22 or FY21		

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

CEO pay ratio

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

Year	Method	P25 25th percentile pay ratio	P50 50th percentile pay ratio	P75 75th percentile pay ratio
FY22	Option A	27:1	23:1	16:1
FY21	Option A	46:1	37:1	26:1
FY20	Option A	35:1	28:1	20:1

Notes:

1. Of the three calculation approaches available in the regulations, we have chosen Option A as we believe it to be the most appropriate and statistically accurate means of identifying the median, lower and upper quartile employees.
2. The single total figure of remuneration of all AOers employed by the Group for FY22 was calculated and ranked using 2021/22 P60 and P11D data, employer pension contributions and payments under the Company share schemes, in line with the reporting regulations. The total remuneration for FY22 for the employees identified at P25, P50 and P75 is £22,643, £27,218, and £37,860 respectively. The base salary in respect of FY22 for the employees identified at P25, P50 and P75 is £21,247, £26,106 and £35,757 respectively.
3. FY22 payments to the wider employee base referred to above include the FY21 cash element of the FY20 AOIP payment, which was paid in FY21, but for the CEO, we have used the single total figure value, which includes the FY22 AOIP cash payment paid in early FY23, but which relates to the FY22 performance.
4. Part-time colleagues' earnings have been annualised on a full-time equivalent basis. In-year joiners' earnings were also annualised on the same full-time equivalent basis.



Directors' remuneration report continued

These ratios form part of the information provided to the Committee on broader employee pay practices to inform remuneration decisions for Executive Directors and senior management. As noted in the policy section, the Company's principles for making pay decisions for our Executives are the same as for the wider workforce, reflecting our One AO Pay Philosophy; a fair and attractive reward package, market competitive in the context of the relevant talent market and differentiated by the level of value creation.

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

Given a significant proportion of the CEO's total remuneration is variable and linked to the AOIP, the decrease in the pay ratio this year compared to last is influenced by the AOIP outcome (which has vested at 15% for FY21 vs 97.5% in the prior year for the CEO).

For the reasons given above and AOIP outcomes, the Company believes that the ratio is consistent with the pay, reward and progression policies across the Group.

Payments to past Directors and loss of office payments (Audited)

There were no payments to past Directors or loss of office payments made in the year ended 31 March 2022.

External appointments

No fees were received by Executive Directors for external appointments during the year ended 31 March 2022.

Directors' shareholdings and share interests (Audited)

Directors' shareholdings as at 31 March 2022 are set out below in Table 3.

During the year under review no options were exercised by either of the Executive Directors.

There have been no changes to Directors' shareholdings during the period from 1 April 2022 to the date of this report save that shortly following year end John Roberts made a gift of 1,472,416 shares to a charitable trust. Although Mark Higgins, Chris Hopkinson, Marisa Cassoni and Geoff Cooper did not participate in the Company's recent capital raise due to the requirements of MAR they have each indicated their intention to subscribe for 19,080, 2,000,000, 10,520 and 25,701 ordinary shares respectively following the announcement of the Group's results for FY22 at the placing price.

3 Directors' shareholdings

	Shares held beneficially at 31 March 2022 ¹	Target shareholding guidelines (% of salary) ²	Target shareholding achieved	PSP options ³	AOIP options ⁴	SAYE options ⁵
Geoff Cooper	128,573	N/A	N/A	N/A	N/A	N/A
John Roberts	107,360,413	200%	Yes	43,153	674,900	5,421
Mark Higgins	95,448	200%	No	NIL	880,923	NIL
Chris Hopkinson	22,631,306	N/A	N/A	N/A	N/A	N/A
Marisa Cassoni	52,628	N/A	N/A	N/A	N/A	N/A
Shaun McCabe	NIL	N/A	N/A	N/A	N/A	N/A
Luisa D. Delgado ⁶	NIL	N/A	N/A	N/A	N/A	N/A

¹ Includes shares held by connected persons.

² Comprises shares held beneficially only (and excludes options).

³ For John Roberts, these PSP options relate to the 2016 PSP award that has vested, but which options have yet to be exercised.

⁴ For John Roberts, conditional awards over 284,900 shares were awarded in July 2020 as part of the AOIP FY20 award (based on a share price of £1.51), which will be released in July 2023 subject to the attainment of the performance underpin and continued employment. Conditional awards over 390,000 shares were awarded in July 2021 as part of the AOIP FY21 award (based on a share price of £2.32), which will be released in July 2024 subject to the attainment of the performance underpin and continued employment.

For Mark Higgins, conditional awards over 371,484 were awarded in July 2019 as part of the FY19 AOIP Award, which will be released in August 2022. Further conditional awards over 215,258 shares were awarded in July 2020 as part of the AOIP FY20 award (based

on a share price of £1.51), which will be released in July 2023 subject to the attainment of the performance underpin and continued employment. Further conditional awards over 294,181 shares were awarded in July 2021 as part of the AOIP FY21 award (based on a share price of £2.32), which will be released in July 2024 subject to the attainment of the performance underpin and continued employment.

Further share awards are expected to be granted to John Roberts and Mark Higgins in September 2022 as part of the AO Incentive Plan Award FY22 grant – with a value of £142,958 and £107,835 at grant respectively, which will be released in July 2025 subject to the attainment of the performance underpin and continued employment.

⁵ John entered into a SAYE contract during FY21, under which options over 5,421 were granted.

⁶ Luisa Delgado stepped down from office on 31 January 2022 – figures relate to Luisa's shareholding on this date.

Implementation of remuneration policy for 2022/2023 ("FY23")

The Policy can be found on pages 120 to 129 of this Annual Report.

Salary

Salary increases have been awarded to the Executives at 3% with effect from 1 April 2022, in line with the rate granted to the wider workforce.

The current salaries as at 1 April 2022 (and those as at 1 April 2021) are as follows:

Individual	Role	Base salary at 1 April 2022	Base salary at 1 April 2021*	% increase
John Roberts	CEO	£490,795	£476,500	3%
Mark Higgins	CFO	£370,285	£359,500	3%

* Whilst not in force at 1 April 2021, following its in-depth review into salaries, the Committee, part way through FY22, awarded a 2.7% increase to the Executives (being the increase granted to UK employees at the April pay review) backdated to 1 April 2021.

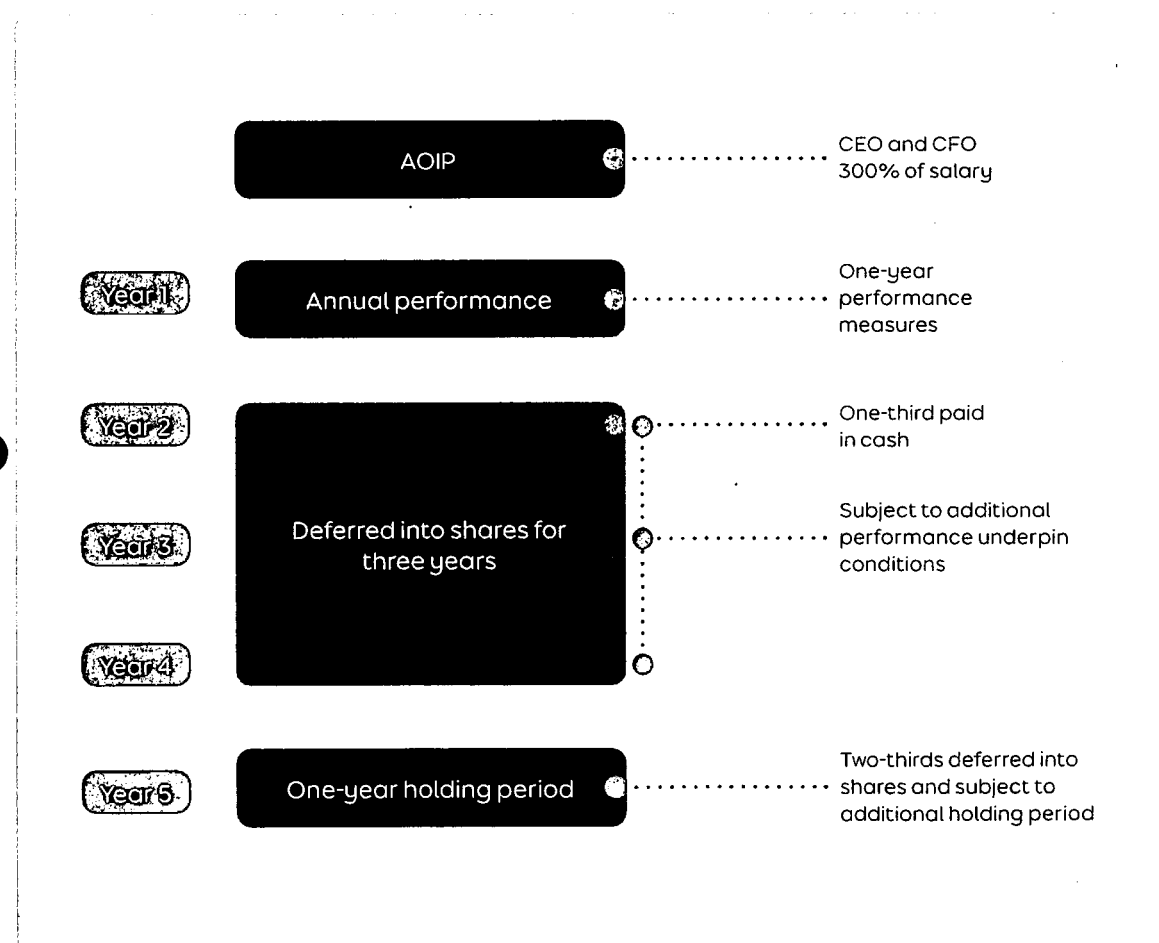
For comparison, the average salary increase provided to all UK employees in April 2022 was 3%.

Pension and other benefits

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

Executives may also continue to receive benefits, if they so elect, comprising a car allowance of £12,000 each, private family medical cover, gym membership and death in service life assurance and private fuel.

AO Incentive Plan



Directors' remuneration report continued

AO Incentive Plan

In respect of FY22, the Executive Directors will have a maximum award opportunity of 300% of basic salary. Performance will be measured between 1 April 2022 and 31 March 2023 and against the measures disclosed below.

Subject to the achievement of the performance measures, one-third of the award will be paid in cash subject to approval of the audited accounts for FY23. The remaining two-thirds of the award will be granted in shares. These shares will vest after three years subject to the Committees' satisfaction that their value reflects the underlying performance of the business and, post vesting, are subject to a one-year holding period. This, therefore, means the total performance, vesting and holding period is five years, in line with the requirements in the Code.

Performance conditions for the FY23 AO Incentive Plan Award

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

1. Financial (output) metrics focused on profit before tax and liquidity headroom;
2. A strategic transformation measure, specifically aimed at transforming the strategy of the business (away from growth at all costs to a more simplified UK-only business focused on profitable growth); and
3. Stakeholder impact measures focusing on customers and employees.

Whilst we recognise the importance of ESC, given the extraordinary market dynamics and the cost of living crisis affecting consumers, the focus for this year needs to be on driving profitable growth whilst maintaining appropriate cash resources, and so we do not have ESC specific metrics; albeit the stakeholder measures encompassing customers and employees are aimed at ensuring the goodwill of the business and driving long-term sustainability.

The Committee believes these measures provide the appropriate balance, driving transformation, recognising the importance of some of our stakeholders, and output measures that should drive the creation of shareholder value.

For the financial/output metrics we have set targets with regard to the Company's budget for the year ahead and following a robust process with a stretching and ambitious mindset. We deem the budget numbers to be commercially sensitive at this juncture but will disclose these retrospectively in next year's Annual Report on Remuneration.

As can be seen on pages 26 and 27 and 22 to 25, customer and employee satisfaction are central to our strategy with both being key drivers for creating long-term sustainable growth.

Our customer NPS results are already best-in-class

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

Employee NPS (ENPS) remains a key measure and is derived from responses to a specific engagement survey question "How likely are you to recommend AO as a place to work?" This question can, via proven methodologies, be empirically translated into an externally benchmarked engagement score. AO's ENPS will be calculated by taking the results from employee surveys in the UK throughout the performance period.

	Performance condition	Weighting
Group financial (60%)	UK PBT	30%
	Liquidity headroom	30%
Strategic transformation non-financial (20%)	Strategic pivot	20%
Stakeholder measures non-financial (20%)	Customer NPS	10%
	Employee NPS	10%

The award pays out in full for achieving maximum levels of performance, 62.5% of maximum pays out for achieving target levels of performance. The target requirements are set to be significantly stretching and therefore the Committee considers that this level of payout at target is appropriate. 25% of maximum pays out for threshold performance.

The Committee has discretion to override the formulaic outcome if it considers that the formulaic outcome is not reflective of the underlying financial or non-financial performance of the Group or the individual performance of the participant over the relevant period.

AO All Employee Value Creation Plan

As noted in the annual statement from the Chair of the Remuneration Committee, we are seeking to introduce a new Value Creation Plan, subject to shareholder approval at the 2022 AGM.

This new plan directly aligns to the long-term vision and strategy of the Company, as restructured following our exit of the German market and our pivot to focus on generating profitable growth in our UK markets and cash generation. As before the VCP is aimed at incentivising and rewarding exceptional performance and retaining the talented team whilst driving exceptional value creation for shareholders and long-term investors.

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

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

- **Eligibility** - all employees, including Executive Directors.
- **Form of Award** - a conditional share award over ordinary shares in the Company with a value equal to the units in the award. The value of the units will depend on the plan value on the relevant measurement dates.
- **Mechanics** - the plan will begin funding at a share price of £1 (equivalent to market cap of c.£575mn with our current share capital) and from there will fund a rate of 5.5% of value created. In each case, 30% of the plan value will be allocated in total to the two current Executive Directors and COO (10% each), capped at a maximum payout of £20mn for each, with the remaining 70% allocated to current and future employees. The plan would cease funding on achievement of a £10.43 share price (equivalent to market cap of £6.0bn with our current share capital).
- **Dilution** - the level of funding is subject to a maximum dilution of 5% of the Company's issued share capital.
- **Individual cap** - there is a cap on the aggregate payments to any individual of £20m. This maximum payment is only achievable if the Company's share price reaches £7.32 by March 2027 and is at or above that same level in March 2028 and 2029. The maximum individual payment in any given year under the VCP is £6.67m.
- **Performance and vesting**
 - (Executive Directors and COO) - three-month average share price measured at:
 - < 31 March 2027 (5 year performance period) - maximum 1/3rd vests
 - < 31 March 2028 (6 year performance period) - maximum 1/3rd vests
 - < 31 March 2029 (7 year performance period) - maximum 1/3rd vests
 - All other employees - three-month average market cap measured at:
 - < 31 March 2027 (5 year performance period) - maximum 100% vests. Remuneration Committee retains discretion to the treatment of awards after year 5 including ability to measure performance at a later date
- Share-based payment - awards will normally be a conditional share award over ordinary shares in the Company settled in AO shares therefore providing for all employee share ownership. The Company retains flexibility to settle in cash if required.
- Leavers and Joiners - awards normally lapse on cessation of employment. The Committee will have discretion to allow awards to vest in exceptional circumstances. Awards may be pro-rated for the proportion of the performance period completed.
- Recovery provisions - awards for Executive Directors and certain other key employees are subject to extended malus and clawback terms. Clawback will apply for up to 3-years following the end of each performance period (i.e. up to 10 years in total).
- Discretion - the Committee will have absolute discretion on the vesting of the awards to override the formulaic outcomes. In exercising such discretion, the Committee would take into account a number of factors to assess holistic Company performance against macro-economic conditions, including, but not limited to, revenue growth, profitability, cash, customer satisfaction and employee engagement.

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

Share Price	£1 ¹	£4.34 ²	£10.43 ³
Annualised growth from 11 July 2022 (£0.43)	18%	59%	89%
Additional value created for shareholders from 11 July 2022	£328m	£2.25bn	£5.75bn
Executive Directors each	Nil	£10.6m	£20m
Total employee pool to be distributed to eligible employees	Nil	£74.1m	£238.4m

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

² Equates to a market cap of £2.5bn based on the current issued share capital plus the directors intended subscriptions as part of the recent placing.

³ Equates to a market cap of £6.0bn based on the current issued share capital plus the directors intended subscriptions as part of the recent placing.

Directors' remuneration report continued

This new 2022 will replace the current VCP approved in 2020.

All-employee share plans

The Company proposes to roll out a new SAYE scheme each year and all Executive Directors will be entitled to participate on the same basis as other employees.

Share ownership requirements

As with prior years, the required share ownership level for the Executive Directors for FY22 will be 200% of salary.

All Executives are required to hold shares to the value of 200% of salary for two years following stepping down from the Board.

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

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

Non-Executive Director fees

There have been no increases to Non-Executive Director fees for FY23 and fees remain as shown below.

Non-Executive Director fees	2022/2023	2021/2022	% change
Chair fee covering all Board duties	£200,000	£200,000	0%
Non-Executive Director basic fee	£55,000	£55,000	0%
Supplementary fees to Non-Executive Directors covering additional Board duties			
Audit Committee Chair fee	£15,000	£15,000	0%
Remuneration Committee Chair fee	£20,000	£20,000	0%
Senior Independent Director fee	£10,000	£10,000	0%

Details of Directors' service contracts and letters of appointment

Details of the service contracts and letters of appointment in place as at 31 March 2022 for Directors are shown in Table 4, below.

Geoff Cooper, Marisa Cassoni and Chris Hopkinson have agreed to extensions of the term of their appointments following expiry of the initial three-year terms and subsequent extensions. The extension of such appointment is subject to the terms of the letters of appointment in force.

4 Directors' service contracts and letters of appointment

Director and date of service contract or letter of appointment	Unexpired term	Notice period by Company (months)	Notice period by Director (months)	Date joined Group
Marisa Cassoni 31/01/2014	Initial term of three years expired - renewed for successive one-year periods subject to termination by either party	3	3	05/02/2014
Geoff Cooper 01/07/2016	Initial term of three years from date of letter subject to notice - renewed for successive one-year periods subject to termination by either party	3	3	01/07/2016
Mark Higgins 31/05/2014	Continuous employment until terminated by either party	12	12	10/07/2011
Chris Hopkinson 14/02/2014	Initial term of three years expired - renewed for successive one-year periods subject to termination by either party	3	3	12/12/2005
Shaun McCabe 25/07/2018	Initial term of three years from date of appointment	3	3	25/07/2018
John Roberts 14/02/2014	Continuous employment until terminated by either party	12	12	19/04/2000

Remuneration Committee membership

The members of the Committee were, for the year in question, Luisa D. Delgado (Chair), until 31 January 2022 Marisa Cassoni, and Shaun McCabe who has taken the role of Interim Chair following Luisa's departure. Geoff Cooper has also joined the Committee as interim member, whilst the search for new Non-Executives is underway.

All current members of the Committee are deemed to be independent. Accordingly, the Committee continues to comply with the independence requirements set out in the Code.

During FY22, there were six formal meetings of the Remuneration Committee, all of which achieved full attendance by the relevant committee members.

The responsibilities of the Committee are set out in the corporate governance section of the Annual Report on page 94 onwards. The Executive Directors and the HR Director may be invited to attend meetings to assist the Committee in its deliberations as appropriate. The Committee may also invite other members of the management team to assist as appropriate. No person is present during any discussion relating to their own remuneration or is involved in deciding their own remuneration.

Advisers to the Committee

Deloitte LLP provided advice during the year to 31 March 2022 in relation to incentive arrangements and the review of the remuneration policy for Executive Directors. It was appointed by the Committee. Deloitte is a signatory to the Remuneration Consultants Group Code of Conduct and any advice provided by them is governed by that code.

Deloitte also provided certain tax advice during the year to the Group.

The Committee is committed to regularly reviewing the external adviser relationship and is comfortable that Deloitte's advice remains objective and independent and that the engagement team, which provides advice to the Committee, do not have connections with the Company or any of its Directors, which may impair their independence.

For the year under review, Deloitte's fees for remuneration advice were £51,300 plus VAT.

Shareholder feedback (Unaudited)

At the 2021 ACM, the Annual Remuneration Report for the year ended 31 March 2021 was put to shareholders by way of an advisory vote and the Policy was put to shareholders for a binding vote. Votes cast are set out in the table below.

	Votes in favour No. of shares	%	Votes against No. of shares	%	Total number of votes cast	Votes withheld No. of shares
2021: To approve the Directors' remuneration report	380,758,176	93.70	25,600,788	6.30	406,358,964	511
2021: To approve the Directors' remuneration policy	395,008,912	97.62	9,617,077	2.38	404,625,989	1,733,486

As ever, the Committee welcomes any enquiries or feedback shareholders may have on the Policy or the work of the Committee.

Shaun McCabe

Interim Chair, Remuneration Committee

AO World PLC

17 August 2022

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 2022. This report set outs additional statutory information.

2022 Annual General Meeting

The Annual General Meeting (“AGM”) of AO World PLC (the “Company”) will be held at 5a The Parklands, Lostock, Bolton BL6 4SD on Wednesday 28 September 2022 at 8.00am. The notice convening the meeting with details of the business to be transacted at the meeting and explanatory notes is set out in a separate AGM circular which has been issued to all shareholders at the same time as the Report.

Results and dividends

The Group's and Company's audited financial statements for the year are set out on pages 159 to 202. The Directors do not recommend payment of a dividend by the Company in respect of the year ended 31 March 2022.

Issued share capital and control

The Company's issued share capital comprises of ordinary shares of 0.25p each of which are listed on the London Stock Exchange (LSE: AO.L). The ISIN of the shares is GB00BJTNFH41. As at 31 March 2022, the issued share capital of the Company was £1,198,806.32, comprising 479,522,526 ordinary shares of 0.25p each. As at the date of this document the issued share capital of the Company was £1,433,309.44 comprising 573,323,777 ordinary shares of 0.25p each. Please see Post Balance Sheets Events on page 144 for further information.

During the year, the Company issued 132,684 ordinary shares of 0.25p each to satisfy the exercise of options under the AO 2016 Employee Reward Plan (July 2018 grant) and 12,337 ordinary shares of 0.25p each to satisfy the early exercise of options under the AO World Sharesave scheme (2020 grant). Further details of the issued share capital of the Company, together with movements in the issued share capital during the year, can be found in Note 28 to the financial statements on page 186. All the information detailed in Note 28 on page 186 forms part of this Directors' report and is incorporated into it by reference.

Details of employee share schemes are provided in Note 31 to the financial statements on pages 186 to 189.

At the Annual General Meeting of the Company, to be held on 28 September 2022, the Directors will seek authority from shareholders to allot shares in the capital of the Company up to a maximum nominal amount of £955,539.63 (382,215,851 shares (representing approximately 66.6% of the Company's issued ordinary share capital)) of which 191,107,925 shares (representing approximately 33.3% of the Company's issued ordinary share capital (excluding treasury shares)) can only be allotted pursuant to a rights issue.

Authority to purchase own shares

The Directors will seek authority from shareholders at the forthcoming Annual General Meeting for the Company to purchase, in the market, up to a maximum of 57,332,377 of its own ordinary shares, either to be cancelled or retained as treasury shares. The Directors will only use this power after careful consideration, taking into account the financial resources of the Company, the Company's share price and future funding opportunities. The Directors will also take into account the effects on earnings per share and the interests of shareholders generally.

Rights attaching to shares

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

No shareholder holds shares in the Company that carry special rights with regard to control of the Company. There are no shares relating to an employee share scheme that have rights with regard to control of the Company that are not exercisable directly and solely by the employees, other than in the case of the AO Sharesave Scheme, the AO Performance Share Plan (“PSP”), the Employee Reward Plan (“ERP”) or the AO Single Incentive Plan (“AOIP”), where share interests of a participant in such scheme can be exercised by the personal representatives of a deceased participant in accordance with the scheme rules.

Voting rights

Each ordinary share entitles the holder to vote at general meetings of the Company. Under the Articles, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded. On a show of hands, every member who is present in person or by proxy at a general meeting of the Company shall have one vote. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are a holder.

Shareholders are also encouraged to vote by taking advantage of the Company registrar's secure online voting service which is available at aoshareportal.com or by requesting a Form of Proxy from them and returning it by post. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting. No member shall be entitled to vote at any general meeting either in person or by proxy, in respect of any share held by them unless all amounts presently payable by them in respect of that share have been paid. Save, as noted, there are no restrictions on voting rights nor any agreement that may result in such restrictions.

Restrictions on transfer of securities

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

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

3. in uncertificated form to a person who is to hold it thereafter in certificated form in any case where the Company is entitled to refuse (or is excepted from the requirement) under the Uncertificated Securities Regulations to register the transfer; or
4. where restrictions are imposed by laws, and regulations from time to time apply (for example insider trading laws).

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

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

Change of control

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

Save, in respect of the Company's share schemes, the Revolving Credit Facility agreement entered into with Lloyds Bank Plc, Barclays Bank Plc, HSBC Bank Plc and Natwest Bank Plc on 6 April 2020 (with UniCredit Bank AG replacing Lloyds Bank Plc during the prior year reporting period), there are no significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control.

Interests in voting rights

At the date of this report, the Company had been notified in accordance with chapter 5 of the Financial Services Authority's Disclosure Guidance and Transparency Rules, or was aware of (to the best of its knowledge) the following significant interests:

Shareholder	Number of ordinary shares/ voting rights notified or aware of	Percentage of voting rights over ordinary shares of 0.25p each
Camelot Capital Partners LLC	117,666,848	20.52%
John Roberts ¹	107,360,413	18.73%
Odey Asset Management LLP (including through financial instruments)	87,603,880	15.28%
Phoenix Asset Management Partners Limited	25,550,000	4.46%
Conifer Capital Management LLC	35,378,376	6.17%
Christopher Hopkinson ²	22,631,306	3.95%
Invesco Limited	20,354,689	3.55%

¹ Holding includes 882,350 ordinary shares held by Sally Roberts, defined under MAR as a person with whom John Roberts is closely associated, and 6,348 ordinary shares held by Crystalcraft Limited, a company of which he is a director and shareholder.

² Holding includes 350,877 ordinary shares held by Cayle Holstead, defined under MAR as a person with whom Christopher Hopkinson is closely associated but excludes 250,000 ordinary shares held in a Pension of which Mr Hopkinson is one of the beneficiaries.

Directors' report continued

Directors

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

Director	Position	Served in the year ended 31 March 2022
Geoff Cooper	Chair	Served throughout the year
Marisa Cassoni	Senior Independent Non-Executive Director	Served throughout the year
Luisa D. Delgado	Independent Non-Executive Director	Resigned 31 January 2022
Mark Higgins	Chief Financial Officer	Served throughout the year
Chris Hopkinson	Non-Executive Director	Served throughout the year
Shaun McCabe	Independent Non-Executive Director	Served throughout the year
John Roberts	Founder and Chief Executive Officer	Served throughout the year

Their biographical details are set out on pages 92 and 93. Further details relating to Board and Committee composition are disclosed in the Corporate Governance report and Committee reports on pages 94 to 99.

Appointment and replacement of Directors

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

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

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

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

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

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

- 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;
- a bankruptcy order is made against that person;
- a composition is made with that person's creditors generally in satisfaction of that person's debts;
- that person resigns or retires from office;
- in the case of a Director who holds any Executive office, their appointment as such is terminated or expires and the Directors resolve that they should cease to be a Director;

- that person is absent without permission of the Board from Board meetings for more than six consecutive months and the Directors resolve that they should cease to be a Director; or
- a notice in writing is served upon them personally, or at their residential address provided to the Company for the purposes of section 165 of the Companies Act 2006, signed by all the other Directors stating that they shall cease to be a Director with immediate effect.

For further details of our Directors, please refer to pages 92 and 93.

Amendment of the Articles

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

Post-balance sheet events

On 11 July 2022 the Company completed a Capital Raise through the issue of 93,801,251 new ordinary shares of 0.25p each in the Company raising £40.3million (before expenses). The net proceeds of the Capital Raise will strengthen the balance sheet and increase liquidity back to historic levels (relative to revenue base), and provide the flexibility to pursue our market opportunities.

Although Mark Higgins, Chris Hopkinson, Marisa Cassoni and Geoff Cooper did not participate in the Company's recent capital raise due to the requirements of MAR they have each indicated their intention to subscribe for 19,080, 2,000,000, 10,520 and 25,701 ordinary shares respectively following the announcement of the Group's results for FY22 at the placing price.

On 9 June 2022 the Group announced the conclusion of a strategic review of its German business (AO Deutschland Limited) and that the Directors had determined that closure was the best course of action. A structured and orderly closure for the Group's customers, employees and suppliers is anticipated to be concluded by the end of 2022.

Research and development

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

Indemnities and insurance

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

Political donations

During the year, no political donations were made.

External branches

As part of its strategy on international expansion, the Group established a branch in Germany on 18 July 2014 via its subsidiary AO Deutschland Limited, registered in Bergheim. Following the decision to close the Group's operations in the Netherlands as announced in

November 2019, the Company commenced a process to liquidate both of its subsidiaries registered in this territory, which was completed during the year ended 31 March 2022. A Group Company has also been incorporated in Belgium.

Independent Auditor

The Company's Auditor, KPMG LLP, have indicated their willingness to continue their role as the Company's Auditor. A resolution to reappoint KPMG LLP as Auditor of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the forthcoming AGM.

Disclosure of information to Auditor

Each of the Directors has confirmed that:

- i. So far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- ii. The Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s.418 of the Companies Act 2006.



Directors' report continued

Reporting requirements

As permitted by section 414C of the Company Act 2006, certain information required to be included in the Directors' report has been included in the Strategic report and its location, together with other information forming part of the Directors' report, is set out below.

Reporting requirement	Location
Strategic report – Companies Act 2006 s.414A-D	Strategic report on pages 08 to 87
Likely future developments of the business and Group	Strategic report on pages 08 to 87
DTR4.1.8R – management report – the Directors' report and Strategic report comprise the 'management report'	Directors' report on pages 142 to 147, and the Strategic report on pages 8 to 87
Directors' remuneration including disclosures required by Schedule 5 and Schedule 8 of SI2008/410 – Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008	Directors' Remuneration report on pages 116 to 141
Statement on corporate governance	Corporate Governance report, Audit Committee report, Nomination Committee report and Directors' Remuneration report on pages 88 to 141
Board's assessment of the Group's internal control systems	Corporate Governance report on page 88, and the Audit Committee report on page 109
Board of Directors	Corporate governance statement on pages 92 and 93
Community	Strategic report; Sustainability report on pages 68 to 87
Business relationships with suppliers, customers and others	Strategic report: How we engage with our stakeholders report on pages 66 and 67
Directors' interests	Directors' Remuneration report on page 136
Diversity policy	Strategic report: Sustainability- Fair, Equal and Responsible on page 81 the Corporate Governance report on page 99, and the Nomination Committee report on page 106
Employee engagement	Strategic report: Engaging with our stakeholders on pages 66 and 67; Sustainability report – Fair, Equal and Responsible on page 79
Employee involvement	Strategic report: Engaging with our stakeholders on pages 66 and 67; Sustainability report – Fair, Equal and Responsible on page 79
Employees with disabilities	Strategic report: Sustainability report – Fair, Equal and Responsible on page 82
Going concern and viability statement	Strategic report pages 64 and 65
Task Force on Climate-related Financial Disclosures	TCFD disclosures on page 74 and 75
Greenhouse gas emissions and streamlined energy and carbon reporting	Strategic report: Sustainability report page 78
Details of use of financial instruments and specific policies for managing financial risk	Note 33 to Group financial statements on page 190
Significant related party agreements	Note 34 to the consolidated financial statements page 194
Directors' responsibility statement	Directors' responsibility statement on page 147

The Strategic report comprising pages 08 to 87 and this Directors' report comprising pages 142 to 147 have been approved by the Board and are signed on its behalf by:

Julie Finnemore
Company Secretary

17 August 2022

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and applicable law, and have elected to prepare the parent Company financial statements under FRS101. In addition, the Group financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the Group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- assess the Group and parent Company's ability to continue as a going concern disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company, and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' Remuneration report and corporate governance statement that complies with that law and those regulations.

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

Responsibility statement of the Directors in respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

John Roberts
Chief Executive Officer

Mark Higgins
Chief Financial Officer

17 August 2022





Our Results

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“

Easy to order, easy to
pay, delivery fast, well
informed and on time...
will shop here again.”

Janice
AO Customer

Independent Auditor's Report

to the members of AO World PLC

1. Our opinion is unmodified

We have audited the financial statements of AO World plc ("the Company") for the year ended 31 March 2022 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Financial Position, Company Statement in Changes in Equity and the related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 21 July 2016. The period of total uninterrupted engagement is for the 6 financial years ended 31 March 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£2.5m (2021: £2.5m) 0.16% (2021: 0.15%) of Group total revenue
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Coverage	99% (2021: 99%) of Group total revenue
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Key audit matters

Recurring risks

	vs 2021
New: Going concern	▲
Product protection plans contract asset	◄►
Network commissions contract asset	◄►
Recoverability of Mobile goodwill	◄►
Recoverability of parent Company's investment in subsidiaries and debt due from Group entities	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Recurring risk	The risk	Our response
<p>Going concern</p> <p>Refer to pages 64 to 65 (Going concern and viability statement);</p> <p>Page 112 (Audit Committee Report),</p> <p>Page 164 (Accounting policy and basis of preparation)</p>	<p>Disclosure quality:</p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>The risks most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period are:</p> <ul style="list-style-type: none"> • Market uncertainty and volatility • Falling demand in the post Covid-19 period as a result of rising inflation impacting consumers' disposable income. • Reduction in credit insurers' cover, which could potentially lead to reduction in credit terms. <p>All of these factors present difficulties in forecasting future financial performance.</p> <p>The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p>	<p>We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> • Funding assessment: we obtained direct confirmation of the facility levels available to the group from the lenders and the related covenants and other key terms. We then assessed the ability of the group to remain compliant with its covenants and its liquidity needs through challenge and evaluation of cash flow forecasts. • Historical comparison: we assessed the historical accuracy of forecasting, taking into consideration the external factors that have presented challenges with this, and the reasons for the variances arising. • Sensitivity analysis: we critically challenged the reliability of the forecasts and key areas of sensitivity in the context of the macroeconomic environment and how these were applied to the base case and in their severe but plausible downside scenarios and assessed whether these were sufficiently severe, or whether further downsides should be applied. We challenged the severity of sensitivities relating to creditor days as a result of some credit insurers reducing cover during the period. This was assessed through a reduction to average creditor days in the forecast period. We challenged how the Group had considered macroeconomic factors, such as cost and wage inflation and sensitised this to external market data. • Assessing transparency: we assessed whether disclosures relating to the going concern assessment of the group and parent company were adequate, and appropriately addressed the assessment made by management and sensitivities applied. <p>We performed the tests above rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our results:</p> <p>We found the going concern disclosure in note 3 of the financial statements without any material uncertainty to be acceptable (2021: Acceptable).</p>

Independent Auditor's Report continued

to the members of AO World PLC

Recurring risk	The risk	Our response
<p>Product protection plans contract asset</p> <p>£90.7 million contract asset (2021: £80.7 million)</p> <p>Refer to page 111 (Audit Committee Report),</p> <p>Page 165 (Accounting policy),</p> <p>Page 171 (Other areas of estimation uncertainty); and</p> <p>page 182 (Financial disclosures - contract asset),</p>	<p>Subjective estimate</p> <p>The contract asset recognised is based on the value of commissions due over the expected life of the plans. As this requires subjective estimates to be made, as well as the use of a complex model, there is a risk that the contract asset could be misstated. The effect of these matters is that, as part of our risk assessment, we determined that the carrying value of £90.7 million has a degree of estimation uncertainty, with a potential range of reasonable outcomes. The financial statements note 22 disclose the sensitivity estimated by the Group.</p> <p>Data capture</p> <p>Completeness and accuracy of data used in the model could be incorrect because of the manual nature involved in the data transfer.</p> <p>Calculation error</p> <p>The model used to calculate the fair value is complex and open to the possibility of arithmetical error.</p> <p>Subjective estimate</p> <p>Subjective inputs into the product protection plan contract asset calculation, such as the life of the plans, cancellation rates and future profitability based on forecast performance expected require judgement.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Data comparisons: With the assistance of our own data modelling specialists we performed reconciliations between the third party live data at year end and the database system which stores this data and onwards into the model. • Methodology implementation: With the assistance of our own data modelling specialists we assessed the accuracy of the implementation of the methodology behind the calculation. • Expectation vs outcome: We evaluated the accuracy of the model with reference to alternative data, e.g. expected cumulative cash received compared to actual cash received. • Benchmarking assumptions: We assessed the directors' assumptions over the application of historic plan data in generating an expected average life of plans sold. This was assessed against the historic accuracy of the model using such methodology. • Our sector experience: We challenged the assumptions made such as life of the plans, cancellation rates and expected future plan profitability based on our knowledge of the business and the group, considering factors occurring in the macroeconomic environment. • Sensitivity analysis: We performed sensitivity analysis on judgemental assumptions and challenged the impact of the macroeconomic climate on these assumptions. • Assessing transparency: We assessed the adequacy of the group's disclosures on the subjectivity of the unobservable measures and the sensitivity of the outcome of the calculation to changes in key assumptions, reflecting the risks inherent in the valuation of the contract asset. <p>We performed the tests above rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our results:</p> <p>We found the carrying value of the contract asset for product protection plans and all related disclosures to be acceptable (2021: acceptable)</p>

Recurring risk	The risk	Our response
<p>Network commission contract asset</p> <p>£83.4 million contract asset (2021: £91.5 million)</p> <p>Refer to page 111 (Audit Committee Report), page 165 (Accounting Policy), Page 171 (Other areas of estimation uncertainty); and pages 182 to 183 (Financial Disclosures)</p>	<p>Subjective estimate</p> <p>The network commissions contract asset is based on the value of commissions due over the expected life of mobile phone network contracts. As this requires subjective estimates to be made there is a risk that the contract asset is materially misstated. The effect of these matters is that, as part of our risk assessment, we determined that the contract asset carrying value of £83.4 million has a degree of estimation uncertainty, with a potential range of reasonable outcomes. The financial statements note 22 disclose the sensitivities estimated by the Group.</p> <p>Data capture</p> <p>Completeness and accuracy of data used in the models used to calculate the fair value could be incorrect because of the manual nature of the calculations involved in the data transfer from the third party and subsequently onwards into the model.</p> <p>Calculation error</p> <p>The model used to calculate the fair value is based on large volume of data and calculations are manual by nature so open to the possibility of arithmetical error.</p> <p>Subjective estimate</p> <p>Subjective inputs into the network commissions contract asset calculation, such as number of customer disconnections and monthly expected cash receipts are based on forecast performance expected and require judgement.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Data comparisons: We performed reconciliations of historic cash received to third party data. We agreed a sample of income from new connections and disconnections to both bank statements and the database system. • Methodology implementation: We assessed the methodology behind the calculation to verify whether it incorporates the accounting standards appropriately. • Historical comparisons: We evaluated the historical accuracy of the model with reference to past data e.g. monthly cash receipts received per network against expected cash receipts. • Our sector experience: We challenged the assumptions made such as future clawback of upfront revenue, number of customer disconnections and monthly expected cash receipts based on our knowledge of the business, third party trends and the group. • Sensitivity analysis: We performed sensitivity analysis on judgemental assumptions as described above and challenged the impact of the macroeconomic climate on these assumptions. • Assessing transparency: We assessed the adequacy of the group's disclosures about the subjectivity of the unobservable measures and the sensitivity of the outcome of the calculation to changes in key assumptions, reflecting the risks inherent in the valuation of the contract asset and contract liability. <p>We performed the tests above rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our results:</p> <p>We found the carrying value of the network commission's contract asset to be acceptable (2021: acceptable)</p>

Independent Auditor's Report continued

to the members of AO World PLC

Recurring risk	The risk	Our response
<p>Recoverability of Mobile goodwill</p> <p>Mobile Goodwill: £14.7m; (2021: £14.7 million)</p> <p>Refer to page 112 (Audit Committee Report),</p> <p>pages 166 to 167 (Accounting Policy),</p> <p>Page 170 (Key sources of estimation uncertainty); and page 177 (Financial Disclosure)</p>	<p>Subjective estimate</p> <p>MobilePhonesDirect Goodwill ("Mobile goodwill") is significant and at risk of irrecoverability due to uncertainty of achieving future forecasts.</p> <p>The recoverable amount of Mobile goodwill is determined based on value in use calculation.</p> <p>Recoverability of Mobile goodwill is subject to estimation in terms of the assumptions used and inherent uncertainty involved in forecasting the future cash flows that are used in the discounted cash flow model. The key assumptions are revenue and EBITDA margin.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p> <p>The financial statements (note 16) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Historical comparison: We assessed the reasonableness of the budget by considering the historical accuracy of previous forecasts; • Benchmarking assumptions: We evaluated the Group's assumptions included within the discounted cash flow forecasts by comparing key inputs such as projected revenue, EBITDA margin, discount rate, terminal growth rate and apportionment of stewardship costs to internally and externally derived data; • Our sector experience: We assessed whether key assumptions reflect our knowledge of the business and industry, including known or probable changes in the business environment. • Sensitivity analysis: We performed sensitivity analysis on the key assumptions and considered whether the Directors have identified realistic worst case scenarios in their own sensitivity analysis; and • Assessing transparency: We assessed whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill. <p>Due to the judgmental nature of impairment testing, we performed the detailed tests above rather than seeking to rely on any of the Group's controls.</p> <p>Our results</p> <p>We found the carrying amount of Mobile goodwill to be acceptable (2021: acceptable)</p>
<p>Recoverability of Parent Company's investment in subsidiaries and debt due from group entities</p> <p>Investment in subsidiaries £87.8 million; (2021: £85.4 million)</p> <p>Refer to page 197 (Accounting Policy and financial disclosures)</p> <p>Debtors due from Group entities £18.3m (2021: £137.3 million)</p> <p>Refer to page 168 (Accounting Policy); and page 195 (Company statement of financial position)</p>	<p>Low risk, high value</p> <p>The carrying amount of the Parent Company's investment in subsidiaries and debtors due from group entities balance represents 70% (2021: 36%) and 15% (2021: 57%) respectively of the Company's total assets. The recoverability of investments and debtors due from group entities is not at high risk of significant misstatement or subject to significant judgement. However, due to the materiality in the context of the parent company financial statements, it is considered to be the area of greatest significance in relation to our audit of the parent Company. The recoverability of debtors due from group entities historically was considered a risk given the performance of the German business. However following the announcement of the strategic review of this prior to the year end and the subsequent announcement of the closure of the entity, the intercompany receivable with the German business has been impaired in full. There is no further significant judgement in the debtors due from group entities.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Tests of detail: We assessed 100% of debtors due from group entities to identify, with reference to the relevant debtors' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making. • Assessing subsidiary audits: We considered the results of the audit work on subsidiary financial results for the period. • Comparing valuations: We compared the carrying amount to the Group's market capitalisation to assess whether there are any indicators of impairment. • Test of detail: For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on a suitable measure of the subsidiaries' profit. • Historical comparisons: We assessed the reasonableness of the expected subsidiaries' profit by analysing the forecasting accuracy for each in previous periods; and • Our sector experience: We evaluated the current level of trading, including identifying any indications of a downturn in activity, by examining the post year end management accounts and considering our knowledge of the Group and the market; <p>We performed the tests above rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our results:</p> <p>We found the Group's assessment of the recoverability of the Parent Company's investment in subsidiaries and debtors due from group entities balance to be acceptable following the impairment charge that was recognised in the year. (2021: acceptable).</p>

We continue to perform procedures over Volume rebates receivable, however considering the mechanical nature of the manual calculations and low historic audit findings in this area, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified as a key audit matter in our report this year.

In the prior year, the Network Commission key audit matter reported was in relation to both contract asset and contract liability. We continue to perform procedures over Network Commission contract liabilities, however following the cashback incentive being stopped there is no longer significant estimation uncertainties relating to contract liabilities, as such we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified as a key audit matter in our report this year.

3. Our application of materiality and an overview of the scope of our audit

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

Materiality for the group financial statements as a whole was set at £2.5 million (2021: £2.5m), determined with reference to a benchmark of group total revenue of £1,557.3m, of which it represents 0.16% (2021: 0.15%) of group total revenue.

We consider total revenue to be the most appropriate benchmark. Year over year, revenue has remained similar and the most stable measure. In recent years, the Group has invested in overseas territories and invested in brand development and this, together with macroeconomic changes has resulted in profit and loss volatility. Therefore, profit or loss is not considered to be an appropriate benchmark.

Materiality for the parent company financial statements as a whole was set at £1.3m (2021: £0.8m), determined with reference to a benchmark of gross assets, of which it represents 0.5% (2021: 0.3%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2021: 75%) of materiality for the financial statements as a whole, which equates to £1.875m (2021: £1.875m) for the group and £0.98m (2021: £0.59m) for the parent company.

We applied this percentage in our determination of performance materiality based on the level of identified control deficiencies and entity level control deficiencies identified during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £125,000 (2021: £125,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

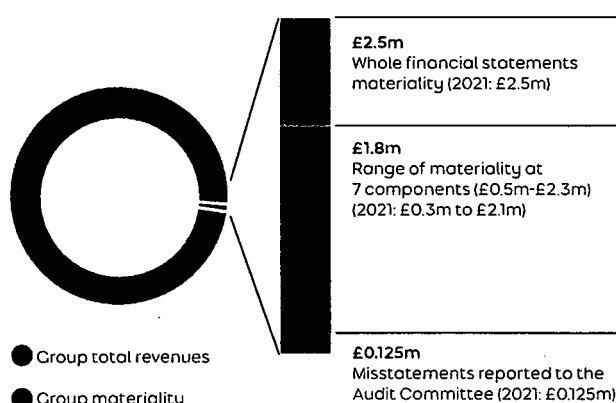
Of the group's 13 (2021: 13) reporting components, we subjected 7 (2021: 7) to full scope audits for group purposes, all of which, including the audit of the parent company, were performed by group audit team.

The components within the scope of our work accounted for the percentages illustrated opposite.

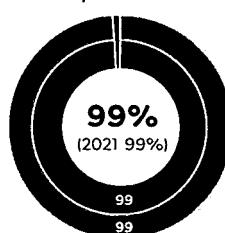
For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

Revenue
£1,557.3m (2021: £1,660.9m)

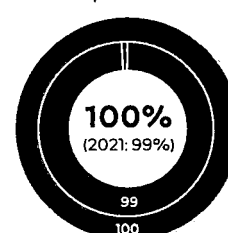
Group Materiality
£2.5m (2021: £2.5m)



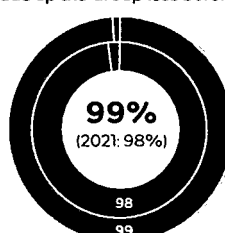
Group total revenue



Group total assets



Group total profits and losses that made up the Group loss before tax



- Full scope for Group audit purposes 2022
- Full scope for Group audit purposes 2021
- Residual components

Independent Auditor's Report continued

to the members of AO World PLC

4. Going concern

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

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 2 to be acceptable; and
- the related statement under the Listing Rules set out on pages 64 to 65 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee and internal audit as to the Group's high level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and performance incentives, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is recorded in the wrong period and the risk that Group and component management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on a risk criteria and comparing the identified entries to supporting documentation. These included those posted to unexpected account combinations, those posted with unusual descriptions and those posted by unexpected users.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by the audit standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Group is subject to laws and regulations that directly affect the financial statements, including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Group is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability assessment on page 64 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;

- The risk management framework disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability assessment of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability assessment, set out on page 64 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

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

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review, and to report to you if a corporate governance statement has not been prepared by the company. We have nothing to report in these respects.

Independent Auditor's Report continued

to the members of AO World PLC

7. We have nothing to report on the other matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 147, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

9. The purpose of our audit work and to whom we owe our responsibilities

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

David Neale
(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5CL

17 August 2022

Consolidated income statement

For the year ended 31 March 2022

	Note	2022 £m	2021 £m
Revenue	5, 6	1,557.3	1,660.9
Cost of sales		(1,281.0)	(1,368.4)
Impairment of German assets	8	(6.9)	-
Cost of sales	6	(1,287.9)	(1,368.4)
Gross profit		269.4	292.5
Administrative expenses		(302.3)	(263.6)
Impairment of German assets / Costs of Strategic review	8	(1.3)	-
Administrative expenses	6, 7	(303.6)	(263.6)
Other operating income	8	1.9	0.8
Operating (loss) / profit	6, 8	(32.3)	29.7
Finance income	11	2.6	4.3
Finance costs	12	(7.5)	(13.8)
(Loss) / Profit before tax		(37.2)	20.2
Tax credit / (charge)	13	7.1	(3.1)
(Loss) / Profit after tax for the year		(30.1)	17.1
(Loss) / Profit for the year attributable to:			
Owners of the Company		(30.4)	17.7
Non-controlling interests	29	0.3	(0.6)
		(30.1)	17.1
(Loss) / Profit per share (pence per share)			
Basic (loss) / profit per share	15	(6.33)	3.73
Diluted (loss) / profit per share	15	(6.33)	3.68

Consolidated statement of comprehensive income

For the year ended 31 March 2022

	2022 £m	2021 £m
(Loss) / Profit for the year	(30.1)	17.1
Items that may subsequently be recycled to income statement		
Exchange differences on translation of foreign operations	1.0	5.8
Total comprehensive (loss) / profit for the year	(29.1)	22.9
Total comprehensive (loss) / profit for the year attributable to:		
Owners of the Company	(29.4)	23.5
Non-controlling interests	0.3	(0.6)
	(29.1)	22.9

Consolidated statement of financial position

For the year ended 31 March 2022

	Note	2022 £m	2021 £m
Non-current assets			
Goodwill	16	28.2	28.2
Other intangible assets	17	12.2	15.6
Property, plant and equipment	18	32.7	32.8
Right of use assets	18	86.6	74.3
Trade and other receivables	22	92.4	85.3
Deferred tax	20	9.0	5.6
		261.1	241.8
Current assets			
Inventories	21	97.0	139.6
Trade and other receivables	22	169.7	166.2
Corporation tax receivable		1.9	1.0
Cash and cash equivalents	24	19.5	67.1
		288.1	373.9
Total assets		549.2	615.7
Current liabilities			
Trade and other payables	23	(313.9)	(411.4)
Borrowings	25	(45.0)	-
Lease liabilities	26	(20.3)	(21.4)
Provisions	27	(0.4)	(0.1)
		(379.6)	(432.9)
Net current liabilities		(91.5)	(59.0)
Non-current liabilities			
Trade and other payables	23	(6.4)	(7.9)
Lease liabilities	26	(88.3)	(73.9)
Deferred tax	20	-	(2.3)
Provisions	27	(2.5)	(2.3)
		(97.2)	(86.4)
Total liabilities		(476.8)	(519.3)
Net assets		72.4	96.4
Equity attributable to owners of the parent			
Share capital	28	1.2	1.2
Investment in own shares	28	-	-
Share premium account	28	104.4	104.3
Other reserves	30	28.5	25.3
Retained losses		(60.7)	(33.1)
Total		73.4	97.7
Non-controlling interest	29	(1.0)	(1.3)
Total equity		72.4	96.4

The financial statements of AO World PLC, registered number 05525751, on pages 159 to 194 were approved by the Board of Directors and authorised for issue on 17 August 2022. They were signed on its behalf by:

John Roberts
CEO
AO World PLC


Mark Higgins
CFO
AO World PLC

Consolidated statement of changes in equity

As at 31 March 2022

	Share capital £m	Investment in own shares £m	Share premium account £m	Other reserves					Retained losses £m	Total £m	Non-controlling interest £m	Total £m
				Merger reserve £m	Capital redemption reserve £m	Share-based payments reserve £m	Translation reserve £m	Other reserve £m				
Balance at 31 March 2020	1.2	-	103.7	22.2	0.5	11.7	(9.7)	(2.7)	(57.1)	69.7	(1.0)	68.6
Profit / (Loss) for the period	-	-	-	-	-	-	-	-	17.7	17.7	(0.6)	17.1
Share-based payment charge (net of tax)	-	-	-	-	-	4.2	-	-	-	4.2	-	4.2
Issue of shares (net of expenses)	-	-	0.6	-	-	-	-	-	-	0.6	-	0.6
Foreign currency gain arising on consolidation	-	-	-	-	-	-	5.8	-	-	5.8	-	5.8
Acquisition of minority interest	-	-	-	-	-	-	-	(0.3)	-	(0.3)	0.4	0.1
Movement between reserves	-	-	-	-	-	(6.3)	-	-	6.3	-	-	-
Balance at 31 March 2021	1.2	-	104.3	22.2	0.5	9.6	(4.0)	(3.0)	(33.1)	97.7	(1.3)	96.4
(Loss) / Profit for the period	-	-	-	-	-	-	-	-	(30.4)	(30.4)	0.3	(30.1)
Share-based payment charge (net of tax)	-	-	-	-	-	5.0	-	-	-	5.0	-	5.0
Issue of shares (net of expenses)	-	-	0.1	-	-	-	-	-	-	0.1	-	0.1
Foreign currency gain arising on consolidation	-	-	-	-	-	-	1.0	-	-	1.0	-	1.0
Movement between reserves	-	-	-	-	-	(2.7)	-	-	2.7	-	-	-
Balance at 31 March 2022	1.2	-	104.4	22.2	0.5	11.8	(3.0)	(3.0)	(60.7)	73.4	(1.0)	72.4

Consolidated statement of cash flows

For the year ended 31 March 2022

	Note	2022 £m	2021 £m
Cash flows from operating activities			
(Loss) / Profit for the year		(30.1)	17.1
Adjustments for:			
Depreciation and amortisation	17, 18	32.2	24.6
Loss on disposal of property, plant and equipment		0.3	-
Impairment of German assets / Costs of Strategic review		8.2	-
Finance income	11	(2.6)	(4.3)
Finance costs	12	7.5	13.8
Taxation (credit) / charge		(7.1)	3.1
Share-based payment charge	31	5.8	3.3
Increase in provisions	27	0.6	0.9
Operating cash flows before movement in working capital		14.8	58.5
Decrease / (Increase) in inventories		41.2	(67.6)
Increase in trade and other receivables		(8.3)	(35.9)
(Decrease) / Increase in trade and other payables		(101.8)	162.0
Total movement in working capital		(68.9)	58.5
Taxation refunded / (paid)		1.7	(2.4)
Cash (used in) / generated from operating activities		(52.4)	114.6
Cash flows from investing activities			
Acquisition costs relating to right of use assets		(1.0)	-
Acquisition of property, plant and equipment		(7.6)	(6.3)
Acquisition of intangible assets		(1.0)	(2.8)
Cash used in investing activities		(9.6)	(9.1)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		0.1	0.6
Acquisition of non-controlling interest		-	(0.1)
New borrowings	25	45.0	-
Interest paid on borrowings	12	(1.6)	(2.3)
Interest paid on lease liabilities	12	(4.8)	(4.0)
Repayments of borrowings		-	(21.9)
Repayment of lease liabilities		(24.3)	(17.6)
Net cash generated in / (used in) financing activities		14.4	(45.3)
Net (decrease) / increase in cash		(47.6)	60.2
Cash and cash equivalents at beginning of year		67.1	6.9
Exchange gains on cash and cash equivalents		-	-
Cash and cash equivalents at end of year	24	19.5	67.1

Notes to the consolidated financial statements

For the year ended 31 March 2022

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 and approved by the Directors in accordance with UK adopted International Accounting Standards ("UK adopted IFRS").

The address of the registered office is given on page 203. The nature of the Group's operations and its principal activities are set out in Note 19 and in the Strategic report on pages 8 to 85.

These financial statements are presented in pounds sterling (£m) as that is the currency of the primary economic environment in which the Group operates.

2. Adoption of new and revised standards

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

The Group has elected not to apply the exemption granted in the "Covid-19-related rent concessions beyond 30 June 2021" amendment to IFRS 16, "Leases", as the Group has not received material Covid-19-related rent concessions as a lessee.

Other standards, interpretations and amendments effective in the current financial year have not had a material impact on the Group financial statements.

New accounting standards in issue but not yet effective

New standards and interpretations that are in issue but not yet effective are listed below:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform" – phase 2
- Annual improvements to IFRS Standards 2018 - 2020

The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed and require adoption by the Group in future reporting periods. The Group does not consider that any other standards, amendments or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements.

3. Significant accounting policies

Basis of consolidation

The Group's financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group").

Subsidiary undertakings are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases. Subsidiary undertakings acquired during the period are recorded under the acquisition method of accounting. The cost of the acquisition is measured at the aggregate fair value of the consideration given. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair value at the date the Group assumes control of the acquiree. Acquisition-related costs are recognised in the consolidated

income statement as incurred. All intercompany balances and transactions have been eliminated in full.

The present-access method is used to value the AO Recycling Limited non-controlling interest. Under this method the non-controlling interest continues to be recognised because the non-controlling shareholders still have present access to the returns associated with the underlying ownership interests, with the debit entry to "other" equity. Any non-controlling interest acquired on acquisition of a subsidiary is recognised at the proportionate share of the acquired net assets. Subsequent to acquisition, the carrying amount of non-controlling interest equals the amount of those interests at initial recognition plus the non-controlling share of changes in equity since acquisition. Total comprehensive income is attributed to a non-controlling interest even if this results in the non-controlling interest having a deficit balance.

A list of all the subsidiaries of the Group is included in Note 19 to the Group financial statements. All subsidiaries apply accounting policies which are consistent with those of the rest of the Group.

Going concern

Further information on our risks are shown on pages 54 to 65.

Notwithstanding net current liabilities of £91.5m as at 31 March 2022, a cash outflow of £47.6m, and an increase in net debt of £105.9m in the year ended 31 March 2022, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons:

The Group meets its day-to-day working capital requirements from its cash balances and the availability of its £80m revolving credit facility (which was extended by 12 months to now expire in April 2024). At the date of approval of these financial statements total liquidity amounted to £60.7m.

The Directors have prepared base and sensitised cash flow forecasts for the Group covering a period of at least 12 months from the date of approval of these financial statements ("the going concern period") which indicate that the Group will remain compliant with its covenants and will have sufficient funds through its existing cash balances and availability of funds from Revolving Credit Facility to meet its liabilities as they fall due for that period. The forecasts take account of current trading, management's view on future performance and their assessment of the impact of market uncertainty and volatility.

In assessing the going concern basis, the Directors have taken into account severe but plausible downsides to sensitise its base case and have run these in combination. These primarily include:

- A downside of negative growth in the financial year 2023 and in the subsequent periods to account for how the overall electrical online market could be impacted by the continuing macro-economic factors exacerbated by the conflict in Ukraine, such as inflation, consumer confidence, interest rate increases.
- the cost of exit from Germany and potential volatility in the timing and amount of cash inflows as a result of this exit;
- product protection plan cancellation increases as a result of macroeconomic trends;
- cost inflation being higher than anticipated particularly in relation to wages; and

3. Significant accounting policies continued

- a tightening of credit terms with suppliers as a result of potential withdrawals or reductions of credit insurance which could in turn, result in a reduction in trade creditor days. The severe but plausible downside has been considered at a reduction of 34 % on the cumulative average trade creditor days over the previous 5 years.

Under this severe but plausible downside scenario the Group continues to demonstrate headroom on its banking facilities and remains compliant with quarterly covenants which are linked to interest cover, dividend cover and leverage and its annual covenant linked to net assets.

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

Revenue recognition

IFRS 15 "Revenue from Contracts with Customers" is a principle-based model of recognising revenue from customer contracts. It has a five-step model that requires revenue to be recognised when control over goods and services are transferred to the customer. The following paragraphs (which align with the disaggregation of revenue shown in Note 5) describe the types of contracts, when performance obligations are satisfied, and the timing of revenue recognition.

Product revenue

The Group operates through two main websites - ao.com and AO.de - as well as operating sites for third parties. All websites are for the sale of electrical products. Revenue from the sale of goods is recognised when a Group entity delivers a product to the customer. Payment of the transaction price is due immediately when the customer purchases the product or in the case of certain business to business transactions on credit terms. Revenue from products is recognised when the product is delivered.

It is the Group's policy to sell its products to the end customer with a right of return within 100 days. Therefore, a returns liability (included in accruals) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned.

Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

Service revenue

In addition to the sale of the product, the Group offers the delivery, collection, connection and disposal of new and old appliances. Revenue from these services is recognised in line with when the product is delivered.

Commission revenue

Commission revenue principally relates to revenue received by the Group in its role as agent/broker for a third party. The two principal sources are:

a. Product protection plans

Commission receivable for sales of product protection plans for which the Group acts as an agent (on the basis that the plan is a contract between the customer and Domestic & General, and the Group has no ongoing obligations following the sale of such plans) is included within revenue based on the estimated future commissions receivable over the estimated life of the product protection plan. Revenue is recognised on the basis that the Group has fulfilled its obligations to the customer at the point of sale.

The amounts recognised take into consideration, amongst other things, the length of the plan and the historical rate of customer attrition and is discounted. Further details are included in Note 4 and Note 22.

b. Network commissions

The Group operates under contracts with a number of Mobile Network Operators ("MNO"). Over the life of these contracts, the service provided is the procurement of connections to the MNO's network and the delivery of the handset to the end customer (of which the total cost of sale is £115.6m). The individual consumer enters into a contract with the MNO for the MNO to supply the ongoing airtime over that contract period and with AO Mobile Limited for the supply of the handset. The Group earns a commission for the service provided to each MNO ("network commission").

The method of estimating the revenue and the associated contract asset in the month of connection is to estimate all future cash flows that will be received from the network and discount these based on their timing of receipt. The determined commission is recognised in full in the month of connection of the consumer to the MNO as this is the point at which the Group has completed the service obligation relating to the consumer connection.

Commission revenue is only recognised to the extent it can be reliably measured for each consumer. The level of network commission earned is based on an agreed contractual percentage share of the monthly payments made by the consumer to the MNO. The total consideration receivable is determined by both fixed (monthly line rental) and variable elements (being out of bundle and out of contract revenue share).

The Group recognises all of the fixed revenue share expected over a consumer's contract when a consumer is connected to the MNO. This gives rise to a contract asset being recognised, which is collected over the consumer's contract.

Estimating in advance variable elements of revenue, including any constraints, is based on historical data, is subject to significant judgements and is dependent on consumer behaviour after the point of recognition. The Group does consider that the amount of out of bundle and out of contract revenue can be measured reliably in advance for certain MNOs, and therefore these revenues are recognised when a consumer is connected to the MNO.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

3. Significant accounting policies continued

For certain MNOs, where they are not considered reliably measurable they are recognised in the month received.

Logistics revenue

The Group provides third-party logistics services to a number of customers. Revenue from logistics is recognised on completion of the delivery.

Recycling revenue

Revenue from the recycling of used electrical products is recognised at the point of sale to the end user.

Volume and marketing-related expenditure

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

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

- In advertising costs or cost of sales to offset directly attributable costs incurred by the Group on behalf of the suppliers; and
- The remainder of funding is recognised in revenue (in product revenue).

Finance income and costs

Finance income is recognised in the consolidated income statement in the period to which it relates using the effective interest rate method.

Finance income comprises:

- Interest receivable which is recognised in the consolidated income statement as it accrues using the effective interest method;
- Income arising from the unwinding of the discount applied to the contract assets in relation to product protection plans and network commissions in excess of their previously recognised value;
- Movement in the valuation of the put and call options; and
- Foreign exchange gains arising on the retranslation of intra-Group loans.

Finance costs are recognised in the consolidated income statement in the period to which they occur.

Finance costs comprise:

- Movement in the valuation of the put and call options;
- Finance costs incurred on finance leases and right of use lease liabilities, which are recognised in the income statement using the effective interest method;
- Financing costs of raising debt and ongoing utilisation/non-utilisation fees; and
- Foreign exchange losses arising on the retranslation of intra-Group loans.

Interest-bearing borrowings

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

Impairment of tangible and intangible assets

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

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

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

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

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

Goodwill impairment review

Goodwill is required to be tested for impairment annually. Impairment testing on goodwill is carried out in accordance with the methodology described in Note 16. Such calculations require judgement relating to the appropriate discount factors and long-term growth prevalent in a particular market as well as short and medium-term business plans. The Directors draw upon experience as well as external resources in making these judgements.

Goodwill and intangible assets

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

3. Significant accounting policies continued

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

Asset class	Amortisation method and rate
Domain names	5 years straight-line
Computer software	3 to 5 years straight-line
Marketing-related assets	10 years straight-line
Customer lists	5 years straight-line

Software costs incurred as part of a service agreement are only capitalised when it can be evidenced that the Group has control over the resources defined in the arrangement. Any expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use and capitalised borrowing costs.

Other development expenditure is recognised in the income statement as an expense as incurred.

Software customisation and configuration costs relating to software not controlled by the Group are expensed over the period such services are received. Software costs are stated at cost less accumulated amortisation and less accumulated impairment losses.

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

Property, plant and equipment

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

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

Asset class	Depreciation method and rate
Property alterations	10 years straight-line or over the life of the lease to which the assets relate
Fixtures, fittings and plant and machinery	15% reducing balance or 3 to 10 years straight-line
Motor vehicles	2 to 10 years straight-line
Computer equipment	3 to 5 years straight-line
Office equipment	15% reducing balance or 3 to 5 years straight-line
Leasehold property	Depreciated on a straight-line basis over the life of the lease
Freehold property	25 years straight-line
Assets held for rental purposes	5 years straight-line

Freehold land and assets in the course of construction are not depreciated.

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

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

Right of use assets and liabilities

The Group has applied IFRS 16 in these financial statements.

The two capitalisation exemptions proposed by the standard – lease contracts with a lease term of less than 12 months and lease contracts for which the underlying asset has a low value (on acquisition) – have been taken by the Company. The payments for such leases are recognised in the income statement on a straight-line basis over the lease term.

AO World PLC as a lessee

At inception, the Group assesses whether a contract is or contains a lease. This assessment involves the exercise of judgement about whether it depends on a specified asset, whether the Group obtains substantially all the economic benefits from the use of that asset and whether the Group has the right to direct the use of the asset.

The Company recognises a right of use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured based on the present value of lease payments plus any initial direct costs incurred and the costs of obligations to refurbish the asset, less any incentives received. The ROU asset is subsequently depreciated using the straight-line method over the shorter of the lease term or the useful life of the underlying asset. In addition, the ROU asset is subject to testing for impairment if there is any indication of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate.

The lease liability generally includes fixed payments and variable payments that depend on an index (such as an inflation index). When the lease contains an extension or purchase option that the Group considers reasonably certain to be exercised, the cost of the extension or option is included in the lease payments.

ROU assets are separately disclosed as a line in the balance sheet. The corresponding lease liability is separately disclosed as "lease liabilities" in both current and non-current liabilities. The Company has classified the principal portion of lease payments, as well as the interest portion, within financing activities. Lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash flows from operating activities.

Subsequent measurement

The Group applies IAS 36 to determine whether a right of use asset is impaired and accounts for any identified impairment loss.

All leases are subject to the Group's annual review to assess whether the current lease terms are still in line with the overall intentions of the Group. It is the Group's policy that all leases relating to right of use assets – land and buildings are specifically reviewed once the remaining life of the lease becomes less than three years. If the Group intends to extend the lease beyond the initial lease period then this is reflected at that time.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

3. Significant accounting policies continued

Any leases, where the expected lease life is expected to be reduced or ended, are adjusted once the Group is satisfied that the reduction is likely to occur.

Based on the past experience of the Group, the likelihood of extending leases that relate to all other asset categories beyond their initial lease period is considered to be low.

AO World PLC as lessor

Where the Company is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease, then it classifies the sublease as an operating lease. The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as other operating income. The Company has classified cash flows from operating leases as operating activities.

Inventories

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

Contract assets

Contract assets arising from sale of product protection plans and network contracts are recognised in line with the revenue recognition policies for commission revenue and are disclosed as a contract asset within trade and other receivables.

It represents the right to consideration in exchange for the service provided at the balance sheet date in relation to revenue recognised for the commissions. While the revenue is recognised at the point of sale, the cash receipts, which reduce the contract asset, are received over time.

As the consideration is receivable over time but is conditional on the behaviour of customers post provision of the service, it is classified as a contract asset under IFRS 15 rather than a receivable under IFRS 9.

Financial instruments

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

Financial assets and liabilities

Financial assets and liabilities comprise trade and other receivables (excluding contract assets), cash and cash equivalents, loans and borrowings, trade and other payables, and call and put options.

Trade and other receivables (excluding contract assets)

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any allowance for expected credit losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, in hand, on demand deposits and cash in transit.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Contract liabilities

Contract liabilities are initially recognised within creditors as payments on account and cashback liabilities at fair value. Subsequent to initial recognition they are measured at amortised cost.

Financial liabilities and equity components

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

- 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
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Call and put options

The fair value of the call and put options (arising on the acquisition of AO Recycling Limited) is based upon an independent valuation at the year end using the Monte Carlo model. These are applied to the Company only accounts and, for the call option only, in the consolidated accounts.

For consolidation purposes, the Group uses the gross liability method as per IAS 32 for valuing the put option, which equates to an estimate of the amount payable over the life of the option based on discounted future cash flows.

Provisions

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

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

3. Significant accounting policies continued

Taxation

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

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

Research and development credits are accounted for in accordance with IAS 12. The credit is recognised once a reasonable estimate of the amount can be made.

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

A deferred tax liability is recognised at the expected future tax rate on the value of intangible assets with finite lives, which are acquired through business combinations representing the tax effect of the amortisation of these assets in the future. These liabilities will decrease in line with the amortisation of the related assets with the deferred tax credits recognised in the statement of comprehensive income in accordance with IAS 12.

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

Employee benefits

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

Share-based payments

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

Fair value is generally determined by an external valuer using an appropriate pricing model (see Note 31). In valuing equity-settled transactions, no account is taken of any service and performance (vesting) conditions, other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions that are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

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

If a service period is reduced, the modified vesting period is used when applying the requirements of the modified grant-date method. In the period of change, the cumulative amount to be recognised at the reporting date is calculated on the new vesting conditions.

At each statement of financial position date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of service and non-market vesting conditions and of the number of equity instruments that will ultimately vest or, in the case of cancelled options in the AO Sharesave Scheme, be treated as vesting as described above.

The movement in cumulative expense since the previous statement of financial position date is recognised in the consolidated income statement with a corresponding entry in equity. On vesting, amounts held in the share-based payments reserves are transferred to retained losses.

Employee benefit trust

The Group operates an employee benefit trust ("EBT"). Own shares held by the EBT are treated as Treasury shares on consolidation and are shown as a reduction in equity in the statement of financial position.

Foreign currency translation

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

The trading results and cash flows of overseas subsidiaries are translated at the average monthly exchange rates during the period. The statement of financial position of each overseas subsidiary is translated at year-end exchange rates with the exception of equity balances, which are translated at historic rates. The resulting exchange differences are recognised in a separate translation reserve within equity and are reported in other comprehensive income.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

3. Significant accounting policies continued

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at the rates of exchange at the reporting date. Exchange differences on monetary items are recognised in the income statement. Intra-Group loans are translated at the year-end exchange rate with the resulting exchange differences recognised within interest.

Alternative performance measures

The Group tracks a number of alternative performance measures in managing its business. These are not defined or specified under the requirements of IFRS because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS. The Group believes that these alternative performance measures, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These alternative performance measures are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these alternative performance measures are also used for the purpose of setting remuneration targets. These alternative performance measures should be viewed as supplemental to, but not as a substitute for, measures presented in the consolidated financial statements relating to the Group, which are prepared in accordance with IFRS. The Group believes that these alternative performance measures are useful indicators of its performance.

EBITDA

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

Adjusted EBITDA

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

The Adjusting Item in the current year is:

- Due to the continued losses in the German business, the Group has undertaken a strategic review during the year. As a result of these losses and the subsequent decision to close that business, management have performed a full impairment review of the assets at 31 March 2022. As a consequence, management have made impairment provisions of £7.3m at 31 March 2022 of which £1.2m relates to inventory and £6.1m relates to Right of use assets and other property, plant and equipment. In addition, legal advice and other costs of the review totalled £0.9m as at the year-end resulting in a total of 8.2m of impairment and other charges in the income statement. Given the nature of these costs, they have been added back in arriving at adjusted EBITDA.

The Adjusting Items for the prior year were as follows:

- In FY21, management reassessed the impact on future expected cancellation rates as a result of an increase in cancellations seen through the second half of the prior year. As a result, revenue for FY21 was constrained by £8.1m with a corresponding reduction in the contract asset. Given the size and nature of the adjustment, the amount has been added back in arriving at Adjusted EBITDA.
- In December 2017, the Group entered into a marketing contract in Germany which was anticipated to generate significant additional revenue. In subsequent years, the performance of this contract was reassessed due to significant losses being incurred and the benefits expected from the contract not materialising. The Group renegotiated the contract with new terms taking effect from April 2021. However, the existing terms up to 31 March 2021 resulted in the cost of fulfilling the contract over its life exceeding any benefit gained from it and therefore management added back the full cost in the prior period of £2.2m.

4. Key sources of estimation uncertainty

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

Accounting standards require the Directors to disclose those areas of critical accounting judgement and key sources of estimation uncertainty which carry a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next 12 months. These are discussed below.

Impairment of intangible assets and goodwill

As part of the acquisition of Mobile Phones Direct Limited in 2018, the Group recognised amounts totalling £16.3m in relation to the valuation of the intangible assets and £14.7m in relation to residual goodwill. At 31 March 2022 these amounted to £25.1m.

Intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is reviewed for impairment on an annual basis. When a review for impairment is conducted, the recoverable amount is determined based on the higher of value in use and fair value less costs to sell. The value in use method requires the Group to determine appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flow projections over the three-year strategic plan period, the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value.

Whilst at 31 March 2022 the Directors have concluded that the carrying value of the intangibles and goodwill is appropriate (after considering certain sensitivities which are set out in Note 16), changes in any of these assumptions, which could be driven by the end customer behaviour with the Mobile Network Operators, could give rise to an impairment in the carrying value.

4. Key sources of estimation

uncertainty^{continued}

Other areas of estimation uncertainty

Revenue recognition and recoverability of income from product protection plans

Revenue recognised in respect of commissions receivable over the lifetime of the plan for the sale of product protection plans is recognised in line with the principles of IFRS 15, when the Group obtains the right to consideration as a result of performance of its contractual obligations (acting as an agent for a third party).

Revenue in any one year therefore represents an estimate of the commission due on the plans sold, which management estimate reliably based upon a number of key inputs, including:

- the contractual agreed margins;
- the number of live plans;
- the discount rate;
- the estimated length of the plan;
- the estimated historic rate of attrition; and
- the estimated overall performance of the scheme.

Commission receivable also depends for certain transactions on customer behaviour after the point of sale. Assumptions are therefore required, particularly in relation to levels of customer attrition within the contract period, expected levels of customer spend, and customer behaviour beyond the initial contract period. Such assumptions are based on extensive historical evidence, and adjustment to the amount of revenue recognised is made for the risk of potential changes in customer behaviour, but they are nonetheless inherently uncertain e.g., changes seen in the previous year as a result of Covid-19.

Reliance on historical data assumes that current and future experience will follow past trends. The Directors believe that the quantity and quality of historical data available provides an appropriate proxy for current and future trends. Any information about future market trends, or economic conditions that we believe suggests historical experience would need to be adjusted, is taken into account when finalising our assumptions each year. Our experience over the last decade, which has been a turbulent period for the UK economy as a whole, is that variations in economic conditions have not had a material impact on consumer behaviour and, therefore, no adjustment to commissions is made for future market trends and economic conditions.

In assessing how consistent our observations have been, we compare cash received in a period versus the forecast expectation for that period as we believe this is the most appropriate check on revenue recognised. Small variations in this measure support the assumptions made.

For plans sold prior to 1 December 2016, the commission rates receivable are based on pre-determined rates. For plans sold after that date, base-assumed commissions will continue to be earned on pre-determined rates but overall commissions now include a variable element based on the future overall performance of the scheme.

Changes in estimates recognised as an increase or decrease to revenue may be made, where for example, more reliable information is available, and any such changes are required to be recognised in the income statement. During the year, management have refined the estimations in relation to claims (which impacts profit share) based on more granular information from Domestic & General regarding the claims performance of specific cohorts. This has resulted in an increase in revenue

recognised of £2.7m. As with all years, other small refinements have been made but have had an immaterial impact on the revenue recognised.

The commission receivable balance as at 31 March 2022 was £90.7m (2021: £80.7m). The rate used to discount the revenue for the FY22 cohort is 3.54% (2021: 3.55%). The weighted average of discount rates used in the years prior to FY22 was 4.12% (2021: 4.63%).

Revenue recognition and recoverability of income in relation to network commissions

Revenue in respect of commissions receivable from the Mobile Network Operators ("MNOs") for the brokerage of network contracts is recognised in line with the principles of IFRS 15, when the Group obtains the right to consideration as a result of performance of its contractual obligations (acting as an agent for a third party).

Revenue in any one year therefore represents an estimate of the commission due on the contracts sold, which management estimates reliably based upon a number of key inputs, including:

- The contractually agreed revenue share percentage – the percentage of the consumer's spend (to MNOs) to which the Group is entitled;
- The discount rate using external market data (including risk free rate and counter party credit risk) - 0.53% (2021: 0.1%);
- The length of contract entered into by the consumer (12 – 24 months); and
- The estimated consumer average tenure which takes account of both the default rate during the contract period and the expectations that some customers will continue beyond the initial contract period and generate out of contract ("OOC") revenue (c4%).

The commission receivable on mobile phone connections can therefore depend on customer behaviour after the point of sale. The revenue recognised and associated receivable in the month of connection is estimated based on all future cash flows that will be received from the MNO and these are discounted based on the timing of receipt.

This also takes into account the potential clawback of commission by the MNOs and any additional churn expected as a result of recent price increases announced and applied by the MNO's, for which a reduction to revenue is made based on historical experience. The Directors consider that the quality and quantity of the data available from the MNOs is appropriate for making these estimates and, as the contracts are primarily for 24 months, the period over which the amounts are estimated is relatively short. As with commissions recognised on the sale of product protection plans, the Directors compare the cash received to the initial amount recognised in assessing the appropriateness of the assumptions used.

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. During the year, management have refined the estimations in relation to the assumed collection of commissions utilising more recent trends (and ignoring the unusual factors seen during FY21). This has resulted in an increase in revenue recognised of £1.4m. Other small refinements have been made which have had an immaterial impact on the revenue recognised.

The commission receivable balance as at 31 March 2022 was £83.4m (2021: £91.5m). The rate used to discount the current year revenue is 0.53% (2021: 0.10%).

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

Impairment of assets in AO Deutschland

Due to the continued losses in Germany, pre-year end management commenced a strategic review of the operations in the country. Post year end, a decision was taken to close that business which indicated the assets were impaired at 31 March 2022. An impairment assessment as at 31 March 2022 was undertaken and this has resulted in the write down of certain assets at the year-end. A judgement was taken to assess whether there were conditions in existence at the year end.

These write downs include:

- A one off provision of £1.2m against unsold inventory which is considered as outside normal provision policies.
- An impairment provision of £6.1m against rights of use property and other assets after considering the recoverable value being whether the company is able to either return the assets back to the landlord or sublet the assets. To the extent that management can negotiate the exit from the leases, there is the possibility that the overall rights of use asset may in part be recovered, however this is uncertainty and therefore an impairment provision is recorded.

Negotiations are ongoing with suppliers with regards to the amount due to or from the German business with regards to trading balances including returned stock, payables and rebates. At 31 March 2022, the amounts included in the balance sheet regarding suppliers are either contractually due or payable. Management however note that discussion are ongoing with suppliers and until these discussions are concluded it may not be possible to determine how much will be settled.

The above may not be finalised until later in FY23 and therefore are included to ensure the uncertainties are properly disclosed.

Recoverability of Deferred tax assets

At 31 March 2022, the Group has UK tax losses of £39.7m and accordingly has recognised a deferred tax asset of £8.0m.

In recognising the asset, management have taken account of the historic profitability of the UK business together with its forecasts (utilising the same information as in the going concern and viability statement). In recent years, other than FY22, the UK business has been profitable. The unprecedented circumstances which have affected the post Covid trading period have been the prime reason for the result in FY22 and management have taken actions to mitigate the impacts of the current cost of living squeeze and difficult macro-economic conditions. The business therefore expects to be profitable in the future and therefore has assessed that utilising the losses is probable and as such the asset has been recognised.

Management acknowledge that the economic environment is providing a difficult backdrop on which to forecast but believes that its forecasts reflect the impact of the current challenges. However, as a consequence of the significance of the asset, this is disclosed as a significant area of accounting judgement.

5. Revenue

The table below shows the Group's revenue by main geographical area and major business area. All revenue is accounted for at a point in time as the Group has satisfied its performance obligations on the sale of its products/services.

Major product/services lines

Year ended (£m)	31 March 2022			31 March 2021		
	UK	Germany	Total	UK	Germany	Total
Product revenue	1,114.4	181.7	1,296.1	1,200.3	220.9	1,421.2
Service revenue	50.3	3.0	53.3	54.0	4.0	58.0
Commission revenue	156.8	0.7	157.5	146.0	0.3	146.3
Third-party logistics revenue	22.7	3.6	26.3	16.5	1.2	17.7
Recycling revenue	24.1	-	24.1	17.7	-	17.7
Total revenue	1,368.3	189.0	1,557.3	1,434.5	226.4	1,660.9

Details of the revenue in each category are set out in the accounting policies note on pages 165 to 166.

6. Segmental analysis

The Group has two reportable segments, online retailing of domestic appliances and ancillary services to customers in the UK, and online retailing of domestic appliances and ancillary services to customers in Germany.

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

a) Income statement

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

Year ended (£m)	31 March 2022			31 March 2021		
	UK	Germany	Total	UK	Germany	Total
Revenue	1,368.3	189.0	1,557.3	1,434.5	226.4	1,660.9
Cost of sales	(1,104.9)	(176.1)	(1,281.0)	(1,161.6)	(206.8)	(1,368.4)
Impairment of German assets	-	(6.9)	(6.9)	-	-	-
Cost of sales	(1,104.9)	(183.0)	(1,287.9)	(1,161.6)	(206.8)	(1,368.4)
Gross profit	263.4	6.0	269.4	273.0	19.5	292.5
Administrative expenses	(271.8)	(30.5)	(302.3)	(235.6)	(27.9)	(263.6)
Impairment of German assets / Strategic Review	(0.9)	(0.4)	(1.3)	-	-	-
Administrative expenses	(272.7)	(30.9)	(303.6)	(235.6)	(27.9)	(263.6)
Other operating income	1.8	0.1	1.9	0.8	-	0.8
Operating (loss) / profit	(7.5)	(24.8)	(32.3)	38.1	(8.4)	29.7
Finance income	2.6	-	2.6	4.3	-	4.3
Finance costs	(5.6)	(1.9)	(7.5)	(6.9)	(6.9)	(13.8)
(Loss) / Profit before tax	(10.5)	(26.7)	(37.2)	35.4	(15.3)	20.2
Tax credit / (charge)	7.2	(0.1)	7.1	(3.1)	-	(3.1)
(Loss) / Profit after tax	(3.3)	(26.8)	(30.1)	32.3	(15.3)	17.1

The Group uses alternative performance measures which are not defined within IFRS, as well as IFRS measures. One of these key measures is Adjusted EBITDA, which is defined in Note 3.

The reconciliation of statutory operating profit / (loss) to adjusted EBITDA is as follows:

Year ended (£m)	31 March 2022			31 March 2021		
	UK	Germany	Total	UK	Germany	Total
Operating (loss) / profit	(7.5)	(24.8)	(32.3)	38.1	(8.4)	29.7
Depreciation	24.9	3.6	28.5	18.6	3.2	21.8
Amortisation	3.8	-	3.8	2.8	-	2.8
Loss / (Profit) on disposal of non-current assets	0.4	(0.1)	0.3	-	-	-
EBITDA	21.6	(21.3)	0.3	59.4	(5.2)	54.2
Adjusting items (see Note 3):	0.9	7.3	8.2	8.1	2.2	10.3
Adjusted EBITDA	22.5	(14.0)	8.5	67.5	(3.0)	64.4

b) Geographical analysis

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

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

6. Segmental analysis continued

c) Other information

2022 (£m)	Additions			Depreciation	Amortisation	Loss / (Profit) on disposal
	Intangible assets	PP&E	Right of use assets			
UK	1.0	9.2	38.4	24.9	3.8	0.4
Germany	-	0.1	6.5	9.7	-	(0.1)
	1.0	9.3	44.9	34.6	3.8	0.3

2021 (£m)	Additions			Depreciation	Amortisation	Profit on disposal
	Intangible assets	PP&E	Right of use assets			
UK	2.8	11.4	26.2	18.6	2.8	-
Germany	-	0.2	1.5	3.2	-	-
	2.8	11.6	27.7	21.8	2.8	-

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

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

7. Administrative expenses

	2022 £m	2021 £m
Marketing and advertising expenses	55.7	50.4
Warehousing expenses	76.9	65.6
Research and development	17.5	15.4
Other administrative expenses	153.5	132.2
	303.6	263.6

8. Operating (loss) / profit for the year

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

	2022 £m	2021 £m
Depreciation of:		
Owned assets	5.8	4.4
Owned assets financed by lease	3.0	3.2
Right of use assets	19.6	14.2
Amortisation	3.8	2.8
Loss on disposal of property, plant and equipment	0.3	-
Cost of inventory	1,103.8	1,202.6
Staff costs	172.7	144.7
Other operating income:		
Short-term sublets	(0.5)	(0.8)
Settlement of claim in relation to overcharging of interchange fees	(1.4)	-
Adjusting items (see Note 3)		
Impairment of German assets / Costs of Strategic review	8.2	-
Revisions to estimates in relation to contract assets	-	8.1
Onerous contract costs	-	2.2

8. Operating (loss) / profit for the year continued

Adjusting items are included in the income statement as follows:

	2022 £m	2021 £m
Revenue	-	8.1
Cost of sales	6.9	2.2
Gross profit	6.9	10.3
Administrative expenses	1.3	-
Operating loss	8.2	10.3

9. Auditor's remuneration

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

	2022 £m	2021 £m
Fees payable to the Company's Auditor and their associates for the audit of the Company's annual accounts	0.1	0.1
Fees payable to the Company's Auditor and their associates for other services to the Group		
The audit of the Company's subsidiaries	0.7	0.7
Total Auditor's remuneration	0.8	0.8

Details of the Company's policy on the use of auditors for non-audit services, the reasons why the Auditor was used rather than another supplier and how the Auditor's independence and objectivity were safeguarded are set out in the Audit Committee report on page 114. No services were provided on a contingent fee basis.

Non-audit fees of £75,000 were incurred in relation to the review of the interim financial statements (2021: £45,000) and £5,000 in relation to agreed upon procedures in relation to the Group's covenant reporting pack (2021: £5,000).

10. Staff numbers and costs

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

	2022 Number	2021 Number
Sales, marketing and distribution	4,435	3,909
Directors (Executive and Non-Executive)	7	7
	4,442	3,916

Their aggregate remuneration comprised:

	2022 £m	2021 £m
Wages and salaries	145.6	121.4
Social security costs	14.5	14.5
Contributions to defined contribution plans (see Note 32)	6.8	5.5
Share-based payment charge (see Note 31)	5.8	3.3
	172.7	144.7

11. Finance income

	2022 £m	2021 £m
Movement in valuation of put and call option	-	0.8
Unwind of discounting on non-current contract assets	2.6	3.4
	2.6	4.3

12. Finance costs

	2022 £m	2021 £m
Interest on lease liabilities	4.8	4.0
Interest on bank loans	0.6	0.4
Other finance costs	1.0	1.9
Non-cash foreign exchange losses on intra-Group loans	1.1	6.8
Unwind of discounting on long-term payables	-	0.1
Movement in valuation of put and call option	-	0.6
	7.5	13.8

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

13. Tax

	2022 £m	2021 £m
Corporation tax:		
Current year	(0.3)	3.4
Adjustments in respect of prior years	(0.3)	-
	(0.6)	3.4
Deferred tax (see Note 20)		
Current year	(5.9)	(0.1)
Adjustments in relation to prior years	(0.6)	(0.3)
	(6.5)	(0.4)
Total tax credit / (charge)	(7.1)	3.1

The expected corporation tax charge for the year is calculated at the UK corporation tax rate of 19% (2021: 19%) on the (loss) / profit before tax for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions in which the Group operates.

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

Year ended 31 March	2022 £m	2021 £m
(Loss) / Profit before tax on continuing operations	(37.2)	20.2
Tax at the UK corporation tax rate of 19% (2021: 19%)	(7.1)	3.8
Ineligible expenses	0.4	1.7
Impact of difference in current and deferred tax rates	(1.2)	-
Income not taxable	(0.1)	(0.1)
Share-based payments	1.7	(2.0)
Prior period adjustments	(0.9)	(0.3)
Tax (credit)/charge for the year	(7.1)	3.1

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. The impact of the rate change has been considered when recognising the deferred tax in relation to UK companies, and where there is a material difference between deferred tax recognition at 25% and deferred tax recognition at 19%, the deferred tax has been recognised at the rate in which it is expected to unwind.

14. Dividends

The Directors do not propose a dividend for the year ended 31 March 2022 (2021: £nil).

15. (Loss) / Earnings per share

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

	2022 £m	2021 £m
(Loss) / Profit for the purposes of basic and diluted earnings per share being profit attributable to owners of the parent Company	(30.4)	17.7
Number of shares		
Weighted average shares in issue for the purposes of basic loss per share	478,558,948	475,626,353
Potentially dilutive shares options	7,028,898	6,337,186
Weighted average number of diluted ordinary shares	485,587,846	481,963,539
(Loss) / Earnings per share (pence per share)		
Basic (loss) / earnings per share	(6.33)	3.73
Diluted (loss) / earnings per share	(6.33)	3.68

The diluted loss per share has been restricted to the basic loss per share to prevent having an anti-dilutive effect.

The basic (loss) / earnings per share is affected by significant non-cash foreign exchange movements arising from intra-Group funding arrangements. Management have therefore presented an adjusted (loss) / earnings per share which is based on an adjusted (loss) / earnings attributable to the owners of the parent Company and the diluted weighted average number of shares as they believe it provides helpful additional information for stakeholders in assessing the performance of the business. The foreign exchange movement has arisen as a result of the change in the exchange rate between sterling and the euro in the Period.

15. (Loss) / Earnings per share *continued*

	2022 £m	2021 £m
(Loss) / Earnings		
(Loss) / Profit attributable to owners of the parent Company	(30.4)	17.7
Add back of foreign exchange movements on intra-Group loans	1.1	6.8
Adjusted (loss) / earnings attributable to owners of the parent Company	(29.3)	24.5
Number of shares		
Weighted average number of ordinary shares	478,558,948	475,626,353
Potentially dilutive shares options	7,028,898	6,337,186
Diluted weighted average number of shares	485,587,846	481,963,539
(Loss) / Earnings per share (pence per share)		
Basic (loss) / earnings per share	(6.33)	3.73
Diluted (loss) / earnings per share	(6.33)	3.68
Adjusted (loss) / earnings per share	(6.10)	5.15

16. Goodwill

	£m
Carrying value at 31 March 2021 and at 31 March 2022	28.2

Goodwill relates to purchase of Expert Logistics Limited, the purchase by DRL Holdings Limited (now AO World PLC) of DRL Limited (now AO Retail Limited), the acquisition of AO Recycling Limited (formerly The Recycling Group Limited) and the acquisition of Mobile Phones Direct Limited (now AO Mobile Limited) by AO Limited.

Impairment of goodwill**UK CGU – £13.5m**

At 31 March 2022, goodwill acquired through UK business combinations (excluding Mobile Phones Direct Limited) was allocated to the UK cash-generating unit ("CGU") which is also the UK operating segment.

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

The Group performed its annual impairment test as at 31 March 2022. The recoverable amount of the CGU has been determined based on the value in use calculations. The Group prepares cash flow forecasts derived from the most recent financial budget and financial plan for three years, and extrapolates cash flows for the following years, up until year five, based on an estimated growth rate of 1%. This rate does not exceed the average long term growth rate for the market. The final year cash flow is used to calculate a terminal value.

Management estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to this CGU. In arriving at the appropriate discount rate to use, we adjust the CGU's post-tax weighted average cost of capital to reflect the impact of risks and tax effects specific to the cash flows. The weighted average pre-tax discount rate we used was approximately 9.7% (2021: 9.1%).

The key assumptions, which take account of historic trends, upon which management have based their cash flow projections are sales growth rates, selling prices and product margin.

Management do not believe that any reasonable possible sensitivity would result in any impairment to this goodwill.

Mobile Phones Direct Limited – £14.7m

The Group has assessed the goodwill arising on the acquisition of Mobile Phones Direct Limited in December 2018. This was performed based on a value in use calculation in the same way as for the UK business noted previously, but using a pre-tax weighted average cost of capital appropriate for MPD as a standalone business of 14.8% (2021: 14.2%).

The total recoverable amount in respect of goodwill for this CGU group is greater than its carrying value by £0.7m in management's base case.

The main assumptions underlying the value in use calculation are the volume of mobile connections (and hence revenue) where growth is forecast at 3% per annum per year and EBITDA that is assumed to stay flat at c2% and the discounted rate.

The Directors have performed sensitivity analysis on the numbers included in the three-year strategic plan for the business in assessing the value in use. Management believes that the key assumptions are revenue margin and the discount rate. If revenue growth was 4% lower than forecast it would have an impact of (£0.8m) on the amount of headroom. If margin reduced by 2% this would have an impact of (£0.7m) on the amount of headroom (without management taking any mitigating action). If the discount rate increased by 5% it would have a £(0.8m) impact on the amount of headroom assuming all other factors stayed the same.

However, management believes that based on the range of possible outcomes noted above, whilst the value in use is broadly equivalent to the carrying value, there is no current impairment. If the key assumptions were to move by more than the sensitivities identified above, there is a possible upside to the forecast relating to contractual inflationary price increases as disclosed in note 22.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

Further details of this area of estimation uncertainty are set out in Note 4.

17. Other intangible assets

	Domain names £m	Software £m	Marketing related assets £m	Customer lists £m	Total £m
Cost					
At 31 March 2020	1.5	4.9	14.8	0.4	21.6
Additions	-	2.8	-	-	2.8
Disposals	-	(0.4)	-	-	(0.4)
At 31 March 2021	1.5	7.3	14.8	0.4	24.0
Additions	-	1.0	-	-	1.0
Disposals	(0.3)	(0.5)	-	-	(0.8)
At 31 March 2022	1.2	7.8	14.8	0.4	24.2
Amortisation					
At 31 March 2020	1.1	2.7	1.9	0.1	5.7
Charge for the year	-	1.2	1.5	0.1	2.8
Disposals	-	(0.2)	-	-	(0.2)
At 31 March 2021	1.1	3.7	3.4	0.2	8.4
Charge for the year	0.1	2.2	1.5	0.1	3.8
Disposals	-	(0.2)	-	-	(0.2)
At 31 March 2022	1.2	5.7	4.9	0.2	12.0
Carrying amount					
At 31 March 2022	-	2.1	9.9	0.2	12.2
At 31 March 2021	0.3	3.6	11.4	0.3	15.6

Amortisation is charged to administrative costs in the consolidated income statement.

18. Property, plant and equipment

	Land and buildings £m	Assets in the course of construction £m	Property alterations £m	Fixtures, fittings, plant and machinery £m	Motor vehicles £m	Computer and office equipment £m	Assets held for rental purposes £m	Total £m
Owned assets								
Cost								
At 31 March 2020	3.3	5.2	14.4	14.5	12.1	9.6	0.3	59.4
Additions	0.7	-	1.0	3.3	4.3	2.3	0.1	11.6
Disposals	-	-	-	-	(0.1)	(0.2)	-	(0.3)
Transfer from AICC	1.7	(5.2)	-	3.6	-	(0.1)	-	-
Exchange differences	(0.2)	-	-	-	-	-	-	(0.2)
At 31 March 2021	5.5	-	15.3	21.3	16.4	11.6	0.4	70.5
Additions	0.3	-	2.5	2.9	1.7	1.8	0.1	9.3
Disposals	-	-	(0.8)	(0.4)	-	-	(0.1)	(1.4)
Exchange differences	-	-	-	-	(0.1)	-	-	(0.1)
At 31 March 2022	5.8	-	17.0	23.8	18.0	13.4	0.3	78.3
Accumulated depreciation								
At 31 March 2020	0.9	-	6.4	5.9	8.4	8.4	-	30.1
Charge for the year	0.4	-	1.4	2.3	2.3	1.1	0.1	7.6
Disposals	-	-	-	-	(0.1)	-	-	(0.1)
At 31 March 2021	1.4	-	7.8	8.2	10.6	9.5	0.1	37.6
Charge for the year	0.5	-	1.7	3.2	2.3	1.0	0.1	8.8
Impairment	-	-	-	-	-	0.2	-	0.2
Disposals	-	-	(0.7)	(0.2)	-	-	(0.1)	(1.0)
At 31 March 2022	1.9	-	8.8	11.2	12.9	10.7	0.1	45.6
Carrying amount								
At 31 March 2022	3.9	-	8.2	12.6	5.1	2.7	0.2	32.7
At 31 March 2021	4.1	-	7.5	13.1	5.8	2.1	0.3	32.8

At 31 March 2022, the net carrying amount of leased plant and machinery included above was £7.8m (2021: £12.3m).

18. Property, plant and equipment continued

Right of use assets recognised are reflected in the following asset classes:

Right of use assets	Land and buildings £m	Motor vehicles £m	Computer equipment £m	Total £m
Cost				
At 31 March 2020	85.8	20.0	1.0	106.8
Additions	12.4	15.3	-	27.7
Disposals	(4.2)	(0.8)	-	(5.0)
Exchange differences	(0.4)	(0.1)	-	(0.5)
At 31 March 2021	93.6	34.5	1.0	129.1
Additions	28.6	16.3	-	44.9
Disposals	(6.8)	(7.8)	-	(14.6)
Exchange differences	(0.1)	-	-	(0.1)
At 31 March 2022	115.3	43.0	1.0	159.3
Accumulated depreciation				
At 31 March 2020	30.6	11.1	0.4	42.0
Charge for the year	8.7	5.3	0.2	14.2
Disposals	(1.1)	(0.4)	-	(1.5)
At 31 March 2021	38.2	16.0	0.6	54.8
Charge for the year	11.0	8.4	0.2	19.6
Impairment	0.2	5.7	-	5.9
Disposals	(0.7)	(6.8)	-	(7.4)
At 31 March 2022	48.7	23.3	0.8	72.8
Carrying amount				
At 31 March 2022	66.6	19.7	0.2	86.6
At 31 March 2021	55.4	18.5	0.4	74.3

The expense relating to short-term leases and low value assets included within the Income Statement amounted to £2.4m (2021: £0.5m).

At 31 March 2022, the Group was not committed to any leases which had not yet commenced (2021: nil).

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

19. Subsidiaries

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

The table below shows details of all subsidiaries of AO World PLC as at 31 March 2022.

Name of subsidiary	Principal place of business	Class of shares held	Proportion of ownership interests and voting rights held by AO World	Principal activity
			PLC	
AO Retail Limited	United Kingdom	Ordinary	100% [†]	Retail
Expert Logistics Ltd	United Kingdom	Ordinary	100% [†]	Logistics and transport
Worry Free Limited	United Kingdom	Ordinary	100%	Holding company
Elekdirect Limited	United Kingdom	Ordinary	100%	Retail
Appliances Online Ltd	United Kingdom	Ordinary	100%	Holding company
AO Deutschland Limited	Germany	Ordinary	100% [‡]	Retail
AO Ltd	United Kingdom	Ordinary	100%	Holding company
AO.BE SA	Belgium	Ordinary	99.99%*	Dormant
AO Recycling Limited	United Kingdom	Ordinary	81.6%	WEEE recycling
WEEE Collect It Limited	United Kingdom	Ordinary	100%**	Dormant
WEEE Re-use It Limited	United Kingdom	Ordinary	100%**	Dormant
Electrical Appliance Outlet Limited	United Kingdom	Ordinary	100%	Retail
Mobile Phones Direct Limited	United Kingdom	Ordinary	100%	Dormant
AO Mobile Limited	United Kingdom	Ordinary	100% [†]	Retail
BERE Limited	Jersey	Ordinary and redeemable preference	100%	Investment company
AO Business Limited	United Kingdom	Ordinary	100%	Dormant
AO B2B Limited	United Kingdom	Ordinary	100%	Dormant
AO Trade Limited	United Kingdom	Ordinary	100%	Dormant
AO Rental Limited	United Kingdom	Ordinary	100%	Dormant
AO Care Limited	United Kingdom	Ordinary	100%	Dormant
AO Premium Club Limited	United Kingdom	Ordinary	100%	Dormant
AO Club Limited	United Kingdom	Ordinary	100%	Dormant
AO Distribution Limited	United Kingdom	Ordinary	100%	Dormant
AO Logistics Limited	United Kingdom	Ordinary	100%	Dormant

All companies within the Group are registered at the same address disclosed on page 203 apart from BERE Ltd and AO.BE SA who are registered at the addresses listed below.

BERE Ltd	AO.BE SA
44 Esplanade	Naamloze Vennootschap
St Helier	Esplanade
Jersey	Heyssel 1
JE4 9WC	Bus 94
	1020
	Brussels

* 0.01% of the investment in AO.BE SA is owned by AO Deutschland Limited.

** Indirectly owned through AO Recycling Limited.

[†] Indirectly owned through AO Limited.

[‡] Indirectly owned through Worry Free Limited (50%) and Appliances Online Limited (50%).

20. Deferred tax

Deferred tax is recognised by the Group as shown in the table below:

	Share options £m	Accelerated depreciation £m	Short-term timing difference £m	Intangible fixed assets £m	Transitional relief on IFRS 16 adoption £m	Losses and unused tax relief £m	Total £m
At 31 March 2020	0.8	1.5	0.3	(2.6)	0.9	1.2	2.1
(Debit)/credit to income statement	0.7	(0.1)	0.1	0.3	(0.1)	(0.5)	0.4
(Debit)/credit to reserves	0.9	-	-	-	-	-	0.9
At 31 March 2021	2.4	1.4	0.4	(2.3)	0.8	0.7	3.4
(Debit)/credit to income statement	(0.8)	(0.3)	0.1	(0.2)	-	7.7	6.5
(Debit) to reserves	(0.9)	-	-	-	-	-	(0.9)
At 31 March 2022	0.7	1.1	0.5	(2.5)	0.8	8.4	9.0

The Group has an unrecognised deferred tax asset of £1.0m (2021: £2.0m) in respect of unused losses carried forward.

21. Inventories

	2022 £m	2021 £m
Finished goods	97.0	139.6

Included within inventories are stock provisions of £2.2m (2021: £0.5m), including £1.2m as a result of the closure of our German business.

22. Trade and other receivables

	2022 £m	2021 £m
Trade receivables	25.8	19.8
Contract assets	174.1	172.2
Prepayments and accrued income	50.0	46.8
Other receivables	12.2	12.7
	262.1	251.5

The trade and other receivables are classified as:

	2022 £m	2021 £m
Non-current assets	92.4	85.3
Current assets	169.7	166.2
	262.1	251.5

All of the amounts classified as non-current assets relate to contract assets.

Contract assets

Contract assets represent the expected future commissions receivable in respect of product protection plans and mobile phone connections. The Group recognises revenue in relation to these plans and connections when it obtains the right to consideration as a result of performance of its contractual obligations (acting as an agent for a third party). Revenue in any one year therefore represents the estimate of the commission due on the plans sold or connections made.

The reconciliation of opening and closing balances for contract assets is shown below:

	2022 £m	2021 £m
Balance brought forward	172.2	160.9
Revenue recognised *	145.9	174.0
Cash received	(151.0)	(153.0)
Revisions to estimates - adjusting items (see Note 3)	-	(8.1)
Revisions to estimates - other	4.4	(5.0)
Unwind of discounting	2.6	3.4
Balance carried forward	174.1	172.2

* Revenue recognised is gross, that is excluding the deduction of cashback payments, which are deducted from revenue in the Income Statement but are shown as contract liabilities in the Statement of Financial Position.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

22. Trade and other receivables continued

Included in the contract asset balance in relation to product protection plans at 31 March 2021 was an amount of £0.4m in relation to variable consideration recognised as revenue up to that date which has reversed in the year ended 31 March 2022. This is included in the revisions to estimates above.

Included in the contract asset balance in relation to Network Commissions at 31 March 2021 was an amount of £4.8m in relation to previously constrained revenue which has now been recognised in the year ended 31 March 2022. This is included in the revisions to estimates above.

The Group still recognises that there is inherent risk in the amount of revenue recognised as it is dependent on future customer behaviour which is outside of the Group's control and therefore at 31 March 2022 an amount of £8.9m has been constrained in relation to revenue recognised.

Product protection plans

Under our arrangement with Domestic & General ("D&G"), the Group receives commission in relation to its role as agent for introducing its customers to D&G and recognises revenue at the point of sale as it has no future obligations following this introduction. A discounted cash flow methodology is used to measure the estimated value of the revenue and contract assets in the month of sale of the relevant plan, by estimating all future cash flows that will be received from D&G and discounting these based on the expected timing of receipt. Subsequently, the contract asset is measured at the present value of the estimated future cash flows. The key inputs into the model which forms the base case for management's considerations are:

- the contractually agreed margins, which differ for each individual product covered by the plan as is included in the agreement with D&G;
- the number of live plans based on information provided by D&G;
- the discount rate for plans sold in the year using external market data - 3.54% (2021: 3.55%);
- the estimate of profit share relating to the scheme as a whole based on information provided by D&G;
- historic rate of customer attrition that uses actual cancellation data for each month since the start of the plans in 2008 to form an estimate of the cancellation rates to use by month going forward (range of 0% to 9.1% weighted average cancellation by month); and
- the estimated length of the plan based on historical data plus external assessments of the potential life of products (5 to 16 years).

The last two inputs are estimated based on extensive historical evidence obtained from our own records and from D&G. The Group has accumulated historical empirical data over the last 13 years from c.2.8m plans that have been sold. Of these, c.1.05m are live. Applying all the information above, management calculate their initial estimate of commission receivable. Consideration is then given to other factors outside of the historical data noted above that could impact the valuation. This primarily considers the reliance on historical data as this assumes that current and future experience will follow past trends. There is, therefore, a risk that changes in consumer behaviour could reduce or increase the total cash flows ultimately realised over the forecast period. Management makes a regular assessment of the data and assumptions with a detailed review at half year and full year to

ensure this continues to reflect the best estimate of expected future trends.

As set out in Note 2, the Directors do not believe there is a significant risk of a material adjustment to the revenue recognised in relation to these plans over the next 12 months. The sensitivity analysis below is disclosed as we believe it provides useful insight to the users of the financial statements into the factors taken into account when calculating the revenue to be recognised. The table shows the sensitivity of the carrying value of the commission receivables and revenue to a reasonably possible change in inputs to the discounted cash flow model over the next 12 months.

Sensitivity	Impact on contract asset and revenue £m
Cancellations increase by 2%	(1.8)
Cancellation rate reduces by 2%	1.8
Profit share increases or decreases by 10%	1.0/(1.0)

Cancellations

The number of cancellations and therefore the cancellation rate can fluctuate based on a number of factors. These include macroeconomic changes e.g., unemployment, but will also reflect the change in nature of the plan itself (insurance plan vs service plan). The impact of reasonable potential changes is shown in the sensitivities above.

Profit share

The profit share attaching to the overall scheme is dependent on factors such as the price of the plan, the cost of claims and the administration of the scheme itself. Given changes in macroeconomic conditions, there is an increased risk that claims cost could increase but also the possibility that to counter any increase in cost that D&G could (with agreement from AO) increase the price per plan. The above sensitivity considers what any reasonable change in either of these could mean to the overall profit share.

Network commissions

The Group operates under contracts with a number of Mobile Network Operators ("MNOs"). Over the life of these contracts, the service provided by the Group to each MNO is the procurement of connections to the MNO's networks. The individual consumer enters into a contract with the MNO for the MNO to supply the ongoing airtime over that contract period. The Group earns a commission for the service provided to each MNO. Revenue is recognised at the point the individual consumer signs a contract and is connected with the MNO. Consideration from the MNO becomes receivable over the course of the contract between the MNO and the consumer. The Group has determined that the number and value of consumers provided to each MNO in any given month represents the measure of satisfaction of each performance obligation under the contract. A discounted cash flow methodology is used to measure the estimated value of the revenue and contract assets in the month of connection, by estimating all future cash flows that will be received from the MNOs and discounting these based on the expected timing of receipt. Subsequently, the contract asset is measured at the present value of the estimated future cash flows.

22. Trade and other receivables continued

The key inputs to management's base case model are:

- revenue share percentage, i.e. the percentage of the consumer's spend (to the MNO) to which the Group is entitled;
- the discount rate using external market data – 0.53% (2021: 0.10%);
- the length of contract entered into by the consumer (12 – 24 months); and
- consumer average tenure that takes account of both the default rate during the contract period and the expectations that some customers will continue beyond the initial contract period and generate out of contract revenue.

The last two inputs are estimated based on extensive historical evidence obtained from the networks, and adjustment is made for the risk of potential changes in consumer behaviour. Applying all the information above, management calculate their initial estimate of commission receivable. Consideration is then given to other factors outside of the historical data noted above which could impact the valuation. This primarily considers the reliance on historical data as this assumes that current and future experience will follow past trends.

The risk remains that changes in consumer behaviour may continue and could reduce or increase the total cash flows ultimately realised over the forecast period. Management make a regular assessment of the data and assumptions with a detailed review at half year and full year to ensure this continues to reflect the best estimate of expected future trends and appropriate revisions are made to the estimates. The sensitivity analysis below is disclosed as we believe it provides useful insight to the users of the financial statements by giving insight into the factors taken into account when calculating the revenue to be recognised. The table shows the sensitivity of the carrying value of the commission receivables and revenue to a reasonably possible change in inputs to the discounted cash flow model over the next 12 months, having taken account of the changes in behaviour experienced in the period.

Sensitivity	Impact on contract asset and revenue £m
2% increase in cancellations	(1.6)
2% decrease in cancellations	1.6
6% increase in contractual entitlement	0.9

Cancellations

The number of cancellations and therefore the cancellation rate can fluctuate based on a number of factors. These include macroeconomic changes e.g., unemployment, interest rates and inflation. The impact of reasonable potential changes is shown in the sensitivities above.

Contractual entitlement

The entitlement from the MNO's is based on our percentage share of the customers spend. As monthly spend may increase given prices are linked to RPI the Group's potential share of spend could increase. Countering this, any increase in prices may result in increased churn and therefore the above sensitivity aims to provide a reasonable estimate of what any further change in RPI (primarily from April 2023) could have on our contractual entitlement.

Prepayments and accrued income

At 31 March 2021, there is £19.0m (2021: £18.2m) included in prepayments and accrued income in relation to volume rebates receivable. The amounts are largely coterminous and are mainly agreed in the month after recognition.

At 30 June 2022, the balance outstanding was £3.3m (31 May 2021: £5.0m).

23. Trade and other payables

	2022 £m	2021 £m
Trade payables	205.0	273.8
Accruals	28.9	36.8
Contract liabilities	44.1	63.0
Deferred income	18.1	27.4
Other payables	24.2	18.3
	320.3	419.3

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 47 days (2021: 52 days), the reduction reflecting the conclusion of certain extended term agreements during the prior year.

Contract liabilities includes payments on account from Mobile Network Operators where there is no right of set off with the contract asset and cashback liabilities due to the end customer within the mobile business.

Historically, certain mobile phone contracts included variable consideration resulting from cash back rights that a customer must claim periodically and as a consequence the Group have constrained the transaction price in relation to the potential cashback redemptions based on historical data. As a result of a change in the sales proposition, from Q4 of FY21 cashback incentives were not offered and therefore during the current year no amounts have been added to the liability which amounted to £8.2m at 31 March 2021. Redemptions have taken place against the liability and at 31 March 2022 the liability now amounts to £0.1m compared to a total maximum liability of £0.2m. During the year there has been no reversal of amounts recognised in prior periods (2021: £7.2m).

Trade and other payables are classified as:

	2022 £m	2021 £m
Current liabilities	313.9	411.4
Long-term liabilities	6.4	7.9
	320.3	419.3

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

24. Net debt

	2022 £m	2021 £m
Cash and cash equivalents at year end	19.5	67.1
Borrowings - Repayable within one year	(45.0)	-
Owned asset lease liabilities - Repayable within one year	(2.0)	(4.0)
Owned asset lease liabilities - Repayable after one year	(5.3)	(5.6)
Net (debt) / funds (excluding leases relating to right of use assets)	(32.8)	57.5
Right of use asset lease liabilities - Repayable within one year	(18.3)	(17.4)
Right of use asset lease liabilities - Repayable after one year	(83.0)	(68.3)
Net debt	(134.1)	(28.2)

Whilst not required by IAS 1 Presentation of Financial Statements, the Group has elected to disclose its lease liabilities split by the nature of the asset that they relate to. This is to give the users of these Financial Statements additional information that the Directors feel will be useful to the readers, understanding of the business.

Movement in financial liabilities in the year was as follows:

	Borrowings £m	Lease liabilities £m
Balance at 1 April 2021	-	95.3
<i>Changes from financing cash flows</i>		
Payment of interest	(0.6)	(4.8)
Repayment of lease liabilities	-	(24.3)
Total changes from financing cash flows	(0.6)	(29.1)
<i>Other changes</i>		
New Borrowings	45.0	-
New lease liabilities	-	45.4
Reassessment of lease term	-	(7.8)
Interest expense	0.6	4.8
Total other changes	45.6	42.4
Balance at 31 March 2022	45.0	108.6

	Borrowings £m	Lease liabilities £m
Balance at 1 April 2020	21.9	84.1
<i>Changes from financing cash flows</i>		
Repayment of borrowings	(21.9)	-
Payment of interest	(0.4)	(4.0)
Repayment of lease liabilities	-	(17.6)
Total changes from financing cash flows	(22.3)	(21.6)
<i>Other changes</i>		
New lease liabilities	-	32.8
Reassessment of lease term	-	(3.5)
Interest expense	0.4	4.0
Exchange difference	-	(0.5)
Total other changes	0.4	32.8
Balance at 31 March 2021	-	95.3

25. Borrowings

	2022 £m	2021 £m
Secured borrowing at amortised cost		
Drawdowns on Revolving Credit Facility	45.0	-
Amount due for settlement within 12 months	45.0	-
	45.0	-

On 6 April 2020, AO Limited, a direct subsidiary of AO World plc entered into an £80m revolving credit facility. The facility is secured by a debenture over the assets of the companies party to the agreement, a charge over the relevant company shares and a charge over the AO.com domain name. During the year, the facility expiry date was extended by 12 months to 6 April 2024. The amount drawn at 31 March 2022 was £49.9m and represented £45.0m of cash drawings plus £4.9m of letters of credit (2021: £3.9m of letters of credit).

26. Lease liabilities

	Minimum lease payments	
	2022 £m	2021 £m
Amounts payable under lease liabilities:		
Within one year	24.6	25.3
Greater than one year but less than five years	77.8	64.8
Greater than five years but less than ten years	24.1	17.1
Beyond ten years	-	0.6
	126.5	107.8

	Present value of minimum lease payments	
	2022 £m	2021 £m
Amounts payable under lease liabilities:		
Within one year	20.3	21.4
Greater than one year but less than five years	65.2	58.3
Greater than five years but less than ten years	23.1	15.0
Beyond ten years	-	0.6
	108.6	95.3

27. Provisions

	2022 £m	2021 £m
Provisions	2.9	2.4

Provisions are classified as:

	2022 £m	2021 £m
Current liabilities	0.4	0.1
Non-current liabilities	2.5	2.3
	2.9	2.4

The provisions all relate to dilapidations and the movement in the year is shown below:

	Dilapidations provision £m
At 31 March 2021	2.4
Provisions created in the year	0.6
Utilised in the year	(0.1)
At 31 March 2022	2.9

The dilapidations provision is created for leases where the Group is liable to return the assets to their original state at the end of the lease. The provision will be utilised as leased assets expire.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

28. Share capital, investment in own shares and share premium

	Number of shares m	Share capital £m	Share premium £m
At 1 April 2021	479.4	1.2	104.3
Share issue	0.1	-	0.1
At 31 March 2022	479.5	1.2	104.4

On 19 July 2021, the Company issued 132,684 shares to satisfy options granted in July 2018 under the AO World 2016 Employee Reward Plan (see Note 31).

On 6 September 2022, the Company issued 12,337 to satisfy the early vesting of options under the AO World Sharesave Scheme (2020 grant) (see Note 31).

These shares were acquired and are held in an Employee Benefit Trust ("EBT"), at nominal values, and the EBT transfers to the participants as they are exercised.

As the shares are held by the EBT, they are treated as Treasury shares on consolidation and are shown as a reduction in equity in the Statement of financial position.

As at 31 March 2022 the number of shares held by the EBT was 71,041.

29. Non-controlling interest

	2022 £m	2021 £m
Balance at 1 April 2021	1.3	1.0
Share of (profit) / loss for the year	(0.3)	0.6
Acquisition of minority interest	-	(0.4)
Balance at 31 March 2022	1.0	1.3

The non-controlling interest relates to 18.4% (2021: 18.4%) of the share capital of AO Recycling Limited (formerly known as The Recycling Group Limited) not currently owned by AO World PLC.

At 31 March 2022, AO Recycling Limited had non-current assets of £16.9m (2021: £17.0m), net current liabilities of £17.5m (2021: £18.4m) and non-current liabilities of £5.2m (2021: £6.2m). During the year, AO Recycling Limited contributed £22.3m (2021: £14.8m) and £4.4m

(2021: £0.5m loss) to the Group's revenue and Adjusted EBITDA respectively. Its retained loss for the year was £5.8m (2021: £3.5m). Net cash outflow was £0.2m (2021: £3.5m outflow).

No options were exercised in the current year.

30. Reserves

The analysis of movements in reserves is shown in the statement of changes in equity. Details of the amounts included in other reserves (excluding share-based payment reserve and translation reserve) are set out below.

The merger reserve arose on the purchase of DRL Limited (now AO Retail Limited) in the year ended 31 March 2008 and Mobile Phones Direct Limited in the year ended 31 March 2019.

The capital redemption reserve arose as a result of the redemption of ordinary and preference shares in the year ended 31 March 2012 and 2014 respectively.

The other reserve arose on the acquisition of AO Recycling Limited and relates to the difference between the gross and fair valuation of the put option.

31. Share-based payments

Performance Share Plan

The table below summarises the amounts recognised in the income statement during the year.

	2022 £m	2021 £m
AO 2018 Incentive Plan	0.4	0.5
AO 2019 Incentive Plan	0.5	0.7
AO 2020 Incentive Plan	1.2	0.9
AO 2021 Incentive Plan	0.1	-
Value Creation Plan ("VCP")	2.1	0.9
Sharesave scheme	1.5	0.3
Total share scheme charge	5.8	3.3

The details regarding each of the schemes are as follows:

Schemes vesting in the current year

No schemes vested during the year ended 31 March 2022.

AO 2018 Incentive Plan

On 19 July 2018, the Company adopted the AO 2018 Incentive Plan (the "Plan") in which the Directors and key members of staff participate. The Plan combines an annual bonus element (33.33%) and a conditional share award (66.67%) based on various financial and non-financial performance criteria (see below), as well as the continuing employment of the individuals. The bonus and number of conditional share awards was initially calculated based on the performance criteria for the year ended 31 March 2019. The vesting date for the conditional shares is 18 August 2022.

The fair value was determined to be the share price at grant date of £1.44.

Based on the performance criteria achieved, and subject to continued employment, the number of outstanding conditional shares relating to the scheme, as at 31 March 2022, was 1,551,198.

AO 2019 Incentive Plan

On 19 July 2019, the Company adopted the AO 2019 Incentive Plan (the "Plan") in which the Directors and key members of staff participate. The Plan combines an annual bonus element (33.33%) and a conditional share award (66.67%) based on various financial and non-financial performance criteria (see below), as well as the continuing employment of the individuals. The bonus and number of conditional share awards was initially calculated based on the performance criteria for the year ended 31 March 2020. The vesting date for the conditional shares is July 2023.

The fair value was determined to be the share price at grant date of £0.767.

Based on the performance criteria achieved, and subject to continued employment, the number of outstanding conditional shares relating to the scheme, as at 31 March 2022, was 1,486,954.

31. Share-based payments continued

AO 2020 Incentive Plan

On 20 August 2020, the Company adopted the AO 2020 Incentive Plan (the "Plan") in which the Directors and key members of staff participate. The Plan combines an annual bonus element (33.33%) and a conditional share award (66.67%) based on various financial and non-financial performance criteria (see below), as well as the continuing employment of the individuals. The bonus and number of conditional share awards was initially calculated based on the performance criteria for the year ended 31 March 2021. The vesting date for the conditional shares is July 2024.

The fair value was determined to be the share price at grant date of £1.998.

Based on the performance criteria achieved, and subject to continued employment, the number of outstanding conditional shares relating to the scheme, as at 31 March 2022, was 2,065,754.

AO 2021 Incentive Plan

On 26 July 2021, the Company adopted the AO 2021 Incentive Plan (the "Plan") in which the Directors and key members of staff participate. The Plan combines an annual bonus element (33.33%) and a conditional share award (66.67%) based on various financial and non-financial performance criteria (see below), as well as the continuing employment of the individuals. The bonus and number of conditional share awards was initially calculated based on the performance criteria for the year ended 31 March 2022. The vesting date for the conditional shares is July 2025.

The fair value was determined to be the share price at grant date of £2.43.

Twenty-five per cent of the awards are subject to a Group revenue performance condition for the year ended 31 March 2022 as shown below:

Group revenue for the performance period	Extent to which performance condition satisfied
Below £1,860m	0%
£1,860m (Threshold)	25%
£1,960m (Target)	62.50%
£2,060m or higher (Stretch)	100%

Twenty per cent of the awards are subject to a Group EBITDA performance condition for the year ended 31 March 2022 as shown below:

Group Adjusted EBITDA for the performance period	Extent to which performance condition satisfied
Below £45m	0%
£45m (Threshold)	25%
£60m (Target)	62.50%
£75m or higher (Stretch)	100%

Ten per cent of the awards are subject to a Group cash inflow performance condition for the year ended 31 March 2022 as shown below:

Group cash inflow for the performance period	Extent to which performance condition satisfied
Below £11.2m	0%
£11.2m (Threshold)	25%
£26.2m (Target)	62.50%
£41.2m or higher (Stretch)	100%

Five per cent of the awards are subject to a revenue growth in non-MDA categories performance condition for the year ended 31 March 2022 as shown below:

Revenue growth in non-MDA categories	Extent to which performance condition satisfied
Below 10%	0%
10% (Threshold)	25%
15% (Target)	62.50%
20% or higher (Stretch)	100%

Ten per cent of the awards are subject to a German revenue (in euros) performance condition for the year ended 31 March 2022 as shown below:

Group revenue for the performance period	Extent to which performance condition satisfied
Below €316m	0%
€316m (Threshold)	25%
€332.6m (Target)	62.50%
€349.2m or higher (Stretch)	100%

Ten per cent of the awards are subject to a Group weighted average NPS performance condition for the year ended 31 March 2022 as shown below:

Net promoter score for the performance period	Extent to which performance condition satisfied
Below 70	0%
+ 70 (Threshold)	25%
+ 75 (Target)	62.50%
+ 80 or higher (Stretch)	100%

Ten per cent of the awards are subject to a Group weighted average ENPS performance condition for the year ended 31 March 2022 as shown below:

Net promoter score for the performance period	Extent to which performance condition satisfied
Below 15	0%
+ 15 (Threshold)	25%
+ 30 (Target)	62.50%
+ 45 or higher (Stretch)	100%

Ten per cent of the awards are subject to a business transformation target performance condition for the year ended 31 March 2022.

The Remuneration Committee of the Board determines the extent to which this target has been met.

The number of awards made were 2,600,000 and based on the performance criteria achieved, and subject to continued employment, the number of conditional shares relating to the scheme is expected to be 290,000.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

31. Share-based payments continued

Value Creation Plan

The Awards

The Company has granted Awards to both Executives and employees in the form of conditional awards over AO shares that will vest at the end of the measurement periods subject to the participant remaining in employment and meeting certain performance conditions. There is no exercise price associated with the Awards.

Details of Awards made are described in more detail below.

Executive Awards

On 30 September 2020, three conditional awards were granted.

The Executive Awards have been granted in three separate equal tranches with the first tranche vesting at a measurement date of 31 March 2025, the second tranche at a measurement date of 31 March 2026, and the third tranche at the measurement date of 31 March 2027, all subject to meeting the performance conditions:

Percentage of value above the hurdle attributable to the Awards

AO total market cap < £2.5bn (£5.23 per share) at measurement date	0%
AO total market cap between £2.5bn and £4.5bn at measurement date	3% of the excess between £2.5bn and £4.5bn

The maximum payment on vesting of the Executive Awards is £60m (£20m per Executive), equivalent to a cap of £4.5bn as noted in the above table. Note that the maximum amount payable under any tranche is one-third of the cap (e.g. £6.67m).

The fair value of each award was £287,700, £329,700 and £359,700 for 31 March 2025, 2026 and 2027 respectively.

There were no new executive awards in the current year.

Employee Awards

On 30 September 2020, 138,866 initial conditional awards were granted.

Subsequent to the initial award there has been further conditional awards of 18,079, 23,288 and 26,007 granted in November 2020, July 2021 and November 2021 respectively.

At the date of the last grant award, the number of allocated awards not forfeited total 163,776.

The employee Awards will vest in a single tranche at a measurement date of 31 March 2025. However, to the extent that the Company's share price increases between 31 March 2025 and the second and third measurements dates (of 31 March 2026 and 31 March 2027 respectively), at the Board's discretion, the further incremental value will be delivered on the Awards in line with the following table. The value of the employee awards may therefore increase at each measurement date.

Percentage of value above the hurdle attributable to the Awards

AO total market cap < £2.5bn (£5.23 per share) at measurement date	0%
AO total market cap between £2.5bn and £4.5bn at measurement date	7% of the excess between £2.5bn and £4.5bn
AO total market cap between £4.5bn and £5.0bn at measurement date	As above plus 10% of the excess between £4.5bn and £5.0bn
AO total market cap between £5.0bn and £6.0bn (£12.55 per share) at measurement date	As above plus 5% of the excess between £5.0bn and £6.0bn

Under both the Executive and employee Awards, the number of shares issued to satisfy the Awards cannot exceed 5.0% of the Company's share capital. For the employee Awards, this means that above a market cap of £5.0bn the percentage of value attributable to the Awards cannot exceed 5% of the market capitalisation.

In arriving at the fair value of each award, the following assumptions have been used:

Assumptions	31 March 2025	31 March 2026	31 March 2027
Market capitalisation at grant	£0.595bn - £1.032bn	£0.595bn - £1.032bn	£0.595bn - £1.032bn
Hurdle	£2.5bn	£2.5bn	£2.5bn
Cap	£4.5bn/£6.0bn	£4.5bn/£6.0bn	£4.5bn/£6.0bn
Dividend yield	0.0%	0.0%	0.0%
Expected term	4.5 - 3.35 years	5.5 - 4.35 years	6.5 - 5.35 years
Risk-free rate	0.0% - 0.5%	0.0% - 0.5%	0.0% - 0.5%
Volatility	45.0% - 50.0%	45.0% - 50.0%	45.0% - 50.0%
Discount for post vesting restrictions	nil	nil	nil

31. Share-based payments continued

The fair value of each award was as follows:

Award	31 March 2025	31 March 2026	31 March 2027
Initial grant - 30 September 2020	42.57	21.90	18.14
Second grant - 30 November 2020	42.57	21.90	18.14
Third grant - 1 July 2021	58.36	28.70	23.18
Fourth grant - 22 November 2021	9.49	9.50	9.75

AO Sharesave scheme (referred to as SAYE scheme)

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

As per IFRS 2, these grants have been valued using a Black-Scholes model.

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

	2022 No. of options	2022 WAEP (£)*	2021 No. of options	2021 WAEP (£)*
Outstanding at the beginning of the year	4,492,282	1.53	3,437,415	0.83
Granted during the year	3,981,372	0.88	1,285,091	3.32
Forfeited during the year	(1,590,611)	2.41	(199,907)	1.03
Lapsed in the year	(836,449)	0.89	(30,317)	1.49
Outstanding at the end of the year	6,046,594	0.96	4,492,282	1.53

* Weighted average exercise price.

During the year ended 31 March 2022, options were granted on 23 December 2021. For the shares outstanding at 31 March 2022, the remaining weighted average contractual life is 2.17 years (2021: 1.78 years). The weighted average fair value of options granted during the year was £0.88 per share.

The following table gives the assumptions made during the year ended 31 March 2022:

For options granted on	1 Mar 2017	1 Feb 2019	22 Jan 2020	25 Jan 2021	23 Dec 2021
Risk-free rate	0.41%	0.79%	0.79%	0.79%	0.58%
Expected volatility	49.9%	46.5%	46.5%	46.5%	45.0%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Option life	3 years	3 years	3 years	3 years	3 years

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

32. Retirement benefit schemes

Defined contribution schemes

The pension cost charge for the year represents contributions payable by the Group and amounted to £6.8m (2021: £5.5m). Contributions totalling £0.8m (2021: £0.7m) were payable at the end of the year and are included in accruals.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

33. Financial instruments

a) Fair values of financial instruments

Receivables and payables

For receivables and payables classified as financial assets and liabilities in accordance with IAS 32, fair value is estimated to be equivalent to book value. These values are shown in Notes 22 and 23, respectively. The categories of financial assets and liabilities and their related accounting policy are set out in Note 3.

Cash and cash equivalents

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

Call and put option

The fair value of the call and put options (arising on the acquisition of AO Recycling Limited in 2016) are based upon an independent valuation at the year end using the Monte Carlo model.

The carrying value of the put option is based on an estimate of the likely amount payable over the life of the option based on discounted future cash flows.

Borrowings

The fair value of interest-bearing borrowings is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the date of inception.

Fair values

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the statement of financial position are as follows.

	2022 Carrying amount £m	2022 Fair value £m	2021 Carrying amount £m	2021 Fair value £m
Financial assets designated as fair value through profit or loss				
Loans and receivables				
Cash and cash equivalents	19.5	19.5	67.1	67.1
Trade receivables (see Note 22)	25.8	25.8	19.8	19.8
Prepayments and other receivables (see Note 22)	62.2	62.2	59.5	59.5
Total financial assets	107.5	107.5	146.4	146.4
Financial liabilities measured at amortised cost				
Trade payables (see Note 23)	(205.0)	(205.0)	(273.8)	(273.8)
Other payables excluding deferred income (see Note 23)	(97.2)	(97.2)	(118.1)	(118.1)
Borrowings (see Note 25)	(45.0)	(45.0)	-	-
Lease liabilities (see Note 26)	(108.6)	(108.6)	(95.3)	(95.3)
Total financial liabilities	(455.8)	(455.8)	(487.2)	(487.2)
Total financial instruments	(348.3)	(348.3)	(340.8)	(340.8)

The table below shows the movement in valuation for both the call and put option during the year.

Call option	£m
At 31 March 2020	0.6
Change in valuation	(0.6)
At 31 March 2021 and at 31 March 2022	-
Put option	£m
At 31 March 2020	1.1
Exercised in the year	(0.2)
Unwind of discount	0.1
Change in valuation	(0.9)
At 31 March 2021 and at 31 March 2022	-

AO World PLC subscribed for 300 shares (60%) of AO Recycling Limited in November 2015 for £3, with the remaining 200 shares (40%) being retained by the founders of AO Recycling Limited. AO World PLC also entered into a put and call option agreement in relation to the remaining shares held by the founders, which provides for their shares to be bought/sold in five separate tranches under five put and call options to be exercised following the approval of the AO Recycling Limited accounts for the financial years ending 31 March 2018 to 31 March 2022 inclusive. This is subject to certain performance conditions, mainly EBITDA performance.

To date, AO World PLC has exercised options over 21.6% of the remaining shares taking its shareholding to 81.6%. No options were exercised in the current year.

33. Financial instruments continued

Fair value hierarchy

Financial instruments are measured at fair value and are split into a fair value hierarchy based on the valuation technique used to determine fair value. The hierarchies are:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Call option	-	-	-	-
At 31 March 2022	-	-	-	-
Call option	-	-	-	-
At 31 March 2021	-	-	-	-

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities				
Put option to acquire non-controlling interest	-	-	-	-
At 31 March 2022	-	-	-	-
Put option to acquire non-controlling interest	-	-	-	-
At 31 March 2021	-	-	-	-

The fair value hierarchy for the call and put options is consistent for both the Group and parent Company.

b) Credit risk

Financial risk management

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

The Group's trade receivable balances comprise a number of individually small amounts from unrelated customers over a number of geographical areas. Concentration of risk is therefore limited. Sales to retail customers are made predominantly in cash or via major credit cards. It is Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. New credit customers are assessed using an external rating report which is used to establish a credit limit. Such limits are reviewed periodically on both a proactive and reactive basis, for example, when a customer wishes to place an order in excess of their existing credit limit. Receivable balances are monitored regularly with the result that the Group's exposure to bad debts is not significant. Management therefore believe that there is no further credit risk provision required in excess of the normal provision for doubtful receivables.

Exposure to credit risk

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

	2022 £m	2021 £m
Trade receivables	25.8	19.8
	25.8	19.8

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

33. Financial instruments continued

Credit quality of financial assets and impairment losses

The ageing of trade receivables at the statement of financial position date was:

	Gross £m	Impairment £m	Net £m
Not past due	18.4	-	18.4
Past due 0-30 days	4.9	-	4.9
Past due 31-120 days	1.2	-	1.2
More than 120 days	2.0	(0.7)	1.3
At 31 March 2022	26.5	(0.7)	25.8
Not past due	16.0	-	16.0
Past due 0-30 days	3.1	-	3.1
Past due 31-120 days	0.1	-	0.1
More than 120 days	0.8	(0.2)	0.6
At 31 March 2021	20.0	(0.2)	19.8

The current year includes an impairment charge of £0.7m (2021: £0.2m) to trade receivables. Contract assets are also assessed for credit risk. Total contract assets at 31 March 2022 were £174.1m (2021: £172.2m). Management assesses the counterparty risk relating to these assets that comprise commissions receivable from blue chip Mobile Network Operators or from the Group's, protection plan partner. The level of counterparty risk is considered low. Having applied IFRS 15 to the balances on initial recognition of revenue, restrictions on the amounts recognised based on assumptions from historical data provide further reassurance that the amount recognised is recoverable and hence no further expected credit loss provision is required. Expected credit losses on other financial assets held at amortised cost are not considered to be material.

c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. It is Group policy to maintain a balance of funds, borrowings, committed bank and other facilities sufficient to meet anticipated short-term and long-term financial requirements. In applying this policy, the Group continuously monitors forecast and actual cash flows against the maturity profiles of financial assets and liabilities. Uncommitted facilities are used if available on advantageous terms. It is Group treasury policy to ensure that a specific level of committed facilities is always available based on forecast working capital requirements. Cash forecasts identifying the Group's liquidity requirements are produced and are stress tested for different scenarios including, but not limited to, reasonably possible decreases in profit margins and increases in interest rates on the Group's borrowing facilities and the weakening of sterling against other functional currencies within the Group.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	Carrying amount £m	Contractual cash flows £m	Within 1 year £m	Between 1 and 5 years £m	Between 5 and 10 years £m
Non-derivative financial liabilities					
Trade and other payables	302.2	302.2	295.8	6.4	-
Bank loans	45.0	45.0	45.0	-	-
Lease liabilities	108.6	126.5	24.6	77.8	24.1
At 31 March 2022	455.8	473.7	365.4	84.2	24.1

	Carrying amount £m	Contractual cash flows £m	Within 1 year £m	Between 1 and 5 years £m	Between 5 and 10 years £m	In more than 10 years £m
Non-derivative financial liabilities						
Trade and other payables	383.7	383.7	375.8	7.9	-	-
Lease liabilities	95.3	107.8	25.3	64.8	17.1	0.6
At 31 March 2021	479.0	491.5	401.1	72.7	17.1	0.6

33. Financial instruments continued

d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments (and hence no sensitivity analysis is performed).

Foreign currency risk

Refer to Note 33f.

Interest rate risk

The principal interest rate risks of the Group arise in respect of borrowings. As the interest expense on variable rate financial instruments is immaterial, the Group does not actively manage the exposure to this risk.

At the statement of financial position date, the interest rate profile of the Group's interest-bearing financial instruments was:

	2022 £m	2021 £m
Fixed and variable rate instruments		
Fixed rate	7.2	9.6
Variable rate	45.0	-
	52.2	9.6

If interest rates increased by 1%, and the level of cash drawings on the Group's facility remained the same throughout the year, there would be an impact on the finance cost of approximately £0.5m.

e) Capital management

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

The capital structure of the Group consists of net cash, borrowings (disclosed in Note 23) and equity of the Group. The Group is not subject to any externally imposed capital requirements. In addition, as set out in Note 23, AO Limited, a direct subsidiary of AO World PLC and the holding company of AO Retail Limited and Expert Logistics Limited, has access to an £80m Revolving Credit Facility which expires in April 2024.

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

f) Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposure to exchange rate fluctuations arise.

The Group's presentational currency is sterling, as a result the Group is exposed to foreign currency translation risk due to movements in foreign exchange rates on the translation of non-sterling assets and liabilities.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2022 £m	2021 £m	2022 £m	2021 £m
Euros	168.2	157.5	40.2	41.3

The balances shown above include intercompany loan balances held between Group companies which create a foreign currency exposure to the income statement. These differences are recognised in finance income or costs. The reason for the foreign exchange exposure is due to the loans being issued in GBP and the European business reflecting how much it will cost them to repay in euros.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

33. Financial instruments continued

The following table details the Group's sensitivity to a 10% increase and decrease in sterling against the relevant foreign currencies. The sensitivity rate of 10% represents the Directors' assessment of a reasonably possible change. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below represents an increase in profit before tax.

	Euro currency impact	
	2022 £m	2021 £m
Sterling strengthens by 10%	(12.8)	(11.6)
Sterling weakens by 10%	11.6	10.6

The Group's sensitivity to foreign currency has increased during the current year due to increasing trade in Europe. The impact above is mainly as a result of intercompany loans held in a foreign currency. The impact of foreign exchange movements in the current year is set out in Note 12.

34. Related-party transactions

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

Transactions with Directors and key management personnel

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

	2022 £m	2021 £m
Key management emoluments including social security costs	5.6	4.6
Awards granted under a long-term incentive plan	3.1	3.0
Company contributions to money purchase plans	-	-
	8.7	7.6

Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration report on pages 116 to 141.

35. Post balance sheet events

During FY22, the Group's German business incurred losses EBITDA losses of £21.3m. A strategic review was started in Q4 FY22 and on 9 June 2022 it was announced that the Group had taken the decision to close the business.

As a consequence of the losses and the post year end decision to close, management have reviewed the carrying value of that businesses assets. This has been performed using third party information regarding fixed assets, including ROU assets, together with an assessment of the realisable value of any remaining inventory.

As a result, provisions of £7.3m have been made at 31 March 2022 to impair the relevant assets and this, together with £0.9m of adviser costs accrued prior to 31 March 2022, have been included as "Adjusting" items in note 6 to the financial statements.

The closure process is expected to be completed during FY23.

On 11 July 2022, the Company completed a Capital raise through the issue of 93,801,251 new ordinary shares of 0.25p each in the Company raising £40.3m (before expenses). The net proceeds of the Capital raise will strengthen the balance sheet and increase liquidity back to historic levels (relative to revenue base), and provide the flexibility to capitalise on market opportunities.

Company statement of financial position

As at 31 March 2022

	Note	2022 £m	2021 £m
Non-current assets			
Intangible assets	4	1.0	1.9
Property, plant and equipment	5	3.0	2.2
Right of use assets	5	8.7	6.4
Investment in subsidiaries	3	87.8	85.4
Trade and other receivables	8	18.3	137.3
Deferred tax asset	7	1.0	2.0
		119.8	235.2
Current assets			
Corporation tax receivable		0.9	0.8
Trade and other receivables	8	2.7	3.8
Cash at bank and in hand		2.1	0.7
		5.7	5.3
Total assets		125.5	240.5
Current liabilities			
Trade and other payables	9	(120.7)	(105.8)
Lease liability	10	(1.2)	(1.1)
		(121.9)	(106.9)
Net current liabilities		(116.2)	(101.6)
Non-current liabilities			
Lease liability	10	(7.7)	(6.4)
Derivative financial liability	11	-	(0.1)
		(7.7)	(6.5)
Total liabilities		(129.6)	(113.4)
Net (liabilities) / assets		(4.1)	127.1
Equity			
Share capital	12	1.2	1.2
Share premium	12	104.4	104.3
Merger reserve		22.2	22.2
Capital redemption reserve		0.5	0.5
Share-based payments reserve		11.9	9.3
Other reserves		0.4	0.4
Retained losses		(144.7)	(10.8)
Total equity		(4.1)	127.1

The financial statements of AO World PLC, registered number 05525751, were approved by the Board of Directors and authorised for issue on 17 August 2022. They were signed on its behalf by:

John Roberts
CEO
AO World PLC


Mark Higgins
CFO
AO World PLC

Company statement of changes in equity

As at 31 March 2022

	Share capital £	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Share-based payments reserve £m	Other reserve £m	Retained losses £m	Total £m
Balance at 31 March 2020	1.2	103.7	22.2	0.5	11.7	0.1	(21.6)	117.8
Profit for the year	-	-	-	-	-	-	4.5	4.5
Share-based payments charge (net of tax)	-	-	-	-	3.9	-	-	3.9
Issue of shares (net of expenses)	-	0.6	-	-	-	-	-	0.6
Acquisition of shares in non-controlling interest	-	-	-	-	-	0.3	-	0.3
Movement between reserves	-	-	-	-	(6.3)	-	6.3	-
Balance at 31 March 2021	1.2	104.3	22.2	0.5	9.3	0.4	(10.8)	127.1
Loss for the year	-	-	-	-	-	-	(136.6)	(136.6)
Share-based payments charge (net of tax)	-	-	-	-	5.3	-	-	5.3
Issue of shares (net of expenses)	-	0.1	-	-	-	-	-	0.1
Movement between reserves	-	-	-	-	(2.7)	-	2.7	-
Balance at 31 March 2022	1.2	104.4	22.2	0.5	11.9	0.4	(144.7)	(4.1)

Notes to the Company financial statements

For the year ended 31 March 2022

1. Basis of preparation and accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006, and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101 from Adopted IFRS, the Company has made no measurement and recognition adjustments.

Under s408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a cash flow statement and related notes;
- comparative period reconciliations for share capital, tangible fixed assets, intangible assets;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of key management personnel; and
- disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share-based Payments in respect of Group-settled share-based payments;
- certain disclosures required by IAS 36 Impairment of Assets in respect of the impairment of goodwill and indefinite life intangible assets; and
- certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

Investments

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

Other accounting policies

For other accounting policies, please refer to the Group accounting policies on page 164.

2. Operating loss

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

3. Investment in subsidiaries

	2022 £m	2021 £m
Cost		
At 31 March 2021 / 2020	85.4	83.1
Additions	-	0.1
Group share-based payments	3.0	2.2
At 31 March 2022 / 2021	87.4	85.4
Impairment		
At 31 March 2021 / 2020	-	-
Charge in the year	0.6	-
At 31 March 2022 / 2021	0.6	-
Carrying amount		
At 31 March 2022 / 2021	87.8	85.4

The Company has made capital contributions to its subsidiaries of £3.0m (2021: £2.2m) in relation to the allocation of share-based payment charges.

As a result of the continued losses in AO Deutschland Limited and the pre-year end announcement of a strategic review into the German business (which has post year end resulted in the decision to close the business), management have impaired the value of the investment in that company. This related to the cumulative amount of capital contributions made to AO Deutschland Limited in respect of share based payment charges for German employees.

Notes to the Company financial statements continued

For the year ended 31 March 2022

4. Intangible assets

	Domain names £m	Software £m	Total £m
Cost			
At 31 March 2021	1.2	3.0	4.2
Additions	-	0.7	0.7
Disposals	(0.2)	(0.3)	(0.5)
At 31 March 2022	1.0	3.4	4.4
Amortisation			
At 31 March 2021	0.9	1.4	2.3
Charge for the year	0.1	1.0	1.1
At 31 March 2022	1.0	2.4	3.4
Carrying amount			
At 31 March 2022	-	1.0	1.0
At 31 March 2021	0.3	1.6	1.9

Amortisation is charged to administrative costs in the income statement.

5. Property, plant and equipment and right of use assets

	Computer and office equipment £m	Leasehold improvements £m	Total £m	Right of use assets £m
Cost				
At 31 March 2021	3.0	2.7	5.7	9.5
Additions	0.8	1.2	2.0	6.4
Disposals	-	-	-	(3.0)
At 31 March 2022	3.8	3.9	7.7	12.9
Accumulated depreciation				
At 31 March 2021	1.9	1.6	3.5	3.1
Charge for the year	0.7	0.5	1.2	1.1
At 31 March 2022	2.6	2.1	4.7	4.2
Carrying amount				
At 31 March 2022	1.2	1.8	3.0	8.7
At 31 March 2021	1.2	1.1	2.2	6.4

The carrying value of right of use assets is analysed as follows:

	2022 £m	2021 £m
Right of use assets		
Land and buildings	8.3	6.1
Motor vehicles	0.4	0.3
	8.7	6.4

6. Subsidiaries

Details of the Company's subsidiaries at 31 March 2022 are as follows:

Name of subsidiary	Principal place of business	Class of shares held	Proportion of ownership interests and voting rights held by AO World PLC	Principal activity
AO Retail Limited	United Kingdom	Ordinary	100% [†]	Retail
Expert Logistics Ltd	United Kingdom	Ordinary	100% [†]	Logistics and transport
Worry Free Limited	United Kingdom	Ordinary	100%	Holding company
Elekdirect Limited	United Kingdom	Ordinary	100%	Retail
Appliances Online Ltd	United Kingdom	Ordinary	100%	Holding company
AO Deutschland Limited	Germany	Ordinary	100% [‡]	Retail
AO Ltd	United Kingdom	Ordinary	100%	Holding company
AO.BE SA	Belgium	Ordinary	99.99% [*]	Dormant
AO Recycling Limited	United Kingdom	Ordinary	81.6%	WEEE recycling
WEEE Collect It Limited	United Kingdom	Ordinary	100% ^{**}	Dormant
WEEE Re-use It Limited	United Kingdom	Ordinary	100% ^{**}	Dormant
Electrical Appliance Outlet Limited	United Kingdom	Ordinary	100%	Retail
Mobile Phones Direct Limited	United Kingdom	Ordinary	100%	Dormant
AO Mobile Limited	United Kingdom	Ordinary	100% [†]	Retail
BERE Limited	Jersey	Ordinary and redeemable preference share	100%	Investment company
AO Business Limited	United Kingdom	Ordinary	100%	Dormant
AO B2B Limited	United Kingdom	Ordinary	100%	Dormant
AO Trade Limited	United Kingdom	Ordinary	100%	Dormant
AO Rental Limited	United Kingdom	Ordinary	100%	Dormant
AO Care Limited	United Kingdom	Ordinary	100%	Dormant
AO Premium Club Limited	United Kingdom	Ordinary	100%	Dormant
AO Club Limited	United Kingdom	Ordinary	100%	Dormant
AO Distribution Limited	United Kingdom	Ordinary	100%	Dormant
AO Logistics Limited	United Kingdom	Ordinary	100%	Dormant

* 0.01% of the investment in AO.BE SA was held in AO Deutschland.

** Indirectly owned by AO Recycling Limited.

[†] Indirectly owned by AO Limited.

[‡] Indirectly owned through Worry Free Limited (50%) and Appliances Online Limited (50%).

All companies within the Group are registered at the same address disclosed on page 203 apart from BERE Ltd and AO.BE SA who are registered at the addresses listed below.

BERE Ltd	AO.BE SA
44 Esplanade	Naamloze Vennootschap
St Helier	Esplanade
Jersey	Heyssel 1
JE4 9WG	Bus 94
	1020
	Brussels

Notes to the Company financial statements continued

For the year ended 31 March 2022

7. Deferred tax

The following is the asset recognised by the Company and movements thereon during the current and prior reporting year:

	Share options £m	Losses and unused tax £m	Transitional relief £m	Other timing difference £m	Total £m
Deferred tax asset at 31 March 2020	0.7	0.3	0.2	0.1	1.3
(Debit)/Credit to income statement	0.4	(0.3)	-	0.1	0.2
Credit to reserves	0.4	-	-	-	0.4
Deferred tax asset at 31 March 2021	1.5	-	0.2	0.2	2.0
(Debit)/Credit to income statement	(0.5)	0.2	-	(0.1)	(0.4)
Debit to reserves	(0.5)	-	-	-	(0.5)
Deferred tax asset at 31 March 2022	0.5	0.2	0.2	0.1	1.0

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

The Company has an unrecognised deferred tax asset of £nil (2021: £nil) in respect of share options.

8. Trade and other receivables

	2022 £m	2021 £m
Amounts owed by Group undertakings	18.3	137.3
Prepayments	1.6	2.7
Other receivables	1.1	1.1
	21.0	141.1

The Trade and other receivables are classified as:

	2022 £m	2021 £m
Non-current assets - Amounts owed by Group undertakings	18.3	137.3
Current assets	2.7	3.8
	21.0	141.1

Amounts owed by Group undertakings are payable after more than year. All other trade and other receivables are receivable in less than one year.

At 31 March 2022, amounts due from AO Deutschland Limited of [£124.6m] have been fully impaired as a result of the continuing losses in that business as well as the strategic review which was ongoing at the year end date (which has subsequently resulted in the decision to close the German business).

9. Trade and other payables

	2022 £m	2021 £m
Trade payables	1.5	0.9
Accruals	5.3	9.2
Other payables	0.9	0.8
Amounts owed to Group undertakings	113.0	94.9
	120.7	105.8

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

Amounts owed to Group undertakings are payable on demand and carry no interest.

10. Lease Liabilities

	2022 £m	2021 £m
Secured borrowing at amortised cost		
Lease liabilities	8.9	7.5
Amount due for settlement within 12 months	1.2	1.1
Amount due for settlement after 12 months	7.7	6.4
Total lease liabilities	8.9	7.5

Movements in the year were as follows:

	Lease leases £m
At 1 April 2022	7.5
<i>Changes from financing cash flows</i>	
Repayment of lease liabilities	(1.3)
Payment of interest	(0.4)
Total changes from financing cash flows	(1.7)
<i>Other changes</i>	
New lease liabilities	6.1
Reassessment of lease term	(3.4)
Interest charge	0.4
Total other changes	3.2
At 31 March 2022	8.9

11. Derivative financial assets and liabilities

The movement in the valuation of the call and put options issued on the acquisition of AO Recycling Limited is as follows:

Call option	£m
At 31 March 2020	0.6
Change in valuation	(0.6)
At 31 March 2021 and at 31 March 2022	-
Put option	£m
At 31 March 2020	(0.3)
Change in valuation	(0.1)
Exercised in the year	0.3
At 31 March 2021	(0.1)
Change in valuation	0.1
At 31 March 2022	-

12. Share capital and share premium

	Number of shares m	Share capital £m	Share premium £m	Merger reserve £m
At 1 April 2021	479.4	1.2	104.3	22.2
Share issue	0.1	-	0.1	-
At 31 March 2022	479.5	1.2	104.4	22.2

On 19 July 2021, the Company issued 132,684 shares to satisfy awards under the vested ERP (see Note 31).

On 6 September 2022, the Company issued 12,337 to satisfy the early vesting of options under the AO World Sharesave Scheme (2020 grant) (see Note 31).

13. Share-based payments

The Company recognised total expenses of £2.5m (2021: £1.1m) in the year in relation to both the Performance Share Plan (referred to as LTIP or SIP), Value Creation Plan ("VCP") and the AO Sharesave scheme (referred to as SAYE). Details of these schemes are described in Note 31 to the consolidated financial statements.

14. Related parties

During the year, the Company entered into transactions with non-wholly owned Group entities as follows:

	2022 £m	2021 £m
Interest charged to AO Recycling Limited	0.1	0.1

At 31 March 2022, the balance outstanding with AO Recycling Limited was £2.0m (2021: £6.3m).

Important information

Registered office and headquarters

AO
5A The Parklands
Lostock
Bolton BL6 4SD

Registered number: 5525751

Tel: 01204 672 400
Web: ao-world.com

Company Secretary

Julie Finnemore
Email: cosec@ao.com

Joint Stockbrokers

Goldman Sachs International
Plumtree Court
25 Shoe Lane
London EC4A 4AU
Jefferies International Limited
Vintners Place
68 Upper Thames Street
London EC3V 3BJ
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Independent Auditor

KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

Bankers

Barclays Bank plc
51 Mosley Street
Manchester M60 2AU
HSBC Bank plc
4 Hardman Square
Spinningfields
Manchester M3 3EB
National Westminster Bank plc
No. 1 Hardman Boulevard
Manchester
M3 3AQ
UniCredit Bank AG
Moor House
20 London Wall
London EC2Y 5ET

Registrar

Link Group
Unit 10, Central Square
29 Wellington Street
Leeds
LS1 4DL
Tel UK: +44 (0) 871 664 0300
(calls cost 12p per minute plus phone company's access charge)
Tel INTL: +44 (0) 371 664 0300
(calls charged at the applicable international rate)
Lines are open 9.00 am to 5.30 pm, Monday to Friday, excluding
public holidays in England and Wales.
Web: linkassetsservices.com
Email: shareholder.services@link.co.uk

Enquiring about your shareholding

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

Investor relations website

The investor relations section of our website, ao-world.com, provides further information for anyone interested in AO.

In addition to the Annual Report and share price, Company announcements, including the full year results announcements and associated presentations, are also published there.

Share dealing service

You can buy or sell the Company's shares in a simple and convenient way via the Link share dealing service either online (linksharedeal.com) or by telephone (0371 664 0445).

Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK are charged at the applicable international rate. Lines are open between 8.00 am and 4.30 pm, Monday to Friday, excluding public holidays in England and Wales.

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

Cautionary note regarding forward-looking statements

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

Glossary

Adjusted EBITDA means Profit/(loss) before tax, depreciation, amortisation, net finance costs, profit/loss on the disposal of fixed assets and Adjusting items.

Adjusting items means the items as set out on page 170

AGM means the Group's Annual General Meeting

An AOer means one of our amazing employees

AOIP means The AO 2018 Incentive Plan, a form of LTIP

AO World, AO or the Group means AO World Plc and its subsidiary undertakings

AV means audio visual products

B2B means business to business

B2C means business to consumer

Board means the Board of Directors of the Company or its subsidiaries from time to time as the context may require

Code means the UK Corporate Governance code published by the FRC in 2018

Companies Act means the Companies Act 2006

Company means AO World Plc, a company incorporated in England and Wales, with registered number 05525751, whose registered office is at 5A The Parklands, Lostock, BL6 4SD

CRM means customer relationship management

CRR means Corporate Risk Register

DC means distribution centre

D&G means Domestic and General

EPS means earnings per share

ERP means the AO Employee Reward Plan, or Enterprise Resource Planning, as the context requires

Europe means the Group's entities operating within the European Union, but outside the UK

FY20, FY21 and FY22 mean the financial year of the Company ended 31 March 2020, 31 March 2021 and 31 March 2022 respectively

GAAP means Generally Accepted Accounting Practice

GHG means greenhouse gas

IAS means International Accounting Standards

IFRS means International Financial Reporting Standards

IPO means the Group's Initial Public Offering in March 2014

KPMG means KPMG LLP

LSE means London Stock Exchange

LTIP means Long-term Incentive Plan

MDA means major domestic appliances

MPD means Mobile Phones Direct

NPS means Net Promoter Score, which is an industry measure of customer loyalty and satisfaction

PSP means the AO Performance Share Plan, a form of LTIP

RMC means our Risk Management Committee

SDA means small domestic appliances

SECR means Streamlined Energy and Carbon Reporting

SEO means Search Engine Optimisation

SG&A means Selling, General & Administrative Expenses

SID means Senior Independent Director

SKUs means stock keeping units

UK means the Group's entities operating within the United Kingdom

VCP means the Value Creation Plan, a form of LTIP

WEEE means Waste Electrical and Electronic Equipment

There's lots more online:

UK sites:

Customer

ao.com

ao-business.com

ao-delivery.com

ao-outlet.co.uk

ao-recycling.com

mobilephonesdirect.co.uk

elekdirect.co.uk

Corporate

ao-world.com



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Through protecting standing forests, under threat of clearance, carbon is locked in that would otherwise be released. These protected forests are then able to continue absorbing carbon from the atmosphere, referred to as REDD (Reduced Emissions from Deforestation and forest Degradation). This is now recognised as one of the most cost-effective and swiftest ways to arrest the rise in atmospheric CO₂ and global warming effects. Additional to the carbon benefits is the flora and fauna this land preserves, including a number of species identified at risk of extinction on the IUCN Red List of Threatened Species.



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