

OCADO LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE 52 WEEKS ENDED 29 NOVEMBER 2009



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Company information

Chairman	Michael Grade CBE (Resigned 9 March 2010) *
Executive Directors	Neill Abrams ** Andrew Bracey (Appointed 2 November 2009) ** Jason Gissing ** Tim Steiner **
Non-Executive Directors	Tom Clayton (Resigned 9 March 2010) Jonathan Faiman (Resigned 9 March 2010) Jeremy Frampton (Resigned 9 March 2010) Robert Gorrie (Resigned 9 March 2010) * Patrick Lewis (Appointed 21 October 2009, resigned 9 March 2010) * Brian Lynas (Resigned 10 August 2009) Jörn Rausing (Resigned 9 March 2010) * Michael Roberts (Appointed 19 January 2010, resigned 9 March 2010) * David Young CBE (Resigned 9 March 2010) *
Company secretary	Neill Abrams
Company number	3875000
Registered office	Titan Court 3 Bishops Square Hatfield Hertfordshire AL10 9NE
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Registered Auditors 10 Bricket Road St Albans Hertfordshire AL1 3JX

* Following a restructuring of the group legal structure the Chairman and Non-Executive Directors resigned from Ocado Limited. The Chairman and certain Non-Executive Directors were then appointed to the Board of Ocado Group Limited, the Company's ultimate parent undertaking.

**The Executive Directors were also appointed Directors of Ocado Group Limited on 9 March 2010.

Chairman's review

Ocado is one of the most exciting companies in the UK and 2009 was another year of rapid development, evolution and success. In particular, in 2009 the improvement in Ocado's customer proposition continued, driving a significant acceleration in the company's revenues during the year. Ocado also continued to improve profitability by increased efficiencies throughout the business.

The last few months have also been a period of change for the Board of Ocado. We are all delighted by the appointments made and would like to extend our warmest thanks for the hard work and dedication of those who have stepped down.

2009 Financial and Operational Performance

Top line growth has been driven by a continued focus on customers, further technological and process innovation and expanding regional penetration. The increased scale combined with technology improvements have led to this sales growth feeding through to a substantial increase in EBITDA and a significant reduction in loss before tax. In terms of improving the customer proposition, both the product range and convenience of Ocado has improved substantially in the past year.

Ocado continues to increase the range of products that it sells. In 2009, we expanded our Ocado own label product range and introduced the Service Counter, a fresh meat and fish counter which we hope will soon be one of the market's largest butchers and fishmongers. We also increased the range of 3rd party products stocked, taking the total product range to over 20,000 SKUs by year end.

We are always looking to improve the convenience of Ocado. During 2009 we launched the first version of our mobile application, Ocado on the Go. The first version was launched for the Apple iPhone and we are currently the only UK grocer to support transactions on iPhones. We have since expanded the range of mobile platforms to include Android-based smart phones and the Apple iPad. In September 2009, we re-introduced Sunday deliveries meaning that the majority of our customers can now get our service 7 days a week.

These improvements contributed to the average weekly orders for the 2009 financial year increasing by 26% to approximately 71,000. By the end of the financial year weekly orders had exceeded 90,000 for the first time and have subsequently broken the 100,000 mark.

Ocado's operation continues to be the largest single pick grocery warehouse operation in the world complemented by a highly accurate picking operation. As we grow sales our costs per order are decreasing. This decrease is driven by increasing scale and improved technology mix in the Customer Fulfilment Centre ("CFC") as well as increases in customer density, improved routing software and increased van capacities, reducing delivery costs.

The consistency of our current operation and the high level of demand that we have seen give us the confidence to start exploring the next opportunities for growth. We are aware that, even with our expansion plans for Hatfield, there will be a requirement for an additional warehouse by 2013 based on the current pace of increasing customer demand. A blueprint for this new warehouse facility is being prepared and we are actively seeking suitable sites.

Commitment to the Environment

Ocado prides itself on the environmental efficiency with which the business is run; for example streamlining the business through a CFC rather than a chain of physical stores saves in energy usage and associated costs. Equally the route optimisation software ensures that fuel is used efficiently and keeps journey times and distances to a minimum. During the period 2007 to 2009 an increase in average weekly orders of 42% has been achieved with only a 16% increase in the number of vans used as average deliveries per van per week has increased from 99 to 121.

We are committed to continually reducing the impact our operation has on the environment by minimising food waste (0.6% of sales in 2009, which is significantly better than our industry and a 27% improvement on 2008) and being the only grocer to provide customers with information about the product life of their purchases on the website as they shop, and also on the customer receipt. We also offer to collect our plastic bags from customers in order to recycle them within the UK turning these into new Ocado bags for re-use. Where possible, all our vans are fuelled by a bio-diesel blend and we will be trialling electric vehicles in 2010. By consolidating

customers shopping onto one delivery van we take numerous car journeys off our roads that might otherwise be used for shopping trips.

The carbon footprint of the Company is one of our weekly KPIs and Ocado has joined the 10:10 initiative with a commitment to reduce carbon emissions by 10% per unit of sales in 2010. During 2009 Ocado introduced double deck trailers which reduce energy consumption compared to single deck trailers and has improved its routing of vehicles to reduce miles per order taking more traffic off UK roads. In 2009 Ocado joined the Climate Change Agreement; this is a government scheme for large energy users which sets targets for reductions in carbon emissions.

Changes to the Ocado Board

There have been several appointments to the Board during the period under review. We are delighted that Andrew Bracey joined us as Chief Financial Officer in November 2009. Andrew has many years of experience working in the City and advising a wide variety of companies. He was on the Board of the investment company that owned Somerfield and has worked closely with the Executive Directors at Ocado during the last nine years.

Jason Gissing, our previous Chief Financial Officer, continues as an Executive Director with responsibility for People, Culture and Communications.

Two new Non-Executive Directors were appointed to the company's ultimate parent undertaking, Ocado Group plc, in March 2010; David Grigson as the Senior Independent Director and Ruth Anderson as Chair of the Audit Committee.

Two new Directors joined the Board to represent the interests of our major shareholder, the John Lewis Partnership Pensions Trust. Patrick Lewis joined in October 2009 and Michael Robarts joined in January 2010. We are pleased that the John Lewis Partnership Pension Trust is taking an active interest in the development of Ocado and fully supported our equity issue in September 2009.

In March 2010 following a corporate restructuring of the group all the Non-Executive Directors resigned from the Board of Ocado Limited. Robert Gorrie, Jörn Rausing, David Young, Patrick Lewis and Michael Robarts were appointed Non-Executive Directors of Ocado Group plc, the Company's new ultimate parent undertaking.

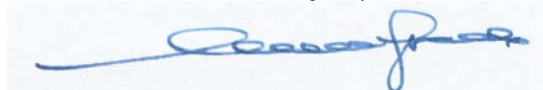
We would like to thank Jonathan Faiman who was one of our founding Directors and whose drive and vision were essential in creating our company and also Dr Tom Clayton and Jeremy Frampton who served on the Board of Ocado for the last 9 years as Non-Executive Directors. Dr Tom Clayton continues to advise the Company on food technology and hygiene matters.

We are sad to report the death, following a long illness, of a former colleague, Brian Lynas. Brian served as a Non-Executive Director between January 2006 and August 2009 providing valuable advice and guidance to the executive team. He is greatly missed.

Future Prospects

On 24 June 2010 Ocado Group plc announced its intention to list on the London Stock Exchange. We believe now is an ideal time in Ocado's development for it to fund the growth and expansion of the business by raising capital in a flotation. Ocado intends to continue with the areas of strategic focus that have delivered strong revenue growth and improving EBITDA margins to date, and investigate additional adjacent growth opportunities.

Finally, I would like to extend my sincere thanks for the hard work and devotion from all our staff whose unfailing commitment has enabled us to retain our position as a leader in customer service and the delivery of quality products to customers. There are many examples throughout the year of our staff going above and beyond the call of duty to set new standards of excellence in the online grocery sector.



Michael Grade

Chairman - Ocado Limited to 9 March 2010

Chairman - Ocado Group plc from 9 March 2010

Directors' report

The Directors' present their report and audited financial statements of the Company for the 52 weeks ended 29 November 2009.

Principal activities

The principal activity of the Company is the retailing and distribution of grocery and consumer goods. The Company currently operates out of a dedicated CFC based at a site in Hatfield, Hertfordshire, together with seven Spokes based in Coventry, Dartford, Manchester, Leeds, Southampton, Weybridge and White City.

Business review

The results for the period ended 29 November 2009 ("2009") have been prepared in accordance with International Financial Reporting Standards ("IFRS").

This is the first period that the Company has reported its results in accordance with IFRS. The biggest impact arises from changes in the treatment of operating leases and financing fees. The Company has, therefore, restated its results for the periods ended 30 November 2008 ("2008") and 2 December 2007 ("2007") to reflect these changes. The explanation of transition to IFRS is given in note 33.

	2009	2008	2007
Summary Financials	£m	£m	£m
Gross sales	427.3	341.0	291.4
Revenue	402.0	321.3	272.9
EBITDA	9.2	2.2	(9.5)
Operating loss	(14.4)	(21.6)	(30.1)
Net finance costs	(11.1)	(11.7)	(10.1)
Loss before tax	(25.5)	(33.3)	(40.2)
Net increase/(decrease) in cash and cash equivalents	7.2	(5.0)	(0.1)

Revenue and EBITDA

During the 52 weeks ended 29 November 2009 the Company achieved revenue growth of 25.1% (2008: 17.7%) primarily as a result of increased spend and frequency of ordering by existing customers and new customer gains in existing delivery areas (including the delivery area served by the Leeds spoke which became operational in October 2008 and increased the range of areas in which its service is provided by approximately 1.8 million households). This is reflected by the growth in average weekly orders in 2009 of 26% to approximately 71,000 with the Company currently offering its services to approximately 66% of UK households and half of the orders now outside of the M25.

Operating profit before administrative expense has improved by 328% to £15.1m (2008: £3.5m) (2007: £4.9m loss) because operational cost efficiencies have been realised from the growth in delivery volumes and a wide number of operational initiatives. Administrative expenses for 2009 increased by 17.5% to £29.5m (2008: £25.2m) (2007: £25.1m) as the Company invested in additional central costs, including marketing, to drive the higher delivery volumes.

Included within the Distribution costs and Administrative expenses are depreciation, impairment and amortisation costs of £23.6m (2008: £23.8m) (2007: £20.6m). This is equivalent to 24.2% of the value of the Company's Non-current assets (excluding the deferred tax asset) at the end of 2009.

Operating loss for 2009 is £14.4m (2008: £21.6m) (2007: £30.1m).

The Company is investing in its future growth and so has incurred significant capital expenditure; this has resulted in much higher depreciation and interest charges relative to its competitors. For this reason the profit measure, EBITDA, is a useful benchmark of the company's progress. In 2009 the EBITDA is £9.2m (2008: £2.2m) (2007: £9.5m loss).

Taxation

The Company will not pay tax for the 52 weeks ending 29 November 2009 because of the loss before taxation.

In previous years the Company has not recognised the value of its accumulated losses as a deferred tax asset. This position has been reviewed in the light of the continued improvement in the Company's financial performance and expectations that a profit before tax will be achieved in the foreseeable future. The Company believes it is now prudent to recognise a portion of the accumulated losses as a deferred tax asset on the balance sheet at November 2009, the value of this asset is £2.3m.

Capital Expenditure

The Company continues to invest in its resilience and long term growth. The expenditure is invested in 4 main areas

- Increasing the capacity and operating efficiency of its CFC
- Increasing the capacity of its distribution network
- Growing its van fleet and replacing vehicles as they age
- Ongoing development of its IT capabilities and infrastructure

Directors' report (continued)

Business review (continued)

Capital expenditure (continued)

	2009	2008	2007
Capital Expenditure	£m	£m	£m
CFC	4.9	10.1	16.3
Vehicles	4.7	3.4	3.2
Distribution sites (spokes)	5.4	3.6	0.1
IT Hardware & Software	7.5	6.6	5.4
Other	0.5	1.0	1.0
	23.0	24.7	26.0

Capital Expenditure in the financial period ended 29 November 2009 was £23.0m which is in line with prior periods (2008: £24.7m) (2007: £26.0m) despite the significantly higher volume growth in 2009 compared to 2008 and 2007.

In 2009 the Company invested £5.0m to purchase the freehold and develop a new spoke in Dartford; this replaced an existing site in Aylesford which was at the end of its lease. A further £0.4m was invested at White City, London in a leasehold property for a spoke.

Investment in new vehicles included the leasing of 5 and purchase of 3 new double deck trailers and leasing of 130 delivery vans, of which 60 are replacements for existing vans which had reached the end of their lease term.

The investment of £4.9m in the warehouse has enabled overall capacity to increase and expansion of the product range, including the development of a Service Counter

The capital investment in IT capability includes the capitalisation of internally developed software developments such as the iPhone application, the Webshop and the Van Routing systems

Financing

During the year the Company raised net proceeds £29.1m in new equity from existing and new investors and £32.2m in new borrowings and proceeds from asset based financing. The repayment of existing leases and borrowings was £38.7m. Total loan stock, leases and borrowings at the year end were £120.1m (2008: £121.6m) (2007: £135.1m).

During the year a convertible loan with a value of £15.2m (including accrued and capitalised interest) was fully repaid. The main capital advances in the period were a £10m unsecured loan and a £1.5m loan secured against a property. The movement in borrowing also includes a £10m loan which was drawn in April 2009 and fully repaid in September 2009.

Cash flow

Net Cash flow from operating activities was positive in 2009, having been negative in previous financial periods. This improvement is due to increasing margins as the Company increases volume and benefits in working capital from this growth.

	2009	2008	2007
Summary of cash movements	£m	£m	£m
Net cash inflow/(outflow) from operations	16.8	5.3	(18.1)
Finance cost paid	(12.7)	(9.0)	(8.1)
Net cash used in investing activities	(19.6)	(19.7)	(20.7)
Net cash from financing activities	22.7	18.4	46.8
Net increase/(decrease) in cash and cash equivalents	7.2	(5.0)	(0.1)

Balance sheet

Period end negative net assets of £32.2m have reduced by £6.1m when compared to 2008. The loss before tax of £25.5m has been offset by the new equity of £29.2m and the recognition of a deferred tax asset of £2.3m.

Pensions

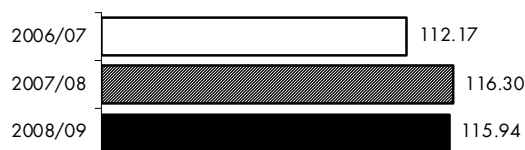
All employees are offered participation in the Company's Personal Pension Plan which is managed by Standard Life.

Directors' report (continued)

Business review (continued)

Key financial performance indicators

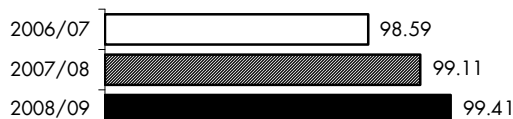
Average order size (£)¹



Average number of orders per week



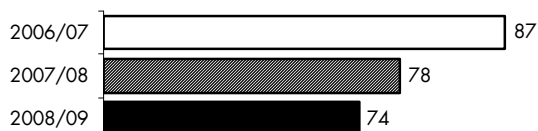
Average % of items delivered exactly as ordered²



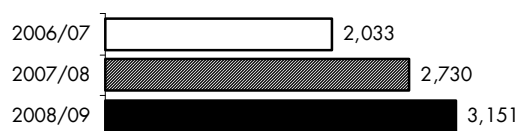
Average % product wastage³



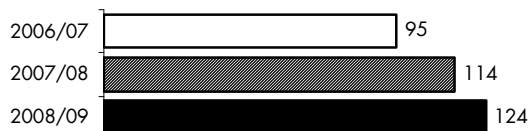
Average tons CO₂/£m gross sales



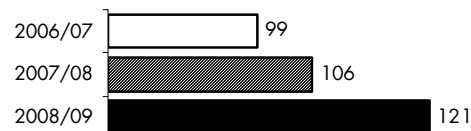
Average number of operational staff⁴



CFC efficiency (UPH)⁵



Average number of deliveries per van per week



Risk management and internal control

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management systems, policies and procedures are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor the risks and adherence to limits. Such a system is designed to manage, rather than to eliminate, the risk of failure to achieve business objectives and can only provide a reasonable and not absolute assurance against material misstatement or loss. Risk management processes are reviewed regularly to reflect changes in market conditions and the change in the Company's activities. The Board's oversight covers all controls, including financial, operational and compliance controls and general risk management. It is based principally on reviews by management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied or indicate the need for more extensive monitoring. The Audit Committee oversees how the Board monitors risk and reviews the adequacy of the risk management framework. During the course of its review of the system of internal controls, the Board has not identified nor been made aware of any specific failings which it determined to be significant. Management have identified a number of risks which they deem to pose the greatest risk to the Company, these are shown below.

Principal risks and uncertainties

The Board has overall responsibility for risk management and internal control and has set up systems and procedures, including a dedicated Risk Management team, in order to identify risk and set up or enhance controls in order to mitigate their effect. The Board reviews risks, including the output from this team, on a regular basis. As part of this ongoing programme of risk assessment and management, the following actual and potential key risks have been identified as those which the Directors believe could have the most material impact on the long-term value of the Company. These may change over time and the factors described below are not intended to form a definitive list of all risks and uncertainties.

¹ Average retail value of goods a customer receives (including VAT and delivery charge) per order.

² Percentage of all items delivered exactly as ordered, i.e. the percentage of items neither missing nor substituted.

³ Value of products purged for having passed Ocado's "use by" life guarantee and stock adjustments (net of sales to the company shop), divided by gross sales.

⁴ Calculated as average number of full time equivalent (FTE) employees per month. Excludes staff working for a third-party logistics contractors who transferred to Ocado during 2007.

⁵ Measured as units dispatched from the CFC per hour worked by CFC operational personnel (UPH).

Directors' report (continued)

Principal risks and uncertainties (continued)

Business continuity and disaster recovery

The Company receives and processes all its customer orders via its Webshop and currently operates from a single CFC which is located in Hatfield, Hertfordshire, with a number of Spokes across the country. The Company is therefore dependent on the operation of the CFC and the Spokes in order to continue to satisfy an increasing number of customer orders, whilst maintaining its industry leading accuracy achieved in fulfilling these orders.

The Company has disaster recovery procedures in place at the CFC to minimise any possible disruption to the business. The CFC is protected by leading edge fire and security systems and in addition the Company is working towards the industry recognised "Highly Protected Status".

The CFC has a full contingency plan to manage power outages ranging from short intermittent failures to longer term complete power loss. These plans are tested regularly and include UPS power supplies and multiple standby diesel powered generators.

The Company has extensive controls in place to maintain the security, integrity and efficiency of its IT infrastructure. IT systems are housed in a purpose built data centre with full back up air conditioning and power supplies. The Company has a separate Disaster Recovery data centre which houses standby servers for all the critical systems. Highly resilient data storage systems are deployed in both data centres and an up-to-date replica of all data is kept at the disaster recovery data centre. All critical communication links are provided via two diversely routed fibres and the internet connectivity is provided by two major ISPs.

Dependence on relationship with Waitrose and John Lewis Partnership

The Company's reputation is based at least in part on its relationship with Waitrose and its ability to supply Waitrose branded products. If Waitrose ceased to supply the Company with products or if Waitrose were to suffer reputational damage which impacted on the Waitrose brand there could be an adverse effect on the Company's financial position and future prospects. The Company has a successful symbiotic relationship evolved over 10 years and has recently agreed a new branding and sourcing agreement until 2020. The Company is not dependant on the Waitrose supply chain as 85% of items sold are now sourced directly from suppliers.

Competition

The retail grocery industry is highly competitive and the online market place is no different. Ocado has an established business model and superior customer proposition. The proprietary IP and experience gives Ocado a competitive advantage. A clear strategy is in place to widen the customer base by improving online experience, customer service, product range and pricing, and reducing environmental impact.

Health and safety risks

Prevention of injury or loss of life of our customers, employees and the general public is of utmost importance to us.

We operate stringent health and safety procedures, which are aligned to all the relevant regulations and industry standards and compliance is regularly monitored. Delivery vehicle safety is also taken extremely seriously and all our fleet will be fitted with winter tyres between November and March.

Fraud

Due to the Company's business model the potential losses from staff fraud is less than our major competitors; however, the Company takes extensive steps to reduce this risk still further. Relevant accounting, IT and other procedures and controls at all levels are clearly set out and audited across the business to reduce the risk of fraud.

The possibility of major external fraud is reduced by stringent IT security arrangements. Ocado also has leading edge security measures around potential credit card fraud with extremely low losses as a percentage of total sales. Our customer's confidential data is protected by a range of both physical and industry standard systems controls. The Webshop is regularly tested for vulnerability by both internal and external teams.

Regulatory environment

The Company is subject to a wide variety of regulatory requirements including in relation to the manner in which it sources, stores, handles and sells products to customers, over the running of its physical facilities, the processing of its customers' data and its impact on the environment. There is an established legal and regulatory team in place to monitor developments and to ensure that all existing regulations are complied with.

Ongoing Financing

The Company continues to invest in its future growth and is not yet profitable at an EBT (Earnings Before Taxation) level. It is therefore reliant on funding and financing arrangements to maintain its working capital needs and to fund its future expansion. Failure to secure future funding would have a detrimental effect on the Company's ability to continue trading during this stage of the Company's development.

To ensure adequate funding the Company maintains a mixture of long-term and short-term debt finance that is designed to ensure the Company has sufficient available funds for operations and its planned expansion. The Company monitors cash flow as part of its day to day control procedures and the Board considers cash flow projections on a monthly basis ensuring that appropriate facilities are available to be drawn upon as necessary.

Future developments

In addition to its current areas of strategic focus, the Company intends to investigate growth opportunities by:

- Improving the customer offering continually through maintaining and improving the customer experience; increasing its core product range; and continuing to offer value to customers;
- Improving cost efficiency through continued innovation to maximise profitability without compromising Ocado's customer offering or value proposition;
- Expanding CFC capacity (including building a second CFC) and the spoke network; and
- Exploring further growth opportunities by, where appropriate, extending the product range further into non-grocery products and exploring other opportunities including the possibility of replicating the business model overseas.

Directors' report (continued)

Post balance sheet events

Events after the balance sheet date are disclosed in note 32 of the financial statements.

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risk, liquidity risk and interest rate risk. The Company has in place a risk management program that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs.

The Board has approved an overall treasury policy and has approved authority levels within which the treasury function must operate. Treasury policy is to manage risks within the agreed framework whilst not taking speculative positions.

The policies and strategies for managing financial risk are summarised in note 26 and note 27 of the financial statements.

Results and dividends

The Company's loss for the financial year is £23.2m (2008: £33.3m) (2007: £40.2m). The Directors do not propose to pay a dividend for the financial period (2008: £nil) (2007: £nil).

Directors' indemnities

All Directors have access to the services of the legal department and may take independent professional advice at the Company's expense in conducting their duties. The Company provides insurance cover and indemnities for its Directors and Officers.

Research and development

The Company has a dedicated in-house software design and development team with primary focus on IT and improvements to the CFC and the material handling equipment in it. Costs relating to the development of computer software for internal use are capitalised.

Employee involvement

The Company is committed to involving employees in its activities and considers that a loyal and skilled workforce is essential to the future of its business. To facilitate employee involvement and feedback the Company runs an active employee council with elected employee representatives from each area of the business. Employees are made aware of the financial and economic performance of the Company and future developments through monthly corporate briefing sessions held at each office and distribution point which all employees are encouraged to attend. At both Hatfield locations these briefings include Q&A sessions conducted by an Executive Director or a member of the Management Committee.

Disabled employees

The Company is committed to the principle of equal opportunities for all. It is the policy of the Company that applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of employees becoming disabled all reasonable effort is made to ensure that their employment within the Company continues. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of an able bodied person.

Health and safety

Prevention of injury or loss of life is of the utmost importance and the Company is committed to maintaining high standards of health and safety in every area of its business. Clear policies and procedures are in place, which are aligned to all relevant regulations and industry standards

Charitable and political contributions

The Company made donations for charitable purposes during the financial period, which amounted to £2,000 (2008: £2,000) (2007: £3,000). No political donations were made. Employees of the Company raised £7,000 (2008: £2,000) (2007: £3,000) during the financial period for the NSPCC which is the Company's nominated charity.

Creditor payment policy

It is the Company's policy in respect of all suppliers to agree payment terms in advance of the supply of goods and to adhere to those payment terms. The Company's average creditor payment period for the 52 weeks ended 29 November 2009 was 27 days (2008: 26 days) (2007: 32 days).

Directors' report (continued)

Directors' interests

The Directors' beneficial interests in the Ordinary shares and Convertible preference shares of the Company at the beginning and end of the financial period or date of appointment are as stated below:

Share options

	Date of Issue	2009	2008	2007	Exercise Price (£)	Exercise Period
Neill Abrams	May-02	1,750	1,750	1,750	100	07/02/05 - 06/02/12
	May-02	1,750	1,750	1,750	150	07/02/05 - 06/02/12
	Nov-03	1,000	1,000	1,000	90	30/11/06 - 29/11/13
	May-05	1,000	1,000	1,000	115	16/05/08 - 15/05/15
Andrew Bracey [†]	Feb-02	8,867	-	-	90	04/02/02 - 04/02/17
	Jan-04	4,353	-	-	103	03/01/04 - 03/01/18
	Nov-09	463	-	-	135	16/11/12 - 15/11/19
Tom Clayton	Feb-02	943	943	943	53	07/02/02 - 06/02/12
Jonathan Faiman	May-05	2,000	2,000	2,000	115	16/05/08 - 15/05/15
Jason Gissing	May-05	2,000	2,000	2,000	115	16/05/08 - 15/05/15
Robert Gorrie	May-02	1,750	1,750	1,750	100	07/02/05 - 06/02/12
	May-02	1,750	1,750	1,750	150	07/02/05 - 06/02/12
	Nov-03	1,000	1,000	1,000	90	30/11/06 - 29/11/13
Tim Steiner	May-05	2,000	2,000	2,000	115	16/05/08 - 15/05/15
Total share options of Directors		30,626	16,943	16,943		

[†] Andrew Bracey's share options awarded prior to his appointment as Director have been included above.

No other Directors have options in the Company. There are no performance criteria attached to these options.

No Directors have exercised any options during the financial period nor have there been any lapses.

Shares

	Ordinary shares of 1p each			Convertible preference shares of 1p each		
	2009	2008	2007	2009	2008	2007
Neill Abrams	4,356	4,356	4,356	-	-	-
Andrew Bracey	7,500	-	-	-	-	-
Jonathan Faiman	30,000	304,376	304,376	-	-	-
Jeremy Frampton	2,522	2,522	2,522	50	50	50
Jason Gissing	96,576	96,576	96,576	-	-	-
Robert Gorrie	13,529	13,529	13,529	-	-	-
Michael Grade	780	667	667	-	-	-
Tim Steiner	143,964	143,964	143,964	-	-	-

No other Directors have a direct interest in the Ordinary or Convertible preference shares of the Company.

Directors' report (continued)

Directors' interests (continued)

Shares (continued)

In addition to the above holdings certain of the Directors are discretionary beneficiaries under trusts holding Ordinary or Convertible preference shares of the Company. The interests of these discretionary beneficiaries under their respective trusts are as follows:

	Ordinary shares of 1p each			Convertible preference shares of 1p each		
	2009	2008	2007	2009	2008	2007
Neill Abrams	12,008	12,008	12,008	-	-	-
Jason Gissing	95,834	106,946	106,946	-	-	-
Jörn Rausing	262,077	219,845	136,512	328,724	328,724	328,724
Tim Steiner	152,912	160,412	160,412	-	-	-

In addition to the above holdings:

- Caryn Abrams (wife of Neill Abrams) is a discretionary beneficiary of a trust holding 741 (2008: nil) (2007: nil) Ordinary shares of the Company.
- Kira Faiman (wife of Jonathan Faiman) holds 244,374 (2008: nil) (2007: nil) Ordinary shares of the Company.

Statement of Directors' responsibilities

The Directors are required by the Companies Act 2006 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for the financial period. Under that law the Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU).

In preparing the Company financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make reasonable and prudent judgements and estimates;
- state whether they have been prepared in accordance with IFRS as endorsed by the EU;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Each of the Directors who held office at the date of approval of the Directors' report confirms that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

The Directors' report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

Disclosure of information to auditors

The Directors who held office at the date of the approval of this Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and that they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By order of the Board



Tim Steiner

6 July 2010

Independent Auditors' report to the members of Ocado Limited

We have audited the financial statements of Ocado Limited for the period ended 29 November 2009 which comprise the Statement of comprehensive income, the Balance sheet, the Statement of cash flows, the Statement of changes in equity, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' responsibilities in the Directors' report set out on page 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 29 November 2009 and of its loss and cash flows for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

Emphasis of Matter - Going Concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2(b) to the financial statements concerning the uncertainty of the Company's future funding. The Company is seeking new funding through an initial public offering of shares in the Company's ultimate parent Ocado Group plc. In the event that the initial public offering does not proceed, this will require the Company's existing banking arrangements to be renegotiated and additional funding to be raised from either existing or new investors. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Company was unable to continue as a going concern.



Clive Hinds (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans

6 JULY 2010

Statement of comprehensive income

for the 52 weeks ended 29 November 2009

		2009	2008	2007
	Notes	£'000	£'000	£'000
Revenue		401,997	321,314	272,856
Cost of sales		(279,168)	(218,515)	(184,874)
Gross profit		122,829	102,799	87,982
Other income	6	2,641	1,808	612
Distribution costs		(110,331)	(101,069)	(93,536)
Operating profit/(loss) before administrative expenses		15,139	3,538	(4,942)
Administrative expenses		(29,542)	(25,151)	(25,148)
Operating loss	7	(14,403)	(21,613)	(30,090)
Finance income	9	12	99	824
Finance costs	9	(11,118)	(11,784)	(10,888)
Loss before tax		(25,509)	(33,298)	(40,154)
Taxation	10	2,300	-	-
Loss for the period attributable to the owners of the Company[†]		(23,209)	(33,298)	(40,154)
Total comprehensive income for the period attributable to the owners of the Company		(23,209)	(33,298)	(40,154)

The notes on pages 15 to 50 form part of these financial statements.

All operations are continuing.

[†] Non-GAAP measure: Earnings/(loss) before interest taxation, depreciation, amortisation and impairment ("EBITDA")

		2009	2008	2007
		£'000	£'000	£'000
Loss for the period attributable to the owners of the Company		(23,209)	(33,298)	(40,154)
Adjustments for:				
Finance income	9	(12)	(99)	(824)
Finance costs	9	11,118	11,784	10,888
Depreciation of property, plant and equipment	12	17,865	19,820	17,621
Impairment of property, plant and equipment	12	1,023	66	612
Amortisation expense	11	4,743	3,917	2,395
Taxation	10	(2,300)	-	-
Earnings/(loss) before interest, taxation, depreciation, amortisation and impairment ("EBITDA")		9,228	2,190	(9,462)

Balance sheet

as at 29 November 2009

	Notes	2009 £'000	2008 £'000	2007 £'000
Non-current assets				
Intangible assets	11	6,684	7,038	6,818
Property, plant and equipment	12	90,252	90,531	89,931
Deferred tax asset	10	2,300	-	-
Available-for-sale financial asset	13	395	395	395
		99,631	97,964	97,144
Current assets				
Inventories	14	9,213	9,107	8,300
Trade and other receivables	15	14,740	12,033	9,222
Cash and cash equivalents	16	13,017	5,857	10,891
		36,970	26,997	28,413
Total assets		136,601	124,961	125,557
Current liabilities				
Trade and other payables	17	(47,237)	(40,303)	(33,232)
Borrowings	18	(12,087)	(15,016)	(876)
Convertible loan stock	18	-	(14,506)	-
Obligations under finance leases	18	(19,669)	(9,989)	(5,066)
		(78,993)	(79,814)	(39,174)
Net current liabilities		(42,023)	(52,817)	(10,761)
Non-current liabilities				
Borrowings	18	(42,658)	(28,429)	(46,345)
Convertible loan stock	18	-	-	(33,101)
Obligations under finance leases	18	(45,651)	(53,650)	(49,688)
Derivative liability	23	(1,083)	(1,079)	(967)
Provisions	22	(366)	(197)	(175)
		(89,758)	(83,355)	(130,276)
Net liabilities		(32,150)	(38,208)	(43,893)
Equity				
Share capital	24	40	38	34
Share premium account	24	310,836	281,649	241,109
Convertible loan interest reserve	20	-	1,139	8,150
Accumulated deficit		(343,026)	(321,034)	(293,186)
Deficit attributable to equity holders		(32,150)	(38,208)	(43,893)

The financial statements on pages 11 to 50 were authorised for issue by the Board of Directors on 6 July 2010 and signed on its behalf by:



Steiner Chief Executive Officer



Andrew Bracey Chief Financial Officer

Ocado Limited Company Registration No. 3875000 (England and Wales)

Statement of changes in equity

for the 52 weeks ended 29 November 2009

	Notes	Share capital £'000	Share premium £'000	Convertible loan interest reserves £'000	Accumulated deficit £'000	Deficit attributable to equity holders £'000
Balance at 4 December 2006		32	210,897	6,882	(253,213)	(35,402)
Loss for the period		-	-	-	(40,154)	(40,154)
Total comprehensive income for the period		-	-	-	(40,154)	(40,154)
Transactions with owners:						
Equity component on convertible loan	20	-	-	1,268	-	1,268
Issue of Ordinary shares	24	2	30,212	-	-	30,214
Share-based payments charge		-	-	-	181	181
Total transactions with owners		2	30,212	1,268	181	31,663
Balance at 2 December 2007		34	241,109	8,150	(293,186)	(43,893)
Balance at 3 December 2007		34	241,109	8,150	(293,186)	(43,893)
Loss for the period		-	-	-	(33,298)	(33,298)
Total comprehensive income for the period		-	-	-	(33,298)	(33,298)
Transactions with owners:						
Issue of Ordinary shares	24	1	17,910	-	-	17,911
Issue of Convertible preference shares	24	3	22,630	-	-	22,633
Transfer of equity on conversion of loan stocks	20	-	-	(7,011)	5,389	(1,622)
Share-based payments charge		-	-	-	61	61
Total transactions with owners		4	40,540	(7,011)	5,450	38,983
Balance at 30 November 2008		38	281,649	1,139	(321,034)	(38,208)
Balance at 1 December 2008		38	281,649	1,139	(321,034)	(38,208)
Loss for the period		-	-	-	(23,209)	(23,209)
Total comprehensive income for the period		-	-	-	(23,209)	(23,209)
Transactions with owners:						
Issue of Ordinary shares	24	2	30,072	-	-	30,074
Transaction costs on issue of Ordinary shares	24	-	(945)	-	-	(945)
Issue of Convertible preference shares	24	-	60	-	-	60
Transfer of equity on conversion of loan stock	20	-	-	(5)	5	-
Transfer of equity on repayment of loan stock	20	-	-	(1,134)	1,134	-
Share-based payments charge		-	-	-	78	78
Total transactions with owners		2	29,187	(1,139)	1,217	29,267
Balance at 29 November 2009		40	310,836	-	(343,026)	(32,150)

Statement of cash flows

for the 52 weeks ended 29 November 2009

	Notes	2009 £'000	2008 £'000	2007 £'000
Cash flow from operating activities				
Loss before income tax		(25,509)	(33,298)	(40,154)
Adjustments for:				
- Depreciation expense	12	17,865	19,820	17,621
- Amortisation expense	11	4,743	3,917	2,395
- Impairment of property, plant and equipment	12	1,023	66	612
- Loss on disposal of property, plant and equipment	7	33	31	-
- Provision for dilapidations expense	22	169	22	43
- Share-based payments charge	8	78	61	181
- Finance costs	9	11,118	11,784	10,888
- Finance income	9	(12)	(99)	(824)
Changes in working capital:				
- Increase in inventories		(106)	(807)	(1,122)
- (Increase)/decrease in trade and other receivables		(2,707)	(2,811)	1,868
- Increase/(decrease) in trade and other payables		10,135	6,637	(9,655)
Net cash inflow/(outflow) from operations		16,830	5,323	(18,147)
Finance costs paid		(12,740)	(8,994)	(8,063)
Net cash inflow/(outflow) from operating activities		4,090	(3,671)	(26,210)
Cash flows from investing activities				
Purchase of property, plant and equipment		(15,215)	(15,744)	(19,558)
Proceeds from sale of property, plant and equipment		-	4	214
Purchase of intangible assets		(4,389)	(4,137)	(3,366)
Finance income received		12	99	1,970
Net cash used in investing activities		(19,592)	(19,778)	(20,740)
Cash flows from financing activities				
Proceeds from the issue of Ordinary share capital	24	29,129	17,911	30,214
Proceeds from borrowings		25,052	8,022	25,153
Repayment of borrowings		(28,374)	(11,120)	(10,555)
Proceeds from asset based financing arrangements		7,135	8,950	9,950
Repayments of obligations under finance leases		(10,280)	(5,348)	(7,926)
Net cash from financing activities		22,662	18,415	46,836
Net increase/(decrease) in cash and cash equivalents		7,160	(5,034)	(114)
Cash and cash equivalents at beginning of period		5,857	10,891	11,005
Cash and cash equivalents at end of period	16	13,017	5,857	10,891

Notes to the financial statements

1 General information

Ocado Limited is incorporated and domiciled in the UK (Registration number 3875000). The address of its registered office is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE.

The financial period represents the 52 weeks to 29 November 2009 (prior periods 52 weeks to 30 November 2008 and 52 weeks to 2 December 2007).

As described in the Directors' report, the main activity of the Company is that of retailing and distribution of groceries and consumer goods.

2 Accounting policies

(a) Statement of compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 as applicable to companies reporting under IFRS.

These are the Company's first financial statements prepared under IFRS and therefore, IFRS 1 'First-time Adoption of International Financial Reporting Standards' has been applied.

The last financial statements under UK Generally Accepted Accounting Principles ("UK GAAP") were for the 52 weeks to 30 November 2008. An explanation of the transition to IFRS is provided in note 33.

(b) Basis of preparation

The financial statements are presented in sterling, rounded to the nearest thousand (£'000) unless otherwise stated. They have been prepared under the historical cost convention, except for financial instruments that have been measured at fair value.

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue to be able to meet its liabilities as they fall due for the foreseeable future.

The Directors believe that, based on its current forecasts and plans for raising new funding, primarily through an initial public offering ("IPO") of shares in the Company's ultimate parent Ocado Group plc, together with new banking facilities that will be in place at the time of IPO and which are conditional on IPO, the Company will have sufficient funds to meet its cash requirements for the foreseeable future whilst maintaining compliance with the current and envisaged financial covenants within its existing and anticipated banking arrangements. In the event an IPO does not proceed, the Directors believe they will be able to secure sufficient additional funding to meet the Company's cash requirements for at least the next 12 months from either a rights issue to existing shareholders or equity offering to new private shareholders in conjunction with renegotiation of existing banking arrangements. However, despite the Company's successful track record of raising additional equity there is no guarantee that further attempts to raise additional equity will also be successful.

The Company has prepared forecasts based on a number of growth and financing scenarios and, as discussed above, is confident that financing will be secured to provide the Company with sufficient funds for the next 12 months. These forecasts assume that the Company continues to grow substantially in excess of the overall growth of the market. The Directors believe this is a reasonable assumption based on the Company's previous history and current performance.

However, in the event that these forecasts are not met and an IPO does not proceed, the Company will require further funds and/or may not be able to comply with existing and anticipated banking covenants. This will require the existing banking arrangements to be renegotiated and/or further additional funding to be raised from either existing or new investors. The Directors are confident that, if necessary, these arrangements could be renegotiated and/or additional funding raised.

Whilst there is a material uncertainty in relation to the outcome of the matters described above which, if not resolved, may give rise to significant doubts to the going concern basis, the Directors have fully

considered the relevant issues and are confident that it is appropriate to prepare these financial statements on the going concern basis under the historical cost convention and the accounting policies set out below, and in accordance with the Companies Act 2006 and applicable International Financial Reporting Standards. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Use of assumptions and estimates

The preparation of financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Please see note 3 for further details.

Standards, amendments and interpretations effective for 2008/9 or issued and early adopted:

In preparing the Company's financial statements, the Company reviewed all new IFRS, amendments to IFRS and IFRIC Interpretations. The new IFRS, amendments to IFRS and IFRIC Interpretations, which may be relevant to the Company, are listed below and none have had a significant impact on the results or net assets of the Company:

- Amendments to IFRS 1 'First-time Adoption of IFRSs' and IAS 27 'Consolidated and Separate Financial Statements'– Cost of an Investment of a Subsidiary, Jointly Controlled Entity or Associate, effective for annual periods beginning on or after 1 July 2009. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.
- Amendments to IFRS 1 'First-time Adoption of IFRSs' and IAS 27'Consolidated and Separate Financial Statements'– Cost of an Investment of a Subsidiary, Jointly Controlled Entity or Associate, effective for annual reporting periods beginning on or after 1 January 2009.
- Amendment to IFRS 2 'Share-Based Payment'– Vesting Conditions and Cancellations, effective for annual periods beginning on or after 1 January 2009 deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of share based payments would have to be included in the fair value at the grant date.
- IFRS 8 'Operating Segments', effective for annual periods beginning on or after 1 January 2009. This new standard replaces IAS 14 'Segment Reporting' and requires segmental information to be presented on the same basis that management uses to evaluate performance of its reporting segments in its management reporting. The Company only uses one segment to assess performance and so there is no effect on the Company.

Notes to the financial statements (continued)

2 Accounting policies (continued)

(b) Basis of preparation (continued)

- IFRIC 13 'Customer Loyalty Programmes', effective for annual periods beginning on or after 1 July 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company does not currently operate such a scheme and hence the adoption of IFRIC 13 has had no impact on the results or net assets of the Company.
- IFRIC 17 'Distribution of non-cash assets to owners' effective for annual periods beginning on or after 1 July 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Company currently has no such arrangements.
- IFRIC 18 'Transfers of Assets from Customers', effective for transfers of assets from customers received on or after 1 July 2009.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", effective for annual periods beginning on or after 1 July 2010. This standard clarifies the requirements of accounting for debt for equity swaps.
- Amendments to IAS 1 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2009. This revised standard requires "non-owner changes in equity" to be presented separately from "owner changes in equity" in the statement of comprehensive income.
- Amendments to IAS 1 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2010. This amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.
- Amendments to IAS 23 'Borrowing Costs', effective for annual periods beginning on or after 1 January 2009. The standard has been revised and now requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed.
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures', effective for annual periods beginning on or after 1 July 2008. These amendments permit the reclassification of financial assets in particular circumstances.

The accounting policies have been applied consistently by the Company to all periods presented in the financial statements.

(c) Revenue

Revenue consists of income generated from online sales through the Webshop and includes charges for delivery.

Online sales are shown net of returns, relevant marketing vouchers/offers and value added taxes. Relevant vouchers/offers include: money-off coupons, conditional spend vouchers and offers such as buy three for the price of two.

Revenue is recognised at the point when the significant risks and rewards of products have been passed to the buyer and can be reliably measured; in general this is deemed to occur when customers take delivery of the goods. Income from "Ocado Delivery Pass", the discounted pre-pay delivery scheme, is recognised in the period to which it relates on an accruals basis.

(d) Cost of sales

Cost of sales represents the cost to the Company of the product sold. It consists of all external costs incurred in procuring goods for resale and delivering them to the Customer Fulfilment Centre as well as any adjustments to inventories.

(e) Distribution costs

Distribution costs consist of all the costs incurred, excluding product costs, to the point of sale, usually the customers' home. This includes the payroll-related expenses for the picking, dispatch and delivery of product sold to the point of sale, the cost of making those deliveries, including fuel, tolls, maintenance of vehicles, the operating costs of the properties required for the picking, dispatch and onward delivery operations and all associated depreciation, amortisation and impairment charges.

(f) Administrative expenses

Administrative expenses consist of all advertising and marketing expenditure, the payroll-related expenses of all marketing, IT and other Head Office functions, costs of annual software maintenance contracts, property-related costs for the Head Office, all fees for professional services and depreciation, amortisation and impairment of IT equipment and fixtures and fittings.

(g) Other income

Advertising revenue, commission income received, income from other services to suppliers and sub-lease payments received are recognised in the period to which they relate on an accruals basis.

(h) Property, plant and equipment

Property, plant and equipment excluding land are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided at rates estimated to write off the cost of the relevant assets less their estimated residual values by equal annual amounts over their expected useful economic lives. Residual values and expected useful economic lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Land is not depreciated. Depreciation on other fixed assets is calculated based on the useful economic life indicated below:

Freehold buildings and leasehold properties	25 years, or the lease term if shorter
Fixtures and fittings	5 – 10 years
Plant and machinery	3 – 20 years (97% between 5 and 10 years)
Computer hardware	2 – 5 years
Motor vehicles	2 – 5 years

Capital work-in-progress is not depreciated until it is available for use.

Gains and losses on disposal are determined by comparing proceeds with the asset's carrying amount and are recognised within operating profit.

(i) Intangible assets - Computer software

Computer software is carried at cost less accumulated amortisation and any recognised impairment loss. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of three to five years. Costs relating to the development of computer software for internal use are capitalised once all the development phase recognition criteria of IAS 38 'Intangible Assets' are met. When the software is available for its intended use, these costs are amortised in equal annual amounts over the estimated useful life of the software. Any impairment of computer software or licenses is charged to operating profit in the period in which it arises.

Notes to the financial statements (continued)

2 Accounting policies (continued)

(j) Impairment of non-financial assets

The Company does not have any assets that have an indefinite useful life and so are not subject to an annual amortisation or depreciation charge. Assets that are subject to an annual amortisation or depreciation charge are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Given the Company's current operating structure the lowest level at which cash flows can reasonably be assessed is for the Company as a whole. The Company is still investing in its future growth and so has not yet reached a stage where it delivers positive post tax earnings. The Company prepares detailed forward projections which are constantly updated and refined. Based on these projections the Board does not consider that any further impairment of assets is required.

(k) Borrowing costs

Borrowing costs which are directly attributable to the acquisition or construction of qualifying assets are capitalised. They are defined as the borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. All other borrowing costs are charged to finance costs, using the effective interest rate method.

(l) Leased Assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. All other leases are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

Finance leases

Assets funded through finance leases are capitalised either as property, plant and equipment, or intangible assets, as appropriate, and are depreciated/amortised over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included in liabilities net of finance charges. Finance costs on finance leases are charged directly to the statement of comprehensive income on an effective interest rate basis.

Operating leases

Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the statement of comprehensive income on a straight line basis.

Lease incentives

Lease incentives primarily include up-front cash payments or rent-free periods. Lease incentives are capitalised and spread over the period of the lease term.

(m) Inventories

Inventories comprise goods held for resale, fuel and other consumable goods made up principally of spares. Inventories are valued at the lower of cost and net realisable value. Goods held for resale and consumables are initially valued on a current cost basis and adjustments are made at the financial period end to bring this to an average cost basis. Fuel stocks are valued at calculated average cost. Costs include all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition.

(n) Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

Current taxation

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation

Deferred tax is recognised using the balance sheet liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amount in the financial statements. Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set-off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

(o) Provisions

Provisions are recognised when: the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

Dilapidations

Provisions for dilapidations are recognised on a lease by lease basis and are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

Onerous leases

Provisions for onerous leases are recognised if the Company believes that the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease.

(p) Employee benefits

Pensions

The Company contributes to the personal pension plans of its staff through a defined contribution personal pension scheme which is administered by Standard Life. Employer contributions to the scheme are calculated as a percentage of salary based on length of service. Contributions are charged to the statement of comprehensive income in the period in which they arise.

Notes to the financial statements (continued)

2 Accounting policies (continued)

(p) Employee benefits (continued)

Share-based payments

Employees (including Directors) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares ('equity-settled transactions'). The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted. Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. In valuing equity-settled transactions, no account is taken of any performance conditions.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the years in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The vesting period is 3 years. If the options remain unexercised after a period of 10 years from the date of grant or the employee leaves the Company, the options expire (subject to a limited number of exceptions).

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which both the vesting period has expired and the number of awards, in the opinion of the Directors of the Company based on the best available estimate at that date, that will ultimately vest.

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

For details of the share options see note 25.

(q) Foreign currencies

Transactions in foreign currencies are translated at the exchange rate on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. All differences are taken to the statement of comprehensive income for the period.

(r) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

The Company classifies its financial instruments in the following categories:

- Available-for-sale;
- Loans and receivables;
- Other financial liabilities at amortised cost;
- Liabilities at fair value through the profit and loss;

The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial instruments at initial recognition or in certain circumstances on modification.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Management considers that the Company's investments fall within this category as explain below.

Investments:

Investments are classified as either held for trading or available-for-sale. There are currently no investments classified as held for trading.

Available-for-sale investments are held at fair value if this can be reliably measured. If the equity instruments are not quoted in an active market and their fair value cannot be reliably measured the available-for-sale

investment is carried at cost, less impairment. Unless the valuation falls below its original cost, gains and losses arising from changes in fair value of available-for-sale assets are recognised directly in equity. On disposal the cumulative net gain or loss is transferred to the statement of comprehensive income. Impairments and valuations below costs are recognised to the statement of comprehensive income. Dividends are recognised in the statement of comprehensive income when the right to receive payment is established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'Trade and other receivables' and 'Cash and cash equivalents' in the balance sheet.

Trade and other receivables:

Trade receivables are non-interest bearing and are recognised initially at fair value, and subsequently at amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents:

Cash and cash equivalents comprise cash in hand and bank overdrafts. Bank overdrafts are repayable on demand and form an integral part of the Company's cash management. They are therefore included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Company after deducting all of its liabilities.

Trade and other payables:

Trade and other payables are non-interest bearing and are stated at amortised cost.

Interest-bearing borrowings:

Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis. On the balance sheet, interest bearing borrowings have been subcategorised as borrowings, convertible loan stock and obligations under finance leases.

Compound instruments:

Compound financial instruments issued by the Company comprise convertible loan stock that can be converted to convertible preference shares at the option of the holder.

The liability component of the compound financial instrument is recognised on the date of inception or modification at the fair value of a similar liability that does not have an equity conversion option. The equity element is recognised as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the equity and liability components in proportion to their initial carrying amounts.

Subsequently, the liability component of a compound financial instrument is measured at amortised cost using the effective interest rate method.

Derivative financial instruments:

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

Cash flow hedging:

The Company does not hold and has not held derivative instruments that qualifying for cash flow hedging and so all gains or losses are recognised immediately within the statement of comprehensive income.

Notes to the financial statements (continued)

2 Accounting policies (continued)

(r) Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Equity instruments:

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(s) Impairment of financial assets

Assets carried at amortised cost

The Company assesses whether there is objective evidence that a financial asset is impaired at the end of each reporting period. A financial asset is impaired and an impairment loss recognised if there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial assets that can be reliably estimated.

The criterion that the Company uses to determine that there is objective evidence of an impairment loss includes but is not limited to:

- Financial difficulty indicators;
- Breach of contract such as missed payments;
- Fraud;
- Bankruptcy;
- Disappearance of an active market.

The amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the financial assets original effective interest rate. The assets carrying value is reduced and the loss recognised in the statement of comprehensive income.

If, in a subsequent period, the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

Available-for-sale financial assets

Equity investments classified as available-for-sale and held at cost are reviewed annually to identify if an impairment loss has occurred. The amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses recognised in the statement of comprehensive income on equity investments are not reversed.

3 Critical accounting estimates and assumptions

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are addressed below:

(a) Intangible assets - capitalised software

Cost capitalisation

Amounts capitalised include the total cost of any external products or services and labour costs directly attributable to development. Management judgement is involved in determining the appropriate internal costs to capitalise and the amounts involved.

Useful life

The useful life is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Company will receive benefits from the software, but not exceeding the licence term. For unique software products controlled and developed by the Company, the life is based on historical experience with similar products as well as anticipation of future events, which may impact their useful economic life,

such as changes in technology.

(b) Property, plant and equipment

Property, plant and equipment represents a significant proportion of the asset base of the Company being 66% in 2009 (2008: 72%) (2007: 72%) of the Company's total assets. Therefore, the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance.

Estimation of useful life

The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the statement of comprehensive income.

The useful lives of the Company's assets are determined by management at the time the asset is acquired and reviewed at least annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology.

During the 2008 financial period the Company revised the life of certain Plant and Machinery, due to the increased resilience of the CFC and greater certainty of the long-term picking solutions. For the majority of assets revised this doubled the estimated useful life from 5 to 10 years, although a small number of higher value assets had their life halved from 20 years. The change was only applied from the date the decision was ratified, and saw a decrease of the depreciation charge for the 2008 period of £852,000. If the change had been backdated to the beginning of the financial period depreciation would have fallen by a further £2,389,000. If the useful lives of the assets had not been revised the depreciation charge in 2009 would have been £4,914,000 (27.5%) higher.

(c) Going concern basis including its effect on the impairment of assets

To manage the working capital needs of the business and to ensure the Company has sufficient available funds for its planned expansion, the Company is reliant on being able to negotiate sufficient financing arrangements. To achieve this, the Company maintains a mixture of long-term and short-term debt finance that is designed to ensure the Company has sufficient available funds for its operations and its planned expansion. The Company monitors cash flow as part of its day to day control procedures and management consider cash flow projections on a monthly basis ensuring that appropriate facilities are available to be drawn upon as necessary. The Company also prepares detailed forward projections for future periods which are constantly updated and refined. As a consequence the Directors are satisfied that the Company is able to obtain sufficient resources to continue in operation for the foreseeable future. Accordingly, they have adopted the going concern basis in preparing the financial statements.

The above assumption has a profound effect on the Company as it greatly affects the way it must value its assets and liabilities. If management were unable to justify accounting on a going concern basis either because they felt the company was unable to obtain future finance itself or were unable to sell the business to an external party who could finance it in the future, the Company would have to completely revisit the valuation of assets and liabilities on the balance sheet. An additional impairment review would be required and it is likely that assets would have to be measured at their net realisable value based on the sale of assets on an asset by asset basis. Liabilities would also have to be increased to take account of future non-cancellable operating lease commitments, all employee redundancies and other similar costs.

Notes to the financial statements (continued)

3 Critical accounting estimates and assumptions (continued)

(c) Going concern basis including its effect on the impairment of assets (continued)

Impairment of assets based on the separation of the business into cash generating units

The Company is required to undergo an assessment of the future viability of assets grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Given the Company's current operating structure, the lowest level at which cash flows can reasonably be assessed is for the Company as a whole. The Company is still investing in its future growth and so has not yet reached a stage where it delivers positive post tax earnings. Based on the future projections referred to above, the Board do not consider that any further impairment of assets is required.

There are a large number of assumptions and estimates involved in calculating these future projections, including management's expectations of:

- Increase in the number of customers, and frequency of service;
- Growth of gross margin percentages;
- Growth in EBITDA;
- Timing and quantum of future capital expenditure;
- The estimation of future funding and the cost of such funding.

(d) Leases

The Company has a number of complex high value lease arrangements. The Company follows the guidance of IAS 17 to determine the classification of leases as operating leases versus finance leases. The classification of a lease as a finance lease as opposed to an operating lease will change EBITDA as the charge made by the lessor will pass through finance charges and depreciation will be charged on the capitalised asset. Retained earnings may also be temporarily affected depending on the relative size of the amounts apportioned to capital repayments and depreciation. IAS 17 requires the Company to consider property leases split into their component parts (i.e. land and building elements) separately. As only the buildings elements could be considered as a finance lease management must make a judgement, based on advice from suitable experts, as to the relative value of the land and buildings.

(e) Recognition of deferred tax assets

The Company's tax charge on ordinary activities is the sum of the total current and deferred tax charges. The calculation of the total tax charge necessarily involves a degree of estimation and judgement in respect of certain items. The final outcome of some of these items may give rise to material profit and loss and/or cash flow variances.

A deferred tax asset is recognised when it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Recognition, therefore, involves judgement regarding the prudent forecasting of future taxable profits of the business and in applying an appropriate risk adjustment factor.

At the balance sheet date management has forecast that the Company would generate future taxable profits against which existing tax losses and accelerated capital allowance could be relieved. As a result the Company has recognised a deferred tax asset for 2.4% of its available tax losses and accelerated capital allowance at the period end.

4 Segmental reporting

The Company's activities consist solely of the retailing of food and groceries within the UK. It is managed as one entity and does not split its activities into any further regional or product subdivisions in its internal management reporting, as any such split would not provide the Company's management with any meaningful information. Consequently all activities relate to this one segment.

The Company is domiciled in the UK. All of the result of its revenue is from UK external customers. All non-current assets other than financial instruments and deferred tax assets are located in the UK.

Notes to the financial statements (continued)

5 Gross sales

	2009	2008	2007
	£'000	£'000	£'000
Revenue	401,997	321,314	272,856
VAT	18,788	17,136	15,240
Marketing vouchers	6,493	2,547	3,350
Gross sales	427,278	340,997	291,446

6 Other income

Other income is made up as follows:

	2009	2008	2007
	£'000	£'000	£'000
Advertising revenue	2,038	994	-
Commission income received	233	226	185
Other services provided to suppliers	370	584	340
Sublease payments received	-	4	87
Other income	2,641	1,808	612

7 Operating loss

		2009	2008	2007
	Notes	£'000	£'000	£'000
Operating loss is stated after charging/(crediting) the following:				
Cost of inventories recognised as an expense		271,613	215,575	181,889
Employment costs	8	78,181	66,567	55,739
Amortisation expense	11	4,743	3,917	2,395
Depreciation of property, plant and equipment	12	17,865	19,820	17,621
Impairment of property, plant and equipment	12	1,023	66	612
Loss on disposal of property, plant and equipment		33	31	-
(Credit)/charges relating to the impairment of receivables	26	(30)	198	(228)
Operating lease rentals				
- land and buildings		1,815	1,946	1,746
- other leases		191	70	5
Net foreign exchange losses		72	56	126

Included within cost of sales is £4,683,000 (2008: £1,111,000) (2007: £1,301,000) charged by Waitrose Limited relating to the branding and sourcing fee arrangement between themselves and the Company.

During the period, the Company obtained the following services from its auditors:

	2009	2008	2007
	£'000	£'000	£'000
Audit services			
Fees payable to company auditor for the statutory audit of the financial statements	90	65	65
Non-audit services			
Fees payable to the Company auditor and its associates for other services as detailed below:			
Taxation services	-	-	15
Other services pursuant to legislation and compliance	7	-	20
	97	65	100

Notes to the financial statements (continued)

8 Employee information

Employment costs during the financial period were as follows:

		2009	2008	2007
	Notes	£'000	£'000	£'000
Staff costs during the period:				
Wages and salaries		74,116	63,466	52,528
Social security costs		7,015	6,072	4,989
Pension costs - defined contribution plans		1,067	884	755
Share-based payments expense		78	61	181
Total employment costs		82,276	70,483	58,453
Staff costs capitalised	11	(4,095)	(3,916)	(2,714)
Total employment cost expense		78,181	66,567	55,739

Average number of employees (including Executive Directors) by role:

Operational staff		3,151	2,730	2,033
Support staff		343	293	256
		3,494	3,023	2,289

At the end of March 2007 a 5 year contract for the provision of third party logistics services ended. The 1,214 people employed under this contract became employees of the Company under the Transfer of Undertakings (Protection of Employment) Regulations.

The costs recognised above for the share option scheme relate to equity-settled schemes only (see note 25).

The key management comprises the Executive and Non-Executive Directors. The key management personal compensation is as follows:

	2009	2008	2007
	£'000	£'000	£'000
Salaries, fees and other short-term employee benefits	1,640	672	686
Pension costs - defined contribution plans	75	28	28
	1,715	700	714

Directors' personal compensation increased significantly in the period due to performance criteria dependent remuneration being achieved.

The table below gives the number of share options issued under the employee share option scheme to the Directors during the period. No Director exercised any of their share options during the period (2008: nil) (2007: nil).

	2009	2008	2007
Number of share options issued in the financial period	463	-	-
Exercise price (£)	135	-	-

The highest paid Director's compensation is as follows:

	2009	2008	2007
	£'000	£'000	£'000
Salaries, fees and other short-term employee benefits	618	178	171
Pension costs - defined contribution plans	34	12	12
	652	190	183

Notes to the financial statements (continued)

9 Finance income and costs

		2009	2008	2007
	Notes	£'000	£'000	£'000
Bank interest receivable		5	99	824
Other interest		7	-	-
Finance income		12	99	824
Interest payable on bank loans and overdrafts		(41)	(158)	(64)
Interest on finance leases		(5,009)	(3,770)	(3,287)
Interest on borrowings		(5,717)	(5,507)	(5,327)
Capitalised borrowing costs	12	-	147	-
Interest on convertible loan	20	(347)	(2,384)	(2,048)
Fair value movement in derivative liability		(4)	(112)	(162)
Finance costs		(11,118)	(11,784)	(10,888)
Net finance costs		(11,106)	(11,685)	(10,064)

10 Tax on loss on ordinary activities

	2009	2008	2007
	£'000	£'000	£'000
Recognised in the statement of comprehensive income			
Current tax:			
UK corporation tax on profits of the period	-	-	-
Total current tax	-	-	-
Deferred tax:			
Recognition of tax losses	(2,300)	-	-
Total deferred tax	(2,300)	-	-
Income tax credit	(2,300)	-	-

Reconciliation of effective tax charge

	2009	2008	2007
	£'000	£'000	£'000
Loss before tax	(25,509)	(33,298)	(40,154)
Effective tax charge at the UK rate of 28% (2008: 28.71%) (2007: 30%)	(7,143)	(9,560)	(12,046)
Effect of:			
Permanent differences	332	1,034	521
Tax losses for which no deferred tax asset recognised	1,793	5,799	8,672
Temporary differences on which no deferred tax recognised	2,718	2,727	2,853
Income tax credit for the period	(2,300)	-	-

Movement in deferred tax assets

	Tax losses carry-forwards	Accelerated capital allowances	Share based payments	Total
	£'000	£'000	£'000	£'000
At the beginning of the period	-	-	-	-
Tax losses recognised in period through the statement of comprehensive income	2,300	-	-	2,300
As at the period end	2,300	-	-	2,300

Notes to the financial statements (continued)

10 Tax on loss on ordinary activities (continued)

The unrecognised deferred tax asset available at the period end is analysed below:

	Tax losses carry- forwards £'000	Accelerated capital allowances £'000	Share based payments £'000	Total £'000
As at 3 December 2006	65,752	9,765	523	76,040
Potential movement in the period unrecognised through				
- Statement of Comprehensive Income	8,672	2,879	(26)	11,525
- Equity	-	-	107	107
As at 2 December 2007	74,424	12,644	604	87,672
Potential movement in the period unrecognised through				
- Statement of Comprehensive Income	5,799	2,736	(9)	8,526
- Equity	-	-	58	58
Tax rate adjustment	(5,106)	(771)	(42)	(5,919)
As at 30 November 2008	75,117	14,609	611	90,337
Potential movement in the period unrecognised through				
- Statement of Comprehensive Income	1,793	2,725	(7)	4,511
- Equity	-	-	177	177
As at 29 November 2009	76,910	17,334	781	95,025

11 Intangible assets – Computer software

	2009 £'000	2008 £'000	2007 £'000
Cost or valuation			
At beginning of period	24,114	19,977	16,611
Additions	294	221	652
Internal development costs	4,095	3,916	2,714
At end of period	28,503	24,114	19,977
Accumulated amortisation			
At beginning of period	(17,076)	(13,159)	(10,764)
Charge for the period	(4,743)	(3,917)	(2,395)
At end of period	(21,819)	(17,076)	(13,159)
Net book value			
At end of period	6,684	7,038	6,818

Net book value of computer software held under finance leases is analysed below:

	2009 £'000	2008 £'000	2007 £'000
Cost or valuation	2,470	2,205	2,205
Accumulated amortisation	(2,113)	(1,435)	(1,019)
Net book value	357	770	1,186

The movement in cost or valuation includes assets of £265,000 (2008: £nil) (2007: £nil) reclassified from owned assets to assets held under finance lease following asset based financing arrangements.

For the 52 week period ended 29 November 2009, internal development costs capitalised were £4,095,000 (2008: £3,916,000) (2007: 2,714,000) and represented approximately 93% (2008: 95%) (2007: 81%) of expenditure on intangible assets and 18% (2008: 16%) (2007: 10%) of total capital spend including property, plant and equipment.

Notes to the financial statements (continued)

12 Property, plant and equipment

	Land and buildings £'000	Fixtures, fittings, plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost or valuation				
At 4 December 2006	27,404	74,266	21,483	123,153
Additions	-	19,608	3,003	22,611
Disposals	-	(6)	(2,219)	(2,225)
At 2 December 2007	27,404	93,868	22,267	143,539
At 3 December 2007	27,404	93,868	22,267	143,539
Additions [†]	3,053	14,165	3,303	20,521
Disposals	-	(50)	(1,448)	(1,498)
At 30 November 2008	30,457	107,983	24,122	162,562
At 1 December 2008	30,457	107,983	24,122	162,562
Additions	4,944	8,896	4,802	18,642
Disposals	(66)	(4,401)	(6,286)	(10,753)
At 29 November 2009	35,335	112,478	22,638	170,451
Accumulated depreciation and impairment				
At 4 December 2006	(5,598)	(22,229)	(9,559)	(37,386)
Charge for the period	(1,337)	(11,902)	(4,382)	(17,621)
Impairment	-	(590)	(22)	(612)
Disposals	-	-	2,011	2,011
At 2 December 2007	(6,935)	(34,721)	(11,952)	(53,608)
At 3 December 2007	(6,935)	(34,721)	(11,952)	(53,608)
Charge for the period	(1,274)	(14,399)	(4,147)	(19,820)
Impairment	-	(66)	-	(66)
Disposals	-	16	1,447	1,463
At 30 November 2008	(8,209)	(49,170)	(14,652)	(72,031)
At 1 December 2008	(8,209)	(49,170)	(14,652)	(72,031)
Charge for the period	(1,511)	(12,227)	(4,127)	(17,865)
Impairment	(92)	(931)	-	(1,023)
Disposals	66	4,401	6,253	10,720
At 29 November 2009	(9,746)	(57,927)	(12,526)	(80,199)
Net book value[‡]				
At 2 December 2007	20,469	59,147	10,315	89,931
At 30 November 2008	22,248	58,813	9,470	90,531
At 29 November 2009	25,589	54,551	10,112	90,252

[†]Additions includes interest capitalised of £nil (2008: £147,000) (2007: £nil), relating to plant and machinery. The capitalisation rate used to determine the amount of finance costs capitalised during the period was nil (2008: 6.8%) (2007: nil).

[‡]Net carrying value includes capitalised interest of £147,000 (2008: £147,000) (2007: £nil).

The net carrying value of land and buildings comprises:

	2009 £'000	2008 £'000	2007 £'000
Freehold	9,645	4,872	1,863
Short leasehold - less than 50 years	15,944	17,376	18,606
	25,589	22,248	20,469

Notes to the financial statements (continued)

12 Property, plant and equipment (continued)

The net book value of property, plant and equipment held under finance leases are analysed below:

	Land and buildings £'000	Fixtures, fittings, plant and machinery £'000	Motor vehicles £'000	Total £'000
At 2 December 2007				
Cost or valuation	25,485	38,420	21,112	85,017
Accumulated depreciation and impairment	(6,879)	(14,635)	(11,098)	(32,612)
Net book value	18,606	23,785	10,014	52,405
At 30 November 2008				
Cost or valuation	25,525	49,658	22,758	97,941
Accumulated depreciation and impairment	(8,149)	(21,361)	(13,646)	(43,156)
Net book value	17,376	28,297	9,112	54,785
At 29 November 2009				
Cost or valuation	25,459	55,869	20,872	102,200
Accumulated depreciation and impairment	(9,515)	(26,332)	(11,247)	(47,094)
Net book value	15,944	29,537	9,625	55,106

The movement in cost or valuation includes assets of £6,870,000 (2008: £8,950,000) (2007: £9,950,000) reclassified from owned assets to assets held under finance lease following asset based financing arrangements.

During the 2008 financial period the Company revised the life of certain plant and machinery, due to the increased resilience of the CFC and greater certainty of the long-term picking solutions. For the majority of assets impacted by this change this doubled the estimated useful life from 5 to 10 years, although a small number of higher value assets had their life halved from 20 years. The change was only applied from the date the decision was ratified, and saw a decrease of the depreciation charge for the 2008 period of £852,000. If the change had been backdated to the beginning of the 2008 financial period depreciation would have fallen by a further £2,389,000. If the useful lives of the assets had not been revised in 2008 the depreciation charge in 2009 would have increased by £4,914,000.

The impairment charge for fixtures, fittings, plant and machinery in all financial periods is in respect of superseded assets written off during the period. The charge against Land and buildings in 2009 was in respect of Portacabins written off as they were no longer fit for use.

Included within tangible fixed assets is capital work-in-progress for fixtures, fittings, plant & machinery of £39,000 (2008: £269,000) (2007: £9,390,000).

13 Available-for-sale financial asset

	2009 £'000	2008 £'000	2007 £'000
Non-current			
Unlisted equity investment	395	395	395

The unlisted equity investment comprises a 25% interest in Paneltex Limited whose registered office is at Paneltex House, Somerden Road, Hull. This stake was acquired in June 2001 at a cost of £395,000. Payment for the shares was partly in cash (£237,000) and partly in equity (1,975 Convertible preference shares). The Company's 25% interest in Paneltex Limited has not been treated as an associated undertaking as Ocado do not have significant influence over Paneltex. In arriving at this decision the Board has reviewed the conditions set out in IAS 28 ('Investments in Associates') and concluded that despite the size of its holding Ocado is unable to participate in the financial and operating policy decisions of Paneltex due to the position of the majority shareholder as executive Managing Director and the insignificant size and arms length nature of the relationship between the two companies.

The shares of Paneltex Limited are not quoted in an active market and their fair value cannot be reliably measured. As such the Company has measured its investment in Paneltex Limited at cost less impairment.

The Company does not intend to dispose of this investment in the foreseeable future. If the Company did intend to dispose of this investment then the anticipated exit route would be the sale of shares to the existing shareholder or another connected party of Paneltex Limited.

Further details of the relationship with Paneltex Limited are included in note 30.

Notes to the financial statements (continued)

14 Inventories

	2009	2008	2007
	£'000	£'000	£'000
Goods for resale	8,270	8,187	7,735
Consumables	943	920	565
	9,213	9,107	8,300

No security has been granted over inventories.

15 Trade and other receivables

		2009	2008	2007
	Notes	£'000	£'000	£'000
Current				
Trade receivables		5,896	3,223	1,094
Less: provision for impairment of trade receivables	26	(189)	(219)	(21)
Net trade receivables		5,707	3,004	1,073
Other receivables		4,072	5,159	5,349
Prepayments		4,411	3,453	2,325
Accrued income		550	417	475
		14,740	12,033	9,222

No security has been granted over trade and other receivables.

Other receivables include £3,058,000 (2008: £4,021,000) (2007: £3,465,000) due from suppliers in relation to supplier funded promotional activity.

16 Cash and cash equivalents

	2009	2008	2007
	£'000	£'000	£'000
Cash at bank and in hand	13,157	6,163	11,286
Bank overdraft	(140)	(306)	(395)
	13,017	5,857	10,891

The bank overdraft is repayable on demand and forms an integral part of the Company's cash management so is included as a component of cash and cash equivalents.

The Company renewed its bank overdraft facility of £5m with Barclays Bank plc in January 2010. The current facility is due for renewal in November 2010.

17 Current liabilities - Trade and other payables

	2009	2008	2007
	£'000	£'000	£'000
Trade payables	33,839	25,900	20,142
Other taxation and social security	3,130	4,563	2,681
Accruals	9,519	9,840	10,409
Deferred income	749	-	-
	47,237	40,303	33,232

Deferred income represents the value of delivery income received under the "Ocado Delivery Pass" scheme allocated to future periods.

Notes to the financial statements (continued)

18 Loan stock, leases and borrowings

	Notes	2009 £'000	2008 £'000	2007 £'000
Current liabilities				
Borrowings	19	12,087	15,016	876
Convertible loan stock	20	-	14,506	-
Obligations under finance leases	21	19,669	9,989	5,066
		31,756	39,511	5,942
Non-current liabilities				
Borrowings	19	42,658	28,429	46,345
Convertible loan stock	20	-	-	33,101
Obligations under finance leases	21	45,651	53,650	49,688
		88,309	82,079	129,134
Total loan stock, leases and borrowings		120,065	121,590	135,076

19 Borrowings

	Total £'000	Less than one year £'000	Between one year and two years £'000	Between two years and five years £'000	Over five years £'000
As at 2 December 2007					
Secured loans	43,330	97	5,596	35,644	1,993
Unsecured loans	3,891	779	896	2,216	-
Total borrowings	47,221	876	6,492	37,860	1,993
As at 30 November 2008					
Secured loans	39,157	12,944	10,402	15,411	400
Unsecured loans	4,288	2,072	1,031	1,185	-
Total borrowings	43,445	15,016	11,433	16,596	400
As at 29 November 2009					
Secured loans	41,350	5,998	17,463	17,489	400
Unsecured loans	13,395	6,089	4,579	2,727	-
Total borrowings	54,745	12,087	22,042	20,216	400

Secured loans

- (i) The Company entered into a loan of £5m in September 2008 secured over certain warehouse assets, software and intellectual property, initially repayable in instalments or in full on or before September 2009. Interest is charged at LIBOR plus 2.8%. The loan was extended in September 2009 until January 2010 on the same terms after which date it is reviewed on a month by month basis.
- (ii) The Company entered into a loan of £8m in May 2007 of which £5.6m was used to repay an existing loan. The loan is secured over certain warehouse assets. Interest was charged at Barclays Base Rate plus 2.5% and was repayable in equal quarterly instalments each quarter commencing in May 2009 and ending in May 2014. In May 2009, after the first capital instalment was paid, the remaining capital instalments were deferred. Repayments will recommence in August 2010 with equal instalments paid quarterly ending February 2015. The interest rate was reset to Barclays Base Rate plus 3.0%.
- (iii) The Company entered into a loan of £1.5m in December 2006 which is secured on a freehold property. Interest is charged at Barclays Base Rate plus 1.5%. It is repayable in fixed quarterly instalments from March 2007 with a final payment in December 2011.
- (iv) The Company entered into a loan of £1.5m in February 2009 which is secured on a freehold property. Interest is charged at LIBOR plus 2.3%. It is repayable in fixed quarterly instalments from May 2009 with a final payment in February 2012.
- (v) The Company entered into a loan of £20.0m in December 2004 which was extended by a further £15.0m in February 2007. The loan is secured over certain warehouse assets, software and intellectual property. It is repayable in instalments from November 2007 to December 2011. Interest is charged at LIBOR plus 6.0% of which 2.0% is due biannually and 4.0% is capitalised into the loan and paid at the end of the loan term. A repayment of £10.0m was made in November 2008.

Notes to the financial statements (continued)

19 Borrowings (continued)

Unsecured loans

- (vi) The Company entered into a loan of £6.8m in April 2002 with the then landlord of the CFC. It is repayable in fixed quarterly instalments with a final payment in March 2012. Interest is charged at 14.2% and the Company has a right to repay the loan without penalty at any time on six months notice.
- (vii) The Company entered into a Murabaha facility agreement in July 2009 to raise funds of £10.0m. It is repayable in quarterly instalments from October 2009 to July 2012 totalling £11.3m. It has been estimated that this will supply the bank with an overall yield of 8.0%.
- (viii) In both 2009 and 2008 the Company entered into an agreement to defer the payment of its insurance premium over 10 months. Interest was charged at 7.2%. They are repayable in fixed monthly instalments with final payments in July 2010 and July 2009 respectively.

20 Convertible loan stock

	Total £'000	Less than one year £'000	Between one year and two years £'000	Between two years and five years £'000	Over five years £'000
As at 2 December 2007					
Convertible loan stock	33,101	-	14,874	18,227	-
Total convertible loan stock	33,101	-	14,874	18,227	-
As at 30 November 2008					
Convertible loan stock	14,506	14,506	-	-	-
Total convertible loan stock	14,506	14,506	-	-	-
As at 29 November 2009					
Convertible loan stock	-	-	-	-	-
Total convertible loan stock	-	-	-	-	-

- (i) The Company issued £12.5m in 'A' convertible loan stock to Goldman Sachs International in March 2004 which was repayable in full in March 2009 after having been extended at the option of the loan stock holder in March 2007 on payment of a premium by the loan stock holder of £8.34 per share. This entitled the loan stock holder to convert the loan stock (including capitalised interest) and accrued interest into 132,244 Convertible preference shares at a price of £115 per share any time up to March 2009. The loan interest rate was 4%p.a. and was capitalised annually. The loan matured on 17 March 2009 and Goldman Sachs International chose not to convert the loan stock to Convertible preference shares. The loan principal and the accrued interest outstanding were rolled up into a short term loan. The loan was paid off in agreed instalments between June 2009 and September 2009.
- (ii) The Company issued £12.3m in 'B' convertible loan stock to John Lewis plc in January 2003 which was repayable in full in January 2010. The 'B' convertible loan stock was not interest bearing but conferred the right to subscribe for up to 145,271 Convertible preference shares at a price of £84.70 per share on the occurrence of certain trigger events (including, inter alia, an issue of new shares in the Company). In November 2008 the loan stock holder exercised their right to subscribe for the 145,271 Convertible preference shares.
- (iii) The Company issued £8.6m in 'C' convertible loan stock to John Lewis plc in February 2004 which was repayable in full in February 2011. The 'C' convertible loan stock was not interest bearing but conferred the right to subscribe for up to 91,143 Convertible preference shares at a price of £94.49 per share on the occurrence of certain trigger events (including, inter alia, an issue of new shares in the Company). In November 2008 the loan stock holder exercised their right to subscribe for the 91,143 Convertible preference shares.
- (iv) The Company issued £1.5m in 'A' convertible loan stock to John Lewis plc in July 2005 which was repayable in full in March 2009 after having been extended at the option of the loan stock holder in March 2007 on payment of a premium by the loan stock holder of £8.87 per share. This entitled the loan stock holder to convert the loan stock (including capitalised interest) and accrued interest into 14,919 Convertible preference shares at a price of £115 per share any time up to March 2009. The loan interest rate was 4%p.a. and was capitalised annually. In November 2008 the loan stock holder exercised their right to convert the loan stock and accrued interest into 14,919 Convertible preference shares.
- (v) The Company issued £50,000 in 'A' convertible loan stock to a private investor in March 2004 which was repayable in full in March 2009 after having been extended at the option of the loan stock holder in March 2007 on payment of a premium by the loan stock holder of £8.34 per share. This entitled the loan stock holder to convert the loan stock (including capitalised interest) and accrued interest into 529 Convertible preference shares at a price of £115 per share any time up to March 2009. The loan interest rate was 4%p.a. and was capitalised annually. In March 2009 the loan stock holder exercised their right to convert the loan stock and accrued interest into 529 Convertible preference shares.

In accordance with IAS 32 the principal values of the convertible loan stock were bifurcated into their liability and equity components. For the John Lewis plc 'B' and 'C' convertible loan stock this was performed at initial inception. The convertible loan stock described in notes (i), (iv) and (v) which had extension options were also bifurcated on the date of the extension, when the criteria for bifurcating the components into liability and equity component parts were met.

Notes to the financial statements (continued)

20 Convertible loan stock (continued)

In November 2008 John Lewis plc exercised their right to convert all convertible loan stock held into Convertible preferences shares. This resulted in the transfer of the £7.0m equity component previously recognised in the compound financial instruments reserve in respect of these being transferred into the accumulated deficit reserve. An adjustment of £1.6m was made at the time from the Convertible loan interest reserve to the carrying value of the liability in respect of the unrecognised interest charge due to these options being exercised before the maturity date.

In March 2009 on expiry of the Goldman Sachs International and the individual investor's convertible loan stock, £1.1m previously recognised in the compound financial instrument reserve, in respect of these, was transferred to the accumulated deficit reserve.

The total convertible loan stock liability and equity components recognised in the balance sheet are as follows:

	Notes	Face value at inception/ modification £'000	Equity component £'000	Interest capitalised £'000	Fair value adjustment charged/ (credited) as interest £'000	Carrying value of liability component £'000	Loan rate interest due to holder £'000	Total liability and interest due £'000
At 4 December 2006		34,967	(6,882)	-	3,183	31,268	1,500	32,768
Interest charge in the period	9	-	-	-	1,431	1,431	617	2,048
Interest capitalised into the face value on modification		1,670	-	-	-	1,670	(1,670)	-
Equity component recognised on modification		-	(1,268)	-	-	(1,268)	-	(1,268)
At 2 December 2007		36,637	(8,150)	-	4,614	33,101	447	33,548
At 3 December 2007		36,637	(8,150)	-	4,614	33,101	447	33,548
Interest charge in the period	9	-	-	-	1,738	1,738	646	2,384
Interest capitalised into the liability component		-	-	631	-	631	(631)	-
Conversion of convertible loan stock:								
- derecognition of liability component	24	(22,522)	-	(64)	-	(22,586)	(47)	(22,633)
- equity component release to retained earnings		-	5,389	-	(5,389)	-	-	-
- unrecognised interest charge on early conversion		-	1,622	-	-	1,622	-	1,622
At 30 November 2008		14,115	(1,139)	567	963	14,506	415	14,921
At 1 December 2008		14,115	(1,139)	567	963	14,506	415	14,921
Interest charge in the period	9	-	-	-	176	176	171	347
Interest capitalised into the liability component		-	-	586	-	586	(586)	-
Conversion of convertible loan stock:								
- derecognition of liability component	24	(55)	-	(5)	-	(60)	-	(60)
- equity component release to retained earnings		-	5	-	(5)	-	-	-
Repayment of convertible loan stock:								
- derecognition of liability component		(14,060)	-	(1,148)	-	(15,208)	-	(15,208)
- equity component release to retained earnings		-	1,134	-	(1,134)	-	-	-
At 29 November 2009		-	-	-	-	-	-	-

The interest charge for the financial period is calculated by applying an effective interest rate of 6.0% for John Lewis plc 'B' and John Lewis plc 'C' convertible loan stock and 9.3% for remaining convertible loans stocks to their respective liability components for the period since the convertible loans were bifurcated. The liability component is measured at amortised cost. The difference between the carrying amount of the liability at the date of inception/modification and the amount reported in the balance sheet at the period end represents the effective interest rate less interest accrued (un-capitalised at the period end) to that date.

Notes to the financial statements (continued)

21 Finance leases

		2009	2008	2007
		£'000	£'000	£'000
Obligations under finance leases due:				
Within one year		19,669	9,989	5,066
Between one and two years		16,392	16,738	7,953
Between two and five years		20,698	27,419	31,315
After five years		8,561	9,493	10,420
Total obligations under finance leases		65,320	63,639	54,754
<hr/>				
	Notes	2009	2008	2007
		£'000	£'000	£'000
Minimum lease payments due:				
Within one year		23,705	13,957	8,448
Between one and two years		19,180	20,021	11,041
Between two and five years		23,779	31,707	36,391
After five years		10,773	12,275	13,832
		77,437	77,960	69,712
Less: future finance charges		(12,117)	(14,321)	(14,958)
Present value of finance lease liabilities		65,320	63,639	54,754
<hr/>				
Disclosed as:				
Current	18	19,669	9,989	5,066
Non-current	18	45,651	53,650	49,688
		65,320	63,639	54,754

22 Provisions

	Dilapidations	Total
	£'000	£'000
As at 3 December 2007	175	175
Charged/(credited) to statement of comprehensive income		
- additional provision	104	104
- unused amounts reversed	(15)	(15)
- used during the period	(67)	(67)
As at 30 November 2008	197	197
Charged/(credited) to statement of comprehensive income		
- additional provision	212	212
- unused amounts reversed	(3)	(3)
- used during the period	(40)	(40)
As at 29 November 2009	366	366

The dilapidations provision is based on the future expected repair costs required to restore the leased assets to their fair condition at the end of the lease term.

Notes to the financial statements (continued)

23 Derivative liability

	2009	2008	2007
	£'000	£'000	£'000
Derivative liability designated as fair value through the Statement of Comprehensive Income			
- Warrant agreements	1,083	1,079	967

The Company issued to Ranelagh Nominees Limited (an affiliate of Lloyds TSB Bank plc) warrants to subscribe for up to 56,112 Ordinary shares at £180 per share. The warrants provide Ranelagh Nominees Limited with the opportunity to benefit in the equity upside of the Company. The fair value of the warrants have been determined using the Black-Scholes Option Pricing Model.

Further details of the derivative financial instrument are provided in note 26.

24 Share capital

	2009		2008		2007	
	Number of shares	£'000	Number of shares	£'000	Number of shares	£'000
Authorised						
Ordinary shares of 1p each	3,000,000	30	3,000,000	30	3,000,000	30
Convertible preference shares of 1p each	3,000,000	30	3,000,000	30	3,000,000	30
	6,000,000	60	6,000,000	60	6,000,000	60
Allotted, called up and fully paid						
Ordinary shares of 1p each	1,525,757	15	1,302,690	13	1,153,186	12
Convertible preference shares of 1p each	2,474,749	25	2,474,220	25	2,222,887	22
	4,000,506	40	3,776,910	38	3,376,073	34

Convertible preference shares are only convertible in to the same number of Ordinary shares either at the option of the holder or on the occurrence of certain trigger events including a public listing. The Convertible preference shares rank pari passu with Ordinary shares with the exception that on return of assets on a liquidation, reduction of capital or otherwise, the holders of the Convertible preference shares shall be entitled in respect of their preference shares (in proportion to the number of such shares held by each of them) in priority to all other shareholders, to be paid out of the surplus assets of the Company remaining after payment of its liabilities, the subscription price for their preference shares together with a sum equal to any arrears of dividends declared calculated down to the date of the return of assets.

The movements in the called up share capital are set out below:

	Notes	Ordinary shares number	Convertible preference shares number	Ordinary shares £'000	Convertible preference shares £'000	Share premium £'000	Total £'000
At 4 December 2006		951,171	2,222,887	10	22	210,897	210,929
Issue of Ordinary shares		200,667	-	2	-	30,098	30,100
Allotted in respect of employee share option scheme	25	1,348	-	-	-	114	114
At 2 December 2007		1,153,186	2,222,887	12	22	241,109	241,143
At 3 December 2007		1,153,186	2,222,887	12	22	241,109	241,143
Issue of Ordinary shares		148,693	-	1	-	17,842	17,843
Allotted in respect of employee share option scheme	25	811	-	-	-	68	68
Issue of Convertible preference shares	20	-	251,333	-	3	22,630	22,633
At 30 November 2008		1,302,690	2,474,220	13	25	281,649	281,687
At 1 December 2008		1,302,690	2,474,220	13	25	281,649	281,687
Issue of Ordinary shares		222,281	-	2	-	30,005	30,007
Ordinary shares issue costs		-	-	-	-	(945)	(945)
Allotted in respect of employee share option scheme	25	786	-	-	-	67	67
Issue of Convertible preference shares	20	-	529	-	-	60	60
At 29 November 2009		1,525,757	2,474,749	15	25	310,836	310,876

Notes to the financial statements (continued)

25 Share options

Employee share options

Options to subscribe for Ordinary shares have been granted, pursuant to the Company's approved and unapproved employee share option schemes. At each respective balance sheet date the outstanding options were as follows:

	Year of Issue	2009	2008	2007	Exercise Price (£)	Exercise Period
Ocado Limited 2001 Inland	2001	13,940	14,393	14,920	80	24/02/03 - 29/11/11
Revenue Approved Employee	2001	268	268	268	90	30/11/04 - 29/11/11
Share Ownership Scheme	2002	4,104	4,118	4,252	90	31/05/05 - 29/11/12
	2003	2,127	2,289	2,705	90	31/05/06 - 29/11/13
	2004	3,147	3,328	3,803	90	31/05/07 - 29/11/14
	2005	6,599	6,977	7,978	100	31/05/08 - 29/11/15
	2005	944	944	944	115	31/05/08 - 29/11/15
	2006	1,918	2,088	2,420	140	31/05/09 - 30/05/16
	2006	1,627	1,830	2,402	150	30/11/09 - 29/11/16
	2007	6,768	7,595	9,721	150	31/05/10 - 29/11/17
	2008	2,721	3,341	-	135	31/05/11 - 29/05/18
	2008	5,661	7,428	-	120	30/11/11 - 29/11/18
	2009	3,519	-	-	120	31/05/12 - 30/05/19
	2009	18,100	-	-	135	02/11/12 - 29/11/19
	Total approved options		71,443	54,599	49,413	
Ocado Limited 2001 Inland	2001	1,094	1,188	1,188	80	01/08/03 - 29/11/11
Revenue Non-Approved	2001	777	872	872	90	30/11/04 - 29/11/11
Employee Share Ownership Scheme	2002	1,243	1,243	1,243	90	31/05/05 - 29/11/12
	2002	3,500	3,500	3,500	100	07/02/05 - 06/02/12
	2002	3,500	3,500	3,500	150	07/02/05 - 06/02/12
	2003	2,000	2,000	2,000	90	31/05/06 - 29/11/13
	2005	19	20	20	100	31/05/08 - 29/11/15
	2005	12,242	12,492	12,492	115	16/05/08 - 29/11/15
	2007	508	508	508	150	31/05/10 - 30/05/17
	2009	9,369	-	-	120	31/05/12 - 30/05/19
	2009	241	-	-	135	16/11/12 - 15/11/19
Total unapproved		34,493	25,323	25,323		
Total employee options		105,936	79,922	74,736		

Of the total employee share options above, the following options were subject to performance criteria in relation to the average contribution by basket and EBITDA:

	Year of Issue	2009	2008	2007	Exercise Price (£)	Exercise Period
	2005	2,913	2,913	2,913	115	31/05/08 - 29/11/15
	2009	9,550	-	-	120	31/05/12 - 30/05/19
Total options subject to performance criteria		12,463	2,913	2,913		

Notes to the financial statements (continued)

25 Share options (continued)

Details of the share options outstanding during each financial period are as follows:

	2009		2008		2007	
	Number of share options	Weighted average price (£)	Number of share options	Weighted average price (£)	Number of share options	Weighted average price (£)
Outstanding at beginning of period	79,922	110	74,736	108	71,658	103
Granted during the period	33,164	129	11,649	125	10,928	150
Forfeited - granted in the period	(1,935)	124	(880)	135	(699)	150
Forfeited - granted in prior periods	(4,429)	126	(4,772)	129	(5,803)	121
Exercised during the period	(786)	85	(811)	84	(1,348)	85
Expired during the period	-	-	-	-	-	-
Outstanding at the end of the period	105,936	115	79,922	110	74,736	108
Exercisable at the end of the period	57,422	100	57,132	99	38,251	92

The market value of the Company's shares was derived based on the market value of similar companies and by taking into account transactions conducted with shareholders during the period. The Share Valuation Office of the Inland Revenue has confirmed in correspondence dated November 2009 that in respect of 2009 grants £1.35 per share was not less than the market value of the Company's shares. Similar confirmation has been obtained for the share valuations at each option grant date.

In determining the fair value of the share options, the Black-Scholes Option Pricing Model was used with the following inputs:

	2009	2008	2007
Weighted average share price	£126.60	£143.40	£150.00
Weighted average exercise price	£114.78	£109.63	108.45
Expected volatility	0.50	0.50	0.50
Weighted expected life	4.19	5.18	5.28
Risk-free interest rate	5.0%	5.0%	5.0%
Expected dividend yield	0.0%	0.0%	0.0%

Expected volatility was determined by comparing the Company to others of a similar size or which operate in similar markets, and adjusted to reflect the private company status. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. All share awards are equity settled. The charge to the statement of comprehensive income is detailed in note 8.

Non-employee share options

Options to subscribe for Ordinary shares and Convertible preference shares have been granted by the Company to non-employees. At each respective balance sheet date the options granted to non employees at the date of their grant were as follows:

	Date of Issue	2009	2008	2007	Exercise Price (£)	Exercise Period
Non-employee share options	Feb-02	943	943	943	53	07/02/02 - 06/02/12
	Feb-02	74	74	74	90	04/02/04 - 03/02/14
	Feb-02	8,867	8,867	8,867	90	04/02/02 - 04/02/17
	Jan-04	4,353	4,353	4,353	103	03/01/04 - 03/01/18
	Apr-04	477	477	477	103	30/04/04 - 29/05/14
		14,714	14,714	14,714		

26 Financial instruments

The fair value of financial instruments is measured by using the following fair value hierarchy:

- Quoted priced (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset and liability, either directly or indirectly (level 2)
- Inputs for the assets or liability that are not based on observable market data (that is unobservable inputs) (level 3)

The Company recognises a derivative liability in respect of warrants issued. The fair values of which are determined using the Black-Scholes Option Pricing Model. This is categorised as level 3.

The measurement of the fair values of other financial instruments is detailed in the note below.

Notes to the financial statements (continued)

26 Financial instruments (continued)

(a) Fair value of financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all financial instruments that are carried in the financial statements. The fair value of financial assets and liabilities are based on prices available from the market on which the instruments are traded where available. The fair values of short-term deposits, receivables, overdrafts, payables and loans of a maturity of less than one financial period are assumed to approximate to their carrying values but for completeness are included in the analysis below. The fair value of all other financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing market interest rates. The interest rate used to discount borrowings is based on a LIBOR plus margin measure blended for the type of security offered and were calculated as 6.4% (2008: 8.5%) (2007: 10.3%).

The carrying value of financial assets and liabilities at the end of the period:

Notes	2009		2008		2007		
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000	
Assets							
Cash and cash equivalents	16	13,017	13,017	5,857	5,857	10,891	10,891
Trade receivables	15	5,707	5,707	3,004	3,004	1,073	1,073
Other receivables (incl. accrued income)	15	4,622	4,622	5,576	5,576	5,824	5,824
Total financial assets		23,346	23,346	14,437	14,437	17,788	17,788
Liabilities							
Trade payables	17	(33,839)	(33,839)	(25,900)	(25,900)	(20,142)	(20,142)
Accruals	17	(9,519)	(9,519)	(9,840)	(9,840)	(10,409)	(10,409)
Borrowings	19	(54,745)	(55,075)	(43,445)	(43,797)	(47,221)	(47,857)
Convertible loan notes	20	-	-	(14,506)	(15,269)	(33,101)	(33,453)
Finance lease obligations	21	(65,320)	(65,320)	(63,639)	(63,639)	(54,754)	(54,754)
Derivative liability	23	(1,083)	(1,083)	(1,079)	(1,079)	(967)	(967)
Total financial liabilities		(164,506)	(164,836)	(158,409)	(159,524)	(166,594)	(167,582)

(b) Credit risk

The Company's exposures to credit risk arise from holdings of cash and cash equivalents and trade and other receivables (excluding prepayments).

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. This is shown in the table in note 26(a) above.

Cash and cash equivalents

The Company's exposure to credit risk on cash and cash equivalents is managed by cash deposits only being placed with banks and financial institutions which carry Moody's ratings of Aa3/P1 for long term and short term deposits.

Trade and other receivables

Trade and other receivables at the period end comprise mainly monies due from suppliers. Trade receivables in respect of consumer sales are low due to the nature of the Company's business and its effective controls over this area. The Company has provided for doubtful receivables in respect of consumer sales by reviewing the aging profile and, based on prior experience, assessing the recoverability of over due balances. The Company also provides for receivables in respect of monies due from suppliers. Management provide when there are indicators that a balance may not be recoverable.

The aging of trade and other receivables (excluding prepayments) at the balance sheet date was:

Notes	2009		2008		2007	
	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Not past due	7,807	-	7,634	-	6,359	-
Past due 0-3 months	2,395	(47)	773	(46)	365	(8)
Past due 3-6 months	115	(26)	207	(50)	145	(8)
Past due over 6 months	201	(116)	185	(123)	49	(5)
15	10,518	(189)	8,799	(219)	6,918	(21)

There were no unimpaired balances at the period end where the Company had renegotiated the terms of the trade receivables (2008: £nil) (2007: £nil).

Notes to the financial statements (continued)

26 Financial instruments (continued)

(b) Credit risk (continued)

Movements in the provision for impairment of trade and other receivables are as follows:

	Notes	2009 £'000	2008 £'000	2007 £'000
At the beginning of the period		(219)	(21)	(249)
Provision for receivables impairment		(115)	(199)	(20)
Uncollectible amounts written off		114	1	83
Recoveries of amounts previously provided		31	-	165
At the end of the period	15	(189)	(219)	(21)

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

(c) Liquidity risk

To manage the working capital needs of the business the Company is reliant on being able to negotiate sufficient financing arrangements. To achieve this, the Company maintains a mixture of short and medium term debt and lease finance arrangements that are designed to ensure the Company has sufficient available funds to finance its operations. In addition the Company maintains a committed standby bank overdraft facility of £5m (2008: £5m) (2007: £5m). The Company monitors cash flow as part of its day to day control procedures and the Board considers cash flow projections on a monthly basis ensuring that appropriate facilities are available to be drawn upon as necessary. For further details see note 27.

The table below analyses the Company's non-derivative financial liabilities into their relevant maturity groups based on the remaining period at the financial period end date to the contractual maturity date. The amounts disclosed in the table are the carry value and undiscounted contractual cash flows.

2 December 2007	Notes	Carrying value	Contractual cash flows	1 year or less	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Trade payables	17	(20,142)	(20,142)	(20,142)	-	-	-
Accruals	17	(10,409)	(10,409)	(10,409)	-	-	-
Secured loans	19	(43,330)	(60,301)	(4,595)	(9,022)	(44,564)	(2,120)
Unsecured loans	19	(3,891)	(5,169)	(1,292)	(1,292)	(2,585)	-
Convertible loan notes	20	(33,101)	(35,230)	-	(17,003)	(18,227)	-
Finance lease obligations	21	(54,754)	(69,712)	(8,448)	(11,041)	(36,391)	(13,832)
		(165,627)	(200,963)	(44,886)	(38,358)	(101,767)	(15,952)

30 November 2008	Notes	Carrying value	Contractual cash flows	1 year or less	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Trade payables	17	(25,900)	(25,900)	(25,900)	-	-	-
Accruals	17	(9,840)	(9,840)	(9,840)	-	-	-
Secured loans	19	(39,157)	(48,722)	(17,123)	(12,173)	(19,022)	(404)
Unsecured loans	19	(4,288)	(5,053)	(2,468)	(1,293)	(1,292)	-
Convertible loan notes	20	(14,506)	(15,269)	(15,269)	-	-	-
Finance lease obligations	21	(63,639)	(77,960)	(13,957)	(20,021)	(31,707)	(12,275)
		(157,330)	(182,744)	(84,557)	(33,487)	(52,021)	(12,679)

29 November 2009	Notes	Carrying value	Contractual cash flows	1 year or less	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Trade payables	17	(33,839)	(33,839)	(33,839)	-	-	-
Accruals	17	(9,519)	(9,519)	(9,519)	-	-	-
Secured loans	19	(41,350)	(45,185)	(7,517)	(19,428)	(17,837)	(403)
Unsecured loans	19	(13,395)	(14,959)	(7,047)	(5,075)	(2,837)	-
Finance lease obligations	21	(65,320)	(77,437)	(23,705)	(19,180)	(23,779)	(10,773)
		(163,423)	(180,939)	(81,627)	(43,683)	(44,453)	(11,176)

Notes to the financial statements (continued)

26 Financial instruments (continued)

(d) Market risk

Currency risk

The Company only has foreign currency transactions in relation to its trade payables, principally arising on purchases of plant and equipment. The Company's exposure to currency risk is as follows:

	2009	2008	2007
	£'000	£'000	£'000
Trade payables at the period end:			
Euros	41	901	1,423
US dollar	2	-	-
	43	901	1,423

Due to the Company's minimal exposure to currency risk no sensitivity analysis has been performed.

Interest rate risk

The Company is exposed to interest rate risk on its interest bearing borrowings. The Company's interest rate policy seeks to minimise interest expense and volatility by structuring the interest rate profile into a diversified portfolio of fixed rate and floating rate liabilities.

At the balance sheet date the interest rate profile of the Company's interest bearing financial instruments was:

		2009	2008	2007
	Notes	£'000	£'000	£'000
Fixed rate financial instruments				
Financial liabilities	18	(78,715)	(82,433)	(91,746)
Variable rate instruments				
Financial assets	16	13,017	5,857	10,891
Financial liabilities	18	(41,350)	(39,157)	(43,330)

Sensitivity analysis

An increase of 100 basis points (1.0%) in interest rates at the balance sheet date would have decreased equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables remain constant and considers the effect on financial instruments with variable interest rates and financial instruments at fair value through profit or loss. The analysis is performed on the same basis for 2008 and 2007.

	2009	2008	2007
	£'000	£'000	£'000
Equity			
Gain/(loss)	(492)	(489)	(454)
Income			
Gain/(loss)	(492)	(489)	(454)

Notes to the financial statements (continued)

26 Financial instruments (continued)

(e) Financial instruments by category

The Company has categorised its financial instruments as follows:

	Notes	Available-for-sale £'000	Loans and receivables £'000	Other financial liabilities at amortised cost £'000	Liabilities at fair value through the profit and loss £'000	Total £'000
As at 2 December 2007						
Assets as per balance sheet						
Cash and cash equivalents	16	-	10,891	-	-	10,891
Trade and other receivables (excluding prepayments)	15	-	6,897	-	-	6,897
Available-for-sale financial assets	13	395	-	-	-	395
Total		395	17,788	-	-	18,183
Liabilities as per balance sheet						
Trade payables	17	-	-	20,142	-	20,142
Accruals	17	-	-	10,409	-	10,409
Borrowings	19	-	-	47,221	-	47,221
Convertible loan stock	20	-	-	33,101	-	33,101
Finance lease liabilities	21	-	-	54,754	-	54,754
Derivative liability	23	-	-	-	967	967
Total		-	-	165,627	967	166,594
As at 30 November 2008						
Assets as per balance sheet						
Cash and cash equivalents	16	-	5,857	-	-	5,857
Trade and other receivables (excluding prepayments)	15	-	8,580	-	-	8,580
Available-for-sale financial assets	13	395	-	-	-	395
Total		395	14,437	-	-	14,832
Liabilities as per balance sheet						
Trade payables	17	-	-	25,900	-	25,900
Accruals	17	-	-	9,840	-	9,840
Borrowings	19	-	-	43,445	-	43,445
Convertible loan stock	20	-	-	14,506	-	14,506
Finance lease liabilities	21	-	-	63,639	-	63,639
Derivative liability	23	-	-	-	1,079	1,079
Total		-	-	157,330	1,079	158,409

Notes to the financial statements (continued)

26 Financial instruments (continued)

(e) Financial instruments by category (continued)

	Notes	Available- for-sale £'000	Loans and receivables £'000	Other financial liabilities at amortised cost £'000	Liabilities at fair value through the profit and loss £'000	Total £'000
As at 29 November 2009						
Assets as per balance sheet						
Cash and cash equivalents	16	-	13,017	-	-	13,017
Trade and other receivables (excluding prepayments)	15	-	10,329	-	-	10,329
Available-for-sale financial assets	13	395	-	-	-	395
Total		395	23,346	-	-	23,741
Liabilities as per balance sheet						
Trade payables	17	-	-	33,839	-	33,839
Accruals	17	-	-	9,519	-	9,519
Borrowings	19	-	-	54,745	-	54,745
Finance lease liabilities	21	-	-	65,320	-	65,320
Derivative liability	23	-	-	-	1,083	1,083
Total		-	-	163,423	1,083	164,506

27 Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company is currently dependent on the continuing support of its lending banks for its current working capital facilities. The Board's objectives are to keep borrowings within existing facilities and to negotiate and obtain additional resources required to fund the Company's working capital requirements for the foreseeable future.

The Board closely manages its trading capital, which it defines as its net assets plus net debt. Net debt is calculated as total debt (finance leases, convertible loan stock and borrowings as shown in the balance sheet), less cash and cash equivalents. The Company has performance based loan covenants in place over certain borrowings. Management monitor the performance targets on a period basis considering actual and forecast results. Management ensure constant communication with all its Lenders and those Lenders with covenants have indicated their satisfaction with the progress of the Company. The main areas of capital management revolve around the management of the components of working capital including monitoring stock turn, age of stock, age of debtors, debtor days, creditor days, balance sheet re-forecasting, period projected loss, weekly cash flow forecasts, and daily cash balances. Major investment decisions are based on reviewing the expected future cash flows and all major capital expenditure requires approval from the Board. There were no major changes in the Company's approach to capital management during the period.

The Company's performance in remaining within its borrowing facilities, including standby overdraft facilities and at the period ends as measured by the headroom available is as follows:

	Notes	2009 £'000	2008 £'000	2007 £'000
Total facilities available		137,775	131,684	154,681
Facilities drawn down	18	(120,065)	(121,590)	(135,076)
Undrawn facilities at end of period		17,710	10,094	19,605
Cash and cash equivalents gross of drawn overdraft facility	16	13,157	6,163	11,286
Total undrawn facilities and cash available at the end of the period		30,867	16,257	30,891

Notes to the financial statements (continued)

28 Subsidiary

Jalapeno Partners Limited is a 100% owned subsidiary of Ocado Limited. It is incorporated in the UK with registration no. 4204963. It is a dormant Company as defined by the Companies Act 2006 Section 250. The only balances in the accounts of Jalapeno Partners are share capital of £1 and an inter-company creditor of £1.

Consolidated accounts have not been produced due to the immateriality of the dormant subsidiary.

After the balance sheet date the Company incorporated a wholly owned subsidiary. For more information see note 32.

29 Commitments

Capital commitments

Contracts placed for future capital expenditure not provided in the financial statements are as follows:

	2009	2008	2007
	£'000	£'000	£'000
Property, plant and equipment	5,636	6,481	7,270
Intangible assets	-	49	-
Total capital expenditure committed at end of period	5,636	6,530	7,270

Operating lease commitments

The Company leases a number of offices, facilities and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights:

At 29 November 2009 the future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2009	2008	2007
	£'000	£'000	£'000
Amounts payable:			
Within one year	2,535	2,151	2,114
Within two to five years	8,399	6,041	6,507
After five years	36,392	36,683	10,224
Total commitment	47,326	44,875	18,845

30 Related party transactions

Key management personnel

Only the Executive and Non-Executive Directors are deemed to be key management personnel. It is the Board who have responsibility for planning, directing and controlling the activities of the Company. Key management personnel compensation is disclosed in note 8.

Other related party transactions with key management made during the period are as follows:

	2009	2008	2007
	£'000	£'000	£'000
Purchase of goods			
- company of a close family member of an Executive Director	116	196	62
Purchase of professional services			
- Non-Executive Directors (included in note 8)	48	51	57
	164	247	119

All transactions are on an arms length basis and no financial period end balances have arisen as a result of these transactions.

At the end of the financial period key management owed the Company £4,000 (2008: £42,000) (2007: £11,000) in respect of personal expenses incurred on the company credit card that were reimbursed in the normal course of business. These balances were repaid after the financial period end. In 2007 the Chairman owed the Company £100,000 which arose shortly before the period end due to him exercising the right in his contract to purchase 667 Ordinary shares at their market value of £100,000. The purchase price was outstanding at the financial period end but was paid subsequent to the financial period end.

There were no other material transactions or balances between the Company and its key management personnel or members of their close family.

Notes to the financial statements (continued)

30 Related party transactions (continued)

Major shareholders

Prior to November 2008 John Lewis plc was a 28% shareholder in Ocado Limited. During that time the Company acquired goods for resale and professional services from affiliates of John Lewis plc and charged affiliates in connection with other services. These transactions and the period end balances arising from these transactions are given below. In November 2008 the John Lewis Partnership Pension Trust Limited acquired from John Lewis plc the investment in Ocado Limited. The John Lewis Partnership Pension Trust Limited is the corporate trustee of the John Lewis Trust for Pensions, of which John Lewis Partnership plc is the principal employer; accordingly John Lewis plc and Waitrose no longer meet the criteria of a related party.

	2008	2007
	£'000	£'000
Sales of services		
- John Lewis and affiliates	226	185
	226	185
Purchase of professional services		
- Waitrose	1,111	1,301
- John Lewis and affiliates	231	211
Purchase of goods for resale		
- Waitrose	40,505	35,174
	41,847	36,686
		2007
		£'000
Amounts receivable at the period end		
- Waitrose		3,479
- John Lewis and affiliates		418
		3,897
Amounts payable at the period end		
- Waitrose		5,612
- John Lewis and affiliates		21
		5,633

Since 2002 John Lewis plc has acted as guarantor for the obligations of the Company under a lease for the Hatfield site. The maximum liability of John Lewis plc under the guarantee is £6.75m. The Company pays John Lewis plc a fee of £150,000 per annum in consideration for the guarantee being provided in accordance with the terms of an agreement entered into in September 2005. This is included in professional services above.

John Lewis plc held three financial instruments in the Company which formed part of the Company's borrowings and details are given in note 20.

In March 2007 John Lewis plc exercised the option to extend the conversion of the £1.5m (£1.6m including capitalised interest) until March 2009 for a premium totalling £122,000. In November 2008 John Lewis plc converted all convertible loan stock (including capitalised and accrued interest to that date) for a total of 251,333 Convertible preference shares. The transactions are given below:

	2008	2007
	£'000	£'000
Convertible loan stock issued and accrued interest		
- 'A' loan stock	-	1,586
- 'B' loan stock	-	12,305
- 'C' loan stock	-	8,613
Total owed at the beginning of the period	-	22,504
Interest charged at 4% on 'A' convertible loan stock	-	63
Total owed at the period end	-	22,567
Split		
- Accrued interest	-	46
- Capitalised loan	-	22,521

Notes to the financial statements (continued)

30 Related party transactions (continued)

Investment

The following transactions were carried out with Paneltex Ltd, further details of the investment in Paneltex Ltd are provided in note 13 to these financial statements.

	2009	2008	2007
	£'000	£'000	£'000
Purchase of goods			
- Plant and machinery	289	3	133
- Consumables	160	160	165
Total purchase of goods	449	163	298
Amounts payable at the period end	19	7	66

31 Analysis of net debt

(a) Net debt

	Notes	2009	2008	2007
		£'000	£'000	£'000
Current assets				
Cash and cash equivalents	16	13,017	5,857	10,891
		13,017	5,857	10,891
Current liabilities				
Borrowings	18	(12,087)	(15,016)	(876)
Convertible loan stock	18	-	(14,506)	-
Obligations under finance leases	18	(19,669)	(9,989)	(5,066)
		(31,756)	(39,511)	(5,942)
Non current liabilities				
Borrowings	18	(42,658)	(28,429)	(46,345)
Convertible loan stock	18	-	-	(33,101)
Obligations under finance leases	18	(45,651)	(53,650)	(49,688)
		(88,309)	(82,079)	(129,134)
Total net debt		(107,048)	(115,733)	(124,185)

Net debt is calculated as total debt (finance leases, convertible loan stock and borrowings as shown in the balance sheet), less cash and cash equivalents.

(b) Reconciliation of net cash flow to movement in net debt

	Notes	2009	2008	2007
		£'000	£'000	£'000
Net increase/(decrease) in cash and cash equivalents		7,160	(5,034)	(114)
Net cash outflow/(inflow) from debt and lease financing		6,467	(504)	(16,622)
Non-cash movements:				
- Exercise of convertible loan notes to equity	20	60	22,633	-
- Fair value movements on convertible loan notes		(176)	(3,360)	(163)
- Assets acquired under finance lease		(4,826)	(5,283)	(5,335)
Decrease/(increase) in net debt in the period		8,685	8,452	(22,234)
Opening net debt		(115,733)	(124,185)	(101,951)
Closing net debt		(107,048)	(115,733)	(124,185)

Notes to the financial statements (continued)

32 Post balance sheet events

In January 2010 Ocado Information Technology Limited was incorporated in Ireland as a wholly owned subsidiary of the Company. On 21 January 2010 the Company granted Ocado Information Technology Limited a licence to use the Company's intellectual property outside of the UK and in consideration Ocado Information Technology Limited issued a promissory note which was settled by the issue of 5,075,840 Ordinary shares of 1 Euro each to the Company. On 17 June 2010 Ocado Holdings Limited acquired the investment in Ocado Information Technology Limited from the Company for the sum of £4.4m in cash.

In January 2010 the Company set up the Ocado Joint Share Ownership Scheme ("JSOS") following recommendations made by the Company's Remuneration Committee that a new executive incentivisation scheme be established to incentivise and retain its four Executive Directors and select members of senior management. The scheme was approved by shareholders by written resolution in February 2010. The terms of the JSOS have been approved by the Company's Remuneration Committee who supervises the operation of the scheme.

Effective on 9 February 2010, by means of a Scheme of Arrangement (the "Scheme") under sections 895 to 899 of the Companies Act 2006, Ocado Group Limited was established as the new holding company of the Company. As a result of the Scheme the ultimate shareholders of the Company received shares in Ocado Group Limited in proportion to their original shareholding in the Company. On 5 February 2010 Ocado Holdings Limited was incorporated. On 13 February 2010, once the Scheme became effective, Ocado Holdings Limited acquired the investment in the Company from Ocado Group Limited and in consideration issued 476,509,880 Ordinary shares of £1 each to Ocado Group Limited. In March 2010 the Chairman and Non-Executive Directors resigned as Directors of the Company. In March 2010 the Chairman and certain of the Non-Executive Directors were appointed to the Board of Ocado Group Limited. On 23 June 2010 Ocado Group Limited re-registered as a public company and changed its name from "Ocado Group Limited" to "Ocado Group plc". The Company continues to operate the same business and operations as it did immediately prior to the implementation of the Scheme.

In May 2010 the Company repaid a loan of £5m secured over certain warehouse assets, software and intellectual property that was renewable on a month by month basis.

In May 2010 the Company agreed a new loan facility for £7.5m from an existing lender which is repayable over 3 years in equal annual instalments. Interest is charged at LIBOR plus 5%. In addition the Company agreed a new revolving credit facility for £7.5m from the same lender. These facilities are secured over certain warehouse assets, software and intellectual property.

In May 2010 the Company signed a new 10 year agreement with Waitrose giving the Company the right to continue to sell Waitrose goods and use Waitrose brands on its website and vans as it has had since 2000.

In May 2010 the Company agreed an extension of £3.4m to a credit facility with an existing lender for vehicle finance leasing.

In June 2010 the Company agreed a £15m credit facility with a new lender for vehicle finance leasing.

On 24 June 2010 Ocado Group plc announced its intention to list on the London Stock Exchange.

In July 2010 the Company entered into a facility agreement (the "New Facility") between, amongst others, Barclays Bank PLC, HSBC Bank plc and Lloyds TSB Bank plc. The lenders have agreed to make available £100m to the Company under the New Facility. All amounts borrowed under the New Facility shall be applied towards certain capital expenditure. The New Facility has an accordion feature which allows for the amount available under it to be increased to £130m. This New Facility is conditional on the Company proceeding with an IPO.

Notes to the financial statements (continued)

33 Explanation of transition to IFRS

This is the first financial period that the Company has presented its financial statements under IFRS. The accounting policies set out in note 2 have been applied in preparing the financial statements for the 52 week period ended 29 November 2009, the comparative information presented in these financial statements for the 52 week periods ending 30 November 2008 and 2 December 2007 and in the preparation of an opening IFRS balance sheet as at 3 December 2006 (the Company's date of transition to IFRS). IFRS 1 'First-time Adoption of International Financial Reporting Standards' allows companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the year of transition (i.e. the 52 weeks to 3 December 2006). The Company has taken the exemption which allows entities to only apply IFRS 2 'Share-based Payment' to share-based payment awards granted after 7 November 2002.

Reconciliations between UK GAAP and IFRS

An explanation of the principal elements of how the transition from UK GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and accompanying notes.

Reconciliations between UK GAAP and IFRS - Balance sheet 2006

	Notes	UK GAAP	IFRS	IFRS	Presentation	IFRS
		2006	Adjustments	2006	Adjustments	2006
As at 3 December 2006		£'000	£'000	£'000	£'000	£'000
Non-current assets						
Intangible assets	(a)	-	5,847	5,847	-	5,847
Property, plant and equipment	(a,b)	78,391	7,376	85,767	-	85,767
Available-for-sale financial asset	(c)	395	-	395	-	395
		78,786	13,223	92,009	-	92,009
Current assets						
Inventories		7,178	-	7,178	-	7,178
Trade and other receivables	(b)	11,209	(119)	11,090	-	11,090
Derivative financial asset	(e)	-	1,146	1,146	-	1,146
Cash and cash equivalents	(g)	11,521	(516)	11,005	-	11,005
		29,908	511	30,419	-	30,419
Total assets		108,694	13,734	122,428	-	122,428
Current liabilities						
Trade and other payables	(b,d,i)	(43,779)	(290)	(44,069)	132	(43,937)
Borrowings	(g)	(6,142)	516	(5,626)	-	(5,626)
Obligations under finance leases	(b,d)	(6,282)	(1,378)	(7,660)	-	(7,660)
		(56,203)	(1,152)	(57,355)	132	(57,223)
Net current liabilities		(26,295)	(641)	(26,936)	132	(26,804)
Non-current liabilities						
Borrowings		(28,667)	-	(28,667)	-	(28,667)
Convertible loan stock		(31,268)	-	(31,268)	-	(31,268)
Obligations under finance leases	(b,d)	(25,677)	(14,058)	(39,735)	-	(39,735)
Derivative liability	(f)	-	(805)	(805)	-	(805)
Provisions	(i)	-	-	-	(132)	(132)
		(85,612)	(14,863)	(100,475)	(132)	(100,607)
Net liabilities		(33,121)	(2,281)	(35,402)	-	(35,402)
Equity						
Share capital		32	-	32	-	32
Share premium account		210,897	-	210,897	-	210,897
Convertible loan interest reserve		6,882	-	6,882	-	6,882
Accumulated deficit	(b,d,e,f)	(250,932)	(2,281)	(253,213)	-	(253,213)
Deficit attributable to equity holders		(33,121)	(2,281)	(35,402)	-	(35,402)

Notes to the financial statements (continued)

33 Explanation of transition to IFRS (continued)

Reconciliations between UK GAAP and IFRS - Balance sheet 2007

		UK GAAP	IFRS	IFRS	Presentation	IFRS
		2007	Adjustments	2007	Adjustments	2007
As at 2 December 2007	Notes	£'000	£'000	£'000	£'000	£'000
Non-current assets						
Intangible assets	(a)	-	6,818	6,818	-	6,818
Property, plant and equipment	(a,b)	84,377	5,554	89,931	-	89,931
Available-for-sale financial asset	(c)	395	-	395	-	395
		84,772	12,372	97,144	-	97,144
Current assets						
Inventories		8,300	-	8,300	-	8,300
Trade and other receivables	(b,d)	9,458	(236)	9,222	-	9,222
Cash and cash equivalents	(g)	11,286	(395)	10,891	-	10,891
		29,044	(631)	28,413	-	28,413
Total assets		113,816	11,741	125,557	-	125,557
Current liabilities						
Trade and other payables	(b,d,e,g,i)	(35,229)	1,822	(33,407)	175	(33,232)
Borrowings	(d)	(932)	56	(876)	-	(876)
Convertible loan stock		-	-	-	-	-
Obligations under finance leases	(b,d)	(3,870)	(1,196)	(5,066)	-	(5,066)
		(40,031)	682	(39,349)	175	(39,174)
Net current liabilities		(10,987)	51	(10,936)	175	(10,761)
Non-current liabilities						
Borrowings	(d)	(46,661)	316	(46,345)	-	(46,345)
Convertible loan stock	(e)	(33,424)	323	(33,101)	-	(33,101)
Obligations under finance leases	(b,d)	(36,152)	(13,536)	(49,688)	-	(49,688)
Derivative liability	(f)	-	(967)	(967)	-	(967)
Provisions	(i)	-	-	-	(175)	(175)
		(116,237)	(13,864)	(130,101)	(175)	(130,276)
Net liabilities		(42,452)	(1,441)	(43,893)	-	(43,893)
Equity						
Share capital		34	-	34	-	34
Share premium account		241,109	-	241,109	-	241,109
Convertible loan interest reserve	(e)	6,882	1,268	8,150	-	8,150
Accumulated deficit	(b,d,e,f)	(290,477)	(2,709)	(293,186)	-	(293,186)
Deficit attributable to equity holders		(42,452)	(1,441)	(43,893)	-	(43,893)

Notes to the financial statements (continued)

33 Explanation of transition to IFRS (continued)

Reconciliations between UK GAAP and IFRS – Statement of comprehensive income 2007

	UK GAAP	IFRS	IFRS	Presentation	IFRS
	2007	Adjustments	IFRS	Adjustments	2007
Notes	£'000	£'000	£'000	£'000	£'000
Continuing operations					
Revenue	272,856	-	272,856	-	272,856
Cost of sales	(b,h,i) (279,829)	418	(279,411)	94,537	(184,874)
Gross profit/(loss)	(6,973)	418	(6,555)	94,537	87,982
Other income	(h) 1,873	185	2,058	(1,446)	612
Distribution costs	(i) -	-	-	(93,536)	(93,536)
Operating profit/(loss) before administrative expenses	(5,100)	603	(4,497)	(445)	(4,942)
Administrative expenses	(d,i) (26,259)	666	(25,593)	445	(25,148)
Operating loss	(31,359)	1,269	(30,090)	-	(30,090)
Finance income	824	-	824	-	824
Finance costs	(d,e,f) (9,191)	(1,697)	(10,888)	-	(10,888)
Loss before tax	(39,726)	(428)	(40,154)	-	(40,154)
Taxation	-	-	-	-	-
Loss for the period	(39,726)	(428)	(40,154)	-	(40,154)

Notes to the financial statements (continued)

33 Explanation of transition to IFRS (continued)

Reconciliations between UK GAAP and IFRS - Balance sheet 2008

	Notes	UK GAAP	IFRS	IFRS	Presentation	IFRS
		2008	Adjustments	2008	Adjustments	2008
As at 30 November 2008		£'000	£'000	£'000	£'000	£'000
Non-current assets						
Intangible assets	(a)	-	7,038	7,038	-	7,038
Property, plant and equipment	(a,b)	86,458	4,073	90,531	-	90,531
Available-for-sale financial asset	(c)	395	-	395	-	395
		86,853	11,111	97,964	-	97,964
Current assets						
Inventories		9,107	-	9,107	-	9,107
Trade and other receivables	(b,d)	12,189	(156)	12,033	-	12,033
Cash and cash equivalents	(h)	6,163	(306)	5,857	-	5,857
		27,459	(462)	26,997	-	26,997
Total assets		114,312	10,649	124,961		124,961
Current liabilities						
Trade and other payables	(b,d,e,g,i)	(42,575)	2,075	(40,500)	197	(40,303)
Borrowings	(d)	(15,299)	283	(15,016)	-	(15,016)
Convertible loan stock	(e)	(13,574)	(932)	(14,506)	-	(14,506)
Obligations under finance leases	(b,d)	(9,194)	(795)	(9,989)	-	(9,989)
		(80,642)	631	(80,011)	197	(79,814)
Net current liabilities		(53,183)	169	(53,014)	197	(52,817)
Non-current liabilities						
Borrowings	(d)	(28,612)	183	(28,429)	-	(28,429)
Convertible loan stock		-	-	-	-	-
Obligations under finance leases	(b,d)	(41,178)	(12,472)	(53,650)	-	(53,650)
Derivative liability	(f)	-	(1,079)	(1,079)	-	(1,079)
Provisions	(i)	-	-	-	(197)	(197)
		(69,790)	(13,368)	(83,158)	(197)	(83,355)
Net liabilities		(36,120)	(2,088)	(38,208)	-	(38,208)
Equity						
Share capital		38	-	38	-	38
Share premium account		281,649	-	281,649	-	281,649
Convertible loan interest reserve	(e)	-	1,139	1,139	-	1,139
Accumulated deficit	(b,d,e,f)	(317,807)	(3,227)	(321,034)	-	(321,034)
Deficit attributable to equity holders		(36,120)	(2,088)	(38,208)	-	(38,208)

Notes to the financial statements (continued)

33 Explanation of transition to IFRS (continued)

Reconciliations between UK GAAP and IFRS – Statement of comprehensive income 2008

	UK GAAP		IFRS		Presentation	
	Notes	2008 £'000	Adjustments 2008 £'000	IFRS 2008 £'000	Adjustments 2008 £'000	IFRS 2008 £'000
Continuing operations						
Revenue		321,314	-	321,314	-	321,314
Cost of sales	(b,h,i)	(319,429)	236	(319,193)	100,678	(218,515)
Gross profit/(loss)		1,885	236	2,121	100,678	102,799
Other income	(h)	1,441	367	1,808	-	1,808
Distribution costs	(i)	-	-	-	(101,069)	(101,069)
Operating profit/(loss) before administrative expenses		3,326	603	3,929	(391)	3,538
Administrative expenses	(d,i)	(25,822)	280	(25,542)	391	(25,151)
Operating loss		(22,496)	883	(21,613)	-	(21,613)
Finance income	(e)	221	(122)	99	-	99
Finance costs	(b,d,e,f)	(10,374)	(1,410)	(11,784)	-	(11,784)
Loss before tax		(32,649)	(649)	(33,298)	-	(33,298)
Taxation		-	-	-	-	-
Loss for the period		(32,649)	(649)	(33,298)	-	(33,298)

(a) Software capitalisation

Under UK GAAP, computer software was included within tangible fixed assets. Under IFRS, computer software is classified as intangible therefore the cost of the software held at 2006 and the accumulated depreciation thereon has been reclassified from tangible fixed assets and recorded within intangible assets. The balance sheet reclassification amounts to £5,847,000 at the date of transition, £6,818,000 at 2 December 2007 and £7,038,000 at 30 November 2008. There is no impact in the statement of comprehensive income.

(b) Reclassification between operating leases and finance leases

The finance lease tests under UK GAAP and IFRS are broadly similar except that IAS 17 requires the Company to consider property leases split into their component parts (i.e. land and building elements separately). The lease on the Customer Fulfilment Centre has been separated with the buildings element being brought onto the Company's balance sheet. The Company's opening IFRS balance sheet at December 2006 includes additional property, plant and equipment of £13,223,000, offset by additional finance lease obligations of £14,557,000. There are also additional accruals for lease interest of £174,000 and reduced prepayments in respect of £119,000 resulting in an increase in the accumulated deficit of £1,627,000.

The Company's IFRS balance sheet at 30 November 2008 includes additional property plant and equipment of £11,111,000, additional obligations under finance leases of £12,936,000, additional accruals of £135,000 and reduced prepayments of £119,000. At 2 December 2007 the additional property plant and equipment was £12,372,000, additional finance lease obligations of £13,997,000, additional accruals of £141,000 and reduced prepayments of £119,000.

The main impact on the statement of comprehensive income is that the operating lease payments previously charged to operating profit under UK GAAP is replaced with a depreciation charge on the asset and a financing charge on the outstanding obligation. The impact on the statement of comprehensive income for the 52 weeks to 30 November 2008 is a reduction in cost of sales of £603,000, made up of a reduction in operating lease rentals of £1,428,000 and an increase in depreciation of £825,000, and an increase in finance costs of £800,000. In 2007 the reduction in cost of sales was also £603,000 with an increase in finance costs of £863,000.

(c) Fair value of investments

Under IAS 39 investments are classed as either "available-for-sale" or "held-for-trading". The investment in Paneltex Ltd has been classified as "available-for-sale". The shares of Paneltex Limited are not quoted in an active market and their fair value cannot be reliably measured. As such the Company has measured its investment in Paneltex Limited at cost less impairment. Under UK GAAP this investment was also held at cost and so there has been no impact on the financial statements.

(d) Amortisation of finance costs using an "effective interest rate method"

IAS 39 and IAS 17 require the Company to allocate arrangement fees, issue costs and other transaction costs, incurred in raising or refinancing debt instruments, including finance leases, to finance costs. These were previously charged to operating profit as incurred. Finance costs (fees and interest) are now allocated so as to produce a constant rate of interest (effective interest rate) on the liability for each period over the term of the related debt. Previously the capital and interest payments on certain finance leases were allocated using the straight line method. This was considered appropriate as there were no material differences in the charge to the statement of comprehensive income in each of the periods. IFRS is more concerned with the balance sheet liability and thus this change is considered to be a GAAP difference. The Company's opening IFRS balance sheet at December 2006 includes additional liabilities under finance leases, immaterial increase in trade and other payables and resultant increase in the accumulated deficit of £995,000.

Notes to the financial statements (continued)

33 Explanation of transition to IFRS (continued)

(d) Amortisation of finance costs using an “effective interest rate method” (continued)

The Company's IFRS balance sheet at 30 November 2008 includes additional obligations under finance leases of £331,000, a reduction in borrowings of £466,000, a decrease in trade and other receivable of £37,000 and an increase in trade and other payables of £229,000. This resulted in a decrease in equity of £131,000. At 2 December 2007 the obligations under finance leases were £735,000 higher, borrowings were £372,000 lower, trade and other receivable were reduced by £117,000 and trade and other payables were increased by £102,000, resulting in a change in equity of £582,000.

The main impacts on the statement of comprehensive income are:

For the 52 weeks ending 2 December 2007 administration costs were decreased by £666,000 due to the transfer of bank lending fees to finance costs. Under the EIR method £490,000 of these fees were deferred to future periods and there was an additional interest charge of £75,000 in respect of previous periods giving an overall net increase in finance costs for the 52 weeks ending 2 December 2007 of £251,000. The overall impact on the statement of comprehensive income was a reduction in the loss for the period of £415,000.

For the 52 weeks ending 30 November 2008 administration costs were decreased by £280,000 by the transfer of bank lending fees to finance costs. This increase to finance costs was offset by a reduction of £106,000 in respect of the deferment and amortisation of bank financing fees for the period and £346,000 in respect of the unwinding of the additional EIR finance costs charged to previous periods under IFRS. This leads to an overall reduction in the loss for the period of £452,000.

(e) Recognition of embedded derivatives and subsequent reclassification of compound financial instruments

In 2004 the Company issued convertible loan stock, which included a right for the holders to defer the conversion date and increase the number of shares to be converted. At inception the loan stock did not meet the fixed number of shares at a fixed price, “fixed - fixed” criteria required to split the instrument into separate equity and liability components under FRS 25.

Under IFRS the Company is required to re-assess all assets and liabilities from inception. In accordance with IAS 39 and IAS 32 the Company has now recognised an embedded derivative in respect of the conversion and extension options whose values have been determined by reference to their relative market values. The Company did not adopt FRS 26 and thus was not required to recognise any derivative under its preceding interpretation of UK GAAP.

Once the date of the extension option had been reached there was a modification in the substance of the convertible loan stock and it then met the “fixed - fixed” criteria of IAS 32 and FRS 25. UK GAAP (FRS 4) does not permit the nature of a loan to be reassessed at the point of modification however IFRS allows reassessment and so the loan was split into its equity and liability components.

At 1 December 2006 the Company's opening IFRS balance sheet included a derivative asset and a decreased accumulated deficit in respect of the extension options both to the value of £1,146,000. The conversion option was considered to have a nil value at that date.

At March 2007, the point of modification, the convertible loan stock was split into its equity and liability components. The effect on the balance sheet at 2 December 2007 was to reduce the value of the convertible loan stock by £323,000 and the associated accrued interest by £1,670,000. The convertible loan interest reserve was increased by £1,268,000 and the closing accumulated deficit increased by £725,000, being the opening difference of £1,146,000 less the £419,000 effect of moving to a market interest rate.

In November 2008 £1,694,000 of the above loan stock and capitalised interest was converted to equity, which led to a release in the equity reserve of £129,000. At 30 November 2008 the net value of the loan stock, IFRS vs. UK GAAP, was reduced by £1,201,000, split into an increase in the value of loan stock of £932,000 with a decrease in accrued interest of £2,133,000. The increase in the convertible loan interest reserve was £1,139,000, being £1,268,000 less £129,000.

The impact on the statement of comprehensive income for the 52 weeks ending 2 December 2007 was an increase in finance costs in respect of market rate interest of £421,000. In the 52 weeks ending 30 November 2008 the additional finance expense was £670,000; finance income was also reduced as £122,000 of premium paid by option holders, previously recognised under UK GAAP on conversion, is recognised as part of the derivative asset under IFRS in the opening IFRS position. The net movement in the accumulated deficit was £792,000.

(f) Recognition of warrant financial instruments

The Company has issued a total of 56,112 warrants to Ranelagh Nominees Limited (an affiliate of Lloyds TSB Bank plc) to subscribe for Ordinary shares at £180 per share. The warrants were issued in three tranches; 28,612 warrants in 2005, 20,833 warrants in 2006 and 6,667 warrants in 2007. The arrangement provides Ranelagh Nominees Limited with the opportunity to benefit in the equity upside of the Company.

In accordance with IFRS the Company has re-assessed all assets and liabilities from inception. Under IAS 39 and IAS 32 the Company has recognised a derivative liability in respect of the warrants which are recognised, and subsequently measured, at their fair value. In its preceding UK GAAP financial statements the Company did not adopt FRS 26 and thus no derivative was recognised.

The impact on the accounts is to recognise a derivative liability whose fair value has been calculated using the Black-Scholes Option Pricing Model. The movement of this derivative liability is taken against finance costs in the statement of comprehensive income.

The Company's opening IFRS balances sheet as at 1 December 2006 has been adjusted to recognise a derivative liability of £805,000 and a corresponding increase in the accumulated deficit reserve.

In the 52 weeks ending 2 December 2007 the company recognised a derivative liability of £967,000, an increase in finance cost of £162,000 and an increase in accumulated deficit of £967,000.

In the 52 weeks ending 30 November 2008 the company recognised a derivative liability of £1,079,000, an increase in finance cost of £112,000 and an increase in accumulated deficit of £1,079,000.

Notes to the financial statements (continued)

33 Explanation of transition to IFRS (continued)

(g) Reclassification of overdraft facility

Under UK GAAP the Company's overdraft facility was classified as part of current liabilities. Bank overdrafts form an integral part of the Company's cash management and balances fluctuate from positive to overdrawn in the normal course of the business cycle. The Company has therefore classed bank overdrafts as part of cash and cash equivalents in accordance with IAS 7. The impact on the financial statements is to decrease current liabilities by £516,000 in 2006, £395,000 in 2007 and by £306,000 in 2008 and to correspondingly decrease cash and cash equivalents.

(h) Income received from suppliers

IAS 1 explicitly states that income and expenses shall not be offset unless it is required or permitted by an IFRS standard. In accordance with this the Company has reclassified the amounts it has received from suppliers for back haulage, commission on store card etc as other income and not as a reduction to cost of sales. The impact on the financial statements is to increase cost of sales by £185,000 in 2007 and £367,000 in 2008 and to correspondingly increase other income.

(i) Presentation adjustment for dilapidations

In 2006, 2007 and 2008 the forecast cost for dilapidation on leased assets had been recognised in the financial statement as an accrual. In 2009 the Company reviewed its categorisation of the forecast cost for dilapidation on leased assets and concluded that these costs fell into the category of provisions and not accruals due to the uncertainty of the amount which was to be settled. As a result the Company has reclassified the provision for dilapidations from accruals to provisions in the 2006, 2007 and 2008 financial statements to apply the principle of comparability. These balances were immaterial in 2006, 2007 and 2008.

(j) Presentation adjustment to the statement of comprehensive income

Under IFRS the Company has restructured its statement of comprehensive income to recognise distribution costs as a separate expense line on the face of the statement. This has led to distribution costs that were previously included in costs of sales and administration expenses being reclassified to distribution costs and a presentation adjustment to reclassify promotional discounts from other income to cost of sales.

Glossary

10:10 – means the private sector initiative campaign to commit to cutting carbon emissions by 10% in 2010;

Board – means the board of directors of the Company from time to time as the context may require;

CFC – see Customer Fulfilment Centre;

Company – means Ocado Limited, a company incorporated in England and Wales with registered number 3875000 whose registered office is at Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE;

Convertible preference shares – means all convertible preference shares convertible into the same number of Ordinary shares either at the option of the holder or on the occurrence of certain trigger events including a public listing. The Convertible preference shares rank *pari passu* with Ordinary shares with the exception that on return of assets they have priority to all other shareholders;

CSTM – means the acronym for Customer Service Team Members. The title given to our customer facing delivery drivers;

Customer Fulfilment Centre – means a dedicated highly automated warehouse used for the operation of the business;

Directors – means the directors of the Company whose names are set out on the Company information page;

Each – means a measure of an individual retail product;

EBITDA – means operating profit/(loss) before interest (including interest on finance leases), taxation, depreciation, amortisation and impairment loss;

Financial period – means the 52 week period ending the closest Sunday to 30 November;

FRC – means Financial Reporting Council;

Gross sales – means Sales (net of returns), including charges for delivery, before deducting relevant voucher/offers and value added tax;

IFRIC – means International Financial Reporting Interpretations Committee;

IFRS – means International Financial Reporting Standard(s);

LIBOR – means London Interbank Offered Rate;

Management Committee – means senior management responsible for managing the day-to-day affairs of the business;

Murabaha – means a Shariah compliant financing arrangement;

Ocado Delivery Pass – means the Ocado discounted pre-pay delivery charge service available in various offerings including monthly, quarterly and annually;

Ocado Group plc – formerly Ocado Group Limited, re-registered as a plc on 23 June 2010;

Ocado on the Go – the Ocado iPhone application providing a mobile shopping experience for customers;

Shareholder – means a holder for the time being of Ordinary or Convertible preference shares;

SKU – means a “stock keeping unit”, that is each individual item or product stocked;

Spoke – means the trans-shipment sites used for the intermediate delivery of customers’ orders;

Statement of comprehensive income – formerly known as the Profit and loss account under UK GAAP;

Substitution – means the term used to refer to the alternative product provided in place of the original product ordered by a customer;

UK or United Kingdom – means the United Kingdom of Great Britain and Northern Ireland;

UK GAAP – means UK Generally Accepted Accounting Principles;

UPH – means the abbreviation for units (or Eaches) per hour;

Waitrose – means Waitrose Limited, a company incorporated in England and Wales with registered number 99405;

Webshop – means the customer facing internet-based virtual shop accessible on the Website;

Website – means www.ocado.com, the Company’s public website from which the business operates;