



ocado

Ocado Group plc

Annual report and accounts 2010

Stock code: OCDO

Delivering growth  
Establishing profitability





# Welcome to Ocado

Established in 2000 and listed on the LSE’s Main Market in July 2010, Ocado is the UK’s largest dedicated online grocery retailer providing an innovative, market leading customer experience.

## Investment Themes

- ✓ SIGNIFICANT MARKET OPPORTUNITY
- ✓ UNIQUE BUSINESS MODEL WITH STRUCTURAL ADVANTAGES
- ✓ SUPERIOR CUSTOMER OFFER IN ONLINE FOOD RETAILING DRIVING MARKET SHARE
- ✓ PROPRIETARY INTELLECTUAL PROPERTY PROVIDING HIGH BARRIERS TO ENTRY
- ✓ SIGNIFICANT OPPORTUNITY FOR CONTINUED EXPANSION
- ✓ CONSIDERABLE OPERATIONAL LEVERAGE WITH MARGIN POTENTIAL
- ✓ STRONG TRACK RECORD OF GROWTH

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# Highlights

## Financial highlights

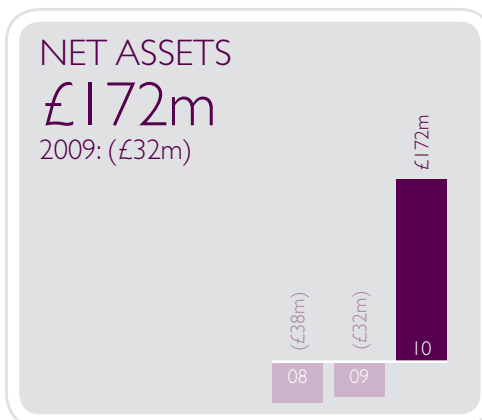
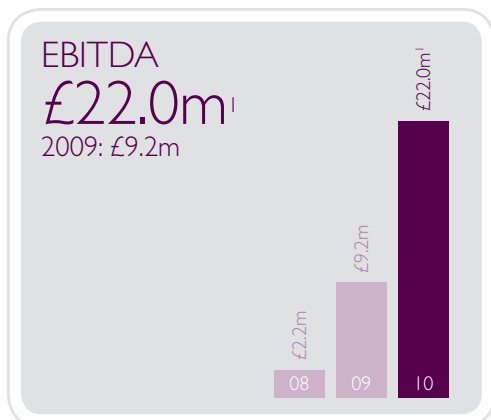
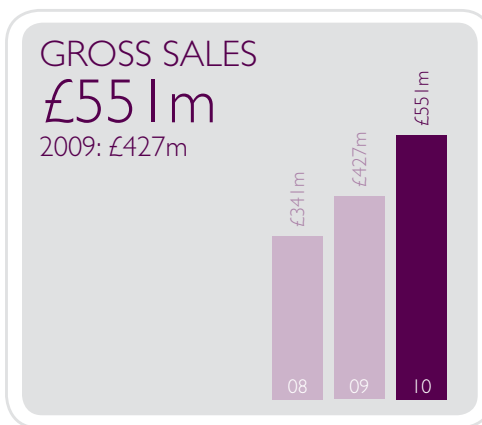
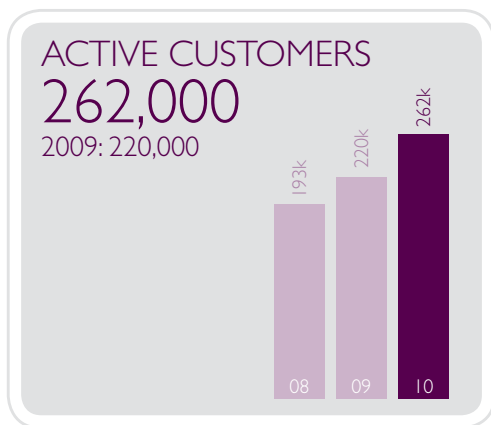
- Gross sales up 29% to £551.1m
- Adjusted<sup>1</sup> EBITDA up 138% to £22.0m (adjusted<sup>1</sup> EBITDA margin 4.0%)
- Adjusted<sup>1</sup> EBT loss £8.7m
- Profitability reached in second half
- Adjusted<sup>1</sup> H2 EBIT profit £0.9m
- Q4 EBT profit £0.3m
- Cash (including treasury deposits) of £154.6m at year end

## Statutory highlights

- Net revenue up 28% to £515.7m
- Operating loss reduced by 63% to £5.4m, including £3.5m of one-off IPO costs
- Loss before tax reduced by 52% to £12.2m, including £3.5m of one-off IPO cost

## Operational highlights

- Average orders per week up 31% to 92,916
- Items delivered exactly as ordered were 99% for the year
- Deliveries on time or early were 95% for the year



<sup>1</sup> Adjusted to exclude one-off IPO costs of £3.5m

# Chairman's letter

Lord Grade of Yarmouth



## Dear Shareholder

### Overview

The major corporate event during 2010 was our initial public offering and I would like to take this opportunity to welcome both pre and post IPO shareholders to our first annual report as a public listed company. As a result of the IPO the Group has been able to accelerate its growth plans.

In the lead up to the IPO, a new ten year agreement was negotiated and completed with Waitrose (the grocery division of John Lewis Partnership), our sourcing partner from day one. Without the support of the John Lewis Partnership (and subsequently the John Lewis Pension Fund) Ocado would not be the exciting business it is today and it is fitting to record their crucial role in the Ocado story with our gratitude.

### Corporate governance

We continue to be a flexible and entrepreneurial company while recognising the importance of high standards of corporate governance. Our values underpin our approach to doing business. We have worked over the year towards complying with the corporate governance requirements and continue to do so.

### Board changes

As part of our transition towards compliance with the corporate governance requirements, the Board has said farewell to Tom Clayton, Jonathan Faiman, Jeremy Frampton, Patrick Lewis and Michael Robarts. On behalf of the Board I would like to pay thanks to them for their valuable contributions and wish them every success in their future endeavours. We have welcomed Ruth Anderson and David Grigson to the Board as independent Non-Executive Directors. They bring with them a wealth of experience and have already settled in as integral members of the Board. David is the Senior Independent Director and chairman of the Nomination Committee and Ruth is chairman of the Audit Committee.

### People

Our customers are the people who drive our business and we continue to find ways to respond to their needs by creating a better customer experience and new ideas to improve their online shopping experience. Our employees continue to demonstrate their willingness to respond. I would like to thank all members of the Ocado family for their continued energy, passion, expertise and commitment during this milestone year.

### Looking forward

I believe our focus on Ocado's superior customer offer continues to position us favourably as the market expands – delighting our customers and creating value for our shareholders. I look forward to our shareholders, customers, employees and suppliers continuing to share in Ocado's growth and successes.

**Lord Grade**  
Chairman

## Chief Executive Officer's review



**Tim Steiner**  
Chief Executive Officer

**The past year has been a year of significant progress for Ocado. In the core operations we delivered a strong set of results for 2010. Our strategy of continuously improving our market leading customer offer continued to drive sales growth which has delivered through to the bottom line. This was a tremendous achievement by all the members of the Ocado team.**

Delivering gross sales growth of 29% to £551.1 million against the backdrop of a weak UK economy is a strong result. As the business grows and starts to achieve scale we are seeing the benefits of considerable operational leverage. The business achieved numerous financial milestones in the year including reporting an adjusted EBIT profit for the second half of the year and being profitable at the EBT level for the final quarter (16 trading weeks).

The UK online grocery market is still at an early stage of development. We believe the most effective way Ocado can increase adoption is to continue improving our customer offering. As in previous years, we have worked hard to improve this on many levels, including working on range, price, availability, accuracy, ease of use as well as other service initiatives.

This year we expanded our range to 21.5k SKUs from 20.5k at the end of FY09, all of which are available to customers in the whole of our delivery geography. To put this in context, we have now taken our range from being among the smallest offered in any UK supermarket three years ago to one of the largest ranges today. As we expand the capacity of the CFC further we expect to be able to offer the largest grocery range of any major UK supermarket.

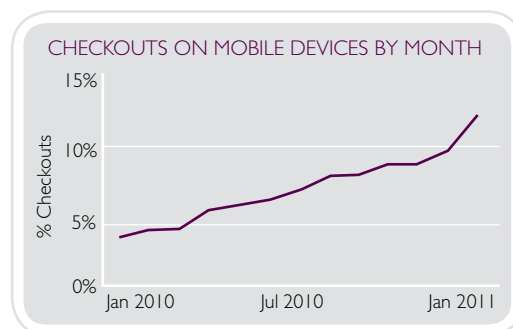
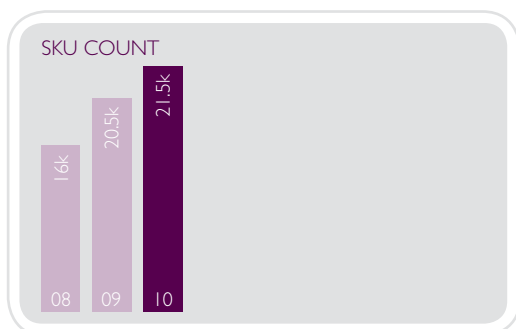
A particularly important addition to our range this year has been the launch of the Ocado own-label range, which has been introduced to complement the Waitrose own-label products. It offers the Ocado customer a range that matches closely in price and quality the core own-label ranges of the major UK supermarkets. It has been a great achievement to build the team and the supplier relationships necessary to source and develop the Ocado own-label range. While it is still early days we have seen strong take-up with 64% of all baskets containing an Ocado product in the final four week period of the year. The Ocado own-label range now has over 250 products and we expect this to grow substantially in the coming years.

The launch of the Ocado range touches on another key area where we have improved this year; pricing. We have continued to invest in our price positioning over the year through both range and absolute pricing. Due to our increasing scale we managed to maintain margin while making these investments in price. We continued our commitment to match the standard prices of all identical items of the UK's largest supermarket group. As we have expanded our range, we have increased the number of Tesco Price Match items to c.7,200. We also launched "Switch and Save" which allows our customers to move to lower priced products with improved value as they check out. This year we have run more promotions than ever before, increasing the value of our service to our customers. The investments made in pricing over recent years have been recognised by the consumer and have led to a broadening of our customer base from a demographic perspective.

We also made substantial improvements this year to our customer interfaces with the aim of providing the customer with the best possible experience in online grocery shopping regardless of how they want to interact with Ocado, whether on the website, mobile phone or iPad. This year we also upgraded the website and iPhone app and launched apps on the iPad and Android mobile devices with mobile checkouts reaching 12% since the New Year.

In November we launched the new version of the Ocado website. This has been a major operation involving teams across the business from trading through to creative to IT. We have had a positive reaction from our customers and its introduction has driven an increased average spend per order. Beyond the improved customer interface the new website provides a new back end platform which will allow us to continue to innovate over the coming years.

Ocado received numerous industry awards for its customer offer, including World Etailer of the Year 2010 at the Oracle World Retail Awards. However, we are not resting on our laurels and there are many customer offer developments planned for the coming year.



**“This was a landmark year for Ocado with gross sales up 29% for the year, we have delivered on the targets set out at the flotation. We have continued our focus on improving the customer offer, which has led to a record number of customers and sales with the achievement of profitability in the final quarter. Ocado’s growth continues to outpace the market.”**

Tim Steiner, Chief Executive Officer

The customer offer improvements have led to both a significant increase in new customers using the service and an increase in spend per customer: Average orders per week increased from 70,873 in FY09 to 92,916 in FY10, and exceeded 100,000 for the first time in the week commencing 10 May 2010. As expected, average order size showed a slight decrease to £114.06 for the year. This is due to changing customer behaviour with customers continuing to increase their frequency of shop but with a slight decline in order size. We are pleased to note that we have seen the rate of decline slow over the course of the year.

Significant effort was also spent over the year on the behind the scenes projects which enable us to deliver capacity growth and customer offer improvements. These occurred in all areas of the business affecting processes, software and hardware. For example in the CFC one of the major projects was the addition of three new chill aisles. This enabled the termination of the relatively inefficient process of trolley picking for chilled goods. On the software side over 1,500 individual changes were made to our CFC systems.

As we explained at the time of the IPO, increasing the scale of the business at this rate presents operational challenges. The CFC capacity grew in line with expectations with a slight impact on productivity gains. We reintroduced a number of processes, such as trolley picking, to help cope with increased demand. This impacted CFC efficiency with units per hour (“UPH”) decreasing by 2.2% to 121 UPH. As our planned capital spend is invested in CFC1 over the coming years, we expect productivity to rise substantially and the long-term target of 180 UPH remains in place. At 99% for the year, the accuracy of our offer remained at a level we believe is significantly higher than our competitors. This is slightly down on last year and we expect the capital projects planned for the CFC will improve this.

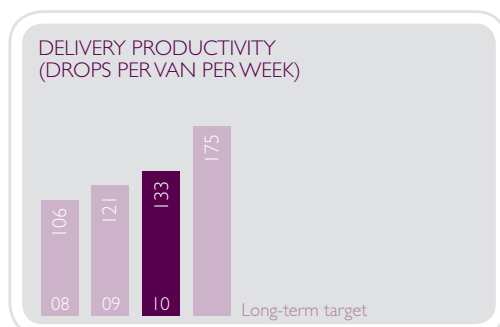
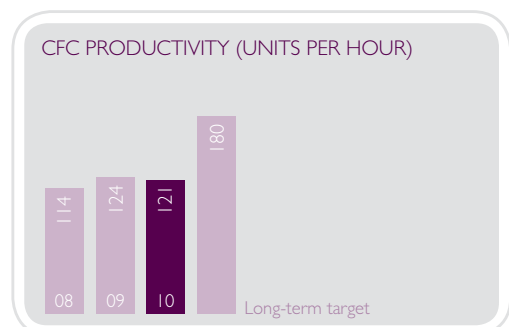
On the delivery side of the business the progress towards the long-term target is more linear and we have seen significant improvement this year.

The increasing scale combined with upgrades to the routing software and vans has led to drops per van per week (“DPV/wk”) increasing by 10% to 133. In the most productive week of the year we achieved 159 DPV/wk (compared to our long-term target of 175 DPV/wk).

Outside the core operations, this has been a significant year for the business. Three major events occurred that are the building blocks for the long-term success of the business. In May, we signed a new ten year agreement with Waitrose. We were delighted to sign this agreement which is our fifth and longest contract with Waitrose. This ensures that we will continue our relationship, which is now in its eleventh year. In July, Ocado Group plc (the “Company”) listed on the London Stock Exchange. This has many benefits for the Company and its shareholders but the primary benefit was to raise significant funds. These will be used to fund the capital projects required to serve the demand we expect to see in the online grocery market. In October, we reached agreement to purchase the site for a second CFC (“CFC2”); this is the most substantial capital project in the plan to more than triple the capacity of the business from 2009 to 2013.

**Current trading and outlook**

As we announced on 4 March 2011 our growth has continued into the new financial year seeing gross sales increase by 25% in Q1. We are focused on positioning ourselves to take advantage of the significant latent demand for online grocery in the UK. We continue to improve the customer offer, while at the same time build capacity to serve the increasing demand.



## Chief Financial Officer's review



**Andrew Bracey**  
Chief Financial Officer

2010 was a landmark year for Ocado with the Group reaching EBIT profitability pre-exceptional item for the second half of the financial year and EBT profitability in the last quarter of the financial year. This is the first time the Group has achieved EBIT profitability and demonstrates the operational leverage of the Ocado model. This was further demonstrated by the incremental EBITDA margin increasing to 10.3% for the whole year, up from 9.1% in H1 to 11.3% in H2<sup>1</sup>. This increased operational leverage has contributed to an increase in EBITDA margins from 2.2% of gross sales in FY09 to 4.0% in FY10<sup>1</sup>.

### Revenue

Gross sales were up 29% to £551.1 million for the year. The growth was driven by a substantial increase in orders per week offset by a slight decrease in average order size. The number of active customers increased by 19% to 262,258 at the end of FY10, with average weekly new customers up by 37% to 2,948. There was minimal geographic expansion during the year. Revenue grew by 28% to £515.7 million. Spend on marketing vouchers remained broadly flat at 1.5% of sales, increasing by 25% to £8.1 million which was slightly less than the rate of growth in gross sales.

### Gross profit

Gross profit increased 32% to £161.6 million. This equates to a 58 basis point increase in gross margin over the period to 29.3%. This was driven by positive changes in input prices, retail price inflation, supplier support and changes in product mix as well as the effects of the increasing scale of the business. Over the period the average price of items sold increased by 0.8%.

Other income increased by 136% to £6.2 million. This was primarily driven by a 161% rise in marketing revenue. The increased space on the new website launched at the end of the year has provided us with further opportunities to generate additional marketing revenue.

### Operating costs

Distribution costs increased by 20% to £132.8 million. This increase was slower than sales growth demonstrating the developing operating leverage of the business. Distribution costs decreased as a percentage of sales from 26% to 24%. The two major components

of distribution costs are CFC costs and trunking and delivery costs. CFC costs increased by 17%. Variable CFC costs increased broadly in line with revenue due to limited productivity gains. However, the operating leverage of the fixed cost base on increased volume meant that total CFC costs continued to fall as a percentage of revenue. Trunking and delivery costs increased by 23% with productivity gains more than offsetting inflationary pressures. Administrative expenses increased by 25% to £36.9 million. The main drivers of these cost increases were additional employment costs and associated infrastructure, including the additional costs of being a public listed company.

### Operating profit/loss

Operating loss pre-exceptionals for the full year decreased from £14.4 million to £1.8 million, a decrease of 87%. This decrease was primarily due to the growth in revenue that enabled greater operating efficiencies, as highlighted above. This is demonstrated clearly in H2 when the business made a pre-exceptionals EBIT of £0.9 million. This compares to an EBIT loss of £7.0 million in the equivalent period in FY09. In Q4 the business achieved PBT, for the first time, of £0.3 million.

In the second half of the year the Company incurred the one-off exceptional costs associated with the IPO. These, along with associated fees for a £100 million credit facility, came in at £12.4 million, substantially under the budget set out in the Prospectus of £15 million. £3.5 million was charged as a one-off exceptional item to the income statement with the remainder taken as financing costs and through the share premium account.

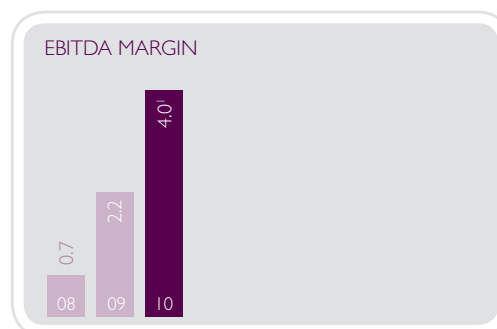
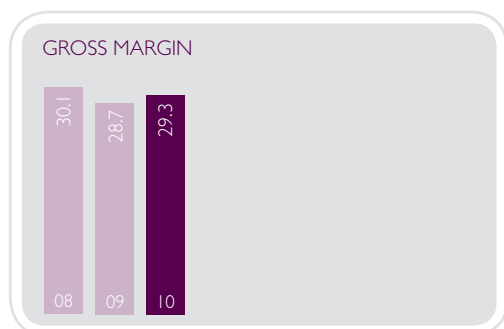
### Net finance costs

Net finance costs decreased by 38% to £6.9 million from £11.1 million. This reduction in costs was primarily due to the proceeds of the IPO enabling repayment of debt shortly after the IPO in July. The interest paid on borrowings reduced to £8.4 million.

### Taxation

The statutory rate of tax applicable was 28%. A deferred tax credit of £5.0 million was recognised. Ocado had approximately £260 million of unutilised carried forward tax losses as at the end of FY10.

<sup>1</sup> Adjusted to exclude one-off IPO costs of £3.5m





**“Strong sales growth has led to Ocado reaching EBIT profitability pre-exceptionals for the second half of the financial year and EBT profitability in the last quarter of the financial year. Achieving profitability clearly demonstrates the operational leverage of the Ocado model, with EBITDA margin from additional sales at 11.3% in the second half of the year.”**

Andrew Bracey, Chief Financial Officer

#### Loss per share

Basic and diluted losses per share decreased from 6.05p to 1.63p. This reduction in loss per share is due primarily to the improved financial performance as well as an increased number of shares on issue after the IPO.

#### Cash flow

Net operating cash flow doubled this year to £8.2 million. This was primarily due to a significant reduction in loss before tax and a reduction in interest paid offsetting the impact of minimal net changes in working capital this year.

#### Balance sheet

The IPO enhanced the strength of the balance sheet with net assets increasing by over £200 million to £171.8 million. £45.5 million of debt was repaid in the financial year and the Company ended the

financial year with cash and cash equivalents (including short-term treasury deposits) of £154.6 million. In addition, the arrangement of a £100 million credit facility further increased the financial flexibility of the business.

#### Capital investment

In FY10 there was capital expenditure of £35.0 million, an increase of 52%. The capital investment increased the capacity of the Hatfield CFC (“CFC1”), expanded the van fleet and funded the internal development of new computer software.

Capital expenditure plans remain as described during the IPO. Completion of CFC1 is expected to cost £80 million. This will increase both capacity to 180k orders per week and the range stocked. CFC2 is expected to cost £210 million. The construction of the new CFC in Dordon, Warwickshire, will commence in the coming months and will continue into 2012 and beyond.

#### KPIs

The following table sets out a summary of selected unaudited operating information for FY10 and FY09:

	FY10 (unaudited)	FY09 (unaudited)	% Change
Average order size (£) <sup>(1)</sup>	114.06	115.94	(1.6%)
Average orders per week	92,916	70,873	31.1%
CFC efficiency (units per hour) <sup>(2)</sup>	121	124	(2.2%)
Average deliveries per van per week (DPV/wk)	133	121	10.3%
Average number of operational staff (full-time equivalent)	3,835	3,151	21.7%
Average product wastage (% of gross sales) <sup>(3)</sup>	0.61	0.57	n/a
Items delivered exactly as ordered (%) <sup>(4)</sup>	99.0	99.4	n/a
Deliveries on time or early (%)	94.9	93.0	n/a

Source: The information in the table above is derived from information extracted from management accounts and internal financial and operating reporting systems and is unaudited.

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

<sup>(2)</sup> Measured as units dispatched from the CFC per hour worked by CFC operational personnel.

<sup>(3)</sup> Value of products purged for having passed Ocado’s “use by” life guarantee and stock adjustments (net of sales to Company Shop), divided by gross sales. As expected, the introduction of the service counter increased the level of waste.

<sup>(4)</sup> Percentage of all items delivered exactly as ordered, i.e. the percentage of items neither missing nor substituted.

# Marketplace

**“We operate in an exciting and demanding marketplace where we have the opportunity to use our intellectual property to improve our market leading service and shape the future of online grocery retailing.”**

Jason Gissing, Director of People, Culture and Communications

## Marketplace potential

### Pure exposure to structural growth

As the online proposition gets better the market opportunity gets bigger. Delighting customers by improving the service will encourage adoption and drive demand for online grocery.

Ocado provides an opportunity to fully access developments and growth in this early stage market, unhindered by bricks and mortar customer fulfilment processes.

#### The UK grocery market is huge

At £151bn the UK grocery market is as large as all other UK retail markets combined. The UK grocery marketplace is highly competitive and is dominated by the big four grocers: Asda, Morrisons, Sainsbury and Tesco. Competition for market share is intensive as retailers strive to create new growth opportunities, reformulate propositions and build more multi-channel customer relationships.

#### Retail is moving online

Spurred on by the continuing rise of broadband penetration, smartphone ownership, internet familiarity within the home and the evolution of website design consumers are increasingly becoming more comfortable with and place more confidence in online retail. Online retail markets have grown as shoppers have broadened

from the original tech savvy early adopters to a customer base that broadly reflects the demographics of the UK. This means that online penetration has reached almost 10% for categories such as clothing which commentators previously suggested would not move online.

#### However, grocery has been slower to move online

Historically, online grocery retail has lagged the development of other online categories due to the specific nature and logistical challenges traditionally associated with grocery. Only a small proportion of grocery has so far moved online, estimated to be less than 3% of the overall grocery market.

Although online grocery is at an early stage of development it is widely anticipated to become an increasingly important segment of the overall grocery market. IGD expects online grocery sales to become a larger proportion of the overall grocery market over the coming years, with total sales forecast to be over £7bn by 2014. This represents a forecast annual growth rate many times faster than that of the wider grocery sector.

#### Structural drivers fuel future growth

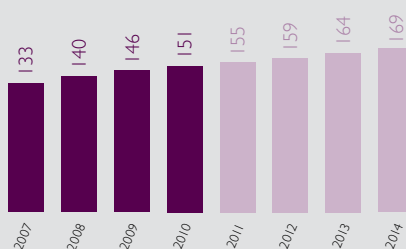
Consumers seeking a better experience in how they buy their groceries are driving the transition to online grocery shopping. As long as online grocery retail continues to become more desirable from a customer's perspective the market will show substantial growth.

Simultaneously there has been an ongoing drive towards providing greater consumer choice particularly across a range of online food and non-foodstuffs (catering for issues around well-being, sustainability, provenance as well as greater differentiation across the value-premium spectrum). Operating models that support consumer diversity have the ability to unlock further potential within this market.

The UK grocery market is as large as all other retail markets combined (£151bn)

The UK grocery market is forecast to grow at less than 5% per annum

UK GROCERY MARKET (£bn)  
Source: Third party estimates



**Overcoming the unique challenges of online grocery retail**

Demand for online grocery in the UK has previously been hindered by the unique challenges associated with online grocery retailing. For online grocery penetration to catch up with other online markets, retailers have to overcome these challenges and meet consumers' needs.

The logistical challenges associated with online grocery are immense and represent one of the greatest barriers to entry. The retailing mantra of providing outstanding customer service is simple to understand. However, customer service and fulfilment within the online grocery space is complicated: picking an average of 55 items an order; across a product range of over 20,000 SKUs, that have a varied but limited life, requiring handling and storage across three temperature regimes (chilled, ambient and frozen) for onward delivery to customers in narrow time slots is not for the faint-hearted.

**Different approaches to addressing the market opportunity**

The approach of the traditional grocery retailers to these online challenges has been based on using their stores and store-based systems. This contrasts with the Ocado centralised picking model – a pioneering approach based on complex systems and software that are bespoke to Ocado and difficult to replicate as the key intellectual property resides within Ocado.

# Ocado's marketplace

**Coverage: Over 70% of UK households and growing**

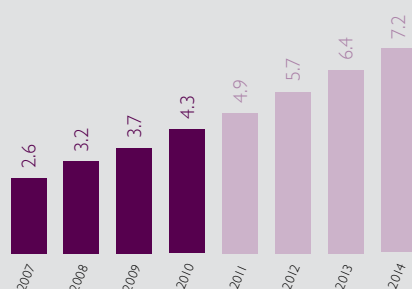


■ Delivery area    ● Spoke    ● CFC

Less than 3% of total grocery market has moved online, forecasters predict up to 40% to move online by 2025

Growth rates of over 15% per annum forecast for online grocery market for the next 5 years

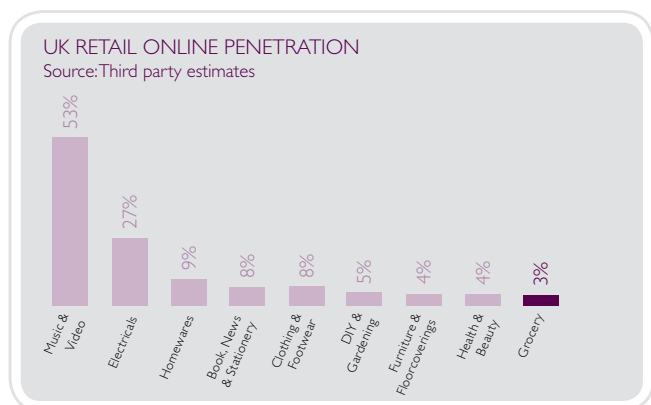
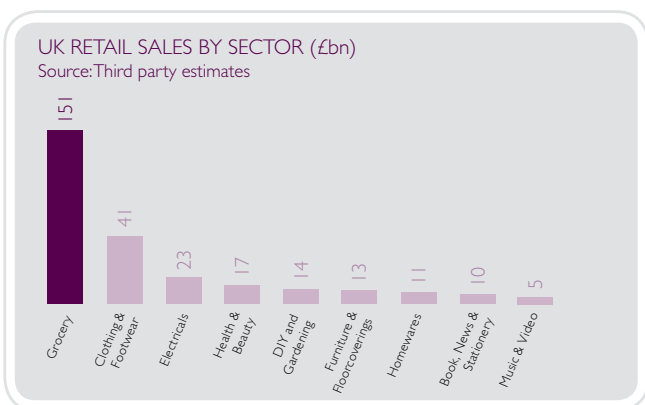
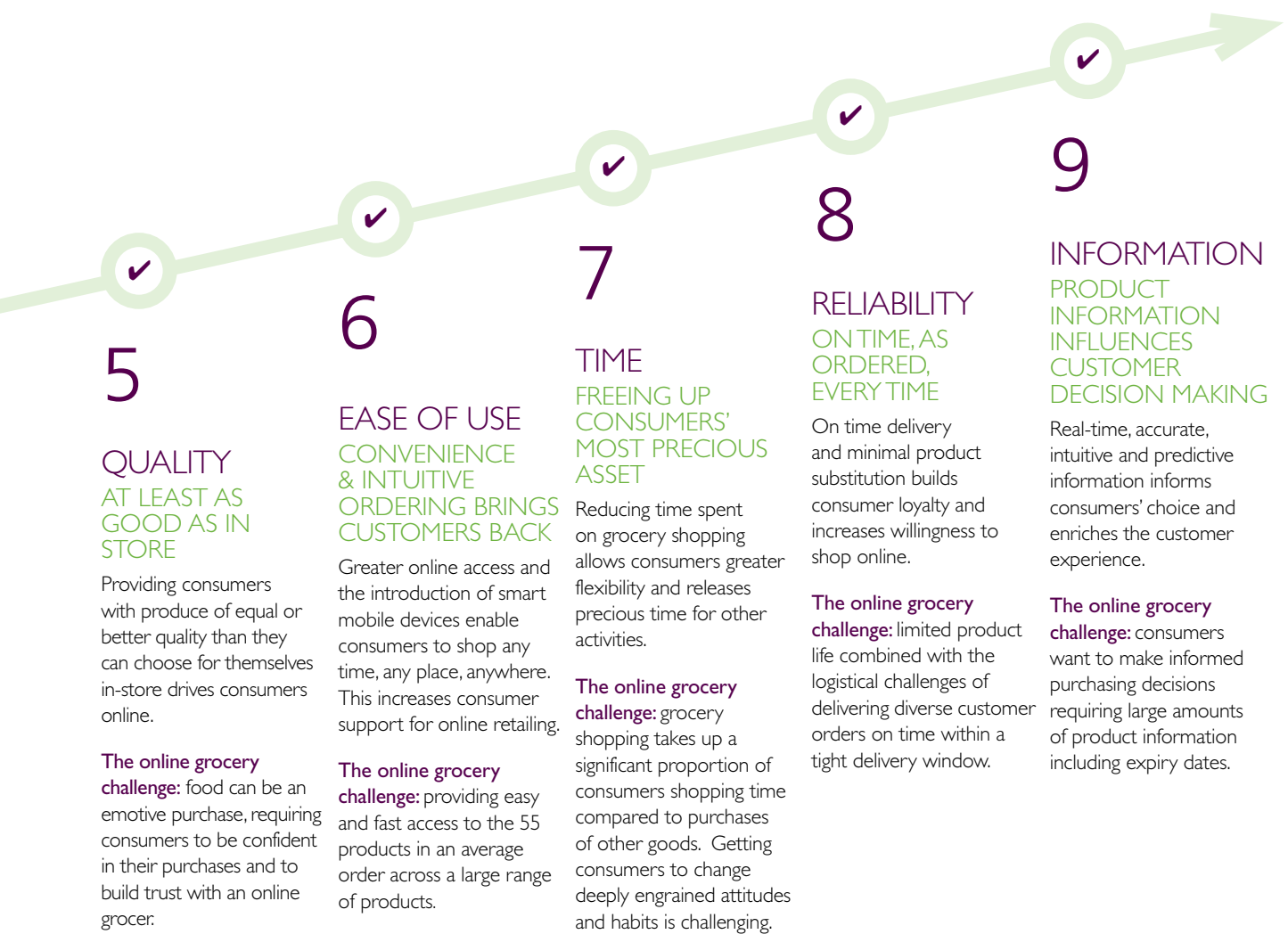
UK ONLINE GROCERY MARKET (£bn)  
Source: Third party estimates



# The future of grocery shopping is online

The UK grocery market is £151 billion per annum of which online represents around 3%. Over the foreseeable future, the online grocery market is expected to experience significant growth at the expense of traditional grocery channels. Online grocery adoption is expected to be in line with other retail categories, driven by a number of complementary drivers:



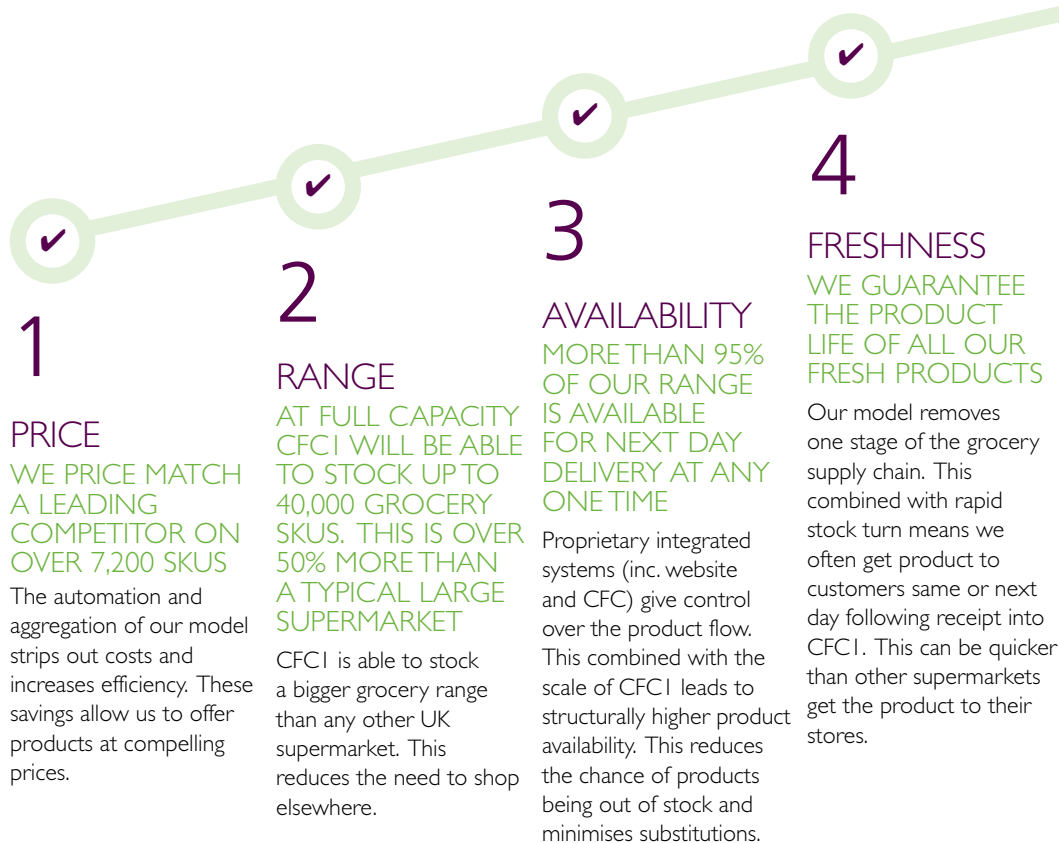


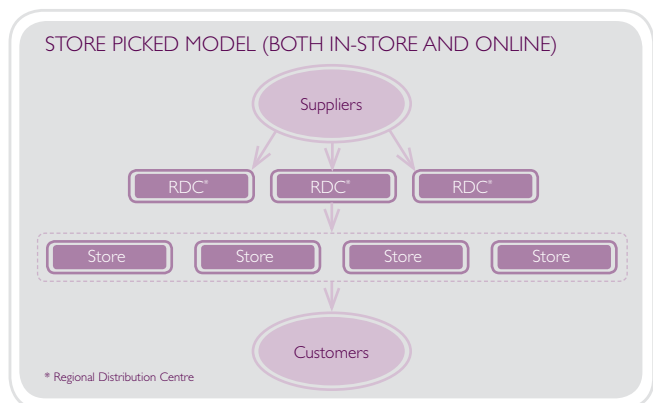
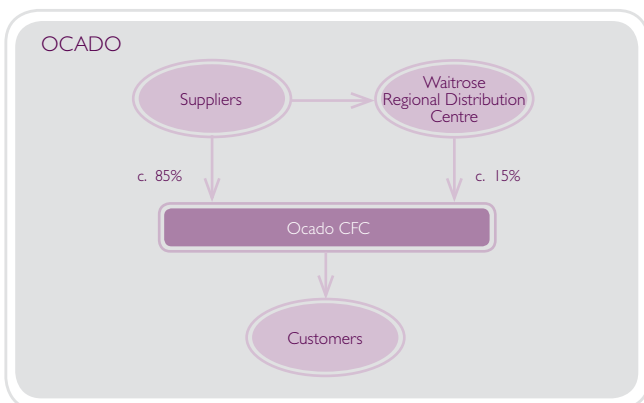
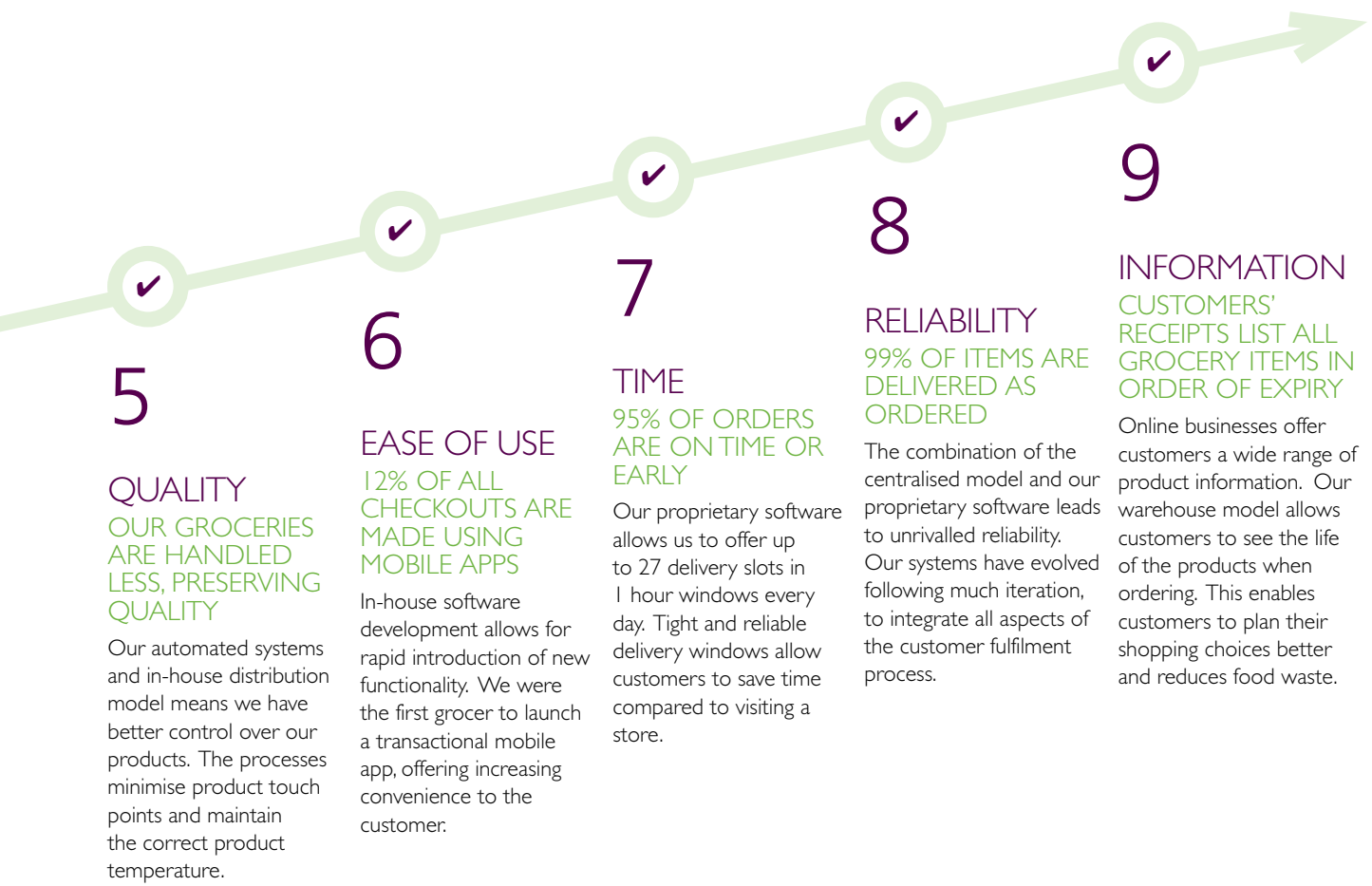
## The Ocado way

We deliver online groceries from a central warehouse. This is a different approach to most competitors who primarily deliver from stores. This enables us to address the challenges of online grocery and deliver superior customer service.



Pictured: CFC I





## Strategy: addressing the market

We continuously focus on improving the service we offer our customers. In doing this we focus on three key elements: product, price and service. Combined effectively, these elements are drawing new customers to Ocado. Simultaneously, we are constantly working to improve our infrastructure to serve this growth.

### Driving growth

#### Improving the customer offer

##### Product Offering

✓ **Wide Range:** We aim to offer a wide range of quality products at a value-for-money price point. We are able to offer dedicated online inventory across a wide range of SKUs that traditional sales channels cannot stock economically. In 2010, we:

- Stocked 21,500 SKUs at year end
- Introduced Ocado own-label (over 250 SKUs and growing)
- Added convenience product range
- Rolled out service counter

✓ **Quality and Freshness:** We offer guaranteed “use by dates” to customers that are visible at both point of order and on receipt, listing purchased items by expiry date as a useful reminder to customers. In addition, the fulfilment process is designed to maximise product quality by minimising the number of human touch points and maintaining the optimum product temperature.

##### Price

✓ **Value for Money:** We have improved our price positioning over the last three years. Since March 2008, we have price matched Tesco on all identical branded products. We have also launched the Ocado own-label range to improve our value credentials. In 2010, we:

- Expanded Tesco Price Match to 7,200 SKUs
- Introduced “Switch and Save”
- Substantially increased the number of promotions

##### Customer Service

✓ **Accuracy and Availability:** We deliver over 100,000 orders per week (the equivalent of 1 million items per day) and we do this more accurately than any other online grocery retailer. 99% of items are delivered exactly as ordered. We have 95% of our products available for next day delivery.

✓ **Delivery Service:** We have the widest range of delivery slots of any online grocery retailer and 95% of customer orders are delivered on time or early. The Ocado Delivery Pass provides customers with an opportunity to subscribe for their deliveries for a monthly or annual fee. In 2010, we:

- Launched mid-week Ocado Delivery Pass
- Rolled out Sunday deliveries

✓ **User-friendly Interface:** Our website is the first point of contact for our customers. We have designed it to be engaging, intuitive and with good functionality. Complementing the website is our dedicated call centre, focused on helping customers with queries. Finally, our CSTMs who make the deliveries (and who are much more than drivers) are key to getting “hassle-free” groceries to customers. In 2010, we:

- Launched the 5th version of the website, which is easier to navigate, has more personalisation, increased dietary filtering, additional recipes and more supplier opportunities
- Added reviews and ratings
- Launched iPad and Android apps
- Upgraded the Ocado iPhone app





# Delivering growth

## Improving our infrastructure

### CFC

✓ We currently operate from a 295,000 sq.ft. Customer Fulfilment Centre in Hatfield. 85% of inbound goods are delivered direct from producers to CFC1, whilst 15% are delivered from the Waitrose supply chain. All customer orders are processed at CFC1 and around a quarter of orders are delivered direct from CFC1. In 2010, we:

- Increased capacity by 30% to serve 112,000 orders per week in peak week
- Added 3 new chill aisles
- Identified and reached agreement on a site for CFC2

### Spokes

✓ The majority of orders are relayed from CFC1 to Spokes for ultimate outward delivery to customers. In 2010, we:

- Acquired a new Spoke in Bristol, which opened in March 2011
- Expanded White City Spoke

### IT

✓ The business runs on proprietary software. This software allows us to know exactly where each product is, from order to delivery, resulting in increased order accuracy. In 2010, we:

- Developed a new range management system
- Deployed more than 1,500 individual changes to our CFC systems

### Delivery Fleet

✓ We deliver direct to our customers' kitchens using our fleet of bespoke vans. In 2010, we:

- Developed 5th generation of van, which increases payload by 10%
- Put winter tyres on our vans to improve safety and delivery performance
- Trialled new electric vehicles

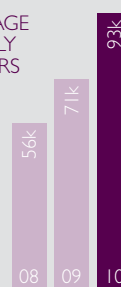
### GROSS SALES



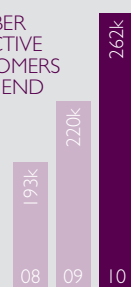
### EBITDA



### AVERAGE WEEKLY ORDERS



### NUMBER OF ACTIVE CUSTOMERS AT FY END



<sup>1</sup> Adjusted to exclude one-off IPO costs of £3.5m



## Board of Directors



**Lord Grade of Yarmouth**  
Non-Executive Chairman

Lord Grade joined the Board as Chairman in 2006. He has had a long and distinguished career in broadcasting, encompassing ITV, BBC and 9 years as Chief Executive of Channel 4 Television. He is currently non-executive chairman of Pinewood and Shepperton Film Studios. In November 2010 a Peerage of the United Kingdom for Life was conferred upon Michael.



**David Grigson**  
Non-Executive Director

David joined the Board in March 2010. He is chairman of the Nomination Committee and the Board's designated Senior Independent Director. He was Chief Financial Officer of Reuters Group PLC until May 2008. Prior to joining Reuters in 2000, he was group finance director of Emap PLC and chairman of Emap Digital. His current non-executive directorships include Standard Life PLC (which he joined in October 2009) and he is chairman of Creston PLC. Until March 2010 he was a non-executive director of Carphone Warehouse PLC.



**Tim Steiner**  
Chief Executive Officer

Tim is a founding Director. As well as having general oversight of the business, the IT, logistics and engineering, warehouse, operations, business planning and retail divisions of Ocado report directly to him. Prior to Ocado, Tim spent eight years as a banker at Goldman Sachs. During his time there, he was based in London, Hong Kong and New York in the Fixed Income division. Tim graduated from Manchester University with an honours degree in economics, finance and accountancy in 1992.



**Ruth Anderson**  
Non-Executive Director

Ruth joined the Board in March 2010. She is chairman of the Audit Committee. Until April 2009 she was a Vice-Chairman of KPMG in the UK. She joined KPMG in 1976 and became a partner in 1989. She has worked extensively as an adviser with UK and international businesses and is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Chartered Institute of Taxation. Ruth is a non-executive director of The Royal Parks, an executive agency of the Department of Culture, Media and Sport.



**Robert Gorrie**  
Non-Executive Director

Robert joined the Board in 2000, as the Logistics Director. In May 2006 he became a Non-Executive Director. Prior to Ocado, he was Group Director of Information Technology at Transport Development Group PLC where he spent 10 years establishing its e-business. Prior to that he spent 10 years in North America with the logistics service business Christian Salvesen PLC, where he reached the position of Director of Business Development. Robert graduated from Corpus Christi College, Oxford with an honours degree in modern history and economics.



**Jörn Rausing**  
Non-Executive Director

Jörn joined the Board in 2003 with the initial investment by Apple Trust (of which he is a beneficiary) in Ocado. He is a non-executive member of the Tetra Laval Group board, and a member of the boards of Alfa Laval AB and DeLaval Holdings AB. Jörn is also Tetra Laval Group's Head of Mergers and Acquisitions. He holds a degree in business administration from Lund University, Sweden.



### Neill Abrams

#### Director of Legal and Business Affairs

Neill has been a Director since September 2000, having previously advised Ocado since its founding. He is responsible for Ocado's business support, including legal, insurance, risk management, and service delivery divisions. Prior to Ocado, Neill was a barrister in practice at One Essex Court and an executive director and counsel at Goldman Sachs in London. Neill graduated from Sidney Sussex College, Cambridge with a masters degree in law in 1989, having previously obtained BA and LLB degrees from the University of the Witwatersrand in Johannesburg. He is also admitted as a member of the New York Bar and as a South African Advocate.



### Andrew Bracey

#### Chief Financial Officer

Andrew joined the Ocado Board as Chief Financial Officer in November 2009, having previously advised Ocado since its commencement. Previously he had an 18-year career in investment banking; at Jefferies International, at Barclays Capital as Managing Director of Principal Investments where he undertook a number of consumer and retail investments, including Somerfield, as Managing Director in Investment Banking at Credit Suisse and at UBS. He studied history of architecture at Magdalene College, Cambridge, having previously obtained a BA from the University of East Anglia.



### Jason Gissing

#### Director of People, Culture and Communications

Jason is a founding Director. He has board responsibility for Ocado's people, culture and communications. He leads customer and employee engagement, working on internal and external communication including marketing, brand and people motivation, retention and development. In addition, Jason leads Ocado's green initiatives and some operational aspects of the business such as service delivery and product range. He was previously chief financial officer. Prior to Ocado, Jason spent eight years as a banker at Goldman Sachs. He graduated from Worcester College, Oxford with an honours degree in jurisprudence in 1992.



### David Young CBE

#### Non-Executive Director

David joined the Board in 2000 with the initial investment in Ocado by John Lewis. He is the chairman of the Remuneration Committee. He retired from John Lewis in 2002 where he was deputy chairman. David previously worked for the Ministry of Defence between 1963 and 1982 with a secondment to the Cabinet Office from 1975 to 1977. David joined John Lewis in February 1982, where he became finance director and a member of the board in 1987 and was appointed deputy chairman in February 1993. David served as an independent member of the steering board of Companies House from 1988 to 1993. He was treasurer of the Open University from 1997 until 2001, and a member of its council from 1996 until 2001. He was a trustee of the Royal Air Force Museum from 1999 until 2005, a trustee of the Textile Industry Children's Trust from 2000 to 2008 and a member of the advisory panel of Greenwich Hospital from 2002 to 2007. David was the chairman of the Higher Education Funding Council for England from 2001 to 2007. He is currently the treasurer of Sheffield University and a member of its council and was the honorary treasurer of the Soil Association from 2004 to 2010.

#### Committees

##### **Audit Committee**

Ruth Anderson (Chairman)  
Robert Gorrie  
David Grigson  
David Young

##### **Remuneration Committee**

David Young (Chairman)  
Ruth Anderson  
Robert Gorrie  
Jörn Rausing

##### **Nomination Committee**

David Grigson (Chairman)  
Ruth Anderson  
Robert Gorrie  
Lord Grade  
Jörn Rausing  
David Young

## Our values

We continue to focus on our core values that underpin our mission:  
“to revolutionise the way people shop forever; by giving them a uniquely innovative and greener alternative to traditional grocery shopping.”

### Ocado value

We use inspired thinking and cutting-edge technology to keep honing our uniquely efficient delivery model. This helps us to drive down prices and guarantee exceptional value for money

Price and good value for money are key elements in consumer choice. Delivering value to our customers is about ensuring that we have the products that customers want to buy and sell them at a fair price. The unique model that we operate allows us to remove operating costs. We invest these savings in the customer by operating a number of competitive price matching features and continue to expand our own-label range 'Ocado', demonstrating our commitment to provide attractively priced products.

### Ocado service

We have a passion for delivering quality groceries in perfect condition and on time, while treating our customers with care and honesty. This helps us to share our vision of a different way of shopping: a better, greener and more convenient one

We are a service orientated retailer and we never forget that our relationship with our customers is key to our success. We strive to exceed our customers' expectations in all that we do. We aim to develop and provide an innovative and bespoke service that allows us to deliver to our customers what they want, when they want and in a way that exceeds their expectations. As a result, we continue to attract increasingly loyal customers from a broad demographic.

### Ocado choice

We love what we do, and are proud of all the wonderful groceries that we sell. This drives us on to offer the widest choice imaginable, and ensures everything we sell is always of the highest quality

We pride ourselves at being able to offer our customers a wide range of products including being at the forefront of food trends, enabling us to confidently recommend to our customers new or alternative product ideas that are aligned to customers' purchasing profiles. We look to create successful relationships with suppliers who share our values and who are focused on customer service, technical innovation and continuous improvement – criteria at the centre of our long-term procurement ambitions enabling us to offer greater choice. This enables us to build strong and mutually beneficial relationships with our suppliers and customers.

### Ocado way

We care passionately about our environment. This spurs us on to provide a greener, more sustainable alternative to old-fashioned, store-based supermarket chains

We strive to make shopping at Ocado better for our customers, better for their groceries and better for the planet. We have a revolutionary green approach to selling groceries. Each delivery van replaces multiple car journeys every single day; by saving our customers a trip to a supermarket we help to reduce the number of cars on the road each day. Because our groceries are delivered directly from a dedicated warehouse the time from grower or supplier to the customer's home is reduced. This means customers get longer to enjoy their purchases and reduces the amount of food waste.

# Directors' report

## Directors' report and business review

The business review sets out a comprehensive review of the performance of the business of the Group for the 52 weeks ended 28 November 2010 and of future developments.

The Companies Act requires the Company to set out in this annual report a fair review of the business of the Group during the 52 weeks ended 28 November 2010, including an analysis of the position of the Group at the end of the period, and a description of the principal risks and uncertainties facing the Group (known as the "business review"). The information that fulfils the business review requirements is set out in the Chairman's letter on page 3, Chief Executive Officer's review on pages 4 to 5, the Chief Financial Officer's review on pages 6 to 7, the 'About Ocado' section on pages 8 to 18, the principal risks and uncertainties description on pages 29 to 32 and the corporate social responsibility report on pages 26 to 28 of this annual report. The Directors' report and the business review (or parts thereof) are the "management report" for the purposes of the Disclosure and Transparency Rule 4.1.8. This information (together with the sections of the annual report incorporated by reference) consist of a Directors' report that has been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

## Principal activities

Ocado Group plc (the "Company") is a public limited company incorporated and registered in England and Wales under the Companies Act with registered number 07098618. Its registered office is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE.

The Company is the holding company of the Ocado group of subsidiary companies (the "Group"). The principal activity of the Company is that of a holding company. The Company owns directly the entire issued share capital of Ocado Holdings Limited which holds the entire issued share capital of Ocado Limited. The principal activities of Ocado Limited are the retailing and distribution of grocery and consumer goods. Further information in relation to the principal activities of the subsidiary undertakings can be found in Note 28 of the consolidated financial statements.

The Group currently operates out of a dedicated CFC based at a site in Hatfield, Hertfordshire, together with eight operational Spokes based in Coventry, Dartford, Leeds, Manchester, Southampton, Weybridge and White City as well as Bristol (which started operating after the end of the period).

## Corporate governance

The corporate governance statement as required by the Disclosure and Transparency Rule 7.2.1 is set out on pages 33 to 40 and is incorporated by reference into this Directors' report.

## Risk management

The Group's procedures for managing risk are described on page 40 and the Group's principal risks and uncertainties are described on pages 29 to 32 and those descriptions are incorporated by reference into this Directors' report.

The Group's policies and strategies for managing financial risk are summarised in Note 25 to the consolidated financial statements and in the principal risks and uncertainties as set out on pages 29 to 32, as required by Disclosure and Transparency Rule 4.1.8.

## Employee involvement, equal opportunities and disabled employees

The corporate social responsibility section sets out the Group's policies on employee engagement and disabled employees. They are incorporated by reference into this Directors' report.

## Charitable and political contributions

The particulars of the Group's charitable and political contributions made during the period are set out in the corporate social responsibility section. They are incorporated by reference into this Directors' report.

## Board of Directors

The membership of the Board and biographical details of the Directors are given in the Board of Directors section and are incorporated into this Directors' report by reference. The changes to the membership of the Board during the period are described in the statement of corporate governance.

## Appointment and replacement of Directors

The Articles set out the rules applicable to the appointment, retirement and removal of a Director of the Company, described below.

**Appointment of Directors:** A Director may be appointed by the Company by ordinary resolution of the shareholders or by the Board. A Director appointed by the Board holds office only until the next annual general meeting of the Company and is then eligible for re-appointment. The Board or any committee authorised by the Board may from time to time appoint one or more directors to hold any employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment.

**Retirement of Directors:** At every annual general meeting of the Company, each Director shall retire from office and may offer himself for re-appointment by the members.

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

**Vacation of office:** The office of a Director shall be vacated if: (i) he resigns or offers to resign and the Board resolve to accept such offer; (ii) his resignation is requested by all of the other Directors and all of the other Directors are not less than three in number; (iii) he is or has been suffering from mental or physical ill-health and the Board resolves that his office be vacated; (iv) he is absent without the permission of the Board from meetings of the Board (whether or not an alternate director appointed by him attends) for six consecutive months and the Board resolves that his office is vacated; (v) he becomes bankrupt or compounds with his creditors generally; (vi) he is prohibited by law from being a Director; (vii) he ceases to be a Director by virtue of the Companies Act; or (viii) he is removed from office pursuant to the Articles. If the office of a Director is vacated for any reason, he must cease to be a member of any committee of the Board.

## Directors' report continued

### Directors' interests

The Directors' beneficial interests in the shares of the Company are shown in the Directors' remuneration report.

### Directors' indemnity

The Directors' indemnity arrangements are described in the statement of corporate governance.

### Amendment of the Articles

The Company's Articles may be amended by a special resolution of its shareholders.

### Share capital

Pursuant to the Disclosure and Transparency Rules, the Listing Rules, the Companies Act and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (No. 410), the Directors' report must contain certain disclosures regarding the Company's share capital and the rights and restrictions attaching to the Company's shares, as set out in the following sections. These statements are included so as to comply with Disclosure and Transparency Rule 7.2.6 (regarding the corporate governance statement).

The Company's authorised and issued ordinary share capital as at 28 November 2010 comprised a single class of ordinary shares. The shares have a nominal value of 2 pence each. The ISIN of the shares is GB00B3MBS747.

Details of movements in the Company's issued share capital can be found in Note 23 to the consolidated financial statements. During the period, shares in the Company were issued as set out in Note 23 to the consolidated financial statements (disclosed in accordance with Listing Rule 9.8.4(7)).

### Rights attaching to shares

The Company's shares when issued are credited as fully paid and free from all liens, equities, charges, encumbrances and other interests. All shares have the same rights (including voting and dividend rights and rights on a return of capital) and restrictions as set out in the Articles, described below.

Except in relation to dividends which have been declared and rights on a liquidation of the Company, the shareholders have no rights to share in the profits of the Company.

The Company's shares are not redeemable. However, the Company may purchase or contract to purchase any of the shares on or off-market, subject to the Companies Act and the requirements of the Listing Rules, as described below.

No shareholder holds shares in the Company which carry special rights with regard to control of the Company. There are no shares relating to an employee share scheme which have rights with regard to control of the Company that are not exercisable directly and solely by the employees, other than in the case of the Group's joint share ownership scheme (the "JSOS") where interests can be transferred to a spouse, civil partner or lineal descendant of a participant in the JSOS or certain trusts (as noted below).

**Share rights:** Subject to the Companies Act, any resolution passed by the Company under the Companies Act and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. Such rights and restrictions will apply as if they were set out in the Articles. Redeemable shares may be issued.

The Directors can decide on the terms and conditions and the manner of redemption of any redeemable shares. Such terms and conditions will apply as if they were set out in the Articles. Subject to the Articles, the Companies Act and other shareholders' rights, the unissued shares in the Company are at the disposal of the Board.

### Voting rights

Shareholders will be entitled to vote at a general meeting or class meeting of the Company whether on a show of hands or a poll, as provided in the Companies Act. The Companies Act provides that: (A) on a show of hands every member present in person has one vote and every proxy present who has been duly appointed by one or more members will have one vote, except that a proxy has one vote for and one vote against if the proxy has been duly appointed by more than one member and the proxy has been instructed by one or more members to vote for and by one or more other members to vote against. For this purpose the Articles provide that, where a proxy is given discretion as to how to vote on a show of hands, this will be treated as an instruction by the relevant shareholder to vote in the way that the proxy decides to exercise that discretion; and (B) on a poll every member has one vote per share held by him and he may vote in person or by one or more proxies. Where he appoints more than one proxy, the proxies appointed by him taken together shall not have more extensive voting rights than he could exercise in person. This is subject to any rights or restrictions which are given to any shares or on which shares are held. If more than one joint shareholder votes (including voting by proxy), the only vote which will count is the vote of the person whose name is listed before the other voters on the register for the share.

**Deadlines for exercising voting rights:** The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting.

**Restrictions on voting rights:** No shareholder shall be entitled to vote at any general meeting or class meeting in respect of any share held by him if any call or other sum then payable by him in respect of that share remains unpaid or if a member has been served with a restriction notice (as defined in the Articles), described below.

**JSOS voting rights:** Disclosed in accordance with the Listing Rules 9.8.4(12) and 9.8.4(13) and the relevant company regulation, Appleby Trust (Jersey) Limited, the independent company which is the trustee of the Company's employee benefit trust (the "EBT Trustee") will not normally exercise the voting rights of unvested shares held under the JSOS but may exercise such rights on vested shares at the request of the relevant participants of the JSOS. Of the Company's issued shares, 32,476,700 ordinary shares are held by the EBT Trustee. In respect of 8,119,400 ordinary shares which have vested under the JSOS, the EBT Trustee may vote in respect of such ordinary shares at the request of a participant. The total of 24,357,300 unvested

ordinary shares held by the EBT Trustee are treated as treasury shares in the Group's consolidated balance sheet in accordance with IAS 32 "Financial Instruments: Presentation". As such, calculations of earnings per share for the Company exclude the 24,357,300 unvested ordinary shares held by the EBT Trustee. However, the Company does not hold any shares in treasury.

#### Dividends and other distributions

The Company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act, the Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. If the Board acts in good faith, it is not liable to holders of shares with preferred or *pari passu* rights for losses arising from the payment of interim or fixed dividends on other shares. Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends shall be apportioned and paid pro rata according to the amounts paid up on the share during any portion of the period in respect of which the dividend is paid. Except as set out above, dividends may be declared or paid in any currency.

The Board may, if authorised by an ordinary resolution of the Company, offer shareholders (excluding any member holding shares as treasury shares) in respect of any dividend the right to elect to receive shares by way of scrip dividend instead of cash.

Any dividend unclaimed after a period of 12 years from the date when it was declared or became due for payment shall be forfeited and revert to the Company. The Company may stop sending cheques, warrants or similar financial instruments in payment of dividends by post in respect of any shares or may cease to employ any other means of payment, including payment by means of a relevant system, for dividends if either (i) at least two consecutive payments have remained uncashed or are returned undelivered or that means of payment has failed or (ii) one payment remains uncashed or is returned undelivered or that means of payment has failed and reasonable enquiries have failed to establish any new postal address or account of the holder. The Company may resume sending dividend cheques, warrants or similar financial instruments or employing that means of payment if the holder requests such resumption in writing.

**Restriction on dividends:** The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25 per cent. interest (as defined in the Articles) if such a person has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

**JSOS dividend rights:** Disclosed in accordance with the Listing Rules 9.8.4(12) and 9.8.4(13) and the relevant company regulation, shares held under the JSOS will not receive any dividends paid, but the hurdles of the JSOS will be reduced proportionally so as not to distort the value of the JSOS participants' interests in the shares.

#### Restrictions on transfer of securities

The Company's shares are freely transferable, save as set out below.

The Company may, under the Companies Act, send out statutory notices to those it knows or has reasonable cause to believe have an interest in its shares, asking for details of those who have an interest and the extent of their interest in a particular holding of shares.

When a person receives a statutory notice and fails to provide any information required by the notice within the time specified in it, the Company can apply to the court for an order directing, among other things, that any transfer of shares which are the subject of the statutory notice is void.

The transferor of a share is deemed to remain the holder until the transferee's name is entered in the register. The Board can decline to register any transfer of any share which is not a fully paid share. The Company does not currently have any partially paid shares. The Board may also decline to register a transfer of a certificated share unless the instrument of transfer (in any usual form or in any other form which the Board may approve): (A) is duly stamped or certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty and is accompanied by the relevant share certificate or such other evidence of the right to transfer as the Board may reasonably require; (B) is in respect of only one class of share; and (C) if to joint transferees, is in favour of not more than four such transferees. Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in the Articles) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

**JSOS:** Participants' interests under the JSOS are generally non-transferable during the period beginning on acquisition of the interest and ending on 31 December 2013. However, interests can be transferred to a spouse, civil partner or lineal descendant of a participant; a trust under which no person other than the participant or their spouse, civil partner or lineal descendant has a vested beneficial interest or any other person approved by the EBT Trustee. If a participant purports to transfer, assign or charge his interest other than as set out above, the EBT Trustee may acquire the participant's interest for a total price of £1.

**Lock-up agreements:** Certain shareholders in the Company and the Directors, pursuant to the underwriting agreement and selling shareholders agreement and certain stand-alone lock-up deeds entered into on 6 July 2010 in conjunction with the Company's IPO, have agreed to be subject to certain lock-up arrangements. Each of these people have given undertakings to the underwriters of the IPO that, for a period ending 365 days in the case of Directors, and for a period of 180 days in the case of certain shareholders, from 6 July 2010 that he or they will not, and will procure that none of his or their 'connected persons' (as defined in the relevant agreement) or persons acting on his or their behalf will transfer any shares in existence at the time of Admission without the consent of the joint global coordinators of the IPO, subject to certain exceptions including accepting a takeover offer. In the case of the Steiner 2008 Millennium Trust, of which Tim Steiner, Ocado's Chief Executive Officer, is one of

## Directors' report continued

a number of discretionary beneficiaries, it was subject to a 180 day lock-up pursuant to the above IPO arrangements. On 18 February 2011, which coincided with the Steiner 2008 Millennium Trust selling 2 million shares, the Company announced that the Steiner 2008 Millennium Trust agreed to be bound by a further lock-up, which expires on 6 July 2011, in line with the Directors' IPO lock-up arrangements.

Other than as described above, the Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

### Variation of rights

Subject to the Companies Act, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class (calculated excluding any shares held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting (except an adjourned meeting) the quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares).

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them.

### Powers for the Company issuing shares

Subject to the provisions of the Companies Act, any equity securities issued by the Company for cash must first be offered to shareholders in proportion to their holdings of shares. The Companies Act and the Listing Rules allow for the disapplication of pre-emption rights which may be waived by a special resolution of the shareholders, either generally or specifically, for a maximum period not exceeding five years.

By written resolutions of the Company's shareholders passed on 23 June 2010, it was resolved that:

(A) the Board be generally and unconditionally authorised to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company: (i) up to an aggregate nominal amount of £5,000,000 in connection with the IPO; (ii) up to an aggregate nominal amount of £50,000 as required for the purposes of arrangements requiring the Company to satisfy the entitlements of non-employee optionholders who have entitlements to shares following Admission; (iii) up to an aggregate nominal amount of £6,666,666 (such amount to be reduced by the nominal amount of any shares in the Company under paragraph (iv) below in excess of such sum); and (iv) comprising equity securities (as defined in section 560(1) of the Companies Act) up to an aggregate nominal amount of £13,333,333 (such amount to be reduced by any shares in the Company under paragraph (iii) above) in connection with an offer by way of a rights issue: (a) to holders of shares in proportion (as nearly as may be practicable) to their existing holdings; and (b) to holders of other equity securities as

required by the rights of those securities or as the Board otherwise considers necessary, and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; such authorities to apply until the end of the next annual general meeting of the Company (or, if earlier, until the close of business on 19 September 2011) but, in each case, during this period the Company may make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Board may allot shares or grant rights to subscribe for or convert securities into shares in the Company under any such offer or agreement as if the authority had not ended;

(B) the Board be given power, to allot equity securities (as defined in the Companies Act) for cash under the authority given by the resolution described in paragraph (A) above and/or to sell shares held by the Company as treasury shares for cash as if section 561 of the Companies Act did not apply to any such allotment or sale, such power to be limited: (i) to the allotment of equity securities up to an aggregate nominal amount of £5 million in connection with the IPO offers; (ii) to the allotment of equity securities and sale of treasury shares for cash in connection with an offer of, or invitation to apply for, equity securities (but in the case of the authority granted under paragraph A(iv) above, by way of a rights issue only): (a) to holders of shares in proportion (as nearly as may be practicable) to their existing holdings; and (b) to holders of other equity securities, as required by the rights of those securities, or as the Board otherwise considers necessary as permitted by the rights of those securities, and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and (iii) in the case of the authority granted under paragraph A(iii) and/or in the case of any sale of treasury shares for cash, to the allotment (otherwise than under paragraph (ii) above) of equity securities or sale of treasury shares up to a nominal amount of £1 million, such power to apply until the end of the next annual general meeting of the Company (or, if earlier, until the close of business on 19 September 2011) but, in each case, during this period the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the power ends and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the power had not ended.

The Directors undertake that, to the extent that the authority conferred under: (1) paragraph (A)(iii) above is in respect of an aggregate nominal amount which exceeds the aggregate of (a) the aggregate nominal amount of the Company's issued share capital immediately following Admission (the "Admission Capital") and (b) one-third of the Admission Capital, they will not exercise that authority in respect of such excess; (2) paragraph (A)(iv) above, is in respect of an aggregate nominal amount which exceeds the aggregate of (a) the aggregate nominal amount of the Admission Capital and (b) two-thirds of the Admission Capital, they will not exercise that authority in respect of such excess. The Directors undertake to



limit the exercise of the power in paragraph (B) above, as limited by paragraph B(iii), to an aggregate nominal amount which is not more than the aggregate of (a) the aggregate nominal amount of the Admission Capital and (b) 5 per cent. of the Admission Capital.

This standard authority for issuing shares on a non pre-emptive basis for cash may be renewed annually. The Directors will seek to renew this authority at the AGM as set out in the Notice of Meeting.

#### Powers for the Company buying back its own shares

The description below concerning the Company acquiring its own shares is made in accordance with the Disclosure and Transparency Rule 4.1.11(4), Listing Rule 9.8.6(4) and the relevant company regulation.

The Company may purchase shares only out of distributable reserves or the proceeds of a new issue of shares made for the purpose of funding the repurchase.

By written resolutions of the Company's shareholders passed on 23 June 2010, it was resolved that the Company be authorised for the purposes of section 701 of the Companies Act to make one or more market purchases (as defined in section 693(4) of the Companies Act) of its shares, such power to be limited: (i) to a maximum number of 100,000,000 shares; (ii) by the condition that the minimum price which may be paid for a share is 2 pence and the maximum price which may be paid for a share is the highest of: (a) an amount equal to 5 per cent. above the average market value of a share for the five business days immediately preceding the day on which that share is contracted to be purchased; and (b) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase

is carried out; such power to apply until the end of the next annual general meeting of the Company (or, if earlier, 19 September 2011) but in each case so that the Company may enter into a contract to purchase shares which will or may be completed or executed wholly or partly after the power ends and the Company may purchase shares pursuant to any such contract as if the power had not ended. The Directors undertake that, to the extent that the authority conferred in the above resolution is in respect of an aggregate number of shares which exceeds the aggregate of: (a) the aggregate number of shares in issue immediately following Admission (the "Aggregate Number") and (b) 10 per cent. of the Aggregate Number, they will not exercise that authority in respect of such excess.

This standard authority for the Company to purchase its shares may be renewed at the annual general meeting. The Directors will seek to renew this authority at the AGM on the terms set out in the Notice of Meeting.

The Company has not acquired its shares during the period. It is the Company's present intention to cancel any shares it buys back in future, rather than hold them in treasury.

#### Significant shareholders

As required under the Listing Rule 9.8.6(2) and relevant company regulations, the table below sets out the notifications that the Company had received from its shareholders of the significant direct or indirect holdings (being 3 per cent. or more) in the Company's shares, pursuant to Disclosure and Transparency Rule 5 (which were also published on a Regulatory Information Service and on the Company's corporate website), up to 22 March 2011 (being not more than one month prior to the likely date of the Notice of Meeting):

	Number of ordinary shares	Percentage of issued share capital	Nature of holding
S. N. Roditi and associated holdings	61,512,060	11.11	Direct & Indirect
Apple Trust	59,080,100	10.68	Direct
FMR LLC	56,083,721	10.12	Indirect
Generation Investment Management LLP	34,735,685	6.27	Indirect
Appleby Trust (Jersey) Limited	32,476,700	5.87	Direct
BlackRock, Inc	32,156,700	5.81	Indirect
UBS Holdings Cayman Limited and UBS AG	33,016,844	5.96	Direct & Indirect
Tim Steiner and the Steiner 2008 Millennium Trust	27,687,600	5.00	Direct & Indirect
FIL Limited	27,287,909	4.93	Indirect
Tempest Capital Limited	24,437,400	4.41	Direct
The Nomad Investment Partnership L.P.	22,960,546	4.16	Indirect
Jason Gissing and The Jason Gissing Life Settlement II	17,316,900	3.13	Direct & Indirect

#### Important contracts or arrangements

Under section 417(5)(c) of the Companies Act, the Company is required to disclose information about persons with whom the Company has contractual or other arrangements which are essential to the business of the Company.

Whilst the loss of or disruption to certain of the Group's supply, financing or manufacturing arrangements (for example vans and CFC machinery) or other key contracts could affect the operations or growth of the Group until a replacement solution is found, none are

considered to be essential to the business of the Company. However, as noted in the principal risks and uncertainties, Ocado's reputation and brand is based, at least in part, on its relationship with Waitrose. If the Sourcing Agreement with Waitrose were to end or if Waitrose were unable to source products for the Group, Ocado would need to engage additional personnel to: (i) find or create replacement own-label products; and (ii) find appropriate suppliers and negotiate equivalent prices itself. Waitrose, through whom Ocado sources the vast majority of products it sells (and whose own-label products it sells), is a UK supermarket chain and the food division of the

## Directors' report continued

privately owned retailer John Lewis. Waitrose has over 240 branches across the UK, sells high quality food and places an emphasis on the provenance and traceability of the food that it sells. In its last financial year (ended 29 January 2011) it had gross sales of £5.0 billion and made an operating profit of £274.9 million (Source: [www.johnlewispartnership.co.uk](http://www.johnlewispartnership.co.uk)).

The principal risks and uncertainties section describes the principal risks facing the Group that may have an adverse impact on the Group's operations, performance or future prospects.

### Change of control under significant agreements

There are a number of agreements to which the Group is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Details of the significant agreements of this kind are as follows:

- **Sourcing Agreement:** If the parties terminate the Sourcing Agreement after certain competitors of Waitrose or John Lewis acquire 50 per cent. or more of the shares or control of the Company's Board, Ocado is obliged to pay Waitrose the lower of £40 million and 4 per cent. of the market capitalisation of the Company. This change of control provision will cease to bind the parties if, prior to the change of control, any party has already given a valid notice of termination.
- **Debt facility agreement:** The Group has a £100 million term loan facility with Barclays Bank plc, HSBC Bank plc and Lloyds TSB Bank plc for the acquisition of land, building materials, plant, machinery and equipment, for the existing CFC and/or the second CFC and/or the Spokes. If Ocado or Waitrose gives notice to terminate the Sourcing Agreement it will be an event of default under this facility.
- **HSBC Equipment Finance (UK) Limited:** On 22 July 2004 Ocado (as lessee) and HSBC Equipment Finance (UK) Limited (as lessor) entered into a master sale and leaseback agreement. Since then, there have been 24 sale and leaseback agreements covering the majority of the conveyor systems and associated capital goods that have been added to the CFC since August 2004, with outstanding sums totalling £28 million. As well as either party having the right to terminate it on one month's notice, pursuant to side letters between Ocado and HSBC varying the original agreement, HSBC is able to terminate the agreement if there is a change of control of the Company or if the Sourcing Agreement is terminated for any reason.

### Change of control for Director and employee agreements

The Company does not have any agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes may cause options and shares granted to employees under such schemes to vest on a takeover.

### Research and development and future developments

The Group has dedicated in-house software design and development teams with primary focus on IT and improvements to the CFC and its material handling equipment. Costs relating to the development of computer software are capitalised if they relate to internal capital projects.

The Group's likely future developments are described in the 'About Ocado' section, Chief Executive Officer's review and the Chief Financial Officer's review.

### Results and dividends

The Group's results for the period are set out in the consolidated income statement on page 48. The Group's loss after tax for the period amounted to £7.2 million (2009: £23.2 million).

The Directors do not propose to pay a dividend for the period (2009: £nil).

### Post balance sheet events

Events occurring after the balance sheet date that affect the Group are disclosed in Note 33 to the consolidated financial statements.

### Creditor payment policy

It is the Group's policy, in respect of the current financial year for all trade creditors, to agree payment terms in advance of the supply of goods with the supplier; to make the supplier aware of the terms of payment and to adhere to those payment terms. The Company is a holding company and therefore has little trade creditors. The Group does not follow any code or standard on payment practice in respect of the current financial year. The Group's average trade creditor payment period for the 52 weeks ended 28 November 2010 was 26 days (2009: 27 days), based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

### Market value of properties

The Directors are of the opinion that the aggregate market value of the Group's properties as at 28 November 2010 is in line with the net book value as set out in Note 11 to the consolidated financial statements.

### Going concern

After making appropriate enquiries and having considered the business activities as set out on page 19 and the Group's principal risks and uncertainties as set on pages 29 to 32, the Directors are satisfied that the Company, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis in accordance with Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, published by the Financial Reporting Council in October 2009.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union ("IFRS-EU"). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the Directors confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- the Directors' report contained in this annual report includes a fair review of the development and performance of the business and the position of the Group, and contains a description of the principal risks and uncertainties facing the Group.

#### Disclosure of information to auditors

Each Director who held office at the date of the approval of this Directors' report confirms that, so far as he or she is aware, there is no relevant audit information of which the Group's auditors are unaware, and that each Director has taken all the steps that they ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

#### Independent auditors

The Company's auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue their role as the Company's auditors. Resolutions concerning the re-appointment of PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Directors to determine their remuneration will be proposed at the AGM and set out in the Notice of Meeting.

#### Unaudited interim financial information

Unaudited interim financial information relating to the Group for the 24 weeks ended 16 May 2010 was published in the Company's IPO Prospectus dated 6 July 2010.

#### Forward-looking statements

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

#### Approved by the Board

#### Neill Abrams

Company Secretary and Director of Legal and Business Affairs

23 March 2011

# Corporate social responsibility report

## Environment

Ocado aims to provide a greener, more sustainable alternative to store-based supermarkets.

A traditional supermarket requires deliveries first to be made to a regional distribution centre and then to the supermarket itself. Customers will often drive to the supermarket in order to shop, and the supermarkets themselves require energy to be lit and heated and tend to have open fridges and freezers in an otherwise ambient environment. Ocado delivers from the CFC (sometimes via a Spoke) to a customer's home, which eliminates much of the carbon emissions generated by traditional supermarkets and their stores, and also reduces the number of cars on the road. Each Ocado delivery van replaces a significant number of car journeys every day.

This sustainable alternative has been reflected in awards made to Ocado in recent years. Ocado was voted Green Retailer of the Year 2009 in *The Grocer Gold Awards*, Large Retailer of the Year 2008 in the *Online Green Awards* and won Ethical/Green Practice 2009 at the *IMRG E-Commerce Awards for Excellence*.



## Environmental management

Ocado's management is conscious that the Company's operations have an impact on the environment and will regularly consider new measures and innovations to make the business more environmentally friendly.

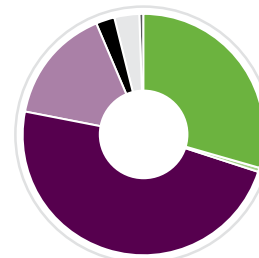
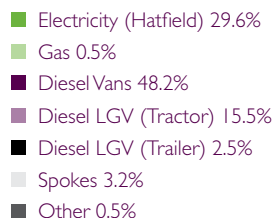
In early 2008, the Company established a green team comprising over 40 staff members from across the business. This team has introduced new initiatives to reduce the impact of the business on the environment and raised awareness within Ocado of environmental issues.

## Carbon Reduction

Ocado is seeking to minimise the environmental impact and carbon footprint associated with its operations.

Ocado has had its operations independently audited to measure the extent of its carbon footprint. Ocado's total emissions for the period from July 2009 to June 2010 were 37,532 tCO<sub>2</sub>e. In this period, the Group's normalised emissions (normalised by the total value of the Group's sales) decreased from 84.9tCO<sub>2</sub>e (per million of sales in pounds) in September 2009 to 71.5tCO<sub>2</sub>e (per million of sales in pounds) in June 2010. So while the Group's absolute energy emissions have increased as its sales have increased, the actual carbon emissions attributable to each order has decreased with the greater efficiency of the Group's operations. Part of the improved efficiency is due to the opening of a new Spoke which resulted in some shorter van routes as well as continuing improvements in the Group's delivery routing software which optimises the delivery route for each van journey. A breakdown of the source of the Group's carbon footprint is set out in the diagram below.

## CARBON FOOTPRINT CONSTITUENTS



The Directors believe that the carbon footprint of the Group's operations have been considerably lower carbon intensity than that of many of its competitors (taking into account the relative size of each operation) because the Group's business model is more efficient than that of the traditional store-based model.

To continue to reduce its carbon footprint, the Group is implementing measures such as van monitoring devices which help identify areas for reducing fuel use in delivery vans (for example, as a result of vans sitting idle).

The Group has taken a number of other steps in response to new carbon reduction legislation and to address the lessening of its carbon footprint, as set out below.

**Climate Change Agreement:** Ocado has signed up to the Climate Change Agreement (with the Carbon Trust), which places certain obligations on the Group to monitor and lower carbon usage.

**10:10 campaign:** In 2010, the Company signed up to the 10:10 campaign, which is a campaign run by an independent UK charity, the 10:10 Trust, aimed at reducing carbon emissions by 10% in a year. The Company has not had its carbon emissions audited for the period since signing up to the 10:10 campaign, so cannot yet measure whether it has met this target. However, as noted above, Ocado has shown it has been reducing its carbon emissions against previous periods when measured as a percentage of sales.

**Electric vans:** Ocado has co-developed two prototype electric powered vans, which are currently being trialled in central London as part of Ocado's delivery fleet.

**Green van deliveries:** Customers can choose a 'green van slot' when booking a delivery time (that is, when a delivery van is already booked in that customer's area) which helps minimise the carbon impact of that customer's delivery.

**Energy efficiency project:** Ocado invested about £200,000 in 2010 on a project aimed at making the Group's operations more energy efficient. The investment included the purchase of energy saving equipment and facilities for the CFC, such as the modernisation of the lighting systems, installation of more energy efficient chilling equipment and improved door seals and automated controls. Ocado makes it a standard requirement for new sites and new fit-outs of existing buildings that they use energy efficient lighting, motion detectors and daylight controls as part of its energy saving commitments.

### Environmental initiatives undertaken

The Group has taken a number of measures to reduce its environmental impact, as set out below.

**Responsible bag recycling:** The business has a closed-loop grocery bag recycling system, whereby when making a delivery, CSTMs offer to collect used bags (both Ocado bags and any other company's plastic bags) from customers which are then recycled within the UK to make new Ocado grocery bags.

**Reducing food wastage:** The Group's food waste as a percentage of gross sales (0.61% for the period) is significantly less than any of its competitors. Food wastage is an important key performance indicator measured by the business, as noted in the Chief Financial Officer's review. Ocado also helps customers to reduce their food waste, by being the first online food retailer to show guaranteed product life on the website and by including 'use-by' dates on each order receipt which assists customers to plan meals and reduce their waste. Food that is beyond the guaranteed product life but within the use-by date is often donated to various charities including Vineyard in Southend, YMCA in Watford, and New Hope in Watford. Any food that isn't fit for Ocado's company shop or charities, but is suitable for animals, is sent to Paradise Wildlife Park in Broxbourne.

**Anaerobic digestion:** Ocado recently completed a trial of a process called "anaerobic digestion". That is a process whereby any food supplied that is no longer edible is mixed with bacteria and burnt to produce electricity. Ocado expects to implement this means of food waste disposal as part of its operations.

**Meat Free Monday:** The Company supports the "Meat Free Monday" campaign which raises awareness of the climate-changing impact of meat production and consumption. The Meat Free Monday campaign encourages people to reduce their greenhouse gas emissions by having at least one meat-free day every week.

**Recycled office furniture:** Ocado fitted out much of its new head office space in January 2010 with used office furniture. The benefits of this for the environment were that Ocado helped divert a large amount of used furniture from being disposed of in landfill sites and that there was no environmental impact related to the production and delivery of new furniture for Ocado.

### Suppliers and products

**Product range:** The Ocado own-label product range has been introduced to broaden the choice for our customers and offers good quality at competitive prices. One of the key criteria when developing the Ocado own-label range is that it be responsibly sourced. The Company supports British and EU farming and, where possible, sources relevant Ocado own-label products from the British Isles when in season and available. Ocado fish is responsibly caught, Ocado fresh meat and poultry is raised to British, EU or New Zealand welfare standards, Ocado boxed eggs are free-range and all of the Ocado own-label bread is made using British wheat.

**Waitrose Foundation:** Through its supply agreement with Waitrose, Ocado supports the Waitrose Foundation. The Waitrose Foundation is a supply chain partnership that returns a percentage of profits from the sale of produce, flowers and prepared fruit to fund projects chosen by the farm workers and smallholders who grew

or produced it. Since its beginnings in South Africa in 2005, the Waitrose Foundation has raised nearly £3 million and launched over 170 projects. Ocado has already contributed over £115,000 to the Waitrose Foundation. These projects are diverse and reflect the individual needs of the communities, ranging from supporting crèches to adult literacy programmes, and from supporting sports teams to provision of equipment for medical clinics.

**Duchy Originals products:** Ocado makes a significant charitable donation to the Prince's Charities Foundation, a group of 20 non-profit organisations, through its sales of Duchy Originals branded products.

**Fair trade:** Ocado aims to trade fairly with its suppliers and supports established schemes such as Fairtrade and Traidcraft, which contribute to the sustainable development of the communities where farmers and workers live. Ocado has one of the largest Fairtrade range of products of all UK grocers.

**Organic farming:** Ocado has a large selection of organic groceries. Organic farming helps promote biodiversity by using crop rotation and clover to build soil fertility. With organic farming there are strict rules around animal welfare and how food is produced.

### People

Ocado's employees are key to its business and are the most visible part of the business to its customers. Management is committed to high standards of employment practice and to providing equality of opportunity, training and development and a safe workplace, in addition to developing initiatives which encourage innovation.

Ocado aims to be an exceptional employer; one that recognises talent and develops people to the best of their abilities. We ask our people to share our determination to succeed. We deliver superior customer service and business success through our people which is why it is important for us to appropriately reward, engage, listen to and develop our employees.

### Rewarding our people

Since its commencement as a privately owned business, Ocado's policy has been to issue share options to its employees. The rationale is that we want to give all of our employees the opportunity to own a part of the business. We continue to grant share options in the Company to each new employee as part of their employee benefits package.

To continue our philosophy of employee share ownership we established the Group's 'Sharesave Scheme' after the Company's Admission. A large number of our employees have chosen to participate in Ocado's Sharesave Scheme, which is the savings-related share option plan where each participating employee is granted options over shares in the Company in proportion to the amount saved by that employee.

We expect that in future, Ocado will introduce additional share schemes to both reward employees and to offer employees further opportunities to become shareholders in the Company.

In addition to share schemes, we provide a range of employee benefits including a staff discount on orders (with free deliveries on certain days), discount shopping membership, pension, life assurance, healthcare and an employee assistance programme.

# Corporate social responsibility report continued

## Engaging our people

Engaged staff help us to continue to be successful and grow. We have this year launched our first formal employee survey across the whole business. This will measure current levels of employee engagement and identify the areas where we can become a better employer.

We continue to hold regular events to connect with our people, such as our annual family fun day, inter-Spoke football tournament, charity golf day, Woodland Trust tree plant team days, business results briefings and our Christmas parties. These reinforce our informal, relaxed culture and promote our family and community focus.

Our unique and informal culture means that many of our people have direct access to our senior leaders, but as we continue to grow we know this will be more challenging. We hold weekly board lunches with employees from across the whole business to increase dialogue between staff and business leaders. Ocado's employees are kept well informed of the performance of the Group and key events concerning the business through regular staff briefings done by management and through communications via the internet, email and video and audio recordings (which are particularly helpful for communicating with our large number of CSTMs).

## Giving our people a voice

In order to better facilitate employee involvement and feedback in our rapidly growing business we have introduced the 'Ocado Council', which is a representative forum for dialogue between Ocado employees and leaders of the business. The Ocado Council was formed in January 2010 when elections were held to select 47 council representatives from across the business. The Council's achievements over its first year of existence include involvement in changes to terms and conditions of employment, pay and bonus awards, performance reviews, organisational changes and physical working environment improvements.

## Developing our people

Every employee plays a part in the Company's success and we are focused on developing our people to the best of their abilities. When joining the business employees undertake a thorough induction which includes training on how to do their new job and orientation around different areas of the business.

Ocado's people have a range of backgrounds and we work hard to provide opportunities to move around the business where appropriate and provide training to develop skills for current and future roles. Our excellent in-house training team deliver customer focused training that prioritises the health and safety of our people and meets individual needs.

## Attracting talent

We rely on talented people with drive and dedication to deliver excellent customer service. This is why we are careful to recruit the right people for the right roles. Our graduate programme plays an important part in developing talented people for our future, and our newly launched careers website allows timely recruitment of talented people for business growth.

## Ocado creating new jobs

During the period the Group created an additional 883 jobs. The average number of employees employed by the Group for the period was 4,252 (2009: 3,494).

The Group purchased a 35.2 acre site in Dordon, Warwickshire on which the second CFC will be built. When this second CFC is at full operational capacity, Ocado expects that it will have created in excess of 2,000 jobs in the region.

## Diversity of our people

We are committed to equal opportunities for all of our people, regardless of disability or background, from recruitment and selection, through training and development and promotion.

It is the policy of the Group 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 Group continues. It is the policy of the Group 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.

## Social and Community Issues

**Making a positive difference in the community:** Ocado supports a number of community projects. One of these is the Woodland Trust, which is aimed at restoring and protecting ancient woods and native trees.

**Charitable and political donations:** Ocado has a charity committee made up of a number of employees, with the aim of encouraging support of certain charitable organisations by Ocado employees through the organisation of various fundraising initiatives. During the period Ocado employees raised more than £15,000 for a number of charities, the details of which are set out below:

British Heart Foundation	£6,190
NSPCC	£4,143
MacMillan Cancer Relief	£2,493
Cancer Research UK	£990
The Harry Christie Surgery Fund	£820
Paul Dix Appeal (Princess Alexandra Hospital)	£650
Kent Air Ambulance	£361
Sick Children's Fund Coventry	£117

Ocado made charitable donations during the period of over £14,000 (2009: £2,000). Included in the amount for the current period is a donation of £10,000 to the 10:10 Trust, which as noted above, is a charity committed to reducing carbon emissions by 10% a year.

No political donations were made during the period by the Group (2009: £nil).

The Group also donates money to the Waitrose Foundation and the Prince's Charities Foundation, as noted above.

# Principal risks and uncertainties

## Identifying and monitoring risks

The Group faces a number of risks and uncertainties that may have an adverse impact on the Group's operation, performance or future prospects.

It is important for the Board to effectively manage risks and opportunities in seeking to achieve the Group's objectives. The Directors have overall responsibility for risk management and internal control systems. The Board's system of risk management is described in the statement of corporate governance.

The risks and uncertainties described below represent those which the Directors consider to be the most significant in achieving the potential success of the Group's strategy. However, these risks and uncertainties do not comprise all of the risks associated with the Group and are not set out in any order of priority. Additional risks and uncertainties currently not known to the Directors and/or which the Directors believe to be less material may also have a material adverse effect on the Group's business, financial condition or future prospects. The relevant mitigating factors are also described below.

Risk area	Potential impact	Mitigation
<b>Strategy</b>		
New CFC and expansion of current CFC	A critical part of the Group's strategy is to expand its operations by further developing the current CFC and building at least one additional CFC in the UK to increase its capacity to service customers. The Group's ability to develop the current CFC and replicate its business model in the second CFC cost-effectively and in a timely fashion will depend upon a variety of factors notably: the Group's ability to hire and train employees to operate the CFCs; management resources; the Group's ability to roll out the business systems and infrastructure, in particular, in any new CFC; reliable developers and the availability of appropriate equipment and the contractors to design and install such equipment.	<p>The Group has purchased a 999-year lease on a site in Dordon, Warwickshire for the construction of the second CFC, and groundworks have commenced. The Group has a detailed plan for the management and resourcing of the second CFC project and the Directors have oversight of the project to ensure that it stays on schedule and within budget.</p> <p>The Directors are confident that the business systems of the existing CFC can be replicated and enhanced in the second CFC (and in any further CFCs in the future) within the parameters of the capital expenditure budget set for the project and that it can continue to successfully complete projects to expand the existing CFC.</p>
<b>Operational</b>		
Single CFC	The Group is dependent on the continued operation of the CFC (and to a lesser extent, the Spokes) in order to satisfy customer orders. Any disruption (such as an IT failure or a fire) to the operation of the existing CFC, in particular, or a Spoke may therefore have an adverse effect on the Group's financial position or affect the ability of the Group to economically deliver products to certain customers.	The Group has disaster recovery procedures in place to minimise possible disruption to the business. The Group is in the advanced stages of a plan aimed at achieving the industry recognised "Highly Protected Status". The CFC is protected by fire and security systems and has a full contingency plan to manage power outages. The Group also has insurance policies in place which cover business interruption to certain maximum levels. In addition, the Group's plans to build at least one additional CFC in the UK will limit, in part, the effect of any failure at the current CFC. Also, Spokes are able, to some extent, to serve geographies of neighbouring Spokes.
Road network	The Group's delivery service is reliant on deliveries by road: from suppliers to the CFC and from the CFC and the Spokes to customers. This means that inclement weather, particularly snow, and sometimes traffic congestion may reduce the number of deliveries that can be made and/or increase their cost.	The Group fits winter tyres to its delivery fleet for the winter period and can optimise its delivery routing system with road speed adjustments, for example, for inclement weather. The Group also subscribes to a dedicated weather information service to give it early warning and more accurate details of extreme weather.

## Principal risks and uncertainties continued

Risk area	Potential impact	Mitigation
<b>Relationships with third parties</b>		
Relationship with Waitrose	<p>Ocado's reputation and brand is based, at least in part, on its relationship with Waitrose. If the Sourcing Agreement with Waitrose were to end or if Waitrose were unable to source products for the Group, Ocado would need to engage additional personnel to:</p> <ul style="list-style-type: none"> <li>(i) find or create replacement own-label products; and</li> <li>(ii) find appropriate suppliers and negotiate equivalent prices itself.</li> </ul> <p>The Sourcing Agreement also contains provisions which restrict the extent to which Ocado can source products other than from Waitrose, and the extent to which Ocado's range of Ocado own-label products may be expanded. If the parties terminate the Sourcing Agreement after certain competitors of Waitrose or John Lewis gain control of the Company, Ocado is obliged to pay Waitrose £40 million.</p>	<p>The Group has a successful relationship with Waitrose (which is now in its eleventh year) and in May 2010 agreed a new sourcing arrangement which will continue this relationship until at least 2017. The Group is not particularly dependent on the Waitrose supply chain as about 85% of products are delivered directly to the CFC by the relevant supplier or manufacturer.</p> <p>Ocado currently stocks approximately 250 Ocado own-label products, and is in the process of extending this range. The Directors do not believe that the restrictions on Ocado own-label products will have a significant impact on the growth of the business or their intended expansion of the range of products stocked by Ocado.</p>
<b>IT systems and security and intellectual property</b>		
IT systems	<p>The Group relies to a significant degree on the efficient and uninterrupted operation of the internet and its IT and communications systems. The Group's business model relies on the complex integration of the Group's website, the highly automated CFC, goods handling equipment and the order fulfilment and delivery operations. Operational problems in the Group's core systems and technologies (such as computer server or system failures, network outages, software performance problems or power failures) can result in customer orders being unable to be captured on the Group's website or processed through the CFC, or errors and delays in their delivery.</p>	<p>The Group has an IT strategy that is aimed at ensuring plans are in place to have information systems and new technology that provide the capabilities necessary for the Group to maintain the integrity and reliability of its business. The Group has disaster recovery and business continuity contingency plans to maintain the security, integrity and efficiency of its IT infrastructure. The Group's IT systems are housed in a purpose-built data centre and it has a separate disaster recovery data centre which houses standby servers for all the critical systems and resilient data storage systems. All critical communication links are provided via two diversely routed fibres and the internet connectivity is provided by two major internet service providers.</p>
IT security and fraud	<p>If any compromise in the Group's IT security measures or payment processing systems were to occur, the Group's reputation may be harmed and it could lose its customers. The Group relies on third parties to provide payment processing services and is exposed to typical fraud risk in relation to card payments. The Group is also subject to IT regulations and compliance requirements.</p>	<p>The Group uses encryption and authentication technology to provide the security necessary to effect the secure transmission of information from its customers, such as card payments and to reduce possible fraud. The Group's customers' confidential data is protected by a range of both physical and industry standard systems controls. The Group's website is regularly tested for vulnerability by both internal and external teams. Relevant accounting, IT and other procedures and controls at all levels are clearly set out and some of which are audited across the business to reduce the risk of fraud. Ocado is undertaking a plan to ensure compliance with the Payment Card Industry Data Security Standards.</p>
Intellectual property rights	<p>The business and IT systems and intellectual property are not protected by patents or registered design rights which means that the Group cannot inhibit competitors from entering the same market if they develop the similar technology independently. In addition, third parties may independently discover Ocado's trade secrets and proprietary information or systems.</p>	<p>The Group is reliant on copyright and confidentiality and licence agreements with its employees, customers, suppliers, consultants and others to protect its intellectual property rights.</p>



Risk area	Potential impact	Mitigation
<b>Financing</b>		
Funding for capital expenditure	The Group's £100 million debt facility may be terminated by the lenders if the Sourcing Agreement with Waitrose is terminated for any reason.	The Group is able to manage whether any such termination rights will arise under the Sourcing Agreement and hence any potential impact on the debt facility (with the exception of the change of control termination right described above).
Exchange rate, interest rate and commodity fluctuations	Any depreciation of sterling in relation to the euro will increase the sterling equivalent of the price paid for the machinery used in the second CFC and to expand the capacity of the current CFC (which is mostly purchased from suppliers located in countries that have adopted the euro). Fluctuations in the cost of commodities (in particular, steel) required to build the second CFC and in interest rates will impact on the costs to the business.	The Group has a policy, controlled by the treasury committee (and authorised by the Directors), to hedge certain foreign currency and interest rate exposures through the use of derivative financial instruments and fixed and floating instruments. There are approval parameters for hedging arrangements and a policy to monitor and review hedging arrangements including short and long-term foreign exchange rates, interest rates and counter-party risk.
<b>Regulation</b>		
Health and safety law	A violation of health and safety laws relating to the Group's operations or construction of the second CFC or expansion of the current CFC could lead to injury to employees, negative publicity and reputational damage, fines, costly compliance procedures and in very serious circumstances, a temporary shutdown of all or part of the business, or a delay in construction of the second CFC.	The Group's health and safety department maintains and monitors procedures, which are aligned with the relevant regulations and industry standards. The Group's staff are trained in safe workplace practices. The Group is in the process of developing safety procedures and reporting structures for the second CFC construction project.
Product safety	The Group is subject to a wide variety of regulatory requirements including those in relation to the manner in which it sources, stores, handles and sells products (such as meat and fish) to customers and relating to the operating of its physical facilities. Any assertion or regulatory investigation that the products supplied by the Group caused illness or injury to customers or others could adversely affect the Group's reputation with existing and potential customers.	There is an established legal and regulatory team in place to monitor developments and to ensure that all existing regulations are complied with. The Group has a food technology department which monitors procedures to ensure quality standards and compliance with applicable food law and which liaises with the Waitrose food technology department.
Governmental regulation	A change in regulations relating to the internet and online retail operations, consumer protection laws, the processing of customer data, the environment (such as carrier bags), or the sale, licensing or storage of products could adversely affect the manner in which the Group currently conducts its business. Regulations govern the weight limits of the loads that each van can take and the number of hours that drivers can work on consecutive days, impacting the potential efficiency of the business.	The Group has an established governance process in place to monitor regulatory developments and to ensure that all existing regulations are complied with. The Group's delivery routing software and customised vans (which are specifically designed to improve load-carrying capacity) help maximise the operational efficiency of the Group's delivery infrastructure within the scope of the existing regulatory requirements.

## Principal risks and uncertainties continued

Risk area	Potential impact	Mitigation
<b>Staff</b>		
Key management, staff retention and recruitment	The Group is reliant on its key management and staff for the operation of its business. The Group's ability to recruit or adequately replace, retain and motivate suitably qualified and experienced staff is important for the Group's success. The relationship between the Group and its workforce could change if the Company were to formally recognise a union to represent its staff.	The business has had good relations with its workforce to date. The Ocado Council, the Group's employee council, was established by the Group in January 2010 with a remit to discuss the terms and conditions of employment for the workforce and provide for further engagement with staff. The Directors continue to keep staff remuneration and incentivisation under review to ensure it remains competitive. The Directors expect to have constructive communications with any union seeking recognition by the Group.
<b>Risks relating to the industry</b>		
Competition and the online grocery market	The trend in UK food retailing of moving from the traditional grocery market to the online grocery market may not continue.	The Directors believe that the online grocery market will continue to grow rapidly in the UK, particularly as the number of people shopping online continues to increase.
	The Group may be adversely affected (in loss of market share) by the entrance of new competitors in the online grocery market or if the traditional grocery retailers invest heavily in their online operations. The Group also expects some increased competition from the Waitrose online business, Waitrose.com when certain exclusivity provisions which limit the extent to which the Waitrose.com service may compete with the Group in the Greater London area expire in June 2011.	Ocado has a business model which is predicated on offering our customers a superior service in terms of product quality and convenience, reliability and accuracy of delivery, as well as environmental efficiency. The Directors believe that as the Group's proprietary intellectual property and bespoke IT systems (including the Group's website, the stock management systems, the CFC, the customer delivery system and the van routing system) become more sophisticated, so the barriers to entry for a potential online competitor become greater. The Directors do not anticipate a significant overall impact on the Company from the increased competition from Waitrose.com.
UK and global economic conditions	The Group's performance may depend on factors outside the control of the Group which impact on UK consumer spending, including political, financial and economic conditions.	The Group regularly reviews its approach to pricing, marketing and product range for appropriateness to market conditions and to adapt to customer feedback. Despite the recent economic downturn the Group's sales have continued to grow rapidly.

# Statement of corporate governance

## Introduction

The following sections explain how the Company applies the main principles set out in section 1 of The Combined Code on Corporate Governance June 2008 issued by the Financial Reporting Council (the "Combined Code"), as required by the Listing Rules of the Financial Services Authority and where relevant, the main principles of the UK Corporate Governance Code June 2010 issued by the Financial Reporting Council (the "2010 Code").

The new 2010 Code applies to all companies with a premium listing of equity shares with accounting periods beginning on or after 29 June 2010. Hence the 2010 Code is not applicable to the current period presented. However, in anticipation of its application, the Board has voluntarily implemented a number of changes to its governance arrangements to reflect the requirements of the new 2010 Code because the Board is committed to the highest standards of corporate governance.

The Combined Code applies to the current period. Prior to its Admission on 26 July 2010, the Company was privately owned. Although not obliged prior to Admission to apply the Combined Code or the 2010 Code to its governance arrangements the Company had voluntarily adopted some governance standards commensurate with a UK listed company (as noted below).

Since its recent Admission, the Company has applied the principles and complied with the provisions of the Combined Code, save as described below. Where the Company has not complied the reasons for non-compliance are stated, including the period where it has not complied (if relevant). Recognising that it is a newly listed company the Board has the goal of moving the Company towards full compliance with all provisions of the 2010 Code as swiftly as practicable. The Company will continue to put in place new governance arrangements in order to meet that objective.

Further information on the Combined Code and the 2010 Code can be found at [www.frc.org.uk](http://www.frc.org.uk).

## The Board

The Company is led by the Board. Subject to the Articles, the Companies Act and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all of the powers of the Company.

The names, responsibilities and details of the current Directors on the Board are set out in the Board of Directors section. During the period there were a number of changes to the Board. The Non-Executive Directors, Tom Clayton, Jonathan Faiman and Jeremy Frampton resigned from the Ocado Limited board on 9 March 2010. In addition, Michael Robarts was appointed on 19 January 2010 as a non-executive Director and resigned on 26 July 2010. The Company announced on 18 February 2011 the resignation of Patrick Lewis from the Board.

## Director election

The rules that the Company has about the appointment and replacement of Directors are described in the Directors' report.

In order to maintain high standards of corporate governance, the Articles require each Director to retire at every annual general meeting (each Director may offer himself or herself for reappointment by the members at such meeting). The Combined Code does not contain such a stringent requirement (except for directors serving longer than nine years) and this 2010 Code requirement did not apply to the Company for the current period. However, each Director will seek re-election by shareholders at the Company's AGM on 11 May 2011.

## John Lewis Pension Fund right to appoint a director

As stated in the Company's prospectus on 6 July 2010, the John Lewis Pension Fund agreed with Ocado that Patrick Lewis, a Non-Executive Director originally appointed to the Board in October 2009 by the John Lewis Pension Fund, would step down from the Ocado board if the John Lewis Pension Fund's holding of ordinary shares in Ocado falls below 10 per cent. of the issued ordinary share capital of Ocado. On 11 February 2011, the company announced that John Lewis Pension Fund had sold its entire shareholding in the Company. As noted above, Patrick Lewis has resigned from the Board.

## Chief Executive Officer

The Company's Chief Executive Officer is Tim Steiner. His biographical details are set out on page 16.

## The Chairman

Lord Grade joined the Board as an independent Non-Executive Director and Chairman in 2006 and along with some of the other members of the Ocado Board, he became a Director of the Company in March 2010. His biographical details are set out on page 16. During the period, a Peerage of the United Kingdom for Life was conferred upon Michael. He notified the Board of this new commitment outside of the Company.

## Division of responsibilities between Chairman and Chief Executive Officer

There is a clearly established and long-standing division of responsibilities between the Chairman and the Chief Executive Officer which is set out in writing and has been approved by the Board. The Chairman is responsible for leadership of the Board, ensuring its effectiveness and setting its agenda. He facilitates both the contribution of the Non-Executive Directors and constructive relations between the Executive and Non-Executive Directors. The Chief Executive Officer is responsible for the day-to-day management, operations and results of the Group, executing the strategy once agreed by the Board and making proposals to the Board for the strategic development of the Group. He creates a framework of strategy, values, organisation and objectives to ensure the successful delivery of results, and allocates decision making and responsibilities accordingly. He takes a leading role, with the Chairman, in the relationship with all external parties and in promoting the Company.

## Statement of corporate governance continued

### Senior Independent Director

David Grigson joined the Board of Ocado as an independent Non-Executive Director in February 2010 and along with some of the other members of the Ocado Board he became a Director of the Company in March 2010. The Board appointed David to act as Senior Independent Director. His biographical details are set out on page 16. The Senior Independent Director is available to shareholders of the Company to assist in resolving concerns of such shareholders.

### Independence

The Combined Code recommends that at least half of the board of directors of a UK listed company, excluding the chairman, should comprise non-executive directors determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the director's judgement. The Ocado Board comprises ten members, including the Chairman, two independent Non-Executive Directors, four Executive Directors and three Non-Executive Directors who are not deemed to be independent for the purposes of the Combined Code. The Company does not therefore currently comply with the relevant requirements of the Combined Code in relation to the balance of Executive and independent Non-Executive Directors, although it intends to do so.

The Company expects that as existing members of the Board step down and new directors are appointed, the Company will become compliant with the Combined Code (and the 2010 Code) in this respect.

Of the six Non-Executive Directors on the Board, the Chairman, David Grigson and Ruth Anderson are independent as defined in the Combined Code. However:

- Robert Gorrie is not deemed independent for the purposes of the Combined Code because he was an Executive Director of Ocado from April 2000 until April 2006 and a Non-Executive Director from May 2006 until March 2010 when, along with some of the other members of the Board, he became a Director of the Company. He also provides consulting services to the Group under a separate consulting agreement. Notwithstanding, the Board considers Robert to be independent;
- Jörn Rausing is not deemed independent for the purposes of the Combined Code because the Apple Trust (of which he is a beneficiary) is a major shareholder of the Company. Notwithstanding, the Board considers Jörn to be independent; and
- David Young is not deemed independent for the purposes of the Combined Code because he was a Non-Executive Director of Ocado from October 2000 to March 2010 when, along with some of the other members of the Board, he became a Director of the Company. Notwithstanding, the Board considers David to be independent.

### Non-Executive Directors

The Non-Executive Directors have wide and varied skills and commercial experience which they bring to the deliberations of the Board and the committees, as well as their independent judgment on Group strategy, risk and performance. The Board considers that its size and composition and that its balance of skills and experience is appropriate for the requirements of the business.

The Chairman seeks to ensure the effective contribution of the Non-Executive Directors and constructive relations between Non-Executive Directors and Executive Directors, particularly during discussions at Board meetings.

Each Non-Executive Director's letter of appointment to the Board sets out clearly the expected time commitment from them to the Company and at the time of appointment the relevant Non-Executive Director confirmed that that he or she is able to devote sufficient time as is necessary to the performance of his or her duties. The Board is satisfied that each of the Non-Executive Directors has sufficient time available to devote to the Company.

The terms and conditions of appointment of the Non-Executive Directors are available for inspection at the Company's registered office (during normal business hours) and at the Company's AGM.

### Conflicts of interests

The Companies Act provides that directors must avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with a company's interests. Directors of public companies may authorise conflicts and potential conflicts, where appropriate, if a company's articles of association permit.

Each Non-Executive Director's letter of appointment sets out the requirement for disclosing conflicts to the Chairman and the Company Secretary. As part of the Company's preparation for Admission each Director completed a questionnaire which required them to disclose any conflicts of interests. Other than Patrick Lewis (noted above), no Director has any actual or potential conflicts of interest between any of his duties to the Company and his private interests and/or other duties.

Whenever a Director takes on additional external responsibilities, the Board considers any potential conflicts that may arise. The Board will continue to monitor and review potential conflicts of interest on a regular basis.

### The Board's role

The Board has a number of key responsibilities and formally reserved powers. The Board has responsibility for the overall management of the Group and for setting and reviewing the Group's long-term objectives and commercial strategy, including determination of the nature and extent of the significant risks that the Board is willing to take to implement its commercial strategy. The Board has set out a clear schedule of matters reserved for Board decisions (such schedule was approved by the Board prior to the Company's Admission). Other reserved matters include approval of: the annual report and half-yearly report; the Group's budgets; the authority levels for capital expenditure; the treasury policy; and any governance policies.

The Board delegates to management the detailed implementation of matters approved by the Board and the day-to-day operational aspects of the business. The Executive Directors and the management committee meet twice weekly to review operational performance and to monitor implementation of certain projects. Management has authority to undertake capital expenditure without Board approval up to certain pre-approved expenditure thresholds and above which the expenditure must be elevated to the Board for approval.

The Board delegates certain responsibilities to its principal committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. The committees keep the full Board apprised of their work and refer matters requiring resolution to the full Board for approval as appropriate. The Audit Committee monitors the integrity of financial information and reviews the effectiveness of the financial controls and the internal control and risk management systems. The Remuneration Committee sets the remuneration policy for Executive Directors and determines their individual remuneration arrangements. The Nomination Committee recommends the appointment of Directors and has responsibility for evaluating the balance of the Board and for succession planning at Board level. Further details concerning the committees of the Board are set out below. The Company expects to establish other committees in certain areas including corporate social responsibility. The purpose of the corporate social responsibility committee would be to review and update the Company's existing corporate social responsibility policies, and monitor the Company's formal corporate social responsibility objectives and plan.

During the period the Board's key activity was overseeing the preparation of the Company for Admission. In addition the Board approved the entry into a new 10-year branding and sourcing arrangement with John Lewis and Waitrose.

#### Attendance

The table below shows the attendance of Directors at scheduled Board and committee meetings during the period. The Board had scheduled 10 meetings during the year and additional ad hoc meetings and conference calls were also convened to deal with specific matters, including the Company's Admission, which often required attention between scheduled meetings. Directors leave a meeting where the matters being discussed relate to them or which may constitute a conflict of interest to them. From 9 March 2010 onwards the main Board and committees were constituted with the Company and not Ocado, when the Directors were appointed to the Company Board (as noted above). The composition of each of the committees changed during the period, as described in the Board committees description set out below.

	Board of Directors		Audit Committee		Remuneration Committee		Nomination Committee	
	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible
<b>Executive Directors</b>								
Tim Steiner	21	21	–	–	–	–	–	–
Neill Abrams	23	23	–	–	–	–	–	–
Andrew Bracey	23	23	–	–	–	–	–	–
Jason Gissing	21	21	–	–	–	–	–	–
<b>Non-Executive Directors</b>								
Lord Grade (Chairman)	21	21	–	–	1	1	1	1
Ruth Anderson	18	19	4	4	1	1	1	1
Robert Gorrie	20	21	5	5	–	1	1	1
David Grigson	17	19	3	3	–	–	1	1
Jörn Rausing	21	21	–	–	2	2	1	1
David Young	17	21	5	5	2	2	–	1
<b>Former Directors</b>								
Patrick Lewis†*	14	21	–	–	–	–	–	–
Michael Robarts†*	14	17	–	–	–	–	–	–
Jeremy Frampton*	2	3	–	–	–	–	–	–
Jonathan Faiman*	2	3	–	–	–	–	–	–
Tom Clayton*	2	3	–	–	–	–	–	–

† Patrick Lewis and Michael Robarts did not attend meetings on 25 May 2010 and 28 June 2010 because the sole subject matter of each of those meetings concerned the negotiations for the new branding and sourcing agreement between the Company and Waitrose and the John Lewis Pension Fund director appointment rights. Both Patrick and Michael were appointed to the Board by the John Lewis Pension Fund which was a major shareholder in the Company during the period.

\* Jeremy Frampton, Jonathan Faiman and Tom Clayton resigned from the Ocado Limited board on 9 March 2010. Michael Robarts resigned from the Board of the Company on 26 July 2010. Patrick Lewis resigned from the Board of the Company on 15 February 2011.

#### Information and professional development

The Chairman is responsible for ensuring that all Directors are properly briefed on issues arising at Board meetings and that they have full and timely access to relevant information. The quality and supply of information provided to the Board will be reviewed as part of the Board evaluation exercise.

Directors appointed to the Board during the period participated in an induction programme including a CFC visit and meetings with members of senior management and certain key employees, for example, in the finance department. The Company intends to expand this induction program in future taking account of feedback from new Directors. The Board intends that in future the Board programme will include regular presentations from management to help maintain the Non-Executive Directors' understanding of the business and the sector.

## Statement of corporate governance continued

The need for Director training is assessed by the Board from time-to-time. In conjunction with the Company's Admission, the Company Secretary, Neill Abrams, arranged for the Directors to receive information and a presentation on the duties and obligations of a listed company director. Training for Directors is available on an ongoing basis to meet any particular needs.

The committees have access to sufficient resources to discharge their duties, as required by the Combined Code. In this regard, remuneration consultants had advised the Remuneration Committee on executive remuneration during the period. The Audit Committee received updates from the Group's auditors on technical accounting issues or developments when required. The Company retained the services of professional services consultants for the recruitment of new Non-Executive Directors.

The Board is assisted by the Company Secretary, Neill Abrams, who reports to the Chairman in respect of his core duties to the Board. All Directors have access to the advice and services of the Company Secretary. He has responsibility for ensuring that Board procedures are followed and for governance matters. The Company Secretary, under the direction of the Chairman, was responsible for ensuring good information flows within the Board and its committees, as required under the Combined Code. The appointment and removal of the Company Secretary is one of the matters reserved for the Board.

Members of the Board may take independent professional advice at the Company's expense in the furtherance of their duties.

### Director insurance and indemnities

The Company maintains directors' and officers' liability insurance cover for its Directors and officers as permitted under the Company's Articles and the Companies Act. Such insurance policies were renewed during the period and remain in force. The Company also indemnifies the Directors under an indemnity deed with each Director which contain provisions that are permitted by the director liability provisions of the Companies Act and the Company's Articles. The indemnity deeds were entered into by each Director at the time of Company's Admission. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act) were in force during the period and remain in force for the benefit of the Directors (and any officer) of the Company or of any associated company.

### Board performance evaluation

The performance of the Board is important to the success of the Group and accordingly the Board considers that reviewing its performance is helpful. During the period, each of the Executive Directors was subject to a full performance evaluation from each other and the management committee. This process will be repeated annually. The Nomination Committee recommended to the Board that the Board should be subject to an annual performance evaluation in 2011, as required by the 2010 Code. In due course, the Nomination Committee will agree who will conduct the evaluation exercise, the key objectives of the appraisal, a process for conducting the evaluation and a means of comparing the results with evaluations in future years. The Nomination Committee expects that the performance evaluation will cover the performance of the Board, each of the Board committees and the individual Directors.

In conjunction with the implementation of this Board evaluation process, the Nomination Committee recommended that in due course, the Chairman separately review the contribution of each of the Directors with them.

Subsequent to the period end, the Chairman and the Non-Executive Directors met without the Executive Directors being present, as required by the Combined Code. The Senior Independent Director and the Non-Executive Directors also met without the Executive Directors or the Chairman being present, as required by the Combined Code, and subsequently met with the Chairman to provide feedback.

The explanatory notes set out in the Notice of Meeting for the AGM state the reasons that the Board believes each Director proposed for re-election at the AGM should be re-appointed.

### Board committees

As envisaged by the Combined Code, the Board has established three committees: a Nomination Committee, a Remuneration Committee and an Audit Committee. The Chairman of each committee provides a report or update of each meeting of the respective committee to the Board at the following Board meeting.

### Nomination Committee

The Nomination Committee's principal responsibility is to keep the composition and balance of the Board under review, consider succession planning, lead the process for Board appointments and make recommendations to the Board on all new appointments and re-appointments of Non-Executive Directors. The Nomination Committee also makes recommendations for the membership of the Audit and Remuneration Committees.

**Meetings:** The Nomination Committee meets when necessary and will normally meet no fewer than two times a year. The Nomination Committee met once since it was constituted around the time of the Company's Admission. It met primarily to discuss the composition of the Board and the recruitment of new Non-Executive Directors.

**Members:** The Nomination Committee is chaired by David Grigson, and all of the other Non-Executive Directors (including the Chairman) are members.

**Independence:** The Combined Code requires a majority of the members of the Nomination Committee to be independent Non-Executive Directors. As explained above, while the Board considers its Non-Executive Directors on the Nomination Committee to be independent, from the perspective of the Combined Code only three of the members of the Nomination Committee (David Grigson, Lord Grade and Ruth Anderson) are independent. Therefore the Company does not comply with the Combined Code in this respect.

Prior to the Company's Admission, the Company recruited two new independent Non-Executive Directors, to supplement the existing Non-Executive Directors. This process was led by the Chairman (as prior to the Company's Admission, the Nomination Committee had not been constituted). Professional services consultants, The Zygos Partnership, was instructed by the Chairman in connection with this process. Following an extensive search, the Chairman recommended to the Board that David Grigson and Ruth Anderson be appointed as independent Non-Executive Directors. Both were appointed to the Company Board in March 2010.

The Company had previously stated its objective to re-balance the Board in favour of Non-Executive Directors who are considered independent under the 2010 Code. During the period, the Nomination Committee recommended that one new independent Non-Executive Director be sought and since the end of the period the recruitment of such new director to the Board was led by the chairman of the Nomination Committee. Professional services consultants, Lygon Group, were instructed by the chairman of the Nomination Committee in connection with this process. Here the Nomination Committee considered the skills, knowledge, background and experience required for the role, and prepared a job specification for the role. A number of Directors including the chairman of the Nomination Committee, the Chairman, the Chief Executive Officer and other Directors interviewed candidates for the role of Non-Executive Director: The Nomination Committee also specified the time commitment expected of the role and confirmed with candidates that each had sufficient time available to devote to the role.

The Company will continue to actively seek to recruit new non-executive directors so that the Board meets the independence requirements of the 2010 Code. The Nomination Committee will continue to meet regularly to consider the Board size and composition and to ensure that plans are in place for the orderly succession of appointments to the Board, as required by the 2010 Code.

The Nomination Committee's terms of reference are available on the website ([www.ocadogroup.com/corporate-responsibility/corporate-governance.aspx](http://www.ocadogroup.com/corporate-responsibility/corporate-governance.aspx)) and set out the Nomination Committee's responsibilities.

### Remuneration Committee

**Role:** The role of the Remuneration Committee is to determine and recommend to the Board the remuneration policy for the Chairman of the Board and the Executive Directors. This includes base salary, annual and long-term incentive entitlements and awards and pension arrangements. In determining the remuneration policy, the Remuneration Committee takes into account many factors including the need for a significant proportion of the Executive Directors' remuneration to be structured so as to link rewards to business and individual performance, as required by the Combined Code.

**Members:** The Remuneration Committee is chaired by David Young, and its other members are Ruth Anderson, Robert Gorrie and Jörn Rausing. During the period, the composition of the Remuneration Committee changed. Prior to Admission of the Company the Remuneration Committee comprised David Young (as chairman), Lord Grade and Jörn Rausing.

**Independence:** The Combined Code requires a board to establish a Remuneration Committee of at least three independent Non-Executive Directors. As explained above, while the Board considers each of its Non-Executive Directors on the Remuneration Committee to be independent, from the perspective of the Combined Code the only member of the Remuneration Committee who is independent is Ruth Anderson. Therefore the Company does not comply with the Combined Code in this respect.

**Meetings:** The Remuneration Committee will normally meet no fewer than two times a year. During the period, the Remuneration Committee met on two occasions.

**Duties:** The Remuneration Committee's key duties are as follows:

- approve the design of, and determine targets for, any performance related pay schemes operated by the Group (ensuring that the performance related elements of Executive Directors' remuneration are stretching and designed to promote the long-term success of the Company and Group) and annual payments made under such schemes. In designing such schemes, the Remuneration Committee should follow the provisions in Schedule A to the 2010 Code;
- review the design of all new long-term schemes and significant changes to such schemes for approval, in each case, by the Board and shareholders (save in the circumstances permitted by the Listing Rules). For any such schemes, determine each year whether awards will be made, and if so, the overall amount of such awards and the individual awards to Executive Directors;
- determine the policy for, and scope of, pension arrangements (if any) for each Executive Director;
- ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company or the relevant member of the Group (as applicable), that failure is not rewarded and that the duty to mitigate loss is fully recognised. The Remuneration Committee should aim to avoid rewarding poor performance and take a robust line on reducing compensation to reflect departing Directors' obligation to mitigate loss;
- ensure that notice or contract periods should be set at one year or less;
- within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive Officer as appropriate, determine the total individual remuneration package of each Executive Director and the Chairman including bonuses, incentive payments, share options or other share awards and any compensation payments (giving due regard to any relevant legal requirements and guidance);
- review and note annually the remuneration trends across the Group;
- oversee any major changes in employee benefits structures throughout the Group;
- review the policy for authorising claims for expenses from the Chief Executive Officer and Chairman;
- ensure that all provisions regarding disclosure of remuneration, including pensions, are fulfilled;

## Statement of corporate governance continued

- be responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Remuneration Committee; and
- obtain reliable, up-to-date information about remuneration in other companies, with a view to judging where to position the Company relative to other companies. The Remuneration Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations.

The Remuneration Committee has produced the Directors' remuneration report (see page 41) and will put it to the Company's shareholders for approval at the AGM on 11 May 2011.

The Remuneration Committee was advised by remuneration consultants, Towers Perrin (now Towers Watson), on certain remuneration issues. Towers Watson was appointed by the Remuneration Committee. The Remuneration Committee is satisfied that there is no connection between the Company and Towers Watson. In addition, the Remuneration Committee received advice from PricewaterhouseCoopers LLP, Slaughter and May and Appleby Trust (Jersey) Limited in connection with the implementation of the Group's JSOS.

The Board considers that the remuneration for Non-Executive Directors reflects the time commitment and responsibilities of the role.

The remuneration arrangements for Non-Executive Directors do not include share options. However, the Non-Executive Director, Robert Gorrie, holds share options in the Company which were granted to him while he held the position of Executive Director of the Company.

The Board determines the remuneration of the Non-Executive Directors within the limits set in the Company's Articles.

The Remuneration Committee will, in due course, undertake an annual review of its own performance and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval.

The Remuneration Committee's terms of reference are available on the website ([www.ocadogroup.com/corporate-responsibility/corporate-governance.aspx](http://www.ocadogroup.com/corporate-responsibility/corporate-governance.aspx)) and set out the Remuneration Committee's responsibilities.

### Audit Committee

**Role:** The Audit Committee's principal roles are to monitor the financial reporting process and the integrity of the financial statements of the Group and review the effectiveness of the Company's internal controls, risk management and audit. Its review of audit includes monitoring the effectiveness and independence of the auditors, including the provision of additional services by the auditors to the Group.

**Meetings:** The Audit Committee will normally meet no fewer than three times a year and during the period it met on five occasions to coincide with the Company's reporting timetable and its Admission.

**Members:** The Audit Committee is chaired by Ruth Anderson, and its other members are David Grigson, David Young and Robert

Gorrie. As required by the Combined Code, at least one member of the Audit Committee is considered by the Board to have recent and relevant financial experience. The biography of each member of the Audit Committee is set out on pages 16 and 17. The Chief Financial Officer, Andrew Bracey, and senior members of the finance department and the auditors regularly attended the Audit Committee meetings. During the period, the composition of the Audit Committee changed. Prior to March 2010, the Audit Committee members comprised David Young and Robert Gorrie.

**Committee Independence:** The Combined Code requires a board to establish an Audit Committee of at least three independent Non-Executive Directors. As explained above, while the Board considers each of its Non-Executive Directors on the Audit Committee to be independent, from the perspective of the Combined Code only two of the four members of the Audit Committee (Ruth Anderson and David Grigson) are independent. Therefore the Company does not comply with the Combined Code in this respect.

The auditors had direct access to the chairman of the Audit Committee and had meetings with her without the Group's finance executives present. Since the period end, the Audit Committee met with the Group's finance executives without the auditors present. It is intended that the Audit Committee will also meet solely with the auditors.

**Auditors independence:** The Combined Code requires that the Board establish formal arrangements for maintaining an appropriate relationship with its auditors and explain how auditor objectivity and independence is maintained. Following the end of the period, the Audit Committee developed and implemented the Company's policy which restricts the engagement of its auditors in relation to non-audit services to help ensure that provision of non-audit services by the auditors do not have an impact on the independence and objectivity of the Company's auditors. The policy applies the guidance set out in the Guidance on Audit Committees issued by the Financial Reporting Council in December 2010.

The majority of the non-audit work undertaken by PricewaterhouseCoopers LLP during the period related to the Company's Admission. The total of non-audit fees paid to PricewaterhouseCoopers LLP during the period is set out in the notes to the financial statements. Since the end of the period, the Audit Committee has received a regular update from management on any non-audit services being provided by PricewaterhouseCoopers LLP and the cumulative total of any non-audit fees.

PricewaterhouseCoopers LLP also follows its own ethical guidelines and the Auditing Practices Board's Ethical Standard 5 – Non-Audit Services Provided to Audited Entities, and continually reviews its audit team to ensure its independence is not compromised.

**Auditors re-appointment:** In relation to the auditors, the Audit Committee reviewed the effectiveness and performance of the audit team and received assurances from the auditors regarding their independence. On the basis of this review, the Audit Committee recommended to the Board the re-appointment of PricewaterhouseCoopers LLP as auditors to the Company. The Board accepted this recommendation and this will be put to the shareholders at the AGM on 11 May 2011.



**Principal activities of the Audit Committee:** The Audit Committee discharged its responsibilities in a number of ways, as described below.

**Internal controls:** The Audit Committee received and considered reports during the period on the work undertaken by its auditors in reviewing and auditing the control environment and reviewing the financial reporting procedures, which the Audit Committee took into account in assessing the quality and effectiveness of the Group's systems of internal control.

**Financial reporting:** The Audit Committee reviewed the Group's financial statements including, prior to the period end, a review of the significant financial reporting issues and judgements. It reviewed the basis for preparing the Group consolidated financial statements on a going concern basis and disclosures in the financial statements. In addition, the Audit Committee reviewed the two interim management statements made by the Company prior to publication.

**External auditors:** The Audit Committee agreed the approach and scope of the audit work to be undertaken by the auditors. It reviewed the Group's processes for disclosing information to the auditors. The Audit Committee reviewed, with the auditors, the findings of their work and agreed the fees payable in relation to the audit for the period. As noted above, it also agreed and implemented a policy in relation to the provision of non-audit services by the auditors.

**Internal audit:** The Group does not have a dedicated internal audit function, although internal reviews of the Group's operations are undertaken periodically by senior financial staff. The Audit Committee and the Board have considered the need for an internal audit function and concluded that, given the Group's size and structure, it is not necessary at this time. The need for an internal audit function will be monitored and developed as the size and complexity of the Group increases.

**Treasury committee:** The Audit Committee approved the terms of reference of the treasury committee which was established in June 2010. It reports periodically to the Audit Committee and must obtain the Audit Committee's approval if it wishes to carry out actions that go beyond the scope of its remit set out in the treasury policy. The treasury committee's role is to oversee the Company's treasury framework and working capital management as set out in the treasury policy and review compliance with the treasury policy.

**Review and risk:** Since the period end, the Audit Committee has received a report on key risks prepared by management and this, together with plans to mitigate such risks, will be reviewed regularly. In future, it is intended that the Audit Committee will receive individual reports in key areas such as IT security and controls, risk management, fraud and bribery.

**Whistle blowing:** The Audit Committee receives an update at each of its meeting on frauds and improprieties raised through the Company's whistle blowing procedures. The Company's whistle blowing procedure, which allows the Company's employees to report concerns anonymously, is set out in the employee handbook.

**Bribery Act:** Towards the end of the period, the Company introduced a gifts policy. The Company proposes to update this policy in light of the Bribery Act 2010 due to come into force in 2011.

**Tax controls:** Towards the end of the period, the Company appointed its Group treasurer as the "Senior Accounting Officer" for the

purposes of Schedule 46 of Finance Act 2009. The Company's Senior Accounting Officer is responsible for ensuring and certifying that appropriate tax accounting arrangements have been established and are maintained by the Company. The Company plans to carry out an assessment of its tax accounting arrangements, systems and processes for corporation tax, VAT and payroll tax.

**GSCOP:** The Grocery Supply Code of Practice ("GSCOP") which became effective in 2010 does not apply to the Company, so it is not obliged to implement any measures to accommodate this code. Nevertheless, the Company is taking steps to prepare for the likely application of GSCOP in future, including documenting written terms of supply with all suppliers. The Audit Committee will monitor this code and consider any preparations for implementation of the GSCOP code's requirements if the need arises in future.

**Terms of reference:** The Audit Committee's terms of reference, which are available on the website ([www.ocadogroup.com/corporate-responsibility/corporate-governance.aspx](http://www.ocadogroup.com/corporate-responsibility/corporate-governance.aspx)), set out the Audit Committee's responsibilities.

#### Internal control

The Board has oversight of the system of internal controls for the Company and for reviewing the effectiveness of such a system. Certain of these responsibilities have been delegated to the Audit Committee, which reports to the Board. Management is responsible for implementing and maintaining the necessary internal control systems and processes.

The Audit Committee has, in the period, reviewed the effectiveness of the Company's system of internal controls, including financial, operational and compliance controls and risk management systems. As noted above, its review had included consideration of reports prepared during the period by the Company's auditors.

A system of internal controls has been in place during the period, up to the date of approval of the annual report and accounts. The Company has made significant improvements to the Group's system of internal controls to address issues raised in the reviews, in connection with the continuing expansion of the Group's business and to recognise the more robust and formal control measures needed after the Company's Admission.

The Audit Committee is satisfied that the controls in place are appropriate. However, it is mindful that the internal control system is designed to manage rather than eliminate risk in order to achieve the Company's strategy and business objectives and so can only provide reasonable and not absolute assurance against loss.

The main features of the Company's internal control and risk management systems in relation to the financial reporting process (as required under the Disclosure and Transparency Rules) are:

- an organisational structure with clear segregation of duties, control and authority;
- comprehensive management information systems for providing management with financial and operational performance measurement indicators each week. This information is summarised monthly and reviewed by the Board;

## Statement of corporate governance continued

- formal budgeting and re-forecasting processes. Variances from budget and forecasts are monitored and explained to the Board by management;
- a capital approval policy that controls the Group's capital expenditure that can be undertaken without Executive Director or Board approval;
- monitoring the progress of major projects, including the second CFC project, by management and the Executive Directors and by the Board;
- a review of key accounting policies by the Audit Committee each year; and
- a review of reports on any whistle blowing and fraudulent activity by employees or suppliers is undertaken by the Audit Committee.

### Risk management

The Board accepts that risk is an inherent part of the business. The Company's formal risk management system was put in place in conjunction with the Company's Admission. The Company's risk management system is designed to identify key risks and provide assurance that these risks are fully understood and managed.

The Company's risk management department undertook a business-wide risk and controls assessment in 2010, identifying any actions to mitigate risk and implement new control procedures where necessary. The risk management assessment undertaken in 2010 consisted of formal identification by each department of the key risks to achieve their business objectives and the controls in place to manage them. This exercise was facilitated by the head of risk management.

The risk management department maintains a risk register which was compiled as a result of this risk assessment. The risk register lists all of the key risks that face the Company in achieving its objectives. It identifies the potential impact and likelihood of each risk both, before taking into account any mitigating controls and after any mitigating factors are taken into account. Some actions necessary to mitigate some of these risks have been identified and discussed by the risk management department and the heads of each relevant department.

Subsequent to the period end, the risk management department provided a report to the Audit Committee to allow it to review the risk assessment. It is expected that in due course, the Audit Committee will make some recommendations for taking actions to mitigate risks and agreeing specific timelines for taking such actions. These agreed actions will then be monitored by the risk management department until they are implemented.

The effectiveness of the risk management process will be reviewed by the Audit Committee which then reports to the Board. The Company intends that the risk management department will report to the Audit Committee summarising the risk management process and the risk assessment. The Audit Committee will report to the Board thereafter.

As part of the Board's oversight of risk, it receives an update at each Board meeting on health and safety issues. Any specific issues which might affect the Company's reputation are reported to the Board as they occur.

The Audit Committee is also concerned with financial risk management. The treasury committee reports to it on financial risk management issues such as hedging the Company's exposure to movements in interest rates and currency, as noted above.

### Investor relations

The Company is committed to maintaining constructive communications with its shareholders. Normal shareholder contact is the responsibility of the Chief Executive Officer, Tim Steiner; the Chief Financial Officer, Andrew Bracey and the head of investor relations. The Chairman and the Senior Independent Director are available to the Company's shareholders to discuss any of their concerns.

The Company regularly meets with its large investors and institutional shareholders who, along with analysts, are invited to presentations by the Company immediately after the announcement of the Company's results. The Chairman will occasionally attend these presentations by the Company to investors. The Board regularly receives feedback from the Executive Directors on the views of major shareholders and the investor relations programme and also receives regular reports on the main changes to the composition of the Company's share register. One of the Company's largest shareholders, the Apple Trust, has a representative Director on the Board.

All shareholders can access the annual report, trading statements, investor presentations and regular announcements on the Company's corporate website ([www.ocadogroup.com](http://www.ocadogroup.com)). All shareholders can choose to receive an annual report either in paper or electronic form.

### The Company's AGM

Shareholders will have the opportunity to meet and question the Board at the AGM. The AGM of Ocado Group plc will be held at 2 pm on 11 May 2011 at One Bunhill Row, London EC1Y 8YY.

A detailed explanation of each item of business to be considered at the AGM is included with the Notice of Meeting which will be sent to shareholders before the AGM. To allow for maximum shareholder input, the Company offers electronic proxy voting and voting through the CREST electronic proxy appointment service. The Board proposes that all resolutions proposed at the AGM will be taken on a poll vote. This follows best practice guidelines and enables the Company to count all votes, not just those of shareholders who attend the meeting. The Company expects that the Chairman will announce the provisional voting results at the meeting. The final voting results will be announced by the Company immediately following the AGM via the Regulatory News Service and will also be available on the Company's corporate website ([www.ocadogroup.com](http://www.ocadogroup.com)).

### Share capital, voting rights and significant shareholders

Details concerning the Company's share capital, significant shareholders, special rights, voting rights and other matters as required by the Disclosure and Transparency Rule 7.2 are set out in the Directors' report.

# Directors' remuneration report

This Directors' remuneration report, prepared by the Remuneration Committee on behalf of the Board, has been drawn up in accordance with the Combined Code, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Listing Rules and the Disclosure and Transparency Rules.

This Directors' remuneration report has been approved by both the Remuneration Committee and by the Board, and a resolution to approve the report will be proposed at the AGM of the Company on 11 May 2011.

## Part A: Unaudited information

### (a) Remuneration Committee

#### Role

The Remuneration Committee's role and duties are described in the corporate governance statement, together with other information regarding the operation of the Remuneration Committee, and is incorporated into this Directors' remuneration report by reference.

### (b) Remuneration policy

The remuneration policy of the Remuneration Committee and of the Board is to provide remuneration packages for Executive Directors and other senior executive managers in the Group which:

- align management's interests with those of shareholders by incentivising management to deliver the Group's long-term strategy and enhance shareholder value;
- provide management with the opportunity to earn competitive remuneration through variable based pay;
- provide rewards comparable with those of other relatively similar companies to the Group; and
- enable the Group to attract and retain management of the calibre required to run the business and drive shareholder value creation.

Like the Board, the Remuneration Committee is able to take into account various environmental, social and other factors in making its decisions about Executive Director remuneration.

Any Director who is appointed to any executive office shall be entitled to receive such remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board or any committee authorised by the Board may decide, either in addition to or in lieu of their remuneration as a Director. In addition, any Director who performs services which in the opinion of the Board or any committee authorised by the Board go beyond the ordinary duties of a Director, may be paid such extra remuneration as the Board or any committee authorised by the Board may determine. Each Director may be paid their reasonable travelling, hotel and incidental expenses of attending and returning from meetings of the Board, or committees of the Board or of the Company or any other meeting which as a Director they are entitled to attend, and shall be paid all other costs and expenses properly and reasonably incurred by them in the conduct of the Company's business or in the discharge of their duties as a Director. The Company may also fund a Director's or former Director's expenditure and that of a Director or former Director of any holding company of the Company for the purposes permitted under the Companies Act and may do anything to enable a Director or former Director or a Director or former Director of any holding company of

the Company to avoid incurring such expenditure as provided in the Companies Act.

The Board or any committee authorised by the Board may exercise the powers of the Company to provide benefits by the payment of gratuities or pensions or by insurance or in any other manner for any Director or former Director or their relations, dependants or persons connected to him, but no benefits (except those provided for by the Articles) may be granted to or in respect of a Director or former Director who has not been employed by or held an executive office under the Company or any of its subsidiary undertakings or their respective predecessors in business without the approval of an ordinary resolution of the Company.

The remuneration consists of the elements outlined below.

### Performance-related versus fixed remuneration

It is the Company's policy that a substantial proportion of the Executive Directors' remuneration should be variable and performance related in order to encourage and reward superior business performance and shareholder returns and that remuneration should be linked to both individual and Company performance.

### Base pay

Basic salary for Executive Directors takes into account the individual's experience, roles, responsibilities and performance. This is normally reviewed annually unless their responsibilities change. For an Executive Director the Remuneration Committee considers base salary and increases based on the median level paid for comparable roles within the market and the FTSE 250.

One of the Remuneration Committee's duties is to review and note, annually, remuneration trends across the Group. Following the end of the period, the Remuneration Committee received an update from management on the reviews being undertaken by management on pay, share schemes and other employee benefits for the Group generally. Although the pay of employees of the Group was not specifically considered by the Remuneration Committee in making its recommendations on Director remuneration during the period, the Remuneration Committee expects that it will receive further reports from management on pay trends and reviews being undertaken by the Group, in order for this to be taken into account by the Remuneration Committee in future Director remuneration reviews.

Each of the Directors shall be paid a fee at such rate as may from time to time be determined by the Board, but the aggregate of all such fees so paid to the Directors shall not exceed £1 million per annum or such higher amount as may from time to time be decided by ordinary resolution of the Company. The Executive Directors are not currently paid any fees on account of holding an office.

### Annual bonus

The Remuneration Committee takes into account the performance of the Group and the performance of the individual Executive Directors to determine the amount to be awarded each year. The Remuneration Committee also takes into account median levels of remuneration compared to the Group's retail peers.

On the recommendation of the Remuneration Committee the Board approved bonus payments to the Company's four Executive Directors totalling £640,000 for the period, consistent with the Company's

## Directors' remuneration report continued

practice for awarding Executive Director bonuses in previous periods, including before the Company's Admission. The individual amounts are detailed in the Directors' remuneration table on page 45.

These bonuses reflected the Executive Directors' achievement in growing the Group's sales in line with internal targets and moving the business into profitability in the final quarter of the period. They also recognised the achievement of the Company's strategic objectives, which in the period included the IPO of the Company and in the process, raising funds to enable continued rapid expansion of the business. The Board was also mindful of the fact that, after these payments, Executive Director pay plus bonuses for the period was essentially unchanged from the previous year (except in the case of Andrew Bracey, who joined the Group in November 2009).

Applicable to the Company's first full period post-Admission, the Board has put in place a structured annual incentive scheme for the Executive Directors. For the 2011 period, potential cash bonus payments will be calculated from performance measures related to sales growth, profitability and strategic objectives. The selection of these measures reflects the strategic priorities for the business at this stage of its development.

### Pension

Ocado contributes to the personal pension plans of its staff through a defined contribution Group personal pension scheme which is administered by Standard Life. Employer contributions to the scheme are a percentage of salary based on length of scheme membership. The Group's contributions on behalf of Executive Directors are on the same terms as for other employees. All the Executive Directors participate in the Group's pension plan with the exception of Andrew Bracey.

### (c) Share plans

The Group currently operates three employee share incentive schemes, described below. Further information on the Group's share schemes can be found in Note 24 to the consolidated financial statements.

#### Executive share ownership scheme (the "ESOS")

The ESOS is the Group's share option scheme approved by HMRC, and was established by Ocado in 2001. Options may also be granted under the terms of a schedule, which is not so approved.

The employees who are eligible to participate in the ESOS are all Ocado's Executive Directors and employees, including the employees of Ocado's subsidiaries. Directors and employees may not participate if, in the period of 12 months before grant of the option, they had a material interest (broadly owning or controlling 25 per cent of its share capital) in Ocado or a company which owns or controls Ocado and that company was a close company.

Subsequent to the last set of share options under the ESOS having been granted to a Director in November 2009 the Board has resolved that options will not be granted to Directors under the ESOS without first setting appropriate performance targets (for example achieving a target contribution per order or the Group achieving EBITDA targets). The number and exercise price for any options granted to Directors is set by the Remuneration Committee. All Executive Directors participate in the ESOS.

### JSOS

The set up of the JSOS was approved by a resolution of the Board on 13 January 2010 following recommendations made by the Remuneration Committee that a new executive incentive scheme be established to incentivise and retain its four Executive Directors and select members of senior management of the Group. The scheme was approved by shareholders by written resolution in January 2010. The terms of the JSOS were approved by the Remuneration Committee who oversee the operation of the scheme.

The JSOS is a share ownership scheme under which its participants and Appleby Trust (Jersey) Limited, EBT Trustee, acquired separate beneficial interests in 32,476,700 ordinary shares which represented, at the time of issue, 7.5 per cent of the then issued share capital of the Company. These ordinary shares were divided into four tranches, vesting over four years.

The employees eligible to participate in the JSOS are all *bona fide* employees of the Company or its subsidiaries, including Executive Directors.

The Remuneration Committee is responsible for deciding the identity of the participants and the number of ordinary shares that may be acquired. All Executive Directors participate in the JSOS.

### Sharesave Scheme

The Sharesave Scheme was approved by a written resolution of the shareholders passed on 23 June 2010, and launched on 30 September 2010. It is a savings-related share option plan and is approved by HMRC. Under this scheme, the Company or the trustees of an employee trust may grant options over shares in the Company to eligible employees, including Executive Directors of the Company or its subsidiaries. To obtain an option an eligible individual must agree to save a fixed monthly amount for three years. The amount saved will determine the number of shares over which the option is granted. All Executive Directors participate in the Sharesave Scheme.

### Non-employee share options

In addition to the options granted under the ESOS outlined above, Ocado had granted to certain non-employees options to subscribe for either ordinary shares or convertible preference shares in Ocado Limited (and following the reorganisation that resulted in the Company becoming the holding company of the Group, in the Company). Options over shares in Ocado Limited were granted to Andrew Bracey before he became a Director. Following the reorganisation that resulted in the Company becoming the holding company of the Group, such options are now options over ordinary shares in the Company.

### Performance conditions in share schemes

Under the JSOS, a tranche vests in each of the four years (as set out in the table in Part B, below) if the participant in the JSOS remains employed by the Company. As described in detail in the Company's Prospectus, if a participant leaves during the currency of the scheme, he may lose all or part of his beneficial interest, depending on the circumstances in which he leaves (that is, whether he is a "good leaver", "bad leaver" or "very bad leaver"). Apart from these leaver provisions, there are no performance conditions attaching to the shares in the JSOS.

### Performance graph

The following graph shows the TSR performance of an investment of £100 in the Company's shares from its Admission on 26 July 2010, to the end of the period compared with an equivalent investment in the FTSE 250 Index (which was chosen because it represents a broad equity market index of which the Company is a constituent). TSR was calculated by reference to the movements in share price.



### (d) Service contracts

#### Executive Directors' service contracts

Ocado Limited has entered into service contracts with each of the Executive Directors for the provision of services to the Group. Each of the contracts was entered into on 22 June 2010.

If their service contracts are terminated without cause, Ocado Limited can request that they work their notice period, take a period of garden leave or can pay an amount in lieu of notice equal to one times their basic salary for the remainder of their notice period. These payments would be subject to deductions for tax and national insurance. The contracts contain restrictive covenants, which continue for 12 months after termination. The contracts do not contain any specific provisions relating to a change of control of the business.

The terms of these contracts, together with the dates on which each Executive Director was appointed by Ocado Limited and the Company respectively, are set out below:

Director	Date of appointment by Ocado Limited	Date of appointment by Ocado Group plc	Unexpired term (months)	Notice period by Company (months)	Notice period by Director (months)	Current age
Jason Gissing	02/02/2000	09/03/2010	Continuous employment until terminated by either party	12	6	40
Tim Steiner	13/04/2000	09/03/2010	Continuous employment until terminated by either party	12	6	41
Neill Abrams	08/09/2000	10/12/2009	Continuous employment until terminated by either party	12	6	46
Andrew Bracey	03/11/2009	10/12/2009	Continuous employment until terminated by either party	12	6	44

#### Non-Executive Directors' letters of appointment

The Chairman and the Non-Executive Directors do not have service contracts and were appointed by letter of appointment, the details of which are set out below:

Director	Date of appointment by Ocado Limited	Date of appointment by Ocado Group plc	Current term	Notice period	Current age
Robert Gorrie	01/04/2000	09/03/2010	3 years	1 month	51
David Young	13/10/2000	09/03/2010	3 years	1 month	69
Jörn Rausing	13/03/2003	09/03/2010	3 years	1 month	51
Lord Grade	15/09/2006	09/03/2010	3 years	6 months	68
Patrick Lewis	21/10/2009	09/03/2010	3 years	1 month	45
Michael Robarts	19/01/2010	09/03/2010	3 years	1 month	66
David Grigson	03/02/2010	09/03/2010	3 years	1 month	56
Ruth Anderson	—	09/03/2010	3 years	1 month	57

Tom Clayton, Jonathan Faiman and Jeremy Frampton resigned from the Board of Ocado Limited on 9 March 2010. Michael Robarts resigned from the Board of the Company on 26 July 2010. Patrick Lewis resigned from the Board of the Company on 15 February 2011.

## Directors' remuneration report continued

### (e) Directors' interests in ordinary shares

The interests at the end of the period of the Directors of the Company, serving at the end of the period, were:

Director	Ordinary shares of 2 pence each 28 November 2010	Ordinary shares of 1 pence each 29 November 2009
Tim Steiner	14,396,400	143,964
Jason Gissing	9,657,600	96,576
Andrew Bracey	812,555	7,500
Robert Gorrie	627,900	13,529
Neill Abrams	360,600	4,356
Lord Grade	189,110	780
Ruth Anderson	26,666	—
David Grigson	15,000	—
David Young	13,400	—
Patrick Lewis	—	—
Jörn Rausing	—	—

On 9 February 2010 the ordinary shares in Ocado Limited were exchanged for ordinary shares in the Company on a 1:100 basis with a nominal value of 2 pence per ordinary share.

There have been no changes in the Directors' interests in the shares issued or options granted by the Company and its subsidiaries between the end of the period and 18 March 2011, except the sale of 2 million shares by the Steiner 2008 Millennium Trust, of which Tim Steiner, is one of a number of discretionary beneficiaries, announced by the Company on 18 February 2011.

Except for the Directors' interests in Ocado Limited at the beginning of the period, no Director had an interest in any of the Company's subsidiaries at the beginning or end of the period.

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

Director	Ordinary shares of 2 pence each 28 November 2010	Ordinary shares of 1 pence each 29 November 2009
Tim Steiner	15,291,200	152,912
Neill Abrams	1,100,800	12,008
Jason Gissing	7,659,300	95,834
Jörn Rausing	59,080,100	262,077

In addition to the above holdings, Caryn Abrams (wife of Neill Abrams) holds 75,000 ordinary shares, and is a discretionary beneficiary of a trust holding 133,100 (2009: 741) ordinary shares of the Company.

Past Directors who still hold an interest in the ordinary shares of the Company are Jeremy Frampton who held 257,200 ordinary shares, Jonathan Faiman and a connected entity of his holding 850,000 and 24,437,400 ordinary shares respectively and Tom Clayton holding 65,821 ordinary shares, at period end.

**Part B: Audited information****(a) Directors' remuneration**

The following section provides details of the remuneration, pension and share interests of the Directors for the 52 weeks to 28 November 2010 and has been audited.

	Salaries and fees 2010 £'000	Benefits in kind† 2010 £'000	Annual bonus 2010 £'000	Pension contributions 2010 £'000	Total 2010 £'000	Total 2009 £'000
<b>Executive Directors</b>						
Tim Steiner	394	4	220	28	646	651
Jason Gissing	281	3	150	20	454	487
Andrew Bracey	281	3	150	—	434	23
Neill Abrams	224	2	120	16	362	346
<b>Non-Executive Directors</b>						
Lord Grade	113	—	100	—	213	112
David Grigson	41	—	—	—	41	—
David Young	40	—	—	—	40	28
Ruth Anderson	33	—	—	—	33	—
Robert Gorrie	22	—	—	—	22	34
Patrick Lewis	16	—	—	—	16	—
Tom Clayton	—	—	—	—	—	14
Brian Lynas	—	—	—	—	—	20
Jonathan Faiman	—	—	—	—	—	—
Jeremy Frampton	—	—	—	—	—	—
Michael Robarts	—	—	—	—	—	—
Jörn Rausing	—	—	—	—	—	—
<b>Total</b>	<b>1,445</b>	<b>12</b>	<b>740</b>	<b>64</b>	<b>2,261</b>	<b>1,715</b>

† Benefits in kind comprise of private medical insurance.

In addition to his role as a Non-Executive Director, Robert Gorrie provides consultancy services to the Group and chairs the meetings of the Ocado employee council. He provides these services through Robert Gorrie Limited (of which he is the sole shareholder) and is paid a per diem fee for these services. These fees are included in related party transactions with key management personnel in Note 31 to the consolidated financial statements.

Lord Grade was entitled to a single bonus of £100,000 payable on the Company's Admission which he elected to receive in ordinary shares in accordance with the terms of his letter of appointment.

**(b) Directors' interests in share option and share ownership schemes****ESOS**

The Directors have the following options over ordinary shares as at 28 November 2010 in the Company and as at 29 November 2009 in Ocado Limited under the Group's ESOS:

Director	Date of issue	28 November 2010	Exercise price (£)	29 November 2009	Exercise price (£)	Exercise period
Tim Steiner	May-05	200,000	1.15	2,000	115	16/05/08–15/05/15
Neill Abrams	May-02	175,000	1.00	1,750	100	07/02/05–06/02/12
	May-02	175,000	1.50	1,750	150	07/02/05–06/02/12
	Nov-03	100,000	0.90	1,000	90	30/11/06–29/11/13
	May-05	100,000	1.15	1,000	115	16/05/08–15/05/15
Andrew Bracey	Nov-09	46,296	1.35	463	135	16/11/12–15/11/19
Jason Gissing	May-05	200,000	1.15	2,000	115	16/05/08–15/05/15
Robert Gorrie	May-02	175,000	1.50	1,750	150	07/02/05–06/02/12
	May-02	—	—	1,750	100	07/02/05–06/02/12
	Nov-03	—	—	1,000	90	30/11/06–29/11/13
Jonathan Faiman	May-05	—	—	2,000	115	16/05/08–15/05/15

There were no share options issued under the Group's ESOS to the Directors during the period (2009: 463).

Robert Gorrie exercised 2,750 share options during the period (2009: nil). The exercise price of these options ranged between £90 and £100, as these options were exercised before the reorganisation of the Group. Total gains realised upon exercise of these options were £106,000.

His options were granted to him before the commencement of his role as a Non-Executive Director. The Company does not include options in remuneration paid to Non-Executive Directors.

## Directors' remuneration report continued

The only lapse of Directors' share options during the period was Jonathan Faiman's options which lapsed when he retired from the Board (2009: nil).

### Non-employee share options

In addition to the options over ordinary shares pursuant to the Group's ESOS detailed above, Andrew Bracey has the following options as at 29 November 2010 over ordinary shares in the Company, and options as at 29 November 2009 over shares in Ocado Limited:

	Date of issue	28 November 2010	Exercise price (£)	29 November 2009	Exercise price (£)	Exercise period
Andrew Bracey	Feb-02	886,700	0.90	8,867	90	04/02/02–04/02/17
	Jan-04	435,300	1.03	4,353	103	03/01/04–03/01/18

In February 2002 Tom Clayton was issued 943 options over ordinary shares of Ocado Limited at an exercise price of £53 outside of the Group's ESOS. These were converted into 94,300 options over ordinary shares in the Company on 9 February 2010 on a 1:100 basis, and all these options were exercised during the current period.

There are no performance criteria attached to these non-employee share options.

### JSOS

At the end of the period the Executive Directors' interest in ordinary shares in the Company pursuant to the Group's JSOS were as follows:

Director	Date of issue	28 November 2010	Hurdle price (£)	Vesting period
Tim Steiner	Feb-10	2,513,100	1.73	01/01/11–01/01/19
	Feb-10	2,513,100	1.91	01/01/12–01/01/19
	Feb-10	2,513,100	2.08	01/01/13–01/01/19
	Feb-10	2,513,000	2.28	01/01/14–01/01/19
Neill Abrams	Feb-10	1,017,200	1.73	01/01/11–01/01/19
	Feb-10	1,017,200	1.91	01/01/12–01/01/19
	Feb-10	1,017,200	2.08	01/01/13–01/01/19
	Feb-10	1,017,100	2.28	01/01/14–01/01/19
Andrew Bracey	Feb-10	1,675,400	1.73	01/01/11–01/01/19
	Feb-10	1,675,400	1.91	01/01/12–01/01/19
	Feb-10	1,675,400	2.08	01/01/13–01/01/19
	Feb-10	1,675,300	2.28	01/01/14–01/01/19
Jason Gissing	Feb-10	1,675,400	1.73	01/01/11–01/01/19
	Feb-10	1,675,400	1.91	01/01/12–01/01/19
	Feb-10	1,675,400	2.08	01/01/13–01/01/19
	Feb-10	1,675,300	2.28	01/01/14–01/01/19

For further information relating to the set up of the Group's JSOS see Note 24(b) to the consolidated financial statements.

### Sharesave Scheme

At the end of the period the Executive Directors' interests in the Sharesave Scheme were as follows:

Director	Date of Issue	28 November 2010	Exercise price (£)	Exercise period
Tim Steiner	Oct-10	7,745	1.16	01/11/13–01/05/14
Neill Abrams	Oct-10	7,745	1.16	01/11/13–01/05/14
Andrew Bracey	Oct-10	7,745	1.16	01/11/13–01/05/14
Jason Gissing	Oct-10	7,745	1.16	01/11/13–01/05/14

The market price of the Company's shares at 28 November 2010 was 151 pence per share and the range during the period was 1235 pence to 167 pence.

For further information relating to the Sharesave Scheme see Note 24(d) to the consolidated financial statements.

No other Directors have options over shares of the Company outside one of the Company's recognised share schemes (except for Andrew Bracey's non-employee share options, noted above).

### Approved by the Board

**David Young**  
Chairman of the Remuneration Committee  
Ocado Group plc  
23 March 2011



# Independent auditors' report

to the members of Ocado Group plc

We have audited the group financial statements of Ocado Group plc for the year ended 28 November 2010 which comprise the consolidated income statement, consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of cash flows, the consolidated statement of changes in equity 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 Directors' responsibilities statement set out on pages 24 and 25, the Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the consolidated 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 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 group'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 consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 28 November 2010 and of its loss and cash flows for the year 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 and Article 4 of the IAS Regulation.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements; and
- the information given in the Statement of Corporate Governance set out on pages 33 to 40 with respect to internal control and risk management systems and about share capital structures 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:

- 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.

Under the Listing Rules we are required to review:

- the Directors' report, set out on pages 19 to 25, in relation to going concern; and
- the part of the Statement of Corporate Governance relating to the Company's compliance with the nine provisions of June 2008 Combined Code specified for our review.

## Other matter

We have reported separately on the parent company financial statements of Ocado Group Plc for the year ended 28 November 2010 and on the information in the Directors' remuneration report that is described as having been audited.

## Clive Hinds (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors

St Albans

23 March 2011

# Consolidated income statement

for the 52 weeks ended 28 November 2010

	Notes	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
<b>Revenue</b>	5	<b>515,688</b>	401,997
Cost of sales		<b>(354,043)</b>	(279,168)
<b>Gross profit</b>		<b>161,645</b>	122,829
Other income		<b>6,245</b>	2,641
Distribution costs		<b>(132,809)</b>	(110,331)
<b>Operating profit before administrative expenses and exceptional item</b>		<b>35,081</b>	15,139
Administrative expenses		<b>(36,895)</b>	(29,542)
Exceptional item — IPO costs	23	<b>(3,542)</b>	—
<b>Operating loss</b>	6	<b>(5,356)</b>	(14,403)
Finance income	8	<b>1,502</b>	12
Finance costs	8	<b>(8,357)</b>	(11,118)
<b>Loss before tax</b>		<b>(12,211)</b>	(25,509)
Taxation	9	<b>5,000</b>	2,300
<b>Loss for the period attributable to the owners of the Company<sup>†</sup></b>		<b>(7,211)</b>	(23,209)
<b>Loss per share</b>		<b>pence</b>	pence
Basic and diluted loss per share	27	<b>(1.63)</b>	(6.05)

<sup>†</sup>Non-GAAP measure: Earnings before interest, taxation, depreciation, amortisation, impairment and exceptional item (EBITDA)

	Notes	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Loss for the period attributable to the owners of the Company		<b>(7,211)</b>	(23,209)
Adjustments for:			
Finance income	8	<b>(1,502)</b>	(12)
Finance costs	8	<b>8,357</b>	11,118
Taxation	9	<b>(5,000)</b>	(2,300)
Depreciation of property, plant and equipment	11	<b>19,333</b>	17,865
Amortisation expense	10	<b>4,474</b>	4,743
Impairment of property, plant and equipment	11	<b>14</b>	1,023
Exceptional item — IPO costs	23	<b>3,542</b>	—
<b>Earnings before interest, taxation, depreciation, amortisation, impairment and exceptional item (EBITDA)</b>		<b>22,007</b>	9,228

## Note:

A reverse acquisition took place on 9 February 2010. The financial information for the comparative period has been presented as if Ocado Group plc had been the parent company of the Group throughout (see Notes 2(a) and 2(b)).

# Consolidated statement of comprehensive income

for the 52 weeks ended 28 November 2010

	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
<b>Loss for the period attributable to the owners of the Company</b>	<b>(7,211)</b>	<b>(23,209)</b>
<b>Other comprehensive income:</b>		
Cash flow hedges — forward foreign exchange contracts		
— Gains arising in the period	818	—
— Gains transferred to property, plant and equipment for the period	(92)	—
<b>Other comprehensive income for the period</b>	<b>726</b>	<b>—</b>
<b>Total comprehensive expense for the period attributable to the owners of the Company</b>	<b>(6,485)</b>	<b>(23,209)</b>

**Note:**

A reverse acquisition took place on 9 February 2010. The financial information for the comparative period has been presented as if Ocado Group plc had been the parent company of the Group throughout (see Notes 2(a) and 2(b)).

# Consolidated balance sheet

as at 28 November 2010

	Notes	28 November 2010 £'000	29 November 2009 £'000
<b>Non-current assets</b>			
Intangible assets	10	8,069	6,684
Property, plant and equipment	11	100,031	90,252
Deferred tax asset	9	7,300	2,300
Available-for-sale financial asset	12	395	395
		<b>115,795</b>	<b>99,631</b>
<b>Current assets</b>			
Inventories	13	12,480	9,213
Trade and other receivables	14	18,569	14,740
Derivative financial instruments	22	472	—
Short-term investment	15	30,000	—
Cash and cash equivalents	16	124,639	13,017
		<b>186,160</b>	<b>36,970</b>
<b>Total assets</b>		<b>301,955</b>	<b>136,601</b>
<b>Current liabilities</b>			
Trade and other payables	17	(55,491)	(47,237)
Borrowings	18	(2,282)	(12,087)
Obligations under finance leases	18	(16,485)	(19,669)
Provisions	21	(115)	—
		<b>(74,373)</b>	<b>(78,993)</b>
<b>Net current assets/(liabilities)</b>		<b>111,787</b>	<b>(42,023)</b>
<b>Non-current liabilities</b>			
Borrowings	18	(9,774)	(42,658)
Obligations under finance leases	18	(45,573)	(45,651)
Derivative financial instruments	22	—	(1,083)
Provisions	21	(446)	(366)
		<b>(55,793)</b>	<b>(89,758)</b>
<b>Net assets/(liabilities)</b>		<b>171,789</b>	<b>(32,150)</b>
<b>Equity</b>			
Share capital	23	11,068	40
Share premium	23	206,094	310,836
Treasury shares reserve	23	(47,741)	—
Reverse acquisition reserve	23	(116,230)	—
Other reserves	23	726	—
Retained earnings/(accumulated deficit)		117,872	(343,026)
<b>Surplus/(deficit) attributable to equity holders</b>		<b>171,789</b>	<b>(32,150)</b>

The consolidated financial statements on pages 48 to 91 were authorised for issue by the Board of Directors and signed on its behalf by:

**Tim Steiner**  
Chief Executive Officer

**Andrew Bracey**  
Chief Financial Officer

Ocado Group plc  
Company Registration Number 07098618 (England and Wales)

23 March 2011

**Note:**

A reverse acquisition took place on 9 February 2010. The financial information for the comparative period has been presented as if Ocado Group plc had been the parent company of the Group throughout (see Notes 2(a) and 2(b)).

# Consolidated statement of cash flows

for the 52 weeks ended 28 November 2010

		52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
	Notes		
<b>Cash flows from operating activities</b>			
Loss before income tax		(12,211)	(25,509)
Adjustments for:			
— Depreciation of property, plant and equipment	11	19,333	17,865
— Amortisation expense	10	4,474	4,743
— Impairment of property, plant and equipment	11	14	1,023
— (Profit)/loss on disposal of property, plant and equipment	6	(63)	33
— Provision for dilapidations expense	21	80	169
— Provision for insurance claims incurred but not reported	21	115	—
— Share-based payments charge	7	320	78
— Finance income	8	(1,502)	(12)
— Finance costs	8	8,357	11,118
Changes in working capital:			
— Increase in inventories		(3,267)	(106)
— Increase in trade and other receivables		(1,897)	(2,707)
— Increase in trade and other payables		4,791	10,135
<b>Cash generated from operations</b>		<b>18,544</b>	<b>16,830</b>
Interest paid		(10,319)	(12,740)
<b>Net cash flows from operating activities</b>		<b>8,225</b>	<b>4,090</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(14,681)	(15,215)
Proceeds from sale of property, plant and equipment		87	—
Purchase of intangible assets		(5,850)	(4,389)
Increase in short-term investment		(30,000)	—
Interest received		167	12
<b>Net cash flows from investing activities</b>		<b>(50,277)</b>	<b>(19,592)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of ordinary share capital net of transaction costs		210,104	29,129
Proceeds from borrowings		11,374	25,052
Repayment of borrowings		(54,063)	(28,374)
Proceeds from asset based financing arrangements		1,676	7,135
Repayments of obligations under finance leases		(15,417)	(10,280)
<b>Net cash flows from financing activities</b>		<b>153,674</b>	<b>22,662</b>
<b>Net increase in cash and cash equivalents</b>		<b>111,622</b>	<b>7,160</b>
Cash and cash equivalents at the beginning of the period		13,017	5,857
<b>Cash and cash equivalents at the end of the period</b>	16	<b>124,639</b>	<b>13,017</b>

## Note:

A reverse acquisition took place on 9 February 2010. The financial information for the comparative period has been presented as if Ocado Group plc had been the parent company of the Group throughout (see Notes 2(a) and 2(b)).

# Consolidated statement of changes in equity

for the 52 weeks ended 28 November 2010

	Notes	Share capital £'000	Share premium £'000	shares reserve £'000	Treasury acquisition reserve £'000	Reverse Other reserves £'000	(Accumulated deficit)/ Retained earnings £'000	(Deficit)/ surplus attributable to equity holders £'000
<b>Balance at 1 December 2008</b>		38	281,649	—	—	1,139	(321,034)	(38,208)
Loss for the period		—	—	—	—	—	(23,209)	(23,209)
<b>Total comprehensive expense for the period</b>		—	—	—	—	—	(23,209)	(23,209)
Transactions with owners								
— Issue of ordinary shares	23	2	30,072	—	—	—	—	30,074
— Transaction costs on issue of ordinary shares	23	—	(945)	—	—	—	—	(945)
— Issue of convertible preference shares	23	—	60	—	—	—	—	60
— Transfer of equity on conversion of loan stock	23(d)	—	—	—	—	(5)	5	—
— Transfer of equity on repayment of loan stock	23(d)	—	—	—	—	(1,134)	1,134	—
— Share-based payments charge	24	—	—	—	—	—	78	78
<b>Total transactions with owners</b>		2	29,187	—	—	(1,139)	1,217	29,267
<b>Balance at 29 November 2009</b>		40	310,836	—	—	—	(343,026)	(32,150)
Loss for the period		—	—	—	—	—	(7,211)	(7,211)
Other comprehensive income	23(d)	—	—	—	—	726	—	726
<b>Total comprehensive expense for the period</b>		—	—	—	—	726	(7,211)	(6,485)
Transactions with owners:								
— Issue of ordinary shares in Ocado Limited	23	3	49,443	(47,741)	—	—	—	1,705
— Cancellation of Ocado Limited ordinary shares	23(a)	(43)	—	—	—	—	43	—
— Issue of ordinary and convertible preference shares by Ocado Group plc	23(b)	476,509	—	—	(476,509)	—	—	—
— Ocado Group plc capital reduction	23(b)	(467,846)	—	—	—	—	467,846	—
— Reverse acquisition of Ocado Limited by Ocado Group plc	23(c)	—	(360,279)	—	360,279	—	—	—
— Issue of ordinary shares by Ocado Group plc on IPO	23	2,380	211,862	—	—	—	—	214,242
— Ordinary shares issue costs	23	—	(6,881)	—	—	—	—	(6,881)
— Issue of ordinary shares in Ocado Group plc	23	25	1,113	—	—	—	—	1,138
— Share-based payments charge	24	—	—	—	—	—	220	220
<b>Total transactions with owners</b>		11,028	(104,742)	(47,741)	(116,230)	—	468,109	210,424
<b>Balance at 28 November 2010</b>		<b>11,068</b>	<b>206,094</b>	<b>(47,741)</b>	<b>(116,230)</b>	<b>726</b>	<b>117,872</b>	<b>171,789</b>

**Note:**

A reverse acquisition took place on 9 February 2010. The financial information for the comparative period has been presented as if Ocado Group plc had been the parent company of the Group throughout (see Notes 2(a) and 2(b)).

# Notes to the consolidated financial statements

## 1 General information

Ocado Group plc (hereafter "the Company") is incorporated and domiciled in the United Kingdom. The address of its registered office is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE. The financial information comprises the results of Ocado Group plc and its subsidiaries (hereafter "the Group"), see Note 28. The financial period represents the 52 weeks ending 28 November 2010 (prior period 52 weeks ending 29 November 2009).

## 2 Accounting policies

### (a) Basis of preparation and development of Ocado Group plc

The Company was incorporated on 8 December 2009 and on 9 February 2010 acquired the entire share capital of Ocado Limited. As a result of this transaction, the ultimate shareholders in Ocado Limited received shares in the Company in direct proportion to their original shareholdings in Ocado Limited.

Under IFRS 3 (revised) "Business Combinations", the acquisition of Ocado Limited by the Company has been accounted for as a reverse acquisition and the consolidated IFRS financial information of the Company is therefore a continuation of the financial information of Ocado Limited.

As a result any financial information after 9 February 2010 represents consolidated financial information of the Group. Prior to this date the historical financial information represents the financial information of the Company's only operating subsidiary, Ocado Limited (see Note 28).

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 through profit and loss.

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

### 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 adopted by the Group in 2009/10 or issued, but are not yet effective and have not been early adopted by the Group:

All standards, amendments and interpretations which became effective during the financial period were early adopted by the Group in the prior financial period. As such, no new standards, amendments and interpretations were adopted by the Group during the financial period.

The following IFRSs, IFRIC interpretations and amendments, effective for periods beginning on or after the date shown below, have been issued but are not yet effective and have not been early adopted by the Group:

- Amendment to IFRS 2, "Share Based Payments" is effective from 1 January 2010
- Amendment to IFRS 3, "Business Combinations" is effective from 1 January 2011
- Amendment to IFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations" is effective from 1 January 2010
- Amendment to IFRS 7, "Financial Instruments: Disclosures" is effective from 1 January 2011
- IFRS 9, "Financial Instruments" new standard effective from 1 January 2013
- Amendment to IAS 1, "Presentation of Financial Statements" is effective from 1 January 2011
- Amendment to IAS 12, "Income Taxes" is effective from 1 January 2012
- Amendment to IAS 21, "The Effects of Changes in Foreign Exchange Rates" is effective from 1 July 2010
- Amendment to IAS 24, "Related party Disclosures" is effective from 1 January 2011

## Notes to the consolidated financial statements continued

### 2 Accounting policies continued

- Amendment to IAS 32, "Financial Instruments: Presentation" is effective from 1 February 2010
- Amendment to IAS 34, "Interim Financial Reporting" is effective from 1 January 2011
- Amendment to IFRIC 13, "Customer Loyalty Programs" is effective from 1 January 2011

The adoption of these standards, interpretations and amendments is not anticipated to have a material effect on the consolidated results of the Group.

#### (b) Basis of consolidation

The consolidated financial statements include the financial statements of all subsidiaries. The financial year ends of all entities in the Group are coterminous.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control over the operating and financial decisions is obtained and cease to be consolidated from the date on which control is transferred out of the Group. Control exists when the Company has the power, directly, or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities.

On 9 February 2010, the Group, previously headed by Ocado Limited, underwent a re-organisation by virtue of which Ocado Limited's shareholders in their entirety exchanged their shares for shares in Ocado Group plc, a newly formed company, which then became the ultimate parent company of the Group. Notwithstanding the change in the legal parent of the Group, this transaction has been accounted for as a reverse acquisition and the consolidated financial statements are prepared on the basis of the new legal parent having been acquired by the existing Group.

All intercompany balances and transactions, including recognised gains arising from inter-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same manner as recognised gains except to the extent that they provide evidence of impairment.

#### (c) Foreign currency translation

##### Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Sterling is the Company's functional and the Group's presentation currency.

##### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income" or "finance costs". All other foreign exchange gains and losses are presented in the income statement within "Operating loss".

##### Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates (unless average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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



## 2 Accounting policies continued

### (d) 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.

### (e) Cost of sales

Cost of sales represents the cost to the Group 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 any adjustments to inventories.

### (f) 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.

### (g) 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.

### (h) Exceptional item — IPO costs

IPO costs allocated to profit and loss represent the portion of directly attributable costs relating to the secondary shares traded on Admission and other costs attributable to the Listing.

### (i) Other income

Other income consists of advertising revenue, commission income received and income from other services to suppliers.

### (j) Property, plant and equipment

Property, plant and equipment excluding land are stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes the original purchase price of the asset and any costs attributable to bringing the asset to its working condition for its intended use.

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 found within distribution expenses and 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)
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.

### (k) 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. Amortisation and impairment of computer software or licences is charged to administration expenses in the period in which it arises.

## Notes to the consolidated financial statements continued

### 2 Accounting policies continued

#### (l) Impairment of non-financial assets

The Group 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 Group's current operating structure the lowest level at which cash flows can reasonably be assessed is for the Group as a whole. The Group is still investing in its future growth and so has not yet reached a stage where it delivers positive post tax earnings. The Group 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.

#### (m) 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.

#### (n) 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 Group. 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 income statement 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 income statement 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.

#### (o) 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.

#### (p) 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.

## 2 Accounting policies continued

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

### (q) Provisions

Provisions are recognised when: the Group 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.

### Insurance claims

Provisions for insurance claims relate to motor insurance claims that have been incurred but not reported and are based on estimates provided to Ocado by the third-party manager of the Ocado Cell in Atlas Insurance PCC Ltd.

### Dilapidations

Provisions for dilapidations are recognised on a lease by lease basis and are based on the Group's best estimate of the likely committed outflow to the Group. Where material, these estimated outflows are discounted to net present value.

### (r) Employee benefits

#### Pensions

The Group 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 scheme membership. Contributions are charged to the income statement in the period in which they arise.

#### Share-based payments

Employees (including Directors) of the Group 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 Group, 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 Group 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.

The Group has exposure in respect of cash-settled share-based payment transactions and share-based payment transactions with cash alternatives as defined by IFRS 2 "Share-based Payments" only in respect of bad leaver provisions in the JSOS.

For details of the share options see Note 24.

### (s) Financial instruments

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

## Notes to the consolidated financial statements continued

### 2 Accounting policies continued

The Group classifies its financial instruments in the following categories:

- Available-for-sale;
- Loans and receivables;
- Other financial liabilities at amortised cost; and
- Financial liabilities at fair value through the profit or 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 consider that the Group's investments fall within this category as explained 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 accumulated 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 in the income statement. Dividends are recognised in the income statement 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 Group's loans and receivables comprise "Trade and other receivables," "Short-term investment" 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.

#### Short-term investment

Short-term investment comprises treasury deposits with a maturity of greater than three months at balance sheet date.

#### 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 Group'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 Group after deducting all of its liabilities.

#### Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost, using the effective interest rate method.

#### 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 income statement over the period of the borrowings on an effective interest rate basis. On the balance sheet, interest bearing borrowings have been subcategorised as borrowings and obligations under finance leases.

#### Compound instruments

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

## 2 Accounting policies continued

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. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has designated all outstanding derivative financial instrument balances at 28 November 2010 as cash flow hedges of highly probable forecast transactions.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and at the financial reporting period, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of the various derivative instruments used for hedging purposes are disclosed in Note 22. Movements on the hedging reserve in shareholders' equity are shown in the consolidated statement of comprehensive income. The full fair value of a hedging derivative is classified as a current asset when the remaining maturity of the hedged item is less than 12 months.

### *Cash flow hedging*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. When the hedged forecast transaction results in the recognition of property, plant and equipment the gains or losses previously deferred in equity are included in the initial cost of the asset and are ultimately recognised in profit or loss through the depreciation line.

### *Equity instruments*

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

### **(t) Impairment of financial assets**

#### **Assets carried at amortised cost**

The Group 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 criteria that the Group 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; and
- Disappearance of an active market.

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

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 income statement.

### *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 income statement on equity investments are not reversed.

## Notes to the consolidated financial statements continued

### 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 Group 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 Group will receive benefits from the software, but not exceeding the licence term. For unique software products controlled and developed by the Group, 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 Group being 33% in 2010 (2009: 66%) of the Group's total assets. Therefore, the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Group's financial position and performance.

##### Estimation of useful life

The change 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 income statement.

The useful lives of the Group'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.

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

The Group has cash reserves and maintains a mixture of long-term and short-term debt finance that is designed to ensure the Group has sufficient available funds for its operations and its planned expansion. The Group 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 Group also prepares detailed forward projections for future periods which are constantly updated and refined. As a consequence, the Directors are satisfied that the Group is able to maintain sufficient resources to continue in operation for the foreseeable future. Accordingly, they have adopted the going concern basis in preparing the financial statements.

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

The Group 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 Group's current operating structure, the lowest level at which cash flows can reasonably be assessed is for the Group as a whole. The Group 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 gross sales;
- Growth in EBITDA;
- Timing and quantum of future capital expenditure; and
- The estimation of future funding and the cost of such funding.

### 3 Critical accounting estimates and assumptions continued

#### (d) Leases

The Group has a number of complex high value lease arrangements. The Group follows the guidance of IAS 17 "Leases" 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 "Leases" requires the Group 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 Group'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 Group would generate future taxable profits against which existing tax losses could be relieved. As a result the Group has recognised a deferred tax asset of £7.3 million with respect to available tax losses.

### 4 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors.

The principal activity of the Group is the retailing and distribution of grocery and consumer goods within the UK. The results from the licensing of intellectual property for use outside of the UK to a non-UK subsidiary and the establishment in October 2010 of a captive insurance cell in Malta (see Note 28) are not currently separately reported as they are not considered material and management do not believe information about these segments would be useful to the users of the financial statements.

The principal activity of the Group is managed as one segment 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 Group's management with any meaningful information. Consequently all activities relate to this one segment.

The Group is domiciled in the UK. All of its revenue is from UK external customers and all non-current assets are located in the UK.

### 5 Gross sales

	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Revenue	515,688	401,997
VAT	27,285	18,788
Marketing vouchers	8,126	6,493
Gross sales	<b>551,099</b>	427,278

## Notes to the consolidated financial statements continued

### 6 Operating loss

		52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
	Notes		
Cost of inventories recognised as an expense		344,796	271,613
Employment costs	7	96,739	78,181
Amortisation expense	10	4,474	4,743
Depreciation of property, plant and equipment	11	19,333	17,865
Impairment of property, plant and equipment	11	14	1,023
(Profit)/loss on disposal of property, plant and equipment		(63)	33
Charges/(credit) relating to the impairment of receivables	25(b)	45	(30)
Operating lease rentals			
— Land and buildings		2,347	1,815
— Other leases		413	191
Net foreign exchange losses		147	72

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

		52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
<b>Audit services</b>			
— Statutory Group and Company audit		40	—
— Statutory audit of subsidiaries		185	90
<b>Non-audit services</b>			
— Services pursuant to legislation and compliance ‡		975	7
— Other services		108	—
		1,308	97

‡ Comprises primarily services in relation to the preparation for the Listing of the Company.



## 7 Employee information

Employment costs during the financial period were as follows:

	Notes	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
<b>Staff costs during the period:</b>			
Wages and salaries		91,699	74,116
Social security costs		8,665	7,015
Pension costs — defined contribution plans		1,197	1,067
Share-based payments expense		320	78
Total employment costs		101,881	82,276
Staff costs capitalised	11	(5,142)	(4,095)
<b>Total employment cost expense</b>		<b>96,739</b>	<b>78,181</b>
<b>Average monthly number of employees (including Executive Directors) by role:</b>			
Operational staff		3,835	3,151
Support staff		417	343
		<b>4,252</b>	<b>3,494</b>

The share-based payments expense relates to the Group's equity-settled share schemes and a cash-settled share-based payment (see Note 24 for information on the Group's share option schemes).

## 8 Finance income and costs

	Notes	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Interest on cash balances and short-term investment		557	5
Other interest		12	7
Fair value movement in derivative liability	22	933	—
<b>Finance income</b>		<b>1,502</b>	<b>12</b>
Interest on bank loans and overdrafts		(31)	(41)
Interest on finance leases		(4,356)	(5,009)
Interest on borrowings		(3,970)	(5,717)
Interest on convertible loan		—	(347)
Fair value movement in derivative liability		—	(4)
<b>Finance costs</b>		<b>(8,357)</b>	<b>(11,118)</b>
<b>Net finance costs</b>		<b>(6,855)</b>	<b>(11,106)</b>

Included in interest on borrowings is an amount of £197,000 relating to the accelerated amortisation of prepaid arrangement fees.

## Notes to the consolidated financial statements continued

### 9 Taxation

	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Recognised in the income statement		
Current tax:		
UK corporation tax on profits of the period	—	—
Adjustments in respect of prior periods	—	—
<b>Total current tax</b>	<b>—</b>	<b>—</b>
Deferred tax:		
Origination and reversal of temporary differences	—	—
Recognition of tax losses	(5,000)	(2,300)
<b>Total deferred tax</b>	<b>(5,000)</b>	<b>(2,300)</b>
<b>Income tax credit</b>	<b>(5,000)</b>	<b>(2,300)</b>

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the Group as follows:

	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Loss before tax	(12,211)	(25,509)
Effective tax credit at the UK tax rate of 28% (2009: 28%)	(3,419)	(7,143)
Effect of:		
Permanent differences	138	332
Tax losses for which no deferred tax asset recognised	(4,119)	1,793
Temporary differences on which no deferred tax recognised	2,400	2,718
<b>Income tax credit for the period</b>	<b>(5,000)</b>	<b>(2,300)</b>

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28 per cent to 27 per cent from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1 per cent per annum to 24 per cent by 1 April 2014.

Movement in the deferred tax asset is as follows:

	Tax losses carry- forwards £'000	Accelerated capital allowances £'000	Share- based payments £'000	Total £'000
<b>As at 30 November 2008</b>	—	—	—	—
Tax losses recognised through the income statement	2,300	—	—	2,300
<b>As at 29 November 2009</b>	2,300	—	—	2,300
Tax losses recognised through the income statement	5,000	—	—	5,000
<b>As at 28 November 2010</b>	<b>7,300</b>	<b>—</b>	<b>—</b>	<b>7,300</b>

## 9 Taxation continued

The unrecognised deferred tax asset in respect of tax losses and accelerated capital allowances available at the period end is analysed below:

	Tax losses carry- forwards £'000	Accelerated capital allowances £'000	Share- based payments £'000	Total £'000
<b>As at 30 November 2008</b>	75,117	14,609	611	90,337
Potential movement in the period unrecognised through				
— Income statement	1,793	2,725	(7)	4,511
— Equity	—	—	177	177
<b>As at 29 November 2009</b>	76,910	17,334	781	95,025
Effect of change in UK corporation tax rate	(2,596)	(707)	(6)	(3,309)
Potential movement in the period unrecognised through				
— Income statement	(4,119)	2,459	(59)	(1,719)
— Equity	—	—	(109)	(109)
<b>As at 28 November 2010</b>	<b>70,195</b>	<b>19,086</b>	<b>607</b>	<b>89,888</b>

## 10 Intangible assets — Computer software

	28 November 2010 £'000	29 November 2009 £'000
<b>Cost</b>		
At the beginning of the period	28,503	24,114
Additions	717	294
Internal development costs capitalised	5,142	4,095
At the end of the period	34,362	28,503
<b>Accumulated amortisation</b>		
At the beginning of the period	(21,819)	(17,076)
Charge for the period	(4,474)	(4,743)
At the end of the period	(26,293)	(21,819)
<b>Net book value</b>		
At the end of the period	8,069	6,684

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

	28 November 2010 £'000	29 November 2009 £'000
Cost	2,470	2,470
Accumulated amortisation	(2,404)	(2,113)
Net book value	66	357

The movement in cost includes assets of £nil (2009: £265,000) reclassified from owned assets to assets held under finance lease following asset based financing arrangements.

For the 52 weeks ended 28 November 2010, internal development costs capitalised were £5,142,000 (2009: £4,095,000) and represented approximately 88% (2009: 93%) of expenditure on intangible assets and 15% (2009: 18%) of total capital spend including property, plant and equipment.

## Notes to the consolidated financial statements continued

### 11 Property, plant and equipment

	Land and buildings £'000	Fixtures, fittings, plant and machinery £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>				
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
Additions	3,079	15,348	10,723	29,150
Disposals	(173)	(1,483)	(5,936)	(7,592)
<b>At 28 November 2010<sup>‡</sup></b>	<b>38,241</b>	<b>126,343</b>	<b>27,425</b>	<b>192,009</b>
<b>Accumulated depreciation and impairment</b>				
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)
Charge for the period	(1,493)	(13,151)	(4,689)	(19,333)
Impairment	—	(14)	—	(14)
Disposals	149	1,483	5,936	7,568
<b>At 28 November 2010</b>	<b>(11,090)</b>	<b>(69,609)</b>	<b>(11,279)</b>	<b>(91,978)</b>
<b>Net book value</b>				
At 30 November 2008	22,248	58,813	9,470	90,531
At 29 November 2009	25,589	54,551	10,112	90,252
<b>At 28 November 2010</b>	<b>27,151</b>	<b>56,734</b>	<b>16,146</b>	<b>100,031</b>

<sup>‡</sup>Cost includes capitalised interest of £147,000 (2009: £147,000).

The net carrying value of land and buildings comprises:

	28 November 2010 £'000	29 November 2009 £'000
Freehold	11,274	9,645
Short leasehold — less than 50 years	15,877	15,944
	<b>27,151</b>	25,589

**11 Property, plant and equipment** continued

The net book value of fixed assets held under finance leases are analysed below:

	Land and buildings £'000	Fixtures, fittings, plant and machinery £'000	Motor vehicles £'000	Total £'000
<b>At 28 November 2010</b>				
Cost	26,509	57,685	26,455	110,649
Accumulated depreciation and impairment	(10,632)	(32,200)	(10,618)	(53,450)
<b>Net book value</b>	<b>15,877</b>	<b>25,485</b>	<b>15,837</b>	<b>57,199</b>
<b>At 29 November 2009</b>				
Cost	25,459	55,869	20,872	102,200
Accumulated depreciation and impairment	(9,515)	(26,332)	(11,247)	(47,094)
<b>Net book value</b>	<b>15,944</b>	<b>29,537</b>	<b>9,625</b>	<b>55,106</b>

The movement in cost includes assets of £2,119,000 (2009: £6,870,000) reclassified from owned assets to assets held under finance lease following asset based financing arrangements.

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 property, plant and equipment is capital work-in-progress for land and buildings of £1,849,000 (2009: £nil) and capital work-in-progress for fixtures, fittings, plant & machinery of £4,152,000 (2009: £39,000).

Property, plant and equipment with a net book value of £10.3 million (2009: £11.0 million) has been pledged as security for the secured loans (Note 19).

**12 Available-for-sale financial asset**

	28 November 2010 £'000	29 November 2009 £'000
Unlisted equity investment	395	395

The unlisted equity investment comprises a 25% interest in Paneltex Limited whose registered office is at Paneltex House, Somerden Road, Hull, HU9 5PE. 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 Group's 25% interest in Paneltex Limited has not been treated as an associated undertaking as the Group do not have significant influence over Paneltex Limited. 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 it is unable to participate in the financial and operating policy decisions of Paneltex Limited due to the position of the majority shareholder as Executive Managing Director, the insignificant size and arms length nature of the relationship between the Group and the company.

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

The Group does not intend to dispose of this investment in the foreseeable future. If the Group 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 31.

## Notes to the consolidated financial statements continued

### 13 Inventories

	28 November 2010 £'000	29 November 2009 £'000
Goods for resale	11,113	8,270
Consumables	1,367	943
	<b>12,480</b>	<b>9,213</b>

No security has been granted over inventories.

### 14 Trade and other receivables

	28 November 2010 £'000	29 November 2009 £'000
Trade receivables	7,190	5,896
Less: provision for impairment of trade receivables	(234)	(189)
Net trade receivables	6,956	5,707
Other receivables	7,260	4,072
Prepayments	3,634	4,411
Accrued income	719	550
	<b>18,569</b>	<b>14,740</b>

No security has been granted over trade and other receivables.

Included in other receivables is £5,431,000 (2009: £3,058,000) due from suppliers in relation to supplier funded promotional activity.

A reconciliation of the movement in the provision for impairment of trade and other receivables (excl. prepayments) is shown below:

	28 November 2010		29 November 2009	
	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Not past due	13,222	—	7,807	—
Past due 0-3 months	1,681	(96)	2,395	(47)
Past due 3-6 months	192	(86)	115	(26)
Past due over 6 months	74	(52)	201	(116)
	<b>15,169</b>	<b>(234)</b>	<b>10,518</b>	<b>(189)</b>

The provisions account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against trade receivables directly. Impairment losses are included within administrative expenses in the income statement.

**14 Trade and other receivables** continued

Trade receivables that were past due but not impaired amounted to £1,713,000 (2009: £2,522,000) and relate to a number of suppliers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	28 November 2010 £'000	29 November 2009 £'000
Past due 0-3 months	1,585	2,348
Past due 3-6 months	106	89
Past due over 6 months	22	85
	<b>1,713</b>	<b>2,522</b>

**15 Short-term investment**

	28 November 2010 £'000	29 November 2009 £'000
Treasury deposit	30,000	—

The short-term investment relates to a £30 million treasury deposit which matures on 26 July 2011.

**16 Cash and cash equivalents**

	28 November 2010 £'000	29 November 2009 £'000
Cash at bank and in hand	124,780	13,157
Bank overdraft	(141)	(140)
	<b>124,639</b>	<b>13,017</b>

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

The Group renewed its bank overdraft facility of £5 million with Barclays Bank plc in January 2010. This facility was cancelled in January 2011 (see Note 33).

The cash and cash equivalents balance does not include a £30 million treasury deposit held by the Group, which has been classified within short-term investment (see Note 15).

£600,000 of the Group's cash and cash equivalents are held by the Group's captive insurance company to maintain solvency requirements. Therefore, these funds are deemed to be restricted and are not circulated within the Group on demand.

## Notes to the consolidated financial statements continued

### 17 Trade and other payables

	28 November 2010 £'000	29 November 2009 £'000
Trade payables	34,645	33,839
Taxation and social security	3,851	3,130
Accruals	14,801	9,519
Deferred income	2,194	749
	<b>55,491</b>	<b>47,237</b>

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

### 18 Borrowings and finance leases

	Notes	28 November 2010 £'000	29 November 2009 £'000
<b>Current liabilities</b>			
Borrowings	19	2,282	12,087
Obligations under finance leases	20	16,485	19,669
		<b>18,767</b>	<b>31,756</b>
<b>Non-current liabilities</b>			
Borrowings	19	9,774	42,658
Obligations under finance leases	20	45,573	45,651
		<b>55,347</b>	<b>88,309</b>
<b>Total borrowings and finance leases</b>		<b>74,114</b>	<b>120,065</b>

### 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
<b>As at 28 November 2010</b>					
Secured loans	11,919	2,145	3,718	6,056	—
Unsecured loans	137	137	—	—	—
<b>Total borrowings</b>	<b>12,056</b>	<b>2,282</b>	<b>3,718</b>	<b>6,056</b>	<b>—</b>
<b>As at 29 November 2009</b>					
Secured loans	41,350	5,998	17,463	17,489	400
Unsecured loans	13,395	6,089	4,579	2,727	—
<b>Total borrowings</b>	<b>54,745</b>	<b>12,087</b>	<b>22,042</b>	<b>20,216</b>	<b>400</b>



## 19 Borrowings continued

### Secured loans

The Group entered into a loan of £8.0 million in May 2007 which is secured over certain warehouse assets. Interest was charged at the clearing bank's base rate plus 2.5% and was repayable in equal quarterly instalments 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 recommenced in August 2010 with equal instalments paid quarterly ending February 2015. The interest rate was reset to the clearing bank's base rate plus 3.0%. The carrying amount of the loan at 28 November 2010 is £7.1 million (2009: £7.5 million).

The Group entered into a loan of £1.5 million in December 2006 which is secured on a freehold property. Interest is charged at the clearing bank's base rate plus 1.5%. The loan is repayable in fixed quarterly instalments from March 2007 with a final payment in December 2011. The carrying amount of the loan at 28 November 2010 is £1.0 million (2009: £1.1 million).

The Group entered into a loan of £1.5 million 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. The carrying amount of the loan at 28 November 2010 is £1.2 million (2009: £1.4 million).

The Group entered into a loan of £2.9 million in December 2009 which is secured on a freehold property. Interest is charged at LIBOR plus 3.5%. It is repayable in fixed quarterly instalments from April 2010 with a final bullet payment in December 2012. The carrying amount of the loan at 28 November 2010 is £2.6 million (2009: £nil).

The Group entered into a loan of £20.0 million in December 2004 which was extended by a further £15.0 million in February 2007. Interest was charged at LIBOR plus 6.0%, of which 2.0% was due biannually and 4.0% was capitalised into the loan and is payable at the end of the loan term. A repayment of £10.0 million was made in November 2008 and the outstanding capital balance of £27.5 million (2009: £26.4 million) was repaid in August 2010. The loan was secured over certain warehouse assets, software and intellectual property.

The Group entered into a loan of £5.0 million in September 2008 secured over certain warehouse assets, software and intellectual property, initially repayable in instalments or in full on or before September 2009. The loan was extended in September 2009 until January 2010 on the same terms, and thereafter on a month by month basis. The outstanding capital balance of £5.0 million (2009: £5.0 million) was repaid in May 2010. Interest was charged at LIBOR plus 2.8%.

### Unsecured loans

The Group entered into an agreement in October 2009 to defer the payment of its insurance premium over ten fixed monthly instalments. Interest was charged at 7.2% with the final payment made in July 2010. The Group entered into a new agreement in October 2010 to defer the payment of its insurance premium of over ten fixed monthly instalments. Interest is charged at 6.5% with the final payment due in September 2011. The carrying amount of the loan at 28 November 2010 is £0.1 million (2009: £1.9 million).

The Group entered into a loan of £6.8 million in April 2002 with the then landlord of the CFC. It was repayable in fixed quarterly instalments with a final payment in March 2012. Interest was charged at 14.2% and the Group had a right to repay the loan without penalty at any time on six months notice. The outstanding capital balance of £1.6 million (2009: £2.2 million) was repaid in September 2010.

The Group entered into a Murabaha facility agreement in July 2009 to raise funds of £10.0 million. It was repayable in quarterly instalments from October 2009 to July 2012 totalling £11.3 million. It had been estimated that this would supply the bank with an overall yield of 8.0%. The outstanding capital balance of £6.9 million (2009: £9.3 million) was repaid in October 2010.

## Notes to the consolidated financial statements continued

### 20 Obligations under finance leases

	28 November 2010 £'000	29 November 2009 £'000
Obligations under finance leases due:		
Within one year	16,485	19,669
Between one and two years	16,121	16,392
Between two and five years	21,947	20,698
After five years	7,505	8,561
<b>Total obligations under finance leases</b>	<b>62,058</b>	<b>65,320</b>

	28 November 2010 £'000	29 November 2009 £'000
Minimum lease payments due:		
Within one year	20,087	23,705
Between one and two years	18,576	19,180
Between two and five years	24,546	23,779
After five years	9,459	10,773
	72,668	77,437
Less: future finance charges	(10,610)	(12,117)
<b>Present value of finance lease liabilities</b>	<b>62,058</b>	<b>65,320</b>
Disclosed as:		
Current	18	19,669
Non-current	18	45,651
	<b>62,058</b>	<b>65,320</b>

The existing finance lease arrangements entered into by the Group contain no restrictions concerning dividends, additional debt and further leasing. Furthermore, no material leasing arrangements exist relating to contingent rent payable, renewal or purchase options and escalation clauses.

## 21 Provisions

	Insurance claims £'000	Dilapidations £'000	Total £'000
<b>As at 30 November 2008</b>	—	197	197
Charged/(credited) to the income statement			
— Additional provision	—	212	212
— Unused amounts reversed	—	(3)	(3)
— Used during the period	—	(40)	(40)
<b>As at 29 November 2009</b>	—	366	366
Charged/(credited) to the income statement			
— Additional provision	115	203	318
— Unused amounts reversed	—	(1)	(1)
— Used during the period	—	(122)	(122)
<b>As at 28 November 2010</b>	<b>115</b>	<b>446</b>	<b>561</b>

## Analysis of total provisions as at 28 November 2010

	Insurance claims £'000	Dilapidations £'000	Total £'000
Current	115	—	115
Non-current	—	446	446
	<b>115</b>	<b>446</b>	<b>561</b>

## Analysis of total provisions as at 29 November 2009

	Insurance claims £'000	Dilapidations £'000	Total £'000
Current	—	—	—
Non-current	—	366	366
	—	366	366

The insurance claims provision is held within the Group's captive insurance cell and relates to motor insurance claims incurred but not reported.

The dilapidations provision is based on the future expected repair costs required to restore the CFC and the leased vans to their fair condition at the end of their respective lease terms. The CFC lease expires in 2032. Leases for vans run for five years.

## 22 Derivative financial instruments

	28 November 2010 £'000	29 November 2009 £'000
<b>Derivative asset</b>		
Derivative asset designated as at fair value through profit or loss		
— Forward foreign exchange contracts (cash flow hedges)	472	—
<b>Derivative liability</b>		
Derivative liability designated as at fair value through profit or loss		
— Warrant agreements	—	1,083

## Notes to the consolidated financial statements continued

### 22 Derivative financial instruments continued

#### Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 28 November 2010 were EUR 17.6 million (2009: EUR nil).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve within other comprehensive income were £818,000 (2009: £ nil). These gains are recognised in the income statement in periods during which the hedged forecast transaction affects the income statement, which for the purchase of property, plant and equipment, is over the useful life of the asset (three to 25 years).

#### Warrant agreements

In 2004, the Group issued to Ranelagh Nominees (an affiliate of Lloyds Bank plc) and to Lloyds TSB Bank plc warrants to subscribe for up to 5,611,200 ordinary shares at £1.80 per share. Lloyds TSB Bank plc subsequently transferred its warrants to Ranelagh Nominees Limited. The warrants provided Ranelagh Nominees with the opportunity to benefit in the equity upside of the Company. On IPO the warrants were fair valued at £150,000, down £933,000 from that previously recognised. This decrease in fair value was due to the market price being lower on the IPO than the expected market price per the initial valuation. The outstanding derivative liability of £150,000 was settled in cash.

### 23 Share capital and reserves

	28 November 2010		29 November 2009	
	Number of shares	£'000	Number of shares	£'000
<b>Authorised</b>				
Ordinary shares of 2 pence each (2009: 1 pence each)	600,000,000	12,000	3,000,000	30
Convertible preference shares of 1 pence each	—	—	3,000,000	30
	<b>600,000,000</b>	<b>12,000</b>	6,000,000	60
<b>Allotted, called up and fully paid</b>				
Ordinary shares of 2 pence each (2009: 1 pence each)	553,428,201	11,068	1,525,757	15
Convertible preference shares of 1 pence each	—	—	2,474,749	25
	<b>553,428,201</b>	<b>11,068</b>	4,000,506	40

Included in the total number of ordinary shares outstanding above is 32,476,700 (2009: nil) ordinary shares held by the Group's employee benefit trust (see Note 23(a)).

**23 Share capital and reserves** continued

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

	Notes	Ordinary shares number	Convertible preference shares number	Ordinary shares £'000	Convertible preference shares £'000	Share premium £'000
<b>At 1 December 2008</b>		1,302,690	2,474,220	13	25	281,649
Issue of ordinary shares		222,281	—	2	—	30,005
Ordinary shares issue costs		—	—	—	—	(945)
Allotted in respect of executive share ownership scheme	24(a)	786	—	—	—	67
Issue of convertible preference shares		—	529	—	—	60
<b>At 29 November 2009</b>		1,525,757	2,474,749	15	25	310,836
Allotted in respect of executive share ownership scheme of Ocado Limited	24(a)	6,635	—	—	—	731
Allotted in respect of joint share ownership scheme of Ocado Limited	23(a)	324,767	—	3	—	48,712
Cancellation of Ocado Limited ordinary and convertible preference shares	23(b)	(1,857,159)	(2,474,749)	(18)	(25)	—
Issue of ordinary and convertible preference shares by Ocado Group plc	23(b)	185,715,900	247,474,900	204,287	272,222	—
Ocado Group plc capital reduction	23(b)	—	—	(200,573)	(267,273)	—
Reverse acquisition of Ocado Limited by Ocado Group plc	23(c)	—	—	—	—	(360,279)
Issue of ordinary shares by Ocado Group plc on IPO		118,968,225	—	2,379	—	211,763
Issue of ordinary shares to the Chairman on IPO		55,555	—	1	—	99
Share issue costs		—	—	—	—	(6,881)
Conversion of preference shares to ordinary shares on IPO		247,474,900	(247,474,900)	4,949	(4,949)	—
Allotted in respect of the executive share ownership scheme of Ocado Group plc	24(a)	1,032,921	—	21	—	978
Allotted in respect of non-employee share options issued by Ocado Group plc	24(c)	180,700	—	4	—	135
<b>At 28 November 2010</b>		<b>553,428,201</b>	<b>—</b>	<b>11,068</b>	<b>—</b>	<b>206,094</b>

Convertible preference shares were 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 ranked *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 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.

On 9 February 2010 the Company acquired the entire share capital of Ocado Limited. As a result of this transaction, the shareholders in Ocado Limited received shares in the Company in direct proportion to their original shareholdings in Ocado Limited. Shareholders were issued 100 shares in the Company for every 1 share in Ocado Limited. The shares in the Company have a nominal value of 2 pence each. Therefore as at 28 November 2010 share capital represents that of the Company. The prior period presented represents that of Ocado Limited.

On 26 July 2010 the Company's shares were admitted to the Premium Listing segment of the Official List of the UK Listing Authority and to trading on the main market of the London Stock Exchange (the "Listing"). In conjunction, the Company made an initial public offering ("IPO") of 118,968,225 new 2 pence ordinary shares at a price of 180 pence per share. Also in conjunction, 247,474,900 convertible preference shares converted to ordinary shares.

## Notes to the consolidated financial statements continued

### 23 Share capital and reserves continued

Costs related directly to the new issue of shares in the amount of £6.9 million have been deducted from the share premium account. Attributable IPO costs are allocated between the share premium account and profit and loss account in proportion to the number of primary and secondary shares traded on Admission. Other costs attributable to the Listing have been expensed.

Costs expensed in the amount of £3.5 million in relation to the IPO relate primarily to legal and professional fees.

The ordinary shares held by the trustee of the Group's employee benefit trust pursuant to the JSOS are treated as treasury shares in the Group's consolidated balance sheet in accordance with IAS 32 "Financial instruments: Presentation". These ordinary shares have voting rights but these have been waived by the trustee. The number of allotted, called up and fully paid shares, excluding treasury shares, at the end of each period differs from that used in the loss per share calculation in Note 27 as loss per share is calculated using the weighted average number of ordinary shares and convertible preference shares in issue during the period, excluding treasury shares.

The movements in reserves other than share premium are set out below:

	Notes	Treasury shares reserve £'000	Reverse acquisition reserve £'000	Other reserves £'000
<b>At 29 November 2009</b>				
Allotted in respect of joint share ownership scheme of Ocado Limited	23(a)	(47,741)	—	—
Issue of ordinary and convertible preference shares by Ocado Group plc	23(b)	—	(476,509)	—
Reverse acquisition of Ocado Limited by Ocado Group plc	23(c)	—	360,279	—
Fair value movement on derivative financial instrument	23(d)	—	—	726
<b>At 28 November 2010</b>		<b>(47,741)</b>	<b>(116,230)</b>	<b>726</b>

#### a) Treasury shares reserve

This reserve arose when the Group issued equity share capital under its JSOS, which is held in trust by the trustee of the Group's employee benefit trust. The consideration paid is deducted from total shareholders' equity and classified as treasury shares on consolidation.

#### b) Scheme of arrangement and capital reduction

On 9 February 2010, pursuant to a scheme of arrangement, all of Ocado Limited's ordinary and convertible preference shares were cancelled. Immediately thereafter, Ocado Limited issued 100 ordinary shares to the Company for £1 and in consideration of that and of the cancellation of Ocado Limited's ordinary and convertible preference shares, the Company issued 185,715,900 ordinary shares and 247,474,900 convertible preference shares on the basis of 100 ordinary and/or convertible preference shares for each Ocado Limited ordinary share and/or convertible preference share held. The effect of the scheme of arrangement was to replicate the shareholders' register of Ocado Limited at the Company level.

On 16 February 2010, pursuant to an order of the Court confirming the reduction of capital of the Company, the Company's share capital was reduced by decreasing the nominal value of each ordinary and convertible preference share issued pursuant to the Scheme of Arrangement from 110 pence to 2 pence. This created distributable reserves of £467.8 million.

#### c) Reverse acquisition reserve

The acquisition by the Company of the entire issued share capital of Ocado Limited has been accounted for as a reverse acquisition under IFRS 3 (revised). Consequently the previously recognised book values and assets and liabilities have been retained and the consolidated financial information for the period to 28 November 2010 has been presented as if the Company had always been the parent company of the Group.

The share capital for the period covered by these consolidated financial statements and the comparative periods is stated at the nominal value of the shares issued pursuant to the above share arrangement. Any differences between the nominal value of these shares and previously reported nominal values of shares and applicable share premium issued by Ocado Limited have been transferred to the reverse acquisition reserve.

## 23 Share capital and reserves continued

### (d) Other reserves

Other reserves consist of the foreign currency translation reserve, the fair value reserve and the convertible loan interest reserve.

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the Company's foreign subsidiary, Ocado Information Technology Limited, which is incorporated in Ireland and whose functional currency is Euro.

The fair value reserve comprises gains and losses on the spot movement of the Group's cash flow hedges.

The convertible loan interest reserve existing on 1 December 2008 arose from the issuing of convertible loan stock in 2004 which in accordance with the principles of IAS 32 was bifurcated into its liability and equity components. In March 2009 on the expiry of the stock holders' convertible loan stock, £1.1 million previously recognised in the convertible loan interest reserve in respect of this convertible loan stock was transferred to the accumulated deficit reserve.

## 24 Share options and other equity instruments

The Group currently operates three employee share incentive schemes, namely the ESOS, the JSOS and the Sharesave Scheme.

### (a) ESOS

The Group's ESOS is an equity-settled share option scheme approved by HMRC. Options may also be granted under the terms of a schedule, which is not so approved. The ESOS was established by Ocado in 2001.

Under the ESOS, Ocado or the trustees of an employee trust may grant options over shares in the Company to eligible employees. The eligible employees to whom options are granted and the terms of such options will be determined by the Directors of Ocado or the trustees. The employees who are eligible to participate in the ESOS are all Ocado's Executive Directors and all employees, including the employees of Ocado's subsidiaries. Options are not transferable.

The exercise price of options may not be less than the market value of the Company's shares on the date of grant. If the trustees or the Directors have determined that the exercise of an option will be satisfied by the issue of ordinary shares, the exercise price may also not be less than the nominal value of ordinary shares.

The directors of Ocado or trustees may impose a performance target and any further condition determined to be appropriate on the exercise of an option. Any performance target must generally be measured over a period of at least three years. There are currently no options granted which are subject to performance targets that have not yet been met.

The vesting period for the ESOS is three 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).

On 9 February 2010 the ordinary shares and convertible preference shares in Ocado Limited were converted into ordinary shares and convertible preference shares in Ocado Group plc on a 1:100 basis with a nominal value of 2 pence per share. Current period opening balance, movements during the period and options outstanding at the end of the period have been disclosed as if the conversion occurred at the beginning of the period.

## Notes to the consolidated financial statements continued

### 24 Share options and other equity instruments continued

#### (a) ESOS continued

At each respective balance sheet date the outstanding options were as follows:

	Year of issue	28 November 2010	Exercise price (£)	29 November 2009	Exercise price (£)	Exercise period
Approved	2001	593,725	0.80	13,940	80	01/04/03 – 29/11/11
	2001	17,744	0.90	268	90	30/11/04 – 29/11/11
	2002	128,181	0.90	4,104	90	31/05/05 – 29/11/12
	2003	120,053	0.90	2,127	90	31/05/06 – 29/11/13
	2004	183,426	0.90	3,147	90	31/05/07 – 29/11/14
	2005	367,789	1.00	6,599	100	31/05/08 – 29/11/15
	2005	70,170	1.15	944	115	31/05/08 – 30/05/15
	2006	138,890	1.40	1,918	140	31/05/09 – 30/05/16
	2006	115,028	1.50	1,627	150	30/11/09 – 29/11/16
	2007	587,939	1.50	6,768	150	31/05/10 – 29/11/17
	2008	225,578	1.35	2,721	135	30/11/11 – 29/11/18
	2008	445,751	1.20	5,661	120	31/05/11 – 30/05/18
	2009	240,554	1.20	3,519	120	31/05/12 – 30/05/19
	2009	1,354,121	1.35	18,100	135	02/11/12 – 29/11/19
	2010	1,151,593	1.65	—	—	30/06/13 – 29/06/20
<b>Total approved options</b>		<b>5,740,542</b>		<b>71,443</b>		

	Year of issue	28 November 2010	Exercise price (£)	29 November 2009	Exercise price (£)	Exercise period	
Non-Approved	2001	46,563	0.80	1,094	80	21/08/03 – 29/11/11	
	2001	35,856	0.90	777	90	30/11/04 – 29/11/11	
	2002	56,787	0.90	1,243	90	31/05/05 – 29/11/12	
	2002	175,000	1.00	3,500	100	07/02/05 – 30/05/12	
	2002	350,000	1.50	3,500	150	07/02/05 – 30/05/12	
	2003	100,000	0.90	2,000	90	30/11/06 – 29/11/13	
	2005	754	1.00	19	100	30/11/08 – 29/11/15	
	2005	808,236	1.15	12,242	115	16/05/08 – 29/11/15	
	2007	50,833	1.50	508	150	31/05/10 – 30/05/17	
	2009	267,500	1.20	9,369	120	31/05/12 – 30/05/19	
	2009	24,074	1.35	241	135	16/11/12 – 15/11/19	
	<b>Total unapproved</b>		<b>1,915,603</b>		<b>34,493</b>		
	<b>Total employee options</b>		<b>7,656,145</b>		<b>105,936</b>		

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	28 November 2010	Exercise price (£)	29 November 2009	Exercise price (£)	Exercise period
	2005	170,670	1.15	2,913	115	31/05/08 – 30/05/15
	2009	254,000	1.20	9,550	120	31/05/12 – 30/05/19
<b>Total options subject to performance criteria</b>		<b>424,670</b>		<b>12,463</b>		



**24 Share options and other equity instruments** continued**(a) ESOS** continued

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

	28 November 2010		29 November 2009	
	Number of share options	Weighted average price (£)	Number of share options	Weighted average price (£)
Outstanding at the beginning of the period	10,593,611	1.15	79,922	110
Granted during the period	1,313,929	1.65	33,164	129
Forfeited during the period	(2,554,974)	1.12	(6,364)	126
Exercised during the period	(1,696,421)	1.02	(786)	85
Outstanding at the end of the period	7,656,145	1.27	105,936	115
Exercisable at the end of the period	3,662,300	1.11	57,422	100

The market value of the Company's shares was derived based on the market value of similar companies and by taking into account transactions with shareholders during the period. The Share Valuation Office of the Inland Revenue has confirmed in correspondence that in respect of options granted the exercise price per share was not less than the market value of the Company's shares at each option grant date. Since the Company's Admission, the closing mid-market price of the shares on the day prior to issuance will be used for all future share option grants.

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

	28 November 2010	29 November 2009
Weighted average share price	£1.47	£126.60
Weighted average exercise price	£1.27	£114.78
Expected volatility	0.25	0.50
Weighted expected life	3.00	4.19
Risk-free interest rate	3.5%	5.0%
Expected dividend yield	0.0%	0.0%

Expected volatility was determined by comparing the Company to others of a similar size or which operate in similar. 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 income statement is detailed in Note 7.

The weighted average remaining contractual lives for outstanding share options under the ESOS are as follows:

	28 November 2010			29 November 2009		
	Exercise price (£)	Number of share options	Weighted average remaining contractual life (years)	Exercise price (£)	Number of share options	Weighted average remaining contractual life (years)
	0.80	640,288	1.0	80	15,034	2.0
	0.90	642,047	3.0	90	13,666	3.8
	1.00	543,543	3.8	100	10,118	4.6
	1.15	878,406	4.5	115	13,186	5.5
	1.20	953,805	8.4	120	18,549	9.5
	1.35	1,603,773	8.9	135	21,062	9.9
	1.40	138,890	5.5	140	1,918	6.5
	1.50	1,103,800	5.1	150	12,403	6.2
	1.65	1,151,593	9.6	—	—	—
Outstanding at the end of the period		7,656,145			105,936	

## Notes to the consolidated financial statement continued

### 24 Share options and other equity instruments continued

#### (b) JSOS

The set up of the Group's the Group's JSOS was approved by a resolution of the Board of Directors on 13 January 2010 following recommendations made by the Company's Remuneration Committee that a new executive incentive scheme be established to incentivise and retain its four Executive Directors and select members of senior management of the Group (the "Participants"). The scheme was approved by the shareholders by written resolution in January 2010. The terms of the JSOS have been approved by the Company's Remuneration Committee who oversee the operation of the scheme.

#### Participants

Following consultation with the Company's lawyers, financial advisers and independent executive remuneration consultants and the Board of Directors' approval, awards were granted to the Executive Board and a select group of senior management. In total they acquired interests in 32.5 million ordinary shares with an issue price of £1.50 per share (historically the maximum share price recorded for the Company's shares).

#### Nature of interests

Interests will take the form of a restricted interest in ordinary shares in the Company ("Interest"). An Interest permits a participant to benefit from the increase (if any) in the value of a number of ordinary shares in the Company ("Shares") over which the Interest is acquired. In order to acquire an Interest, a participant must enter into a joint share ownership agreement with the trustees of an employee benefit trust under which the participant and the trustee jointly acquire the shares and agree that when the shares are sold the participant has a right to receive a proportion of the sale proceeds in so far as the value of the shares exceeds a threshold amount. For the initial Interests acquired by the Participants, there are four tranches each with their own threshold or Hurdle Value as follows:

Tranche	Vesting date	Hurdle value	% above issue price
1 (2011)	01/01/2011	£1.7250	15%
2 (2012)	01/01/2012	£1.9075	27%
3 (2013)	01/01/2013	£2.0829	39%
4 (2014)	01/01/2014	£2.2813	52%

A participant is required to provide up front funding to the employee benefit trust equal to 2% of the issue price on the acquisition of their interests, amounting to £0.03 per share (the "Entry Price").

When an Interest vests, the trustees will transfer shares to the participant of equal value to the participant's Interest or the Shares will be sold and the trustee will account to the participant for the balance i.e. the difference between the sale proceeds (less expenses) and the Hurdle Value.

#### Vesting conditions

The vesting of the Interests granted to Participants are subject to a time vesting condition with one-quarter of the Interest in the Shares vesting on the first anniversary of their acquisition, one-quarter on the second anniversary, one-quarter on the third anniversary and the final one-quarter on the fourth anniversary.

The fair value of the Interests awarded under the JSOS was determined using the Black-Scholes Option Pricing Model. As per IFRS 2 'Share-based Payments', market based vesting conditions and the share price target conditions in the JSOS have been taken in to account in establishing the fair value of the equity instruments granted. Other non-market or performance related conditions were not taken into account in establishing the fair value of equity instruments granted, instead these non-market vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that will eventually vest. The following inputs were used in the Black-Scholes Option Pricing Model:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Weighted average share price	£1.35	£1.35	£1.35	£1.35
Weighted average exercise price	£1.73	£1.90	£2.08	£2.28
Expected volatility	0.25	0.25	0.25	0.25
Weighted expected life	0.91	1.91	2.91	3.91
Risk-free interest rate	3.5%	3.5%	3.5%	3.5%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

Expected volatility was determined by comparing the Company to others of a similar size or which operate in a similar industry.

**24 Share options and other equity instruments** continued**(c) Non-employee share options**

Options to subscribe for ordinary shares and convertible preference shares have been granted by Ocado Limited to non-employees. These options are equity-settled, and do not have any vesting criteria.

On 9 February 2010 the ordinary shares and convertible preference shares in Ocado Limited were converted into ordinary shares and convertible preference shares in Ocado Group plc on a 1:100 basis with a nominal value of 2 pence per share.

At each respective balance sheet date the options granted to non-employees at the date of their grant were as follows:

	Date of issue	28 November 2010	Exercise price (£)	29 November 2009	Exercise price (£)	Exercise period
Non-employee share options	Feb-02	—	—	943	53	07/02/02 – 06/02/12
	Feb-02	7,400	0.90	74	90	04/02/04 – 03/02/14
	Feb-02	886,700	0.90	8,867	90	04/02/02 – 04/02/17
	Jan-04	435,300	1.03	4,353	103	03/01/04 – 03/01/18
	Apr-04	—	—	477	103	30/04/04 – 29/05/14
		<b>1,329,400</b>		<b>14,714</b>		

	28 November 2010		29 November 2009	
	Number of share options	Weighted average price (£)	Number of share options	Weighted average price (£)
Outstanding at the beginning of the period	1,471,400	0.92	14,714	92
Granted during the period	—	—	—	—
Forfeited during the period	—	—	—	—
Exercised during the period	(142,000)	0.70	—	—
Outstanding at the end of the period	<b>1,329,400</b>	<b>0.95</b>	14,714	92
Exercisable at the end of the period	<b>1,329,400</b>	<b>0.95</b>	14,714	92

The Company documented an option to Hawkeye Capital Partners Limited on 21 June 2010 to subscribe for 38,700 ordinary shares at a price of £1.03 per share. This option was granted to Hawkeye Capital Partners Limited for investor introduction services performed by it in 2003. These options were exercised on IPO at a weighted average price of £1.03.

The weighted average remaining contractual lives for the outstanding non-employee share options are as follows:

	28 November 2010			28 November 2009		
	Exercise price (£)	Number of share options	Weighted average remaining contractual life (years)	Exercise price (£)	Number of share options	Weighted average remaining contractual life (years)
	0.90	894,100	6.2	53	943	2.2
	1.03	435,300	7.9	90	8,941	7.2
	—	—	—	103	4,830	8.1
Outstanding at the end of the period		<b>1,329,400</b>			<b>14,714</b>	

## Notes to the consolidated financial statements continued

### 24 Share options and other equity instruments continued

#### (d) Sharesave Scheme

On 30 September 2010 the Group launched the Ocado Sharesave Scheme. This is an HMRC approved scheme and is open to any person that was an employee or officer of the Group at the launch date. Under the scheme, members save a fixed amount each month for three years. At the end of the three year period they are entitled to use these savings to buy shares in Ocado Group plc at a price equal to 85% of the market value of the shares at the launch date.

At 28 November 2010 employees held 819 contracts in respect of options over 2,724,513 shares. A reconciliation of the Ocado Sharesave Scheme option movements is shown below:

	52 weeks ended 28 November 2010	
	Number of share options	Weighted average price (£)
Outstanding at the beginning of the period	—	—
Granted during the period	2,728,850	1.162
Forfeited during the period	(4,337)	1.162
Outstanding at the end of the period	2,724,513	1.162
Exercisable at the end of the period	—	—

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

	28 November 2010
Weighted average share price	£1.37
Weighted average exercise price	£1.16
Expected volatility	0.25
Weighted expected life	3.00
Risk-free interest rate	3.5%
Expected dividend yield	0.0%

Expected volatility was determined by comparing the Company to others of a similar size or which operate in a similar industry.

### 25 Financial instruments

#### (a) Fair value of financial instruments

The fair values of financial instruments are 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 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 this analysis.

The derivative asset at the end of the current period relates to forward foreign exchange contracts, the fair value of which was determined with reference to the forward rate to the date of maturity for all outstanding forward foreign exchange contracts at period end. This derivative asset is categorised as level 2.

In the prior period the Group recognised a derivative liability in respect of warrants issued. The fair value was determined using the Black-Scholes Option Pricing Model, and it was categorised as level 3.

The Group's only available-for-sale financial asset consists of an unlisted equity investment of which the fair value cannot be reliably determined. This investment has been categorised as level 3. There has been no movement in this investment during the period.

**25 Financial instruments** continued**(a) Fair value of financial instruments** continued

The interest rate used to discount borrowings is based on a LIBOR plus margin measure blended for the type of security offered and was calculated as 5.0% (2009: 6.4%), and is classified as level 2.

The fair values of all other financial assets and liabilities have been calculated by discounting the expected future cash flows at prevailing market interest rates, and are classified as level 2.

Set out below is a comparison by category of carrying amounts and fair values of all financial instruments that are included in the financial statements:

	Notes	28 November 2010		29 November 2009	
		Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
<b>Financial assets</b>					
Cash and cash equivalents	16	124,639	124,639	13,017	13,017
Short-term investment	15	30,000	30,000	—	—
Trade receivables	14	6,956	6,956	5,707	5,707
Other receivables (incl. accrued income, excl. prepayments)	14	7,979	7,979	4,622	4,622
Derivative asset	22	472	472	—	—
Available-for-sale financial asset	12	395	395	395	395
<b>Total financial assets</b>		<b>170,441</b>	<b>170,441</b>	<b>23,741</b>	<b>23,741</b>
<b>Financial liabilities</b>					
Trade payables	17	(34,645)	(34,645)	(33,839)	(33,839)
Accruals	17	(14,801)	(14,801)	(9,519)	(9,519)
Borrowings	19	(12,056)	(11,739)	(54,745)	(55,075)
Finance lease obligations	20	(62,058)	(62,058)	(65,320)	(65,320)
Derivative liability	22	—	—	(1,083)	(1,083)
<b>Total financial liabilities</b>		<b>(123,560)</b>	<b>(123,243)</b>	<b>(164,506)</b>	<b>(164,836)</b>

**(b) Credit risk**

The Group's exposures to credit risk arise from holdings of cash and cash equivalents, a short-term investment and trade and other receivables (excluding prepayments).

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure.

**Cash and cash equivalents and short-term investment**

The Group's exposure to credit risk on cash and cash equivalents and short-term investment is managed by only opening and maintaining transactional bank accounts and term deposits with banks and financial institutions which carry a Moody's rating of Aa3/P1 for long-term and short-term deposits, and limiting the amounts that can be deposited with any one such bank or financial institution.

**Trade and other receivables**

Trade and other receivables at the period end comprise mainly monies due from suppliers, which is considered of a good credit quality. The Group provides for doubtful receivables in respect of monies due from suppliers.

The Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity, and the Group's effective controls over this area. The Group has provided for doubtful receivables in respect of consumer sales by reviewing the ageing profile and, based on prior experience, assessing the recoverability of overdue balances.

## Notes to the consolidated financial statements continued

### 25 Financial instruments continued

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

	Notes	28 November 2010 £'000	29 November 2009 £'000
At the beginning of the period		(189)	(219)
Provision for receivables impairment		(304)	(115)
Uncollectible amounts written off		217	114
Recovery of amounts previously provided		42	31
At the end of the period	14	(234)	(189)

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

#### (c) Liquidity risk

To manage the working capital needs of the business, the Group is reliant on being able to negotiate sufficient financing arrangements. To achieve this, the Group maintains a mixture of short- and medium-term debt and lease finance arrangements that are designed to ensure it has sufficient available funds to finance its operations. In addition, during the period the Group maintained a committed standby bank overdraft facility of £5 million (2009: £5 million). After the period end this overdraft facility was cancelled and replaced with a Group composite account facility with the requirement that the aggregate of favourable cash balances offset adverse cash balances, with a limit of £5 million adverse balance on any one account within the Group.

The Group monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. For further details see Note 26.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the carrying values and undiscounted contractual cash flows.

	Notes	Carrying value £'000	Contractual cash flows £'000	1 year or less £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
<b>Non-derivative financial liabilities</b>							
Trade payables	17	(34,645)	(34,645)	(34,645)	—	—	—
Accruals	17	(14,801)	(14,801)	(14,801)	—	—	—
Secured loans	19	(11,919)	(12,891)	(2,580)	(4,033)	(6,278)	—
Unsecured loans	19	(137)	(141)	(141)	—	—	—
Obligations under finance leases	20	(62,058)	(72,668)	(20,087)	(18,576)	(24,546)	(9,459)
<b>28 November 2010</b>		<b>(123,560)</b>	<b>(135,146)</b>	<b>(72,254)</b>	<b>(22,609)</b>	<b>(30,824)</b>	<b>(9,459)</b>

	Notes	Carrying value £'000	Contractual cash flows £'000	1 year or less £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
<b>Non-derivative financial liabilities</b>							
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)	—
Obligations under finance leases	20	(65,320)	(77,437)	(23,705)	(19,180)	(23,779)	(10,773)
<b>29 November 2009</b>		<b>(163,423)</b>	<b>(180,939)</b>	<b>(81,627)</b>	<b>(43,683)</b>	<b>(44,453)</b>	<b>(11,176)</b>

At the end of the prior period the Group had a derivative liability in the form of warrants to subscribe for ordinary shares in Ocado Limited with a fair value of £1,083,000 outstanding (see Note 22). The nature of these warrants does not allow for a maturity profile to be calculated due to the uncertain timing of it being exercised. These warrants were revalued and eventually settled during the current period.

## 25 Financial instruments continued

### (d) Market risk

#### Currency risk

The Group has foreign currency exposure in relation to its trade payables, a portion of its cash and cash equivalents and derivative financial instruments in the form of forward foreign exchange contracts.

Foreign currency trade payables arise principally on purchases of plant and equipment, whilst Euro bank accounts are maintained in order to minimise the Group's exposure to fluctuations in the Euro relating to current and future purchases of plant and equipment. Forward foreign exchange contracts are entered into in order to hedge future purchases of Euro.

The Group's exposure to currency risk is based on the following amounts:

	28 November 2010 £'000	29 November 2009 £'000
Cash and cash equivalents — Euro	5,318	—
Trade payables at period end:		
Euro	1,254	41
US dollar	—	2
Derivative asset (forward foreign exchange contracts) — Euro	472	—
	<b>7,044</b>	<b>43</b>

The table below shows the Group's sensitivity to changes in foreign exchange rates on its Euro-related financial instruments:

	28 November 2010		29 November 2009	
	Increase/ (decrease) in income £'000	Increase/ (decrease) in equity £'000	Increase/ (decrease) in income £'000	Increase/ (decrease) in equity £'000
10% appreciation of the Euro	760	1,453	5	—
10% depreciation of the Euro	(734)	(1,324)	(5)	—

A strengthening of the Euro, as indicated, against sterling at 28 November 2010 would have increased/(decreased) equity and profit or loss by the amounts detailed above. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the period. The analysis assumes that all other variables remain constant.

#### Interest rate risk

The Group is exposed to interest rate risk on its interest bearing borrowings and floating rate cash and cash equivalents. The Group's interest rate risk policy seeks to minimise finance charges and volatility by structuring the interest rate profile into a diversified portfolio of fixed rate and floating rate financial assets and liabilities.

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

	28 November 2010 £'000	29 November 2009 £'000
<b>Fixed rate instruments</b>		
Financial assets	79,628	7,779
Financial liabilities	(62,195)	(78,715)
<b>Variable rate instruments</b>		
Financial assets	75,011	5,238
Financial liabilities	(11,919)	(41,350)

## Notes to the consolidated financial statements continued

### 25 Financial instruments continued

#### Sensitivity analysis

An increase of 100 basis points (1.0%) in interest rates at the balance sheet date will increase equity and profit or loss by the amounts shown below. 100 basis points was deemed an appropriate rate, considering the current short-term interest rate outlook. 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.

	28 November 2010 £'000	29 November 2009 £'000
<b>Equity</b>		
Gain/(loss)	600	(492)
<b>Income</b>		
Gain/(loss)	600	(492)

#### (e) Financial instruments by category

The Group has categorised its financial instruments as follows:

	Notes	Available- for-sale £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Financial liabilities at fair value through profit and loss £'000	Total £'000
<b>As at 28 November 2010</b>						
<b>Financial assets as per the balance sheet</b>						
Cash and cash equivalents	16	—	124,639	—	—	124,639
Trade and other receivables (excluding prepayments)	14	—	44,935	—	—	44,935
Available-for-sale financial asset	12	395	—	—	—	395
Derivative asset	22	—	—	—	472	472
<b>Total</b>		<b>395</b>	<b>169,574</b>	<b>—</b>	<b>472</b>	<b>170,441</b>
<b>Financial liabilities as per the balance sheet</b>						
Trade payables	17	—	—	34,645	—	34,645
Accruals	17	—	—	14,801	—	14,801
Borrowings	19	—	—	12,056	—	12,056
Obligations under finance leases	20	—	—	62,058	—	62,058
<b>Total</b>		<b>—</b>	<b>—</b>	<b>123,560</b>	<b>—</b>	<b>123,560</b>

	Notes	Available- for-sale £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Financial liabilities at fair value through profit and loss £'000	Total £'000
<b>As at 29 November 2009</b>						
<b>Financial assets as per the balance sheet</b>						
Cash and cash equivalents	16	—	13,017	—	—	13,017
Trade and other receivables (excluding prepayments)	14	—	10,329	—	—	10,329
Available-for-sale financial asset	12	395	—	—	—	395
<b>Total</b>		<b>395</b>	<b>23,346</b>	<b>—</b>	<b>—</b>	<b>23,741</b>
<b>Financial liabilities as per the balance sheet</b>						
Trade payables	17	—	—	33,839	—	33,839
Accruals	17	—	—	9,519	—	9,519
Borrowings	19	—	—	54,745	—	54,745
Obligations under finance leases	20	—	—	65,320	—	65,320
Derivative liability	22	—	—	—	1,083	1,083
<b>Total</b>		<b>—</b>	<b>—</b>	<b>163,423</b>	<b>1,083</b>	<b>164,506</b>



## 26 Capital management

The Board's objective is to ensure the Group's ability to continue as a going concern and sustain future development of the business, providing returns to shareholders and benefits to other stakeholders through an appropriate balance of debt and equity financing.

The Board's policy is to keep borrowings within existing facilities and to negotiate and obtain additional resources required to fund the Group'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 (borrowings and finance leases as shown in the balance sheet), less short-term investments and cash and cash equivalents. The Group has performance based loan covenants in place over certain facilities. Management monitors the performance targets on a period basis considering actual and forecast results and they maintain constant communication with all of the Group's Lenders. Throughout the year the Group has complied with all covenants imposed by those Lenders. 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 Group's approach to capital management during the period.

At the balance sheet date the Group's performance in remaining within its borrowing facilities, including standby overdraft facilities, as measured by the headroom available was as follows:

	Notes	28 November 2010 £'000	29 November 2009 £'000
Total facilities available		191,373	137,775
Facilities drawn down	18	(74,114)	(120,065)
Undrawn facilities at end of period		117,259	17,710
Short-term investment	15	30,000	—
Cash and cash equivalents gross of drawn overdraft facility	16	124,780	13,157
Total undrawn facilities, short-term investment and cash available at the end of the period		272,039	30,867

## 27 Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders by the weighted average number of ordinary shares and convertible preference shares in issue during the period, excluding ordinary shares held pursuant to the Group's JSOS and accounted for as treasury shares, adjusted to reflect the conversion of the ordinary shares and preference shares from Ocado Limited to Ocado Group plc on a 1:100 basis on 9 February 2010. The loss for the period is equally attributable to the shareholders of ordinary shares and convertible preference shares. For more information see Note 23.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares and convertible preference shares outstanding to assume conversion of all dilutive potential shares, adjusted to reflect the conversion of the ordinary shares and the convertible preference shares from Ocado Limited to Ocado Group plc as mentioned above. The Company has two categories of potentially dilutive shares, namely share options and shares held pursuant to the Group's JSOS.

There was no difference in the weighted average number of shares used for the calculation of basic and diluted loss per share as the effect of all potentially dilutive shares outstanding was anti-dilutive.

## Notes to the consolidated financial statements continued

### 27 Loss per share continued

Basic and diluted loss per share has been calculated on the following basis:

	52 weeks ended 28 November 2010 '000	52 weeks ended 29 November 2009 '000
Issued ordinary shares and convertible preference shares at beginning of the period	400,051	377,691
Effect of share options exercised in the period	927	47
Effect of shares issued in the period	41,237	5,619
Weighted average number of shares at the end of the period	442,215	383,357
	<b>£'000</b>	<b>£'000</b>
Loss attributable to the owners of the Company	(7,211)	(23,209)
	<b>pence</b>	<b>pence</b>
Basic and diluted loss per share	(1.63)	(6.05)

The only transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of these financial statements were the exercise of 525,000 share options.

### 28 Subsidiaries

As at 28 November 2010, the Company's principal subsidiary undertakings were as follows:

	Principal activity	Proportion of share capital held	Country of incorporation
Ocado Holdings Limited	Holding company	100%	England and Wales
Ocado Limited	Retail and distribution	100%	England and Wales
Ocado Information Technology Limited	Intellectual property	100%	Republic of Ireland
Jalapeno Partners Limited	Dormant company	100%	England and Wales
Ocado Cell in Atlas Insurance PCC Limited	Insurance company	100%	Malta

Ocado Holdings Limited is a 100% owned subsidiary of Ocado Group plc and the only directly held subsidiary. It was incorporated in the UK on 5 February 2010 with registration number 07148670.

Ocado Limited is a 100% owned subsidiary of Ocado Holdings Limited. It is incorporated in the UK with registration number 3875000.

Ocado Information Technology Limited is a 100% owned subsidiary of Ocado Holdings Limited. It was incorporated in Ireland on 19 January 2010 with registration number 479792. On 21 January 2010 Ocado Limited granted Ocado Information Technology Limited a licence to use Ocado Limited'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. On 17 June 2010, Ocado Holdings Limited acquired the entire ordinary share capital of Ocado Information Technology Limited from Ocado Limited.

Jalapeno Partners Limited is a 100% owned subsidiary of Ocado Limited. It is incorporated in the UK with registration number 04204963. It is a dormant company as defined by Section 1169 of the Companies Act. The only balances in the accounts of Jalapeno Partners Limited are share capital of £1 and an intercompany debtor of £1.

On 9 February 2010, the Group, previously headed by Ocado Limited, underwent a reorganisation by virtue of which Ocado Limited's shareholders in their entirety exchanged their shares for shares in Ocado Group plc, a newly formed company, which then became the ultimate parent company of the Group. Notwithstanding the change in the legal parent of the Group, this transaction has been accounted for as a reverse acquisition under IFRS 3 (revised) "Business Combinations" and the consolidated financial statements are prepared on the basis of the new legal parent having been acquired by the existing Group.

## 28 Subsidiaries continued

On 15 October 2010 a dedicated cell (the "Ocado Cell") was established in Atlas Insurance PCC Limited (the "Cell Company") by the issue of non-participating redeemable preference shares to Ocado Holdings Limited. The Cell Company is incorporated in the Republic of Malta with registration number C 5601 and is authorised under Malta's Insurance Business Act (1998) to carry on general insurance business and is constituted as a protected cell company under the Maltese Companies Act (Cell Companies Carrying on Business of Insurance) Regulations (2004). On 20 October 2010 the Cell Company entered into an agreement with Ocado Holdings Limited to provide the Group with insurance facilities conducted through the Ocado Cell. The Group has effective control over the financial and operating activities of the Ocado Cell and therefore consolidates the Ocado Cell in its financial statements in accordance with SIC 12 "Consolidation – Special Purpose Entities". The Group uses the Ocado Cell to provide self-insurance for its vehicle fleet and public and product liability claims. This strategy of self-insurance for elements of business risk is used by many large companies in order to reduce costs and exercise greater control of their insurance needs. The risk of self-insuring is managed within the Group through stop-loss insurance being taken out with a third party to cover claims over £100,000 each and £3 million in aggregate. The provisions as at 28 November 2010 include a provision for insurance claims incurred but not reported of £115,000 (2009: £nil).

## 29 Commitments

### Capital commitments

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

	28 November 2010 £'000	29 November 2009 £'000
Land and buildings	21,392	—
Property, plant and equipment	13,661	5,636
Total capital expenditure committed at the end of the period	35,053	5,636

The land and buildings commitment relates to the purchase of the land on which CFC2 will be built. This purchase was completed in March 2011 (see Note 33).

### Operating lease commitments

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

At 28 November 2010 the future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	28 November 2010 £'000	29 November 2009 £'000
Within one year	2,480	2,535
Greater than one year but less than five years	8,434	8,399
After five years	35,024	36,392
Total commitment	45,938	47,326

## 30 Contingent liabilities

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business, all of which the Group expects to be covered by its professional indemnity insurance. These legal claims are not material to these financial statements.

## Notes to the consolidated financial statements continued

### 31 Related party transactions

#### Key management personnel

Only the Executive and Non-Executive Directors are deemed to be key management personnel. It is the Directors who have responsibility for planning, directing and controlling the activities of the Group. Remuneration of Directors is disclosed in the Directors' remuneration report on pages 41 to 46.

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

	28 November 2010 £'000	29 November 2009 £'000
<b>Purchase of goods</b>		
— Company of a close family member of an Executive Director	42	116
<b>Purchase of professional services</b>		
— Non-Executive Directors	30	48
	<b>72</b>	<b>164</b>

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

At the end of the period key management did not owe the Group any amounts (2009: £4,000) in respect of personal expenses incurred on the Group credit card that were reimbursed in the normal course of business. The prior period balances were repaid in the current period.

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

#### Investment

The Group holds a 25% interest in Paneltex Limited whose registered office is at Paneltex House, Somerden Road, Hull, HU9 5PE. The Group's interest in Paneltex Limited has not been accounted for as an associated undertaking as it does not have significant influence over Paneltex Limited.

The following transactions were carried out with Paneltex Limited:

	28 November 2010 £'000	29 November 2009 £'000
Sale of goods		
— Plant and machinery	94	—
Total sale of goods	<b>94</b>	<b>—</b>
Purchase of goods		
— Plant and machinery	220	289
— Consumables	143	160
Total purchase of goods	<b>363</b>	<b>449</b>
Amounts (receivable) / payable at the end of the period	<b>(93)</b>	<b>19</b>

**32 Analysis of net cash/(debt)****(a) Net cash/(debt)**

	Notes	28 November 2010 £'000	29 November 2009 £'000
<b>Current assets</b>			
Cash and cash equivalents	16	124,639	13,017
Short-term investment	15	30,000	—
		<b>154,639</b>	<b>13,017</b>
<b>Current liabilities</b>			
Borrowings	19	(2,282)	(12,087)
Obligations under finance leases	20	(16,485)	(19,669)
		<b>(18,767)</b>	<b>(31,756)</b>
<b>Non-current liabilities</b>			
Borrowings	19	(9,774)	(42,658)
Obligations under finance leases	20	(45,573)	(45,651)
		<b>(55,347)</b>	<b>(88,309)</b>
<b>Total net cash/(debt)</b>		<b>80,525</b>	<b>(107,048)</b>

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

	28 November 2010 £'000	29 November 2009 £'000
Net increase in cash and cash equivalents	111,622	7,160
Net cash outflow from debt and lease financing	56,430	6,467
Increase in short-term investment	30,000	—
Non-cash movements:		
— Exercise of convertible loan notes to equity	—	60
— Fair value movements on convertible loan notes	—	(176)
— Assets acquired under finance lease	(10,479)	(4,826)
<b>Decrease in net debt in the period</b>	<b>187,573</b>	<b>8,685</b>
Opening net debt	(107,048)	(115,733)
<b>Closing net cash/(debt)</b>	<b>80,525</b>	<b>(107,048)</b>

**33 Post balance sheet events**

In January 2011 the Group cancelled the bank overdraft facility of Ocado Limited and replaced it with a Group composite account facility with a gross limit of £5 million and net limit of £nil.

In January 2011 the Company agreed an extension of £4.2 million to a credit facility with an existing lender for vehicle financing.

In February 2011 the Group completed the purchase of land in Wimbledon, London which will serve as the site for a new Spoke servicing South-West London.

In March 2011 the Group completed the purchase of the land in Dordon, Warwickshire on which CFC2 will be built.

# Independent auditors' report

to the members of Ocado Group plc

We have audited the parent company financial statements of Ocado Group plc for the year ended 28 November 2010 which comprise the company balance sheet, the company statement of cash flows, the company statement of changes in equity 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 and as applied in accordance with the provisions of the Companies Act 2006.

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 parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

## Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 November 2010 and of its cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Other matter

We have reported separately on the Group financial statements of Ocado Group Plc for the year ended 28 November 2010.

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

23 March 2011

# Company balance sheet

as at 28 November 2010

	Notes	28 November 2010 £'000
<b>Non-current assets</b>		
Investments	5	477,840
		477,840
<b>Current assets</b>		
Other receivables	6	61,250
Short-term investment	7	30,000
Cash and cash equivalents	8	114,361
		205,611
<b>Total assets</b>		<b>683,451</b>
<b>Current liabilities</b>		
Trade and other payables	9	(323)
		(323)
<b>Net current assets</b>		<b>205,288</b>
<b>Net assets</b>		<b>683,128</b>
<b>Equity</b>		
Share capital	10	11,068
Share premium	10	206,094
Retained earnings		465,966
<b>Surplus attributable to equity holders</b>		<b>683,128</b>

The Company financial statements on pages 93 to 105 were authorised for issue by the Board of Directors, and signed on its behalf by:

**Tim Steiner**  
Chief Executive Officer

**Andrew Bracey**  
Chief Financial Officer

Ocado Group plc  
Company Registration No. 07098618 (England and Wales)

23 March 2011

# Company statement of cash flows

for the 51 weeks ended 28 November 2010

	Notes	51 weeks ended 28 November 2010 £'000
<b>Cash flows from operating activities</b>		
Loss before income tax		(2,084)
Adjustments for:		
— Finance income		(1,529)
— Finance costs		5
Changes in working capital:		
— Increase in other receivables		(61,250)
— Increase in trade and other payables		323
<b>Cash used by operations</b>		<b>(64,535)</b>
Interest paid		(156)
<b>Net cash flows from operating activities</b>		<b>(64,691)</b>
<b>Cash flow from investing activities</b>		
Interest received		553
Increase in short-term investment		(30,000)
<b>Net cash flows from investing activities</b>		<b>(29,447)</b>
<b>Cash flow from financing activities</b>		
Proceeds from issue of ordinary share capital net of transaction costs		208,499
<b>Net cash flows from financing activities</b>		<b>208,499</b>
<b>Net increase in cash and cash equivalents</b>		<b>114,361</b>
Cash and cash equivalents at beginning of the period		—
<b>Cash and cash equivalents at the end of the period</b>	8	<b>114,361</b>



# Company statement of changes in equity

for the 51 weeks ended 28 November 2010

	Notes	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Loss for the period		—	—	(2,084)	(2,084)
<b>Total comprehensive expense for the period</b>		—	—	(2,084)	(2,084)
Transactions with owners:					
— Issue of ordinary and convertible preference shares	10	476,509	—	—	476,509
— Capital reduction	10	(467,846)	—	467,846	—
— Issue of ordinary shares on IPO	10	2,380	211,862	—	214,242
— Ordinary shares issue costs	10	—	(6,881)	—	(6,881)
— Issue of ordinary shares		25	1,113	—	1,138
— Share-based payments charge		—	—	204	204
<b>Total transactions with owners</b>		11,068	206,094	468,050	685,212
<b>Balance at 28 November 2010</b>		<b>11,068</b>	<b>206,094</b>	<b>465,966</b>	<b>683,128</b>

# Notes to the Company financial statements

## 1 General information

Ocado Group plc is incorporated and domiciled in the United Kingdom. The address of its registered office is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE.

The period represents the 51 weeks ending 28 November 2010. There are no comparative figures as the Company was incorporated during the period, on 8 December 2009.

## 2 Accounting policies

### (a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations as endorsed by the European Union, and those parts of the Companies Act applicable to companies reporting under IFRS.

The financial statements are presented in sterling, rounded to the nearest thousand (£'000) unless otherwise stated. It has been prepared under the historical cost convention.

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.

### Exemptions

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act and not presented an income statement or a statement of comprehensive income for the Company alone. The loss for the period has been disclosed in the statement of changes in equity.

### (b) 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.

### (c) Standards, amendments and interpretations adopted by the Company in 2009/10 or issued, but are not yet effective and have not been early adopted by the Company

All accounting policies which are applicable to the Group and which have been adopted by the Group in prior periods were adopted by the Company on incorporation. No new accounting standards, amendments and interpretations have become effective during the period since the incorporation of the Company.

The following IFRSs, IFRIC interpretations and amendments, effective for periods beginning on or after the date shown below, have been issued but are not yet effective and have not been early adopted by the Company:

- Amendment to IFRS 2, "Share Based Payments" is effective from 1 January 2010
- Amendment to IFRS 3, "Business Combinations" is effective from 1 January 2011
- Amendment to IFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations" is effective from 1 January 2010
- Amendment to IFRS 7, "Financial Instruments: Disclosures" is effective from 1 January 2011
- IFRS 9, "Financial Instruments" new standard effective from 1 January 2013
- Amendment to IAS 1, "Presentation of Financial Statements" is effective from 1 January 2011
- Amendment to IAS 12, "Income Taxes" is effective from 1 January 2012
- Amendment to IAS 21, "The Effects of Changes in Foreign Exchange Rates" is effective from 1 July 2010
- Amendment to IAS 24, "Related party Disclosures" is effective from 1 January 2011
- Amendment to IAS 32, "Financial Instruments: Presentation" is effective from 1 February 2010
- Amendment to IAS 34, "Interim Financial Reporting" is effective from 1 January 2011
- Amendment to IFRIC 13, "Customer Loyalty Programs" is effective from 1 January 2011

**2 Accounting policies** continued**(c) Standards, amendments and interpretations adopted by the Company in 2009/10 or issued, but are not yet effective and have not been early adopted by the Company** continued

The adoption of these standards, interpretations and amendments is not anticipated to have a material effect on the results of the Company.

**(d) Foreign currency translation****Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

**(e) Administrative expenses**

Administrative expenses consist of fees for professional services, bank charges and any other costs of an administrative nature.

**(f) Taxation****Current taxation**

Current tax is accounted for on the basis of tax laws enacted or substantively enacted at the balance sheet date. Current tax is charged or credited to the income statement, except when it relates to items charged to equity, in which case the current tax is also dealt with in equity.

**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.

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

**(g) Employee benefits****Share-based payments**

Employees (including Directors) of the Company's subsidiaries 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.

Subsidiaries are recharged for the amount recognised as share-based payments relating to awards to their employees. These recharges are recognised as an increase in the investment in the relevant subsidiaries in accordance with IFRS 2.

For details of Group share schemes see Note 24 in the consolidated financial statements.

**(h) 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; and
- Other financial liabilities at amortised cost.

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.

# Notes to the Company financial statements continued

## 2 Accounting policies continued

### 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 consider that the Group's investments fall within this category, as explained 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 accumulated 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 in the income statement. Dividends are recognised in the income statement 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 "Other receivables," "Short-term investment" and "Cash and cash equivalents" in the balance sheet.

#### *Other receivables*

Other 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.

#### *Short-term investment*

Short-term investment comprises treasury deposits with a maturity of greater than three months at period end.

#### *Cash and cash equivalents*

Cash and cash equivalents consist of cash at bank and in hand, demand deposits with banks and short-term deposits with a maturity of three months or less at the balance sheet date.

### Other financial liabilities at amortised cost

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

#### *Trade and other payables*

Trade and other payables are initially recognised at fair value and subsequently at amortised cost, using the effective interest rate method.

### (i) Investments

Investments in group undertakings are valued at cost, less accumulated impairment.

## 3 Operating loss

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

	51 weeks ended 28 November 2010 £'000
<b>Audit services</b>	
— Statutory Company audit	40
<b>Non-audit services</b>	
— Services pursuant to legislation and compliance <sup>†</sup>	975
— Other services	108
	<b>1,123</b>

<sup>†</sup> Comprises primarily of services in relation to the preparation for the Listing of the Company.

#### 4 Employee information

The Company does not incur any direct staff costs as the Group's employees are employed by a subsidiary company. The only charge to the income statement in this respect was the share-based payment expense as part of the IPO (see Note 10).

Analysis and disclosures in relation to share-based payments are given in the consolidated financial statements in Note 24.

#### 5 Investments

	28 November 2010 £'000
Cost	476,510
Contributions to subsidiaries:	
— Novation of derivative liability in respect of warrants issued by Ocado Limited	1,126
— Group equity settled share-based payments	204
Carrying value at end of period	477,840

Investments represent investments in Group companies, Ocado Holdings Limited and Ocado Limited (which is indirectly held). For more information regarding the Company's investments see Note 14.

#### 6 Other receivables

	28 November 2010 £'000
Other receivables	174
Prepayments	6
Accrued income	402
Amounts due from subsidiary undertakings	60,668
	61,250

No security has been granted over other receivables.

#### 7 Short-term investment

	28 November 2010 £'000
Treasury deposit	30,000

The short-term investment relates to a £30 million treasury deposit which matures on 26 July 2011.

#### 8 Cash and cash equivalents

	28 November 2010 £'000
Cash at bank and in hand	114,361

The cash and cash equivalents balance does not include a £30 million treasury deposit held by the Company, which has been classified as a short-term investment (see Note 7).

# Notes to the Company financial statements continued

## 9 Trade and other payables

	28 November 2010 £'000
Trade payables	98
Accruals	225
	<b>323</b>

## 10 Share capital and premium

The Company has authorised share capital of 600 million ordinary shares of 2 pence each at 28 November 2010.

The movements in the number of allotted, called up and fully paid ordinary and convertible preference shares and called up share capital and share premium are set out below:

	Ordinary shares number	Convertible preference shares number	Ordinary shares £'000	Convertible preference shares £'000	Share premium £'000
Issue of ordinary and convertible preference shares	185,715,900	247,474,900	204,287	272,222	—
Capital reduction	—	—	(200,573)	(267,273)	—
Conversion of preference shares to ordinary shares on IPO	247,474,900	(247,474,900)	4,949	(4,949)	—
Issue of ordinary shares on IPO	118,968,225	—	2,379	—	211,763
Issue of ordinary shares to the Chairman on IPO	55,555	—	1	—	99
Share issue costs	—	—	—	—	(6,881)
Allotted in respect of the executive share ownership scheme	1,032,921	—	21	—	978
Allotted in respect of non-employee share options	180,700	—	4	—	135
<b>At 28 November 2010</b>	<b>553,428,201</b>	<b>—</b>	<b>11,068</b>	<b>—</b>	<b>206,094</b>

Convertible preference shares were 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 ranked *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 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.

On 9 February 2010, the Company acquired the entire share capital of Ocado Limited. As a result of this transaction, the ultimate shareholders in Ocado Limited received shares in the Company in direct proportion to their original shareholdings in Ocado Limited. Shareholders were issued 185,715,900 ordinary shares and 247,474,900 preference shares on the basis of 1:100 ordinary and preference shares for each Ocado Limited share held.

On 16 February 2010, pursuant to an order of the Court confirming the reduction of capital of the Company, the Company's share capital was reduced by decreasing the nominal value of each ordinary and preference share issued pursuant to the Scheme of Arrangement from 110 pence to 2 pence. This created distributable reserves of £467.8 million.

On 26 July 2010 the Company's shares were admitted to the Premium Listing segment of the Official List of the UK Listing Authority and to trading on the main market of the London Stock Exchange (the "Listing"). In conjunction, the Company made an initial public offering ("IPO") of 118,968,225 new 2 pence ordinary shares at a price of 180 pence per share. Also in conjunction, 247,474,900 convertible preference shares converted to ordinary shares.

Costs related directly to the new issue of shares in the amount of £6.9 million have been deducted from the share premium account. Attributable IPO costs are allocated between the share premium account and profit and loss account in proportion to the number of primary and secondary shares traded on Admission. Other costs attributable to the Listing have been expensed.

## 11 Financial instruments

### (a) Fair value of financial instruments

The fair values of financial instruments are 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)

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 values 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 and payables are assumed to approximate to their carrying values but for completeness are included in the analysis below.

	Notes	28 November 2010	
		Carrying value £'000	Fair value £'000
<b>Financial assets</b>			
Investment	5	476,510	476,510
Cash and cash equivalents	8	114,361	114,361
Short-term investment	7	30,000	30,000
Other receivables	6	61,244	61,244
<b>Total financial assets</b>		<b>682,115</b>	<b>682,115</b>
<b>Financial liabilities</b>			
Trade payables	9	(98)	(98)
Accruals	9	(225)	(225)
<b>Total financial liabilities</b>		<b>(323)</b>	<b>(323)</b>

### (b) Credit risk

The Company's exposure to credit risk arise from holdings of cash and cash equivalents, other receivables (excluding prepayments) and a short-term investment.

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. This is shown in the table in Note 11(a) above.

#### Cash and cash equivalents and treasury deposit

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.

#### Other receivables

Other receivables at the period end consist primarily of amounts due from subsidiary undertakings. Management provide for irrecoverable debts when there are indicators that a balance may not be recoverable.

The ageing of other receivables (excluding prepayments) and the short-term investment at the balance sheet date was:

	Notes	28 November 2010	
		Gross £'000	Impairment £'000
Not past due		91,244	—
Past due 0-3 months		—	—
Past due 3-6 months		—	—
Past due over 6 months		—	—
	6	<b>91,244</b>	<b>—</b>

There were no unimpaired balances at the period end where the Company had renegotiated the terms of the other receivables. Management has not provided for irrecoverable debts against any of its other receivable balances.

## Notes to the Company financial statements continued

### 11 Financial instruments continued

#### (c) Liquidity risk

To manage the working capital needs of the business the Company is reliant on being able to negotiate sufficient financing arrangements. 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. For further details on the Group's cash management strategy see Note 26 in the consolidated financial statements.

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

	Notes	Carrying value £'000	Contractual cash flows £'000	1 year or less £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
<b>Financial liabilities</b>							
Trade payables	9	(98)	(98)	(98)	—	—	—
Accruals	9	(225)	(225)	(225)	—	—	—
28 November 2010		(323)	(323)	(323)	—	—	—

#### (d) Market risk

##### Currency risk

The Company engages in foreign currency transactions to a very limited extent. No financial assets are held in foreign currencies. Due to the Company's lack of exposure to currency risk no sensitivity analysis has been performed.

##### Interest rate risk

The Company has no interest bearing financial liabilities, and its interest bearing financial assets consists of only cash and cash equivalents and a short-term investment. These financial assets are exposed to interest rate risk as the Company holds money market deposits at floating interest rates. The risk is managed by investing cash in a range of cash deposit accounts with UK banks split between fixed term deposits, notice accounts and money market funds.

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

	28 November 2010 £'000
<b>Fixed rate instruments</b>	
Financial assets	70,000
<b>Variable rate instruments</b>	
Financial assets	74,361

##### Sensitivity analysis

An increase of 100 basis points (1.0%) in interest rates at the balance sheet date will increase equity and profit or loss by the amounts shown below. 100 basis points was deemed an appropriate rate, considering the current short-term interest rate outlook. 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.

	28 November 2010 £'000
<b>Equity</b>	
Gain/(loss)	744
<b>Income</b>	
Gain/(loss)	744



**11 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	Total £'000
As at 28 November 2010					
<b>Assets as per balance sheet</b>					
Investment	5	476,510	—	—	476,510
Cash and cash equivalents	8	—	114,361	—	114,361
Short-term investment	7	—	30,000	—	30,000
Other receivables	6	—	61,244	—	61,244
<b>Total</b>		<b>476,510</b>	<b>205,605</b>	<b>—</b>	<b>682,115</b>
<b>Liabilities as per balance sheet</b>					
Trade payables	9	—	—	98	98
Accruals	9	—	—	225	225
<b>Total</b>		<b>—</b>	<b>—</b>	<b>323</b>	<b>323</b>

**12 Capital management**

The Board's objectives and policies for the Company are consistent with those of the Group. Full details are provided in Note 26 to the consolidated financial statements.

**13 Loss per share**

Basic loss per share is calculated by dividing the loss attributable to equity holders by the weighted average number of ordinary shares and convertible preference shares in issue during the period adjusted to reflect the conversion of the ordinary shares and preference shares from Ocado Limited to Ocado Group plc on a 1:100 basis on 9 February 2010. The loss for the period is equally attributable to the shareholders of ordinary shares and convertible preference shares. For more information see Note 10.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares and convertible preference shares outstanding to assume conversion of all dilutive potential shares, adjusted to reflect the conversion of the ordinary shares and the convertible preference shares from Ocado Limited to Ocado Group plc as mentioned above. The Company has two categories of potentially dilutive shares, namely share options and shares held pursuant to the Group's JSOS.

There was no difference in the weighted average number of shares used for the calculation of basic and diluted loss per share as the effect of all potentially dilutive shares outstanding was anti-dilutive.

Basic and diluted loss per share has been calculated on the following basis:

	51 weeks ended 28 November 2010 000's
Issued ordinary shares and convertible preference shares at the beginning of the period	—
Effect of shares issued in the period	374,461
Effect of share options exercised in the period	414
Weighted average number of shares in issue during the period	374,875
	£'000
Loss attributable to owners of the Company	(2,084)
	pence
Basic and diluted loss per share	(0.56)

The only transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of these financial statements were the exercise of 525,000 share options.

## Notes to the Company financial statements continued

### 14 Subsidiaries

At 28 November 2010, the Company's principal subsidiary undertakings were as follows:

	Principal activity	Share of issued ordinary share capital and voting rights	Country of incorporation and principal country of operation
Ocado Holdings Limited	Holding company	100%	England and Wales
Ocado Limited †	Retail and distribution	100%	England and Wales
Ocado Information Technology Limited †	Intellectual property	100%	Ireland
Jalapeno Partners Limited †	Dormant company	100%	England and Wales
Ocado Cell in Atlas Insurance PCC Limited †	Insurance company	100%	Malta

† Wholly owned held indirectly through subsidiary undertakings.

Ocado Holdings Limited is a 100% owned subsidiary of Ocado Group plc and the only directly held subsidiary. It was incorporated in the UK on 5 February 2010 with registration number 07148670.

Ocado Limited is a 100% owned subsidiary of Ocado Holdings Limited. It is incorporated in the UK with registration number 3875000.

Ocado Information Technology Limited is a 100% owned subsidiary of Ocado Holdings Limited. It was incorporated in Ireland on 19 January 2010 with registration number 479792. On 21 January 2010 Ocado Limited granted Ocado Information Technology Limited a licence to use Ocado Limited'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. On 17 June 2010, Ocado Holdings Limited acquired the entire ordinary share capital of Ocado Information Technology Limited from Ocado Limited.

Jalapeno Partners Limited is a 100% owned subsidiary of Ocado Limited. It is incorporated in the UK with registration number 04204963. It is a dormant company as defined by Section 1169 of the Companies Act. The only balances in the accounts of Jalapeno Partners Limited are share capital of £1 and an intercompany debtor of £1.

On 9 February 2010, the Group, previously headed by Ocado Limited, underwent a reorganisation by virtue of which Ocado Limited's shareholders in their entirety exchanged their shares for shares in Ocado Group plc, a newly formed company, which then became the ultimate parent company of the Group. Notwithstanding the change in the legal parent of the Group, this transaction has been accounted for as a reverse acquisition under IFRS 3 (revised) "Business Combinations" and the consolidated financial statements are prepared on the basis of the new legal parent having been acquired by the existing Group.

On 15 October 2010 a dedicated cell (the "Ocado Cell") was established in Atlas Insurance PCC Limited (the "Cell Company") by the issue of non-participating redeemable preference shares to Ocado Holdings Limited. The Cell Company is incorporated in the Republic of Malta with registration number C 5601 and is authorised under Malta's Insurance Business Act (1998) to carry on general insurance business and is constituted as a protected cell company under the Maltese Companies Act (Cell Companies Carrying on Business of Insurance) Regulations (2004). On 20 October 2010 the Cell Company entered into an agreement with Ocado Holdings Limited to provide the Group with insurance facilities conducted through the Ocado Cell. The Group has effective control over the financial and operating activities of the Ocado Cell and therefore consolidates the Ocado Cell in its financial statements in accordance with SIC 12 "Consolidation – Special Purpose Entities". The Group uses the Ocado Cell to provide self-insurance for its vehicle fleet and public and product liability claims. This strategy of self-insurance for elements of business risk is used by many large companies in order to reduce costs and exercise greater control of their insurance needs. The risk of self-insuring is managed within the Group through stop-loss insurance being taken out with a third party to cover claims over £100,000 each and £3 million in the aggregate. The provisions as at 28 November 2010 include a provision for insurance claims incurred but not reported of £115,000 (2009: £nil).

**15 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 has responsibility for planning, directing and controlling the activities of the Company. Executive and Non-Executive Directors did not receive any remuneration for their services to the Company, except for a share-based payment made to the Chairman on IPO (see Note 10).

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the period key management personnel did not owe the Company any amounts.

**Subsidiaries**

The Company enters into loans with its subsidiaries. Interest was neither incurred nor earned on these loans during the period.

Transactions with subsidiaries	£'000
Dividends received from subsidiary undertakings	—
Equity settled share-based payments	204
Increase in loans made to subsidiary undertakings	60,668
Year-end balances arising from transactions with subsidiaries	£'000
Receivables:	
Loans and receivables due from subsidiaries	60,668
Payables:	
Loans and receivables due to subsidiaries	—

**16 Post balance sheet events**

In January 2011 the Group cancelled the bank overdraft facility of Ocado Limited and replaced it with a Group composite account facility with a gross limit of £5 million and a net limit of £nil. Certain of the Company's bank accounts form part of this facility.

# Glossary

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

**2010 Code** – means the UK Corporate Governance Code published by the Financial Reporting Council June 2010, as in force from time to time.

**Active customers** – means customers who have shopped in the previous 12 weeks.

**Administrative expenses** – means all IT costs, advertising and marketing expenditure, employment costs of all head office functions, which include legal, finance, human resources, marketing and procurement, rent and other property-related costs for the head office, all fees for professional services and the depreciation, amortisation and impairment associated with head office IT equipment, software, fixtures and fittings and expenses relating to the ESOS and the JSOS.

**Admission** – means the admission of the ordinary shares of the Company to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities which occurred on 26 July 2010.

**AGM** – means the annual general meeting of the Company, which will be held on 11 May 2011 at 2.00pm at One Bunhill Row, London EC1Y 8YY.

**Articles** – means the articles of association of the Company.

**Board** – means the board of directors of the Company or of Ocado Limited from time to time as the context may require.

**CFC** – see Customer Fulfilment Centre.

**Combined Code** – means The Combined Code on Corporate Governance June 2008 issued by the Financial Reporting Council.

**Companies Act** – means the Companies Act 2006.

**Company** – means Ocado Group plc, a company incorporated in England and Wales with registered number 07098618 whose registered office is at Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE.

**Corporate website** – means [www.ocadogroup.com](http://www.ocadogroup.com).

**Cost of sales** – means the cost of groceries and other products the Group sells, any associated licence fees which are linked to the volume of sales of specific products or product groups, including the branding and sourcing fees payable to Waitrose, adjustments to inventory, and charges for transportation of goods from a supplier to the CFC.

**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 Customer Service Team Member. The title given to our customer facing delivery driver.

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

**Distribution costs** – means all costs to the point of sale, which is usually the customer's home, and include costs relating to the call centre and payment processing.

**Directors** – means the directors of the Company whose names are set out on pages 16 and 17, or the directors of Ocado Limited from time to time as the context may require.

**Disclosure and Transparency Rules** – means the disclosure rules and transparency rules made by the FSA under Part VI of FSMA.

**DPV/wk** – means the total drops per van per week.

**Each** – means a measure of an individual retail product.

**EBIT** – means operating profit/(loss) before interest (including interest on finance leases) and taxation.

**EBITDA** – means operating profit/(loss) before interest (including interest on finance leases), taxation, depreciation, amortisation, impairment loss, transaction and reorganisation costs.

**EBITDA margin** – means EBITDA as a percentage of gross sales.

**EBT** – means earnings before tax.

**EBT Trustee** – means the trustee from time to time of the employee benefit trust established for the purposes of the JSOS, currently Appleby Trust (Jersey) Limited.

**ESOS** – means the Ocado 2001 Executive Share Ownership Scheme.

**Executive Directors** – means Tim Steiner, Jason Gissing, Neill Abrams and Andrew Bracey.

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

**Financial year** – see Financial period.

**FRC** – means the Financial Reporting Council.

**FY** – see Financial period.

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

**HMRC** – means Her Majesty's Revenue & Customs.

**IFRIC** – means International Financial Reporting Interpretations Committee.

**IFRS** – means International Financial Reporting Standard(s).

**IPO** – means the initial public offering by the Company in July 2010.

**John Lewis** – means John Lewis plc, the parent company of Waitrose. John Lewis plc was incorporated in England and Wales with registered number 233462 and its registered office is 171 Victoria Street, London, SW1E 5NN.

**John Lewis Pension Fund** — means John Lewis Partnership Pensions Trust, which is the corporate trustee of the John Lewis Partnership Trust for Pensions. It was incorporated in England and Wales with registered number 372106 and its registered office is 171 Victoria Street, London SW1E 5NN.

**JSOS** — means the Group's joint share ownership scheme.

**KPI** — means key performance indicators.

**LIBOR** — means London Interbank Offered Rate.

**Listing Rules** — means the Listing Rules made by the UK Listing Authority under Part VI of the Financial Services and Markets Act 2000 (as amended).

**Management Committee** — means senior management responsible for managing the day-to-day affairs of the business.

**Murabaha** — means a Shariah compliant financing arrangement.

**Net finance costs** — means finance income and finance costs. Finance income is comprised principally of bank interest and other interest. Finance costs are comprised of interest on bank loans and overdrafts, interest on finance leases and interest on other financing arrangements.

**Non-Executive Directors** — means the non-executive directors designated as such on pages 16 and 17.

**Notice of Meeting** — means the notice of the Company's AGM.

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

**Ocado on the Go** — means the Ocado application for mobile devices. It is currently available for the iPhone, iPad and Android devices.

**Other income** — means primarily advertising revenue for advertising services provided by Ocado to suppliers and other third parties on the Website, commission income received and sublease payments received. Other income is recognised in the period to which it relates on an accruals basis.

**Prospectus** — means the Company's prospectus dated 6 July 2010 prepared in connection with the Company's Admission.

**Revenue** — means online sales (net of returns) through the Website and mobile applications, including charges for delivery, but excluding relevant vouchers/offers and value added tax. Relevant vouchers/offers include money-off coupons, conditional spend vouchers and multi-buy offers, such as buy three for the price of two.

**Sharesave Scheme** — means the Ocado employee savings-related share option plan approved by HMRC.

**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.

**Sourcing Agreement** — means the various sourcing and branding agreements between Ocado, Waitrose and John Lewis.

**Spoke** — means the trans-shipment sites used for the intermediate delivery of customers' orders.

**Substitution** — means the term used to refer to the alternative product provided in place of the original product ordered by a customer.

**TSR** — means total shareholder return — the growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

**UK or United Kingdom** — means the United Kingdom of Great Britain and Northern Ireland.

**UPH** — means the abbreviation for units (or Eaches) per hour.

**Waitrose** — means Waitrose Limited, a company incorporated in England and Wales with registered number 00099405.

**Webshop** — means the customer facing internet-based virtual shop accessible on the Website.

**Website** — means www.ocado.com.

## Shareholder notes

# Company information

<b>Registered office</b>	Ocado Group plc Titan Court 3 Bishops Square Hatfield Business Park Hatfield Hertfordshire AL10 9NE
<b>Company number</b>	07098618
<b>Auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Registered Auditors 10 Bricket Road St Albans Hertfordshire AL1 3JX
<b>Registrars</b>	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU



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[results10.ocadogroup.com](http://results10.ocadogroup.com)

**Ocado Group plc**

Titan Court, 3 Bishops Square,  
Hatfield Business Park, Hatfield, AL10 9NE, UK  
Tel: +44 (0) 1707 227800  
Fax: +44 (0) 1707 227999  
[www.ocadogroup.com](http://www.ocadogroup.com)