



ocado

Ocado Group plc

Annual report and accounts 2011

Stock code: OCDO

Growing sales, increasing capacity,
supporting future growth



Welcome to Ocado Group plc

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.

› 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

› 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

› 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

› 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



See further information online:
www.ocadogroup.com

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Highlights

Highlights

Financial highlights

- Gross sales¹ up 16.6% to £642.8 million
- Revenue up 16.0% to £598.3 million
- EBITDA² up 26.6% to £27.9 million
- EBITDA³ margin up to 4.7%
- Operating profit of £1.1 million
- Net debt of £19.2 million
- Cash and cash equivalents £92.1 million

Operational highlights

- Average orders per week up by 18.6% to 110,219
- Items delivered exactly as ordered 98.3%
- Deliveries on time or early 92.3%

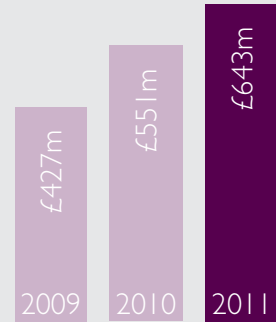
Strategic highlights

- CFC1 capacity expansion work making good progress
- CFC2 building, services and ancillary infrastructure substantially complete
- Significant initiatives in customer offer including:
 - roll out of own-label
 - Ocado Saving Pass
 - 'shop in shop' development
 - roll out of latest Webshop
 - additional mobile platforms

Gross Sales

£643m

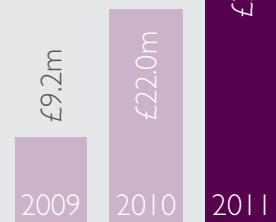
2010: £551m



EBITDA

£27.9m

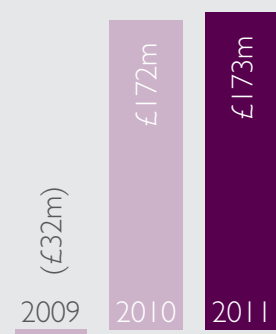
2010: £22.0m



Net Assets

£173m

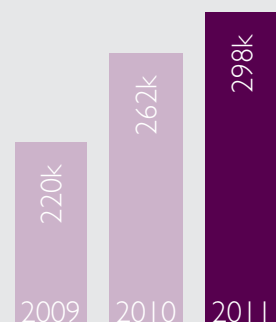
2010: £172m



Active Customers

298,000

2010: 262,000



⁽¹⁾ Gross sales include revenue plus VAT and marketing vouchers.

⁽²⁾ EBITDA is a non-GAAP measure which we define as earnings before net finance cost, taxation, depreciation, amortisation, impairment and exceptional items.

⁽³⁾ EBITDA margin is calculated on revenue.

Chairman's letter

Lord Grade of Yarmouth
Chairman



Dear Shareholder

Overview

We are now in our second year as a public listed company and I am pleased to report that the business continues to see significant sales growth and improvements in operational profitability.

During the year the Group invested heavily and continues to do so, in the development of its second Customer Fulfilment Centre at Dordon, Warwickshire. This major development will ensure Ocado is in a prime position to take full advantage of the rapid growth expected in the online grocery business over the coming years.

People

I am greatly inspired and hugely impressed by the level of service and quality of offering that our people deliver. Ocado's impressive record in achieving awards for innovation and quality of service continued during the year and is testament to the efforts and talent of our workforce. I wish to thank all members of the Ocado family for their continued support.

Board changes

Andrew Bracey has resigned as Chief Financial Officer from the Board, and a process is underway to find a new Chief Financial Officer. Andrew is expected to leave after the publication of this annual report. David Young, who joined the Board in 2000, has also expressed his intention to resign as Non-Executive Director at the AGM. I would like to pay thanks to Andrew and David for their valuable contribution to the success of Ocado and wish them every success for the future.

We welcomed Mark Richardson to the Board in the newly created role of Operations Director. Since 2001, as Head of Technology, Mark had led the Ocado technology team in developing our website, mobile applications and warehouse IT system.

Existing Board members Jason Gissing and Neill Abrams also had changes to their roles during the period. Jason has taken on the new Board position of Commercial Director and Neill has assumed responsibility for human resources in addition to his current role as Legal and Business Affairs Director.

We also welcomed three new Non-Executive Directors onto the Board in Douglas McCallum, Wendy Becker and Alex Mahon. Douglas' high-level experience in e-commerce and IT, Wendy's wealth of experience in retail, technology and customer service and Alex's experience in media, strategy and corporate development will complement the skill set of the existing Board. Wendy will chair the Remuneration Committee upon the retirement of David Young.

Corporate governance

The Board has a wide range of responsibilities. There are three that are particularly important for the success of the business, first, to debate, determine and oversee the execution of our strategy; second, to ensure that we have the most talented team to execute this strategy and that we plan effectively for succession; and third, to ensure effective governance.

Securing the right balance of skills, experience and perspectives on the Board is a key responsibility to ensure that the Board works effectively as a team towards shared goals with the right mix of enquiry and support of the Executive Directors from the Non-Executive Directors. The Nomination Committee report on pages 36 to 37 describes this work. We always seek to run our business in a responsible way, and we have a very strong team which is mindful of its responsibilities not just in helping to deliver the strategy but also in overseeing financial controls and risk management.

Our governance reporting obligations are set out in the UK Corporate Governance Code. The appointment of the three new Non-Executive Directors moves the Board closer to the Board's desired full compliance with the 2010 Code in respect of Board independence. A detailed statement of corporate governance can be found on pages 30 to 45 of this annual report.

I am also mindful of my responsibility as Chairman to lead the Board and ensure that it is working effectively. This year a Board evaluation was carried out with the FRC's Guidance on Board Effectiveness in mind. I am encouraged, as reinforced by our Board's performance review, that our Board operates effectively and is properly engaged.

Corporate social responsibility

Operating our business in a responsible way is fundamental both to the way we operate and to delivering sustainable profits and long-term value for our shareholders.

We have continued to explore methods of reducing our impact on the environment, including the use of anaerobic digestion to produce electricity from our food waste, use of electric vans in our London spokes and continuing our closed-loop carrier bag recycling system. We have also supported the Japan Appeal and Macmillan Cancer Support among other important causes. The corporate social responsibility report found on pages 24 to 27 describes our responsibilities here.

Looking forward

I am excited about Ocado's future and I look forward to the continued expansion of our business. As a Board, we remain confident that our strategy and business plan will allow Ocado to grow and deliver our commitment to create value for our shareholders.

Lord Grade of Yarmouth
Chairman
Ocado Group plc

Chief Executive Officer's review

"Against the backdrop of a weak UK economy, we have continued to see material growth in the online grocery market. We believe this is evidence of a structural shift in consumer behaviour; we expect continued expansion of this market in the future."

Tim Steiner Chief Executive Officer



During the past year, Ocado has made significant progress in growing sales and increasing capacity to support future growth. Against the background of the weak UK economy, gross sales have grown by 16.6%. We are very grateful to our customers for their loyalty and support.

Market development

The importance of the online grocery market in the UK, while still in its infancy, is now recognised by most major grocery retailers. Customers continue to migrate from shopping in stores for groceries to shopping online. This is borne out by average orders per week at Ocado in 2011 increasing by 18.6% from 92,916 to 110,219. A recent report from the Institute of Grocery Distribution forecast that the UK online grocery market will reach £11 billion of sales by 2016. We believe the biggest threat to the growth of the online market is under-investment; retailers will not be able to fully service increasing customer demand unless they invest in online sales capacity.

Competition in the online grocery sector is already as strong as the traditional store-based sector, and will almost certainly increase. We believe the best way for Ocado to acquire new customers, as well as retain existing customers, is to continue to develop and improve the Ocado offer. We have worked to improve this on many levels for the benefit of our customers.

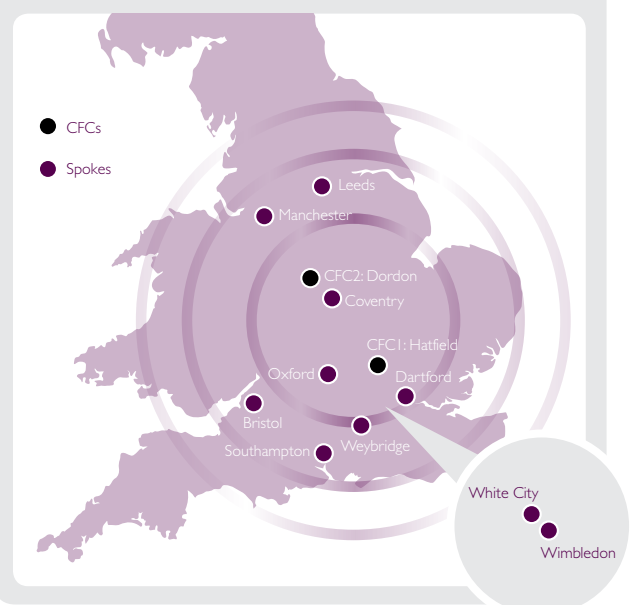
Capacity expansion

This year we developed CFC1 towards its ultimate capacity of 180,000 orders per week. Investment was made in major upgrades to our proprietary software running the warehouse operation; in additional storage, picking and tote conveyor capacity; and in the power infrastructure of CFC1. In 2012 we are planning further investment in CFC1 to take capacity to around 160,000 orders per week by year end.

As I have said in previous updates on the business, increasing the capacity of CFC1 to cope with increased sales demand has presented operational challenges. During the year several major construction projects were completed in CFC1 while the picking of groceries continued. That we were able to do this is a credit to the planning and execution skills of our engineering and CFC1 teams. We temporarily reduced our product range to under 20,000 lines during the year to create space for construction of additional automation. In H2 2011 we hired additional temporary staff and reintroduced some manual trolley-picking to provide a short-term increase in operational capacity. As a result of these changes, CFC1 efficiency measured in units per hour ("UPH") dropped by 8.2% from 121 UPH to 111 UPH. As new equipment becomes operational in CFC1 over the next 12 months, we expect to see a rise in efficiency towards our long-term target of 180 UPH.

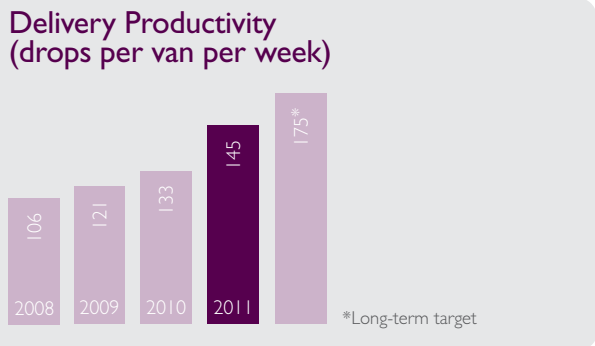
Ocado's marketplace

COVERAGE: OVER 70% OF UK HOUSEHOLDS AND GROWING



FACT

OVER 30,000 LITRES OF MILK ARE DELIVERED DAILY TO OUR HATFIELD CFC FOR NEXT DAY DELIVERY TO OUR CUSTOMERS



Construction is advancing well at CFC2 in Dordon, Warwickshire. Work on the building, services and ancillary infrastructure is substantially complete and equipment installation has started. It remains on budget and on time to open in Q1 2013. Systems testing is currently planned to start in mid-2012, with initial operations scheduled to commence in early 2013, giving us a six month testing and commissioning window. We believe CFC2 will represent the single biggest increase in capacity by a grocery retailer serving the online market in the UK. It is a key part of our drive to secure Ocado's leading position in this fast growing market.

Customer demand

More customers are shopping online, and doing so more frequently. This is causing a slight decline in basket size, and we have seen the average order size at Ocado during the year fall by 1.7% from £114.06 to £112.15. Most of this decrease is due to the shift of customers towards the Ocado Delivery Pass ("ODP"), one of our key customer loyalty schemes. There are two reasons for this: the majority of Ocado orders are now placed using the ODP scheme, and these customers have a higher overall spend as increased shopping frequency more than offsets the lower average basket for this customer group. Nevertheless it is also clear that Ocado customers are feeling the same budgetary pressures that are affecting British consumers elsewhere and towards the end of 2011 we began to see a slight change in product mix and baskets that were on average one item smaller.

Operating efficiency

Our delivery network's performance continued to improve throughout the year. We opened new spokes in Bristol and Wimbledon and after the period end, in Oxfordshire. The Bristol spoke has enabled us to expand our service coverage into the South West of England and South Wales. Whilst we already operate in Wimbledon, this new spoke increased our capacity in the London area by around 17,000 orders per week. The opening of these spokes increased the operational efficiency of our existing delivery network.

The increasing scale of the business, combined with ongoing upgrades to routing software and van design have contributed to deliveries per van per week ("DPV/week") increasing by 8.7% to 145 DPV/week. During the year the peak was 165 DPV/week. The on-time delivery performance was 92.3%, down from 94.9% in the previous year; largely due to the impact of significant development works in CFC1.

Grocery range

We have continued to develop our grocery range and Ocado now offers a grocery range equivalent in size to our largest store-based competitors. Our investment in CFC1 will enable us to grow this from the level of around 20,000 products we had at year end, to over 30,000 products over the next year. The Ocado own-label range has more than doubled during the year to 620 products. Our own-label range is comparable in price and quality to similar products of our major competitors and has proved very popular: 70% of all Ocado baskets now contain at least one Ocado own-label product. In addition, we have a growing number of specialist ranges such as Carrefour's "Reflets de France" range of authentic French produce, as well as leading organic suppliers such as Daylesford Organic and Laverstoke Park Farm.

Non-food business

In line with the objectives we set out at our IPO, we continue to expand our range of non-food items. We recruited a dedicated non-food team to drive this expansion forward. We plan to increase significantly our non-food range by the end of 2013.



Chief Executive Officer's review continued

“We will continue in 2012 to pursue our core strategy of improving our offer to customers and increasing capacity to meet growing demand. It is our mission to ensure that customers continue to regard Ocado as the market-leading offer in online grocery shopping.”

Tim Steiner Chief Executive Officer

Value

We continue to focus on offering greater value to an ever widening customer base. We have done this by investing in price in four main ways: increasing the number of products on promotion, continuing our Tesco price match on all identical products not on promotion to approximately 7,000 products by the end of 2011, expanding the Ocado own label range, and launching the Ocado Saving Pass. The Ocado Saving Pass enables our customers to make at least a 10% saving on over 600 leading branded products. This includes products that are already price-matched to Tesco, in return for a small annual fee. All these initiatives were achieved while delivering the freshest produce to customers through our shorter supply chain, accompanied by our product life guarantee.

Technology and innovation – website and mobile interfaces

The launch of Ocado's latest Webshop was completed in Q1 2011. It has proved to be very successful, receiving excellent customer feedback. The Webshop enabled customers to shop up to 25% faster than before. We regularly make enhancements to our Webshop and use our technological base to improve the customer experience and service. We launched “shop in shop”, allowing suppliers to showcase their specific ranges in their own dedicated section of the Webshop.

Checkouts via mobile devices grew to 18% of checkouts by the end of the period, up from 12% at the beginning of the year.



We enhanced the functionality and usability of the existing Ocado apps available for the iPhone, the iPad and the Android platform, and developed Ocado apps for the BlackBerry and the Windows Phone 7 mobile devices.

Other software developments included our “One-Click Additions” feature, allowing customers on mobile devices to amend an existing delivery without needing to check out again. Ocado is the only UK supermarket to offer customers full shopping functionality on all leading smartphone devices. We also implemented a new CRM platform to improve the efficiency of our call centre and provide substantial benefits to customer service. Ocado's software development achievements were recognised with Ocado being awarded a Grocer Gold Award for Consumer Initiative of the Year in 2011.

FACT

OCADO CFC COMPUTERS MAKE OVER 10 MILLION CONVEYOR-BELT ROUTING DECISIONS EVERY DAY

FACT

A RECENT STUDY REVEALED THAT 69.5% OF OUR BASKETS OF BRANDED PRODUCTS WERE CHEAPER THAN TESCO.COM

People and recognition

The key to our success is the energy and commitment of nearly 6,000 employees in different areas of the business. I would like to recognise the tremendous efforts made by them throughout the year. Our customers and industry observers regularly comment on the outstanding service provided by our delivery team of over 2,000 Customer Service Team Members. The measures taken by Ocado to make its delivery vehicles safe were again recognised in 2011 by Ocado winning for the second year running the Safe Vehicles Award at the Fleet Safety Forum Awards, organised by road safety charity Brake. Ocado also won the Fleet Van Operator of the Year at the Fleet Transport Awards.

The overall standard of the business was again recognised with our selection as a finalist for the Etailer of the Year award at the 2011 Oracle World Retail Awards, and being voted the favourite online supermarket in the Which? Magazine reader surveys. In November 2011, we signed a voluntary union recognition agreement with USDAW for Ocado's hourly paid employees at all our current operational sites. USDAW representatives will participate on our existing Ocado Council to voice the views of the employees they represent. The Ocado Council continues to be the forum that we use to consult with our employees.

Current trading and outlook

Against the backdrop of the weak UK economy, we have continued to see growth in the online grocery retail market. We believe this is evidence of a structural shift in consumer behaviour and we will see continued expansion of the market. Ocado is well positioned to capture this growth as the market-leading offer in online grocery shopping.

Ocado achieved gross sales growth of 16.6% in 2011, during a period of capacity constraints at CFC1. Our growth has continued into 2012; sales growth in the first quarter was 10.9%, similar to Q4 2011. Given the sales growth profile we experienced in 2011 as a result of capacity constraints, we expect our growth rate to improve as the year progresses.

In 2012 we will continue to pursue our existing strategy to improve what we offer our customers, to complete the capacity expansion work at CFC1 and to continue the build, commissioning and testing of CFC2. We will focus on improving the levels of service, beyond that which we gave our customers in the second half of 2011.

It is our mission to make sure that customers continue to regard Ocado as the market-leading offer in online grocery shopping. We will continue to provide for and capture the growth of this market sector. The operational leverage we have in our business positions us strongly to benefit from increased scale to achieve a level of profitability that satisfies all stakeholders in the business.

Tim Steiner
Chief Executive Officer



Chief Financial Officer's review

"With a sales increase of 16.6% in 2011, we are confident that Ocado grew faster than other players in the sector. Due to our competitive advantage online we are well placed to deliver for shareholders as well as customers."

Andrew Bracey Chief Financial Officer



Ocado's sales growth and improved operational profitability continued in 2011. Gross sales grew by 16.6% from 2010. EBITDA margin as a percentage of revenue increased from 4.3% to 4.7%.

The balance sheet continued to be strong with net assets of £172.9 million, an increase of £1.1 million on 2010. Cash was well controlled in the period with net cash from operating activities of £20.1 million. At 27 November 2011 the Group had net debt of £19.2 million as it began to draw on the £100 million credit facility to grow the business. Cash and cash equivalents at the year end were £92.1 million.

Despite the uncertainty of the UK economic environment, the strength of the period end balance sheet combined with the operational improvements and continued sales growth leaves the Group well placed moving into 2012.

Revenue

Gross sales were up 16.6% to £642.8 million for the period. Growth continued to be driven by an increase in average orders per week to 110,219 from 92,916, an increase of 18.6%. This was offset by a slight decrease in the average order size of 1.7% to £112.15. This was mainly due to an increasing number of customers signing up to the Ocado Delivery Pass. The number of Active Customers increased by 13.5% to 298,000 at the year end. Revenue grew by 16.0% to £598.3 million. Spend on marketing vouchers, at £8.0 million equated to 1.3% of revenue, down from 1.6% in 2010 due to reduced use of vouchers as a marketing tool.

Gross profit

Gross profit increased 14.3% to £184.8 million; this equates to a 47 basis points decrease in gross margin percentage over the period to 30.9%. The decrease in gross margin was caused by a decrease in delivery income per order; changes in product mix and increases in product sourcing costs, as well as promotional activity and post-delivery adjustments during the period. The increased post-delivery adjustment costs were primarily due to the capacity constraints experienced in the year; since year end these have returned to previous levels. The reduction in gross margin was mitigated by an increase in other income from suppliers which increased significantly by 101.0% to £12.6 million.

This was driven by the increased sale of space on our new Webshop. In addition, a number of new initiatives in the second half of the period such as "shop in shop" (this provides suppliers with their own dedicated shop within Ocado's Webshop) have enabled increased revenue to be generated.

Operating costs

At £151.7 million, distribution costs fell as a percentage of revenue from 25.8% in 2010 to 25.4% in 2011. Distribution costs increased by 14.2% on the prior period. The two major components of distribution costs are CFCI costs as well as trunking and delivery costs. CFCI costs fell as a percentage of revenue from 11.5% in 2010 to 11.3% in 2011, and represented an increase of 13.9% on the prior period. Variable CFCI costs increased slightly faster than revenue as a result of increased labour required to mitigate temporary capacity constraints. However, the operating leverage of the fixed cost base on increased volume combined with some savings in the fixed cost base meant that total CFCI costs fell as a percentage of sales. Trunking and delivery costs fell as a percentage of revenue from 13.2% in 2010 to 12.9% in 2011, and represented an increase of 13.8% on the prior period with productivity gains more than offsetting inflationary pressures. Administrative expenses, including marketing costs, increased by 20.6% to £44.5 million; up by 28 basis points as a percentage of revenue to 7.4% largely due to an increase in other marketing activity to partly complement the reduced use of vouchers.

Operating profit/loss

Operating profit for the period was £1.1 million, compared with an operating loss of £5.4 million in 2010. This improvement is mainly attributable to the growth in revenue, contributing to profit and enabling greater operating efficiencies.

FACT

EVERY WEEK 450 SUPPLIERS
DELIVER GROCERIES TO OUR
HATFIELD CFC

Net finance costs

The reduction in net finance costs of 49.0% to £3.5 million was largely the result of the repayment of four long-term loans in the second half of 2010. A large proportion of the borrowing costs under the £100 million credit facility remain on the balance sheet as they have been accounted for as transaction costs and will either affect profit or loss over the remaining period of the loan, or be capitalised to property, plant and equipment to the extent that drawdowns directly finance qualifying assets.

Loss before tax

Loss before tax for the period was £2.4 million, an improvement of £9.8 million against 2010.

Taxation

Due to the availability of capital allowances and loss relief, the Group did not pay corporation tax during the year. A deferred tax credit of £1.9 million was recognised during the period as we begin to recognise more of the tax losses available for use against future taxable profits. Ocado had approximately £279 million of unutilised carried forward tax losses at the end of the period.

Loss per share

Basic and diluted loss per share decreased from 1.63p to 0.10p, primarily due to the improved financial performance of the Group.

Cashflow

Net operating cashflow before finance costs increased to £26.4 million, up 42.2% from £18.5 million in 2010. This increase is primarily driven by an increase in EBITDA and the fall away of the 2010 IPO costs. The net movement in working capital was an outflow of £2.6 million (2010: £0.4 million). The increase in trade and other receivables was due to amounts outstanding at the period end in relation to other income and an increase in VAT receivable due to the volume of invoices relating to capital projects in progress, this offset a significant increase in trade and other payables arising from business growth and capital projects in progress.

Key performance indicators

The following table sets out a summary of selected unaudited operating information for FY11 and FY10:

	FY11 (unaudited)	FY10 (unaudited)	% Change
Average orders per week	110,219	92,916	18.6%
Average order size (£) ⁽¹⁾	112.15	114.06	(1.7%)
CFC efficiency (units per hour) ⁽²⁾	111	121	(8.2%)
Average deliveries per van per week (DPV/week)	145	133	8.7%
Average product wastage (% of revenue) ⁽³⁾	0.70	0.64	n/a
Items delivered exactly as ordered (%) ⁽⁴⁾	98.3	99.0	n/a
Deliveries on time or early (%)	92.3	94.9	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.

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

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

⁽³⁾ Value of products purged for having passed Ocado's "use by" life guarantee, divided by revenue.

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

Balance sheet

The Group had cash and cash equivalents of £92.1 million at the period end, this was down 40.4% from the 28 November 2010 amount which included treasury deposits, due to the continued capital investment required to expand the business. The Group had net debt of £19.2 million at 27 November 2011 (2010: net cash of £80.5 million) as it began to draw on the £100 million credit facility to assist in funding capital investment. At year end Ocado has drawn £40.2 million of this facility. Total undrawn facilities at 27 November 2011, including this facility, were £78.8 million (2010: £117.3 million).

During the period the Group agreed with its banks to increase one of its covenant ratios in the £100 million credit facility for the remainder of the life of the facility, which runs to January 2014. Given the current difficult economic climate the Group continues to monitor closely its liquidity position for a range of scenarios for revenues, cost performance and capital spend.

Capital investment

In the period Ocado invested £126.1 million in capital items, an increase of 260% on the prior year. Of this, £27.7 million was on projects in CFC1 to expand capacity, the benefits of which will be realised from 2012 onwards. The amount spent on CFC2 in 2011 was £72.6 million including the acquisition of land. The work schedule and costs on CFC2 are in line with expectations. The project is expected to complete in the first quarter of 2013. Investment in new vehicles in 2011 was £7.1 million. Capital expenditure on the expansion of the delivery network was £4.7 million; two new spokes opened in the period, both of which are leasehold sites. An additional freehold site was purchased and partially developed in the period. The Group continues to develop the majority of its own software, and during the period £8.2 million of internal development costs were capitalised as intangible assets.

Andrew Bracey

Chief Financial Officer

Marketplace

“Ocado represents the market-leading model in the expanding online grocery market. We are focused solely on the sale of groceries and non-food online and are committed to growing the online channel without the distraction of legacy bricks and mortar operations.”

Jason Gissing Commercial Director

Marketplace >

Substantial underlying grocery market in UK

The UK food and grocery market now exceeds £150 billion; it represents approximately 50p of every £1 spent on retail in the UK. The marketplace remains highly competitive and dominated by the big four grocers: Asda, Morrisons, Sainsbury and Tesco. This intensity drives competition for market share with retailers constantly striving to find new ways to strengthen customer engagement and relationships, and increase spend.

The economic downturn has added to pressure on consumers and on retailers seeking to attract their spend. Customers are looking to shop smarter; with factors such as fuel costs and value for money becoming increasingly important. Against the backdrop of this difficult trading environment, which is likely to continue in the near term, parts of the market continue to grow strongly including online, discount and convenience.

Online grocery market growth

The UK has seen continued internet penetration and e-commerce activity, with online retail activities developing beyond the original early adopters to a more mainstream customer set. Grocery has been slower to develop into an online category. However, the UK has the most advanced online grocery market globally, which has continued to grow rapidly from a small base currently approaching 4% of the total grocery market.

Online grocery is widely expected to become an increasingly significant channel, with all leading grocery retailers carefully considering their online strategies.

> Improved range and price drives channel shift

1

PRE 1950s LOCAL STORE

- Limited range
- High prices
- Counter service



2

HIGH STREET CHAIN

- Wide range
- Lower prices
- Self service



3

OUT OF TOWN SUPERMARKET

- Wider range
- Lower prices
- Drive to location



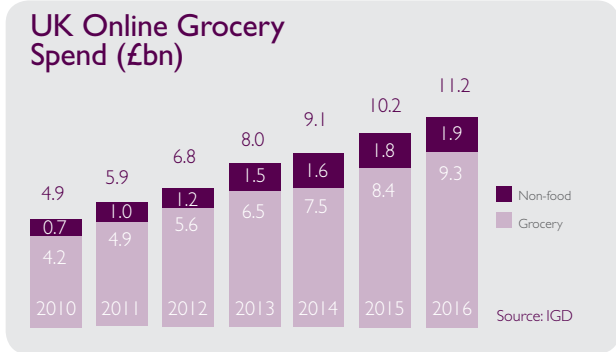
4

ONLINE

- Wider range
- Competitive pricing
- Improved convenience and service
- Best location - your home!



FACT MORE THAN 40% OF THE POPULATION INTEND TO USE THE ONLINE CHANNEL FOR AT LEAST PART OF THEIR GROCERY SHOPPING WITHIN FIVE TO TEN YEARS
Source: IGD



Structural drivers fuel growth

Significant channel shift has taken place in the UK grocery market over the last 60 years. A movement from local stores to high street supermarket chains was followed by the shift to larger out of town superstores and hypermarkets. In each case the channel shift has been driven by a wider range of product and lower prices. However, with each channel shift service levels and location have become increasingly less attractive to the customer.

The key driver to shifting consumers online is to improve the customer offer and experience in shopping for their groceries. As the online grocery proposition becomes increasingly attractive to the customer, the market will continue to grow significantly into a mainstream grocery shopping channel.

Developing this customer proposition involves providing the widest range of product across food and non-food categories at a price that is at least as competitive as can be found in physical stores. Customers also place great importance on reliable and accurate delivery, product quality and freshness, and overall ease of use.

Online grocery retail presents unique challenges

The online channel in grocery has been slower to develop than other segments of the retail market partly due to the unique challenges associated with providing this service, with the logistical challenges involved providing one of the biggest barriers to entry.

Fulfilment of a customer order through an online service is complicated: picking an average of over 50 items per order from over 20,000 SKUs across three temperature zones with different product life (ambient, chilled and frozen) for onward delivery to customers in narrow time slots presents many challenges. We seek to overcome these challenges with our unique business model and use of our proprietary knowledge and technology.

Technology and innovation

Technology and innovation influence many aspects of online grocery retailing. It serves as a driver for underlying demand with increased internet penetration and faster broadband speeds. It also deepens customer engagement through, for example, the increase in using mobile devices and tablets as a shopping tool. Technology and innovation are key to addressing many of the challenges in providing a superior online grocery proposition, both for the customer (easy to use websites, mobile device apps for checkout) and to drive operational efficiency in the supply chain and fulfilment.



Marketplace

Different online strategies

There is no single strategy for online retailing. In the grocery sector, different approaches are being adopted, with traditional store-based retailers largely using existing stores or store-based systems. By contrast, Ocado uses a centralised picking model, with a spoke distribution network. This pioneering approach has been developed by Ocado over several years using its own bespoke systems, know-how and software, making such a model difficult to replicate.

2012 and beyond

Further growth in online grocery retailing is set to continue. Significant development of the customer proposition within the channel will hasten this growth and transform such a channel migration from a niche activity to a full market shift representing a sizeable part of the UK grocery market.

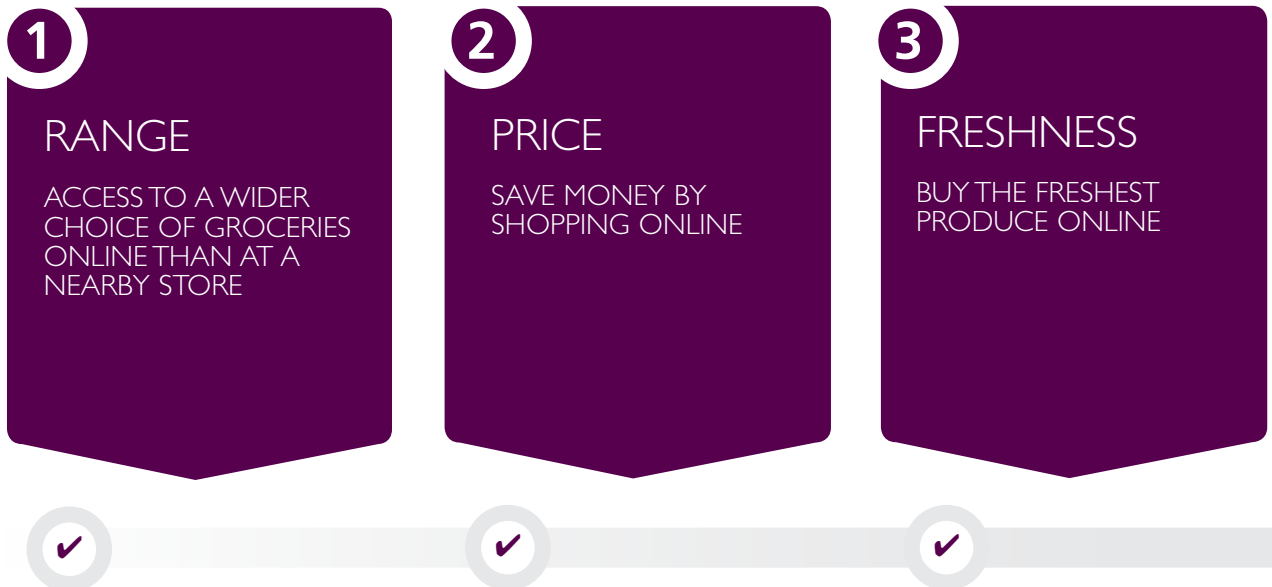


Driving the online proposition ...

The online grocery market is expected to experience significant growth at the expense of traditional grocery channels, and adoption is influenced by a number of complementary drivers.

Why customers choose to shop online for groceries

Driving the online proposition ...



The Ocado Way

RANGE

AT FULL CAPACITY WE WILL BE ABLE TO STOCK UP TO 40,000 GROCERY SKUs IN ONE LOCATION. THIS IS OVER 50% MORE THAN A TYPICAL LARGE SUPERMARKET

We will be able to stock a bigger grocery range than any other UK supermarket. This reduces the need to shop elsewhere. Our range includes products with different price points in the same category to appeal to different customer wallets.

PRICE

WE NOW¹ PRICE MATCH THE LARGEST COMPETITOR ON OVER 8,000 SKUs

The automation and aggregation of our model strips out costs and increases efficiency. These savings allow us to offer products at compelling prices. We work hard with our suppliers to provide market leading promotions for our customers.

¹ March 2012

FRESHNESS

THE PRODUCT LIFE OF ALL OUR FRESH PRODUCTS IS GUARANTEED

Our model removes one stage of the grocery supply chain. This combined with rapid stock turn means we often get product to customers the same or next day following receipt into our warehouse. This can be quicker than other supermarkets get the product to their stores. We offer a life of product guarantee giving confidence to customers that their groceries have a minimum remaining life when delivered.

...through our leading customer offer

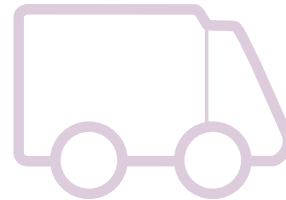
› Grocery shopping made easy



Register at Ocado.com



Start shopping



We deliver to your kitchen

4

EASE OF USE
CONVENIENT, QUICK AND EASY TO USE

5

AVAILABILITY
CONVENIENT NEXT DAY DELIVERY WITH VERY HIGH STOCK AVAILABILITY

6

RELIABILITY
CONSISTENT ORDER RELIABILITY - ON TIME AND AS ORDERED



Delivering the online proposition ...

OUR PERFORMANCE

ABOUT OCADO

OUR RESPONSIBILITIES

OUR FINANCIALS

EASE OF USE

20% OF ALL OUR CHECKOUTS NOW¹ MADE USING MOBILE APPS

In-house software development allows for rapid introduction of new functionality. We were the first grocer to launch a fully transactional mobile app, offering increasing convenience to the customer. The shopping experience could not be easier from ordering anytime anywhere to delivery in the narrowest delivery time window in the market.

¹ End January 2012

AVAILABILITY

MORE THAN 95% OF OUR RANGE IS AVAILABLE FOR NEXT DAY DELIVERY AT ANY ONE TIME

Proprietary integrated systems give control over the product flow. This, combined with the scale of our warehouse, leads to structurally higher product availability. This reduces the chance of products being out of stock and minimises substitutions.

RELIABILITY

OVER 98% OF ITEMS ARE DELIVERED AS ORDERED

The combination of our centralised model and our proprietary software leads to unrivalled reliability. Our systems have evolved following much iteration, to integrate all aspects of the customer fulfilment process.

Strategy: addressing the market, preparing for the

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 efficiently, these elements are drawing new customers to Ocado.

Activity in 2011

	Priorities	Key achievements	KPIs
Customer Offer	Range, price and freshness We aim to provide a wider range than traditional store-based channels, with a price competitive offer and superior freshness with product life guarantee.	<ul style="list-style-type: none"> › Rolled out own label range › Introduced specialist ranges › Launched Ocado Saving Pass › Tesco price match c.7,000 SKUs (at end of 2011) › Significant work with suppliers and substantially increased number of promotions 	<ul style="list-style-type: none"> › At year end stocked c.20,000 SKUs, including over 600 Ocado own label SKUs
	Service and usability We aim to provide market-leading levels of service, availability, accuracy and ease of use for our customers.	<ul style="list-style-type: none"> › Completed roll out of the latest version of our Webshop › Launched apps on BlackBerry, Windows Phone 7 › Introduced a number of new customer features 	<ul style="list-style-type: none"> › Faster shopping times › 18% of check outs on a mobile app by year end (20% by January 2012) › Orders delivered as ordered 98.3% › Deliveries on time or early 92.3%
Operational & Capacity	CFC1 We continue to invest in greater capacity at our existing Hatfield CFC. We implemented a series of changes in 2011 to enhance the future capacity and efficiency of CFC1, while impacting on short-term operations.	<ul style="list-style-type: none"> › Added significant MHE › Added c.5km of conveyor and new smart control software › Introduced new ambient zone pick with latest generation conveyor 	<ul style="list-style-type: none"> › CFC1 efficiency at 111 units per hour; vs long-term target of 180 › Average orders per week over 110,000, peaking at over 131,000
	CFC2 Our new CFC development in Dordon, Warwickshire planned to open in early 2013.	<ul style="list-style-type: none"> › Significant progress at Dordon with building, services and ancillary infrastructure largely complete and MHE installation started 	
	Spokes The majority of orders are relayed from CFC1 to spoke sites for onward delivery to customers.	<ul style="list-style-type: none"> › Bristol and Wimbledon spokes opened during period, Oxford spoke opened in Q1 2012 	<ul style="list-style-type: none"> › London area capacity increased by 17,000 orders per week with Wimbledon spoke opening
	Van fleet Our customer service team members deliver direct to customers' kitchens using our fleet of bespoke vans.	<ul style="list-style-type: none"> › Tracking and routing technology upgraded 	<ul style="list-style-type: none"> › Deliveries per van per week increased to 145 (peaking at 165), vs long-term target of 175

future and driving efficiency

Simultaneously, we are investing in our infrastructure to service this growth and driving efficiency throughout the delivery cycle. We have set out the key initiatives from the past year, and the key priorities for the year ahead. We would also refer you to the risks section on pages 18 to 23 in looking at these initiatives.

› Our priorities for 2012

Key initiatives	Effect on KPIs	Execution risks
<ul style="list-style-type: none"> › Further develop own label range › Introduce more specialty food lines › Increase promotional activity › Expand non-food lines 	<ul style="list-style-type: none"> › Significantly increase the number of SKUs stocked by end of 2012 	<ul style="list-style-type: none"> › Expected capacity increases from new MHE may come on line more slowly than anticipated › Disruptive price moves by competition could impact margin
<ul style="list-style-type: none"> › Continued use of technology and innovation to improve the customer offer and service levels 	<ul style="list-style-type: none"> › Improvement in % of orders delivered as ordered › Improvement in % of deliveries on time or early 	<ul style="list-style-type: none"> › Unforeseen operational challenges occur as we increase capacity at CFC I
<ul style="list-style-type: none"> › Start operation of new MHE installed in 2011 › Remove the remaining inefficient trolley pick operation 	<ul style="list-style-type: none"> › Improvements to CFC efficiency, and together with other CFC improvements, will drive KPI efficiencies, order and delivery service levels 	<ul style="list-style-type: none"> › MHE implementation is delayed › Unforeseen operational challenges occur as we increase capacity at CFC I
<ul style="list-style-type: none"> › Complete all work with testing and commissioning commencing mid 2012, ready to go live Q1 2013 		<ul style="list-style-type: none"> › Testing and commissioning schedule delayed
<ul style="list-style-type: none"> › Maximise throughput at each spoke with increased CFC capacity 	<ul style="list-style-type: none"> › Delivery KPIs improve 	<ul style="list-style-type: none"> › Current spokes become capacity constrained
<ul style="list-style-type: none"> › Expand van fleet as capacity increases 	<ul style="list-style-type: none"> › Delivery KPIs improve 	<ul style="list-style-type: none"> › Legislative and environmental factors impact on the mode of operations › Unforeseen impact of Olympic Games

Questions and Answers

Tim Steiner, Chief Executive Officer, addresses some of the most frequently asked questions about our company.



Tim Steiner
Chief Executive Officer



Q. What are the main trends driving your marketplace, in particular, how are you affected by key competitors investing more in their online operations?

A. A number of factors, including fast growing internet and smartphone penetration, an increase in available product range, lower prices, convenience, time and fuel savings are driving a sharp increase in online shopping. In particular, the advantage of shorter time slots for delivery are starting to influence customers' decisions to buy groceries online. Investment in online by competitors is good for us as it acknowledges online as an increasingly significant channel. The key driver to shifting consumers online is to improve the customer offer and experience in shopping for their groceries. As the online grocery proposition becomes increasingly attractive to the customer, the market will continue to grow significantly into a mainstream grocery shopping channel.

Q. Are you concerned about reports that competitors are opening their own automated "dark stores"?

A. It is interesting to hear about our competitors' dark stores. We see reports of bigger warehouses and increased automation as a further validation of our model, which we have been operating and building knowledge of over the last ten years. We believe our centralised picking model is significantly more efficient than the online operations of our peers. We will continue to build our offer to our customers, to continue to attract those converting to the online model.

Q. You are sometimes referred to as "Waitrose on wheels" but they are now offering their own online grocery service. How does this impact on the Ocado business?

A. We enjoy a long-term relationship with Waitrose. We are two independent retail groups, and as such it is only natural that Waitrose should continue to develop their own online offer, which pre-dates our business. We believe their business model is quite different to ours, centred on their store assets. We see any investment into online grocery retailing that they make as positive in converting shoppers from store-based to online, and we further believe that our customer proposition driven by our unique business model positions us well to subsequently attract disproportionately high numbers of these online shoppers to shopping with Ocado.

Q. How does the broader economic downturn impact you?

A. Customers become ever more discerning about price and value for money. Our efforts to continually improve the customer offer with a broader range, offering different price points and more choice, together with the multitude of initiatives we have to lower prices for customers which include Tesco Price Match and the Ocado Saving Pass, are key to continue attracting and retaining customers. While customers may put an item or two less in their shopping baskets, this is generally offset in value terms by inflation. Fuel costs have continued to rise and customers are increasingly attracted to the convenience, cost and time saving that shopping online brings in difficult economic times.

Q. What do you see as key to driving your proposition to customers?

A. We seek to provide and have available the widest range of any grocery store, offer competitive pricing and sufficient price points in each category without compromising on quality or freshness. We use our innovative approaches and advanced technological knowledge to make our service the easiest to use for customers and to drive efficiencies through the entire process to give the best customer service and maximise long-term financial returns.

Q. How does expansion into own-label and non-food complement your strategy?

A. Offering a broader range and different price points are both critical in attracting and retaining customers. Our own-label strategy forms part of our initiative to address both of these key drivers of customer demand. Our own-label products now feature in 70% of our customers' baskets.

We already sell non-food products which are adjacent to our grocery offer. We intend to further expand the number of non-food lines this year, which will offer more choice, and allow customers the ease of also having their non-food items delivered in dedicated one-hour timeslots rather than having to seek alternative destinations to complete their weekly shop.

Q. Will you be expanding your service into other parts of the UK?

A. We currently cover over 70% of the UK population. Our immediate strategy is to consolidate in existing delivery coverage areas by improving the drop density for each of our delivery vans, hence driving efficiency, returns and the investment we can put back into the customer proposition. At the same time we constantly consider the viability of introducing our service to parts of the UK currently not covered by Ocado.

Q. Do you intend to further broaden your appeal beyond your more traditional higher income customers?

A. Ocado is a shop for everyone. We want to be seen as the grocery retailer of choice for the ordinary shopper who seeks quality products at competitive prices. Our customers come from a cross-section of income and age demographics. Our focus on extending our product range to one that will exceed even the largest store-based supermarkets, coupled with our pricing initiatives are further driving our growth and reach to a broader cross section of the UK population.

Q. How do you ensure that your employees are engaged with the business?

A. We run an annual employee survey across the whole business to measure levels of employee engagement and to identify areas that need improvement. Employees are kept informed of the business' performance and key events that may affect performance through regular business briefings and electronic communications, which also make our employees aware of the various factors that can affect the business' performance. We have also introduced a management development programme, which gives employees the opportunity to progress their career within Ocado.

Q. How important is technology to your business?

A. Technology and innovation is at the heart of Ocado's business. We develop our own software, which gives us a proprietary knowledge base that acts as a natural protection against competitors.

We are able to utilise our technology platform and innovative approach to better engage with the customer through easy to use interfaces. We were the first in the market to develop a fully transactional app for the iPhone and now have apps across all major operating systems for mobile devices, and are constantly improving our Webshop. At the same time, we deploy our technology to drive the efficiency of our operations in order to fulfil our customers' orders with market leading service levels.

View our online video at <http://ocadogroup.com/about-us/introductory-video.aspx> to see the impact of technology in our business.

Q. There was a lot of talk of capacity constraints which caused some disruption last year and which had an impact on growth. Have these now been resolved and can we expect service levels to return to previous highs?

A. We were naturally disappointed with the levels of customer service that we delivered during the latter part of 2011, which while still market leading, fell below levels that we, and more importantly our customers, have come to expect.

We are however confident that the operational challenges in CFC1 which gave rise to the above are now largely behind us. These related to a variety of capacity expansion projects and additional maintenance or improvement work. This had an impact on short-term capacity and efficiency while we continued to fulfil customer orders from Hatfield. The majority of this work has now been completed, and as the capital investment projects have gone live we have seen capacity build. Moreover, we now have a much more robust operational infrastructure to service and drive expected future growth.

Q. How are you working towards reducing Ocado's environmental impact?

A. The way the business operates using an automated CFC means that our product waste is very low, at only 0.70% of revenue in the period. Most of our product waste is within the "use by date" and is sold, at a discount, to a specialist food distributor. We help our customers reduce their own wastage, by showing guaranteed product life on the Webshop and including 'use-by' dates on order receipts. We use a number of initiatives to reduce the impact that the business has on the environment, including closed loop carrier bag recycling, green van deliveries and ongoing energy efficiency projects in CFC1. We also use electric vans as part of the delivery fleet at our London spokes.

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 Group'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 principal 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
Strategy		
Expansion of CFC1 and construction of CFC2	A critical part of the Group's strategy is to expand its operations in the UK by further developing CFC1 and building CFC2 at Dordon, Warwickshire to significantly increase its capacity to service customers. The Group is currently undertaking several capacity enhancing projects in CFC1 which are highly complex and can result in operational difficulties whilst they are being tested and integrated into the current operation. Additional capacity projects will be needed in the future to realise CFC1's full capacity. While projects are undertaken these could have a negative impact on the operational efficiency of CFC1, customer fulfilment, delivery timeliness and ultimately the Group's financial performance. The Group's ability to develop CFC1 and replicate its business model in CFC2 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 write additional complex software systems to operate the CFCs; the Group's ability to roll out the business systems and infrastructure; the retention of reliable developers; and the availability of appropriate equipment and the contractors to design and install such equipment.	Management seek to manage the timing, integration and testing of CFC1 capacity projects so as to minimise operational disruption. The Group has employed additional labour at CFC1 to protect customer service levels during work to install further capacity. This increased labour is expected to be phased out as the installation works are completed. Construction of CFC2 is ongoing. The Group has a detailed plan for the management and resourcing of the CFC2 project and the Directors have oversight of the project to ensure that it can stay on schedule and within budget. The Directors are confident that the business systems of CFC1 can be replicated and enhanced in CFC2 (and in any further CFCs in the future) within the parameters of the capital expenditure budget set for the CFC2 project and that it can continue to successfully complete and integrate projects to expand CFC1.
Expansion of non-food product range	Part of the Group's strategy is to significantly expand its non-food product range. Demand from its customers for many categories of non-food products is relatively untested and significant customer demand will be needed in order to deliver the Group's anticipated growth in non-food sales. The Group's capability to develop the non-food business cost-effectively and in a timely fashion in the medium term will depend on its ability to develop and integrate the necessary infrastructure and business systems needed to support the targeted diverse and large non-food product range.	The initial expansion of the non-food range will be into product categories that are adjacent to the existing Ocado product range, such as kitchenware, which the Directors anticipate can be largely supported by the Group's existing infrastructure and systems and expect will require limited capital expenditure. The Group has and will continue to retain, recruit and train the necessary employees to manage the non-food business and has some plans for implementing the necessary business systems and infrastructure to support the longer-term extension of the non-food range.

Risk area	Potential impact	Mitigation
Operational		
Single CFC	<p>The Group is dependent on the continued operation of CFC1 (and to a lesser extent, the Spokes) in order to satisfy customer orders. Any disruption (such as a result of an IT failure or a fire) to the operation of CFC1 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.</p>	<p>The Group has some documented disaster recovery procedures which are aimed at minimising certain possible disruptions to the business. In early 2012, the Group achieved the insurance industry recognised "Highly Protected Risk" status. CFC1 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 eventual operation of CFC2 will limit, in part, the effect of any failure at CFC1. Spokes are able, to some extent, to serve geographies of neighbouring Spokes.</p>
Relationships with third parties		
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: (i) find or create replacement own-label products; and (ii) find appropriate suppliers and negotiate equivalent prices itself.</p> <p>Other than with regard to non-grocery products, the Sourcing Agreement with Waitrose 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.</p> <p>The Group is reliant on Waitrose for its sourcing and pricing of much of the Group's product range including accurately estimating and passing on the Group's share of supplier bonus and override payments.</p> <p>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 a maximum fee of £40 million.</p>	<p>The Group has a successful relationship with Waitrose which is now in its twelfth year. The Sourcing Agreement with Waitrose will continue this relationship until at least 2017. The Group is not particularly dependent on the Waitrose supply chain as about 84% of products are delivered directly to CFC1 by the relevant supplier or manufacturer.</p> <p>Ocado has about 620 Ocado own-label products and will further extend this range. The sales of Ocado own-label products is closely monitored to ensure that the limits in the Sourcing Agreement are not exceeded. 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> <p>The Group has reviewed the most significant of Waitrose's supplier arrangements to give it oversight of the supplier support payments and their allocation between Waitrose and Ocado for the period.</p>

Principal risks and uncertainties continued

Risk area	Potential impact	Mitigation
IT systems and security and intellectual property		
IT systems	The Group relies to a very 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 Webshop, mobile apps, the highly automated CFCI, material 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 CFCI, or errors and delays in their delivery.	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 plans to maintain the integrity of its IT infrastructure. The Group's IT systems are housed in a purpose-built data centre and it has a separate disaster recovery location which houses standby servers for all of the critical systems and live replica data storage systems. All critical communication links between CFCI and the disaster recovery location are provided via two diversely routed fibre optic cables and the Group is provided with internet connectivity simultaneously by two major internet service providers.
IT security and fraud	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.	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 both physical and systems controls. The Group's Webshop is regularly tested for vulnerability by third parties from inside and outside the Ocado network. 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 took significant steps in 2011 in its Payment Card Industry Data Security Standards ("PCI") compliance plan by moving all credit and debit card processing to a PCI compliant external payment service provider.
Intellectual property rights	The business, IT systems, bespoke software 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 similar technology independently. In addition, third parties may independently discover Ocado's trade secrets and proprietary information or systems.	In order to minimise the disclosure of intellectual property outside the organisation, the Group chooses to rely on copyright, confidentiality and licence agreements with its employees, customers, suppliers, consultants and others to protect its intellectual property rights, rather than take other protective measures.

Risk area	Potential impact	Mitigation
Financing		
Funding for capital expenditure	<p>The Group's £100 million credit facility may be terminated by the lenders if the Sourcing Agreement with Waitrose is terminated for any reason.</p>	<p>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).</p>
Liquidity	<p>To manage the working capital needs of the business and to finance the Group's expansion plans, the Group is reliant on being able to arrange and maintain sufficient financing and to comply with their conditions once established.</p> <p>The most material of the Group's facilities is its £100 million credit facility. A material reduction in forecast EBITDA could lead to a breach of covenants under this facility which would put the Group in default of this facility and would allow the lenders to terminate the facility. This would jeopardise the Group's expansion plans and would threaten the Group's ability to continue as a going concern.</p>	<p>The Group maintains a mixture of short and medium-term debt and lease finance arrangements that are designed to ensure that it has sufficient available funds to finance its operations. The Board monitors rolling forecasts of the Group's liquidity requirements based on a range of conservative growth scenarios to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its 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. As part of this the Board continues to monitor the timing and amounts of uncommitted expenditure on capital projects. Expenditure on these capital projects and other discretionary expenditure can be delayed if the Group is performing at the lower end of the range of these scenarios.</p> <p>Under all the above scenarios the Directors have a reasonable expectation that the existing facilities provide sufficient funding for the Group to operate as a going concern and to continue with many of its plans to expand the business. The Group regularly reports to and meets with its key lenders to ensure that they are fully informed of the current business performance and future financing requirements of the Group.</p>
Exchange rate, interest rate and commodity fluctuations	<p>Any depreciation of sterling in relation to the euro could increase the sterling equivalent of the price paid for the machinery used in CFC2 and to expand the capacity of CFC1 (which is mostly purchased from suppliers located in countries that have adopted the euro). Fluctuations in the cost of commodities affect the prices that the Group pays for its grocery products and (in the case of diesel) to deliver to customers, and often these cost increases are absorbed by the Group. Fluctuations in interest rates will impact the finance costs to the business.</p>	<p>The Group has a policy, controlled by the treasury committee (and monitored by the Board), 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 counterparty risk.</p>

Principal risks and uncertainties continued

Risk area	Potential impact	Mitigation
Staff		
Staff retention and recruitment	The Group is reliant on its key management in particular; and staff for the operation of its business and expansion of the business, notably CFC2. The Group's ability to recruit, retain and motivate suitably qualified and experienced staff is important for the Group's success. The relationship between the Group and its workforce will be influenced by the Union of Shop, Distributive and Allied Workers ("USDAW"). USDAW participates in the Group's employee representative body, the Ocado Council, since being formally recognised by the Group in November 2011 in respect of the Group's hourly paid staff in relation to pay, working hours and holidays.	<p>The Directors continue to keep management and staff remuneration and incentivisation under review to ensure it remains competitive and motivating. The Group has a written management succession plan for all key roles and made development plans for management.</p> <p>The business has had good relations with its workforce to date. The Ocado Council provides the forum to discuss the terms and conditions of employment for the workforce and provide for further engagement with staff.</p>
Risks relating to the industry		
Competition and the online grocery market	<p>The trend in UK food retailing of moving from the traditional grocery market to the online grocery market may not continue in part because of changing economic conditions.</p> <p>The Group may be adversely affected (via loss of market share or by diminution of its gross margin through price competition) by the entrance of new competitors in the online grocery market or if the traditional grocery retailers, including Waitrose, invest heavily in their online operations.</p>	<p>The Directors believe that the online grocery market will continue to grow rapidly in the UK, particularly as the number of people shopping online has continued to increase.</p> <p>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 continuing to improve the Group's proprietary intellectual property and bespoke IT systems (including the Group's Webshop and mobile apps, the stock management systems, the customer delivery system and the van routing system) means that the Group is able to maintain its market leading online grocery offer.</p>
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 and demand, including economic and financial conditions. The difficult economic environment in the UK is likely to result in increased retail price competition in the UK grocery market and lower product margins because of increased promotional activity which will mean that maintaining the Group's gross margins will be very challenging. In addition, current economic conditions may lead to a reduction in the Group's sales or sales growth rate.	The Group regularly reviews its approach to pricing, marketing and product range for appropriateness to market conditions and to adapt to customer feedback and pricing initiatives of its competitors. The Group intends to significantly expand its product range (including non-grocery and Ocado own-label ranges) and is trialling various customer retention and pricing initiatives in order to help meet its gross margin expectations.

Risk area	Potential impact	Mitigation
Regulation and safety		
Health and safety law	A violation of health and safety laws relating to the Group's operations or construction of CFC2 or expansion of CFC1 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 CFC2.	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 has safety procedures and reporting structures for the CFC2 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 regulatory investigation or belief that the products (including Ocado own-label 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 and its financial performance.	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 the Group's facilities, its vans and its procedures to ensure quality standards and compliance with applicable food law and which liaises with the Waitrose food technology department.
Government 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 or the Group's operational costs. Regulations govern the weight limits of the loads that each delivery van and LGV can take and the number of hours that drivers can work on consecutive days, which constrain the potential delivery 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.

Corporate social responsibility report

Introduction

Operating our business in a responsible way is fundamental both to the way we operate and to delivering sustainable profits and long-term value for our shareholders.

This corporate social responsibility report explains how the Group carries out its responsibilities with respect to the environment, employment practices and the community.

Environment

Part of the Company's strategy is to be the UK's greenest, most innovative and best value online grocer. 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 a Customer Fulfilment Centre (sometimes via a Spoke) to a customer's kitchen, 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 the Company in recent years. Among the awards, Ocado was voted Green Retailer of the Year 2009 in The Grocer Gold Awards and received the Good Farm Animal Welfare Award 2011 in the Compassion in World Farming Awards for Ocado own-label eggs.

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 continues to support the campaign, and has signed up as a partner for 2012. 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, the Company measures its carbon emissions on an ongoing basis using a baseline measurement. These records show that it has been reducing its carbon emissions against previous periods when measured as a percentage of the Group's sales.

Electric vans: Ocado has co-developed electric powered vans, which are now part of our delivery fleet at our White City Spoke.

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 almost £0.2 million in the period on a project to improve the integrity of the chilled picking area in CFC1 by closing up small air escape holes, upgrading doors and building airlocks in order to reduce the loss of chilled air. These changes will help to provide the business with energy savings. 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 carrier 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 Directors believe that the Group's food waste as a percentage of revenue (0.70% of the revenue for the period) is significantly less than any of its competitors. Ocado also helps its customers 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. Some food that is beyond the guaranteed product life but within the use-by date is donated to various charities including Vineyard in Southend, YMCA in Watford and New Hope Trust 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 along with some allocated fresh produce. Ocado also donates cat food and cat litter to Cat Protection, a cat sanctuary based in Welwyn.

Anaerobic digestion: Ocado uses a process called "anaerobic digestion", which is a process whereby some of Ocado's food waste is sent to Biogen Greenfinch, an operator of anaerobic digestion plants, to be mixed with bacteria and burnt to produce electricity and biofertiliser. The Company receives a regular report which outlines the estimated amount of power that has been created through this process. For example, in January 2012 the process generated an estimated 11,606 kilowatt hours of electricity, and made a carbon saving of about 21,883 kilograms.

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.

Suppliers and products

Product range: The Ocado own-label was introduced in 2010 to broaden the choice for our customers and offers good quality products at competitive prices. One of the key criteria when developing the Ocado own-label range is that it must 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 brand bread is made using British wheat. Ocado has now over 620 products in its own-label range.

Waitrose Foundation: Through its Sourcing Agreement with Waitrose, Ocado makes a donation to the Waitrose Foundation. The Waitrose Foundation is a partnership created in 2005 to help improve the lives of the farm workers and smallholders in South Africa, Ghana and Kenya who grow produce for the Waitrose Foundation range of products. A percentage of profits from the sales in this range is paid into a trust to fund projects chosen by the farm workers' and smallholders' committees. These include educational, social and healthcare projects. In 2010/2011, the Waitrose Foundation had launched over 200 projects, ranging from crèches to adult literacy programmes, and from sports teams to provision of equipment for medical clinics.

Duchy Originals products: During the period, Ocado made a donation of about £228,000 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. The Directors believe that 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.

Soil Association: Ocado supports the Soil Association, a charity that campaigns for sustainable food and farming.

Tetanus Vaccines for UNICEF: Ocado makes donations to UNICEF, the children's charity, in the form of tetanus vaccines through the sales to its customers of certain Fairy and Pampers products. In the last two years, Ocado customers donated nearly one million tetanus vaccines as part of the Pampers/UNICEF campaign. In 2012 Ocado hopes to bring this to a total of 1.5 million vaccines.

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. In return, 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.

As part of Ocado's philosophy of employee share ownership, the Group also operates the Ocado Sharesave Scheme in which a large number of employees participate. The Sharesave Scheme is a 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. Following period end, Ocado launched a second offer to employees to join the Ocado Sharesave Scheme.

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 grocery orders (with free deliveries on certain days, encouraging our employees to be greener shoppers), discount shopping membership, a discounted staff shop, 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. Ocado uses an annual formal employee survey administered across the whole business to measure levels of employee engagement and identify the areas where we can become a better employer.

We continue to hold regular events, 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.

Ocado's employees are kept well informed of the performance of the Group and key events concerning the business through regular staff briefings provided 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). It is hoped that such briefings and information will help our employees become aware of the various factors that affect the Company's performance.

Giving our people a voice

The Ocado Council, which is the Ocado employee representative body, helps facilitate employee participation and consultation in our rapidly growing business. The Ocado Council was formed in January 2010 and currently comprises 51 council representatives from across the business. The Ocado Council's achievements over its two years of existence include a review of incentives, involvement in changes to terms and conditions of employment, performance reviews, organisational changes and physical working environment improvements. A new Ocado Council registrar was appointed in the period.

In November 2011, Ocado signed a voluntary union recognition agreement with the trade union, Union of Shop, Distributive and Allied Workers ("USDAW") in relation to our hourly paid employees, including our personal shoppers, CSTMs and LGV drivers. This means that USDAW representatives will participate on the Ocado Council to voice the views of our hourly paid employees on matters relating to pay, holiday entitlements and working hours.

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 related to their role and orientation around different areas of the business.

Ocado's people have a range of skills and experience. 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 in-house training team deliver customer focused training that prioritises the health and safety of our people and meets individual needs. We have created and rolled-out a new management development programme, which gives our employees the opportunity to progress their careers. We have also implemented new appraisal processes and succession plans.

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 careers website and online applicant tracker system allows timely recruitment of talented people for business growth.

Ocado jobs

During the period, the average number of employees employed by the Group increased significantly to 5,180 employees, excluding agency workers (2010: 4,252).

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. We value diversity and through our equal opportunities policy we are dedicated to creating an environment that is free from discrimination, harassment and victimisation, where everyone is treated equally regardless of age, colour, disability, race, sexual orientation, marital status, political views or religious belief.

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

Charitable donations

In 2010 Ocado established a charity committee made up of eight employees, which increased to twelve employees in April 2011. The chosen charity for the period was Macmillan Cancer Support, which was elected by Ocado employees through the annual employee survey (described above). During the period, the charity committee organised a number of events, including quiz nights, a summer charity ball, a cake sale and Christmas raffle.

Ocado employees raised almost £29,000 for a number of charities, including MacMillan Cancer Support (£24,056 donated), the British Heart Foundation (£2,770 donated), and made donations under £2,000 to the NSPCC and the Japan Appeal.

In addition to the money raised by its employees, Ocado made charitable donations during the period of £29,250 (2010: £14,000) which includes £20,000 to Peace Winds (described below), £5,000 sponsorship of a visit from Lech Walesa, the former first president of Poland, for Migrant at Home Magazine as well as donations (of less than £2,000) to Peace One Day, CTT, Credit Action, the PwC Partners Charity Walk and various charity events. Some of these charitable initiatives are described below.

Japan Appeal: Ocado established an appeal to raise money for a Japanese charity called Peace Winds, who were helping over 300,000 people affected by the Japan tsunami and earthquake and subsequent Fukushima power plant evacuation in March 2011 by providing emergency food and blankets. Ocado appealed to its customers and staff for donations and promised to match the first £20,000 raised. The Ocado appeal raised over £250,000 for Peace Winds.

Peace One Day: Peace One Day is a non-profit organisation which has established a ceasefire and non-violence day that occurs on 21 September each year. They are committed to raising global awareness of the “peace day” through education and encouraging the global community to take action. Ocado is supporting this organisation by funding Peace One Day’s “UK citizenship resource pack” for secondary schools. Ocado funded a full time “out-reach coordinator” for three months to help schools use these resources; which were delivered to 31,500 students. In the next year, Ocado intends to support the creation by Peace One Day of a new resource for primary school children.

Christmas food donations: Each Christmas, Ocado donates food for hampers to charities helping impoverished communities across the country. In the period, Ocado donated food to DENS, a charity based in Hemel Hempstead, SHOC based in Reading and Action for Children in Bristol.

Re-Wrap: Ocado is currently producing canvas tote bags for customers with Re-Wrap. Re-Wrap is a not-for-profit organisation which works with disadvantaged families in India who produce the bags. The materials used are sustainable and recycled textiles and eco-friendly dyes. Re-Wrap are also a member of the World Fair Trade Organisation. By working with Re-Wrap, Ocado is helping to sustain disadvantaged families in India, retaining traditional Indian craft and supporting fair trade practices.

JAMI: Ocado donated a significant number of desktop computers to the registered mental health charity, JAMI. The desktop computers were being replaced as part of the upgrades to the Ocado customer call centre.

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

Political donations

No political donations were made by the Group to any political party, organisation or candidate during the period (2010: nil).

Board of Directors



Lord Grade of Yarmouth ‡ Chairman

Lord Grade joined the Board as Chairman in 2006. He has had a long and distinguished career in broadcasting, encompassing ITV, BBC and over nine years as Chief Executive of Channel 4 Television. He is currently a Non-Executive Director at WRG Worldwide Limited, the Chairman of Pinewood Shepperton plc and also Chairman of James Grant Group Limited. He was appointed a member of the Press Complaints Commission Limited in April 2011. In November 2010 a Peerage of the United Kingdom for Life was conferred upon Michael.



Tim Steiner Chief Executive Officer

Tim is a founding Director. He has responsibility for keeping a general oversight of the business and strategy. 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.



Neill Abrams Legal and Business Affairs Director

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 human resources 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.



David Grigson * ‡ Non-Executive Director and Senior Independent Director

David joined the Board in March 2010. He is the Board's Senior Independent Director and chairman of the Nomination Committee. He has held a number of posts, including Chief Financial Officer at Reuters Group PLC, Group Finance Director at Emap PLC, Chairman of EMAP Digital Limited and Non-Executive Director of Carphone Warehouse PLC. He is currently a Non-Executive Director at Standard Life PLC and Trinity Mirror plc and is Chairman of Creston PLC. David is a member of the Chartered Accountants of England and Wales and studied Economics at the University of Manchester.



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. Ruth is a Non-Executive Director of Travis Perkins plc and The Royal Parks, an executive agency of the Department of Culture, Media and Sport. Ruth is a fellow of the Institute of Chartered Accountants of England and Wales and a member of the Chartered Institute of Taxation. Ruth graduated from Bradford University with an honours degree in French and Spanish.



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 ten years in a variety of commercial and operational roles. Prior to that he spent ten 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.



Andrew Bracey
Chief Financial Officer

Andrew joined the Board as Chief Financial Officer in November 2009, having previously advised Ocado since its commencement. Prior to Ocado 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. Andrew notified the Company in January 2012 that he intended to resign from the Board, will be leaving after the publication of this annual report.



Jason Gissing
Commercial Director

Jason is a founding Director. He has Board responsibility for Ocado's retail activities, including buyer; supplier and customer relationships, marketing and brand development. In addition, Jason leads Ocado's green initiatives. 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.



Mark Richardson
Operations Director

Mark joined the Board in January 2012, having been Ocado's Head of Technology since 2001. He is responsible for the day-to-day running of the Ocado operation, including Customer Fulfilment Centres, logistics developments, business planning, engineering and IT. Prior to Ocado, Mark was at the John Lewis Partnership, where he held a number of IT positions, including Head of Selling Systems at Waitrose. Mark graduated from University College London with a physics degree.



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. David was a member of the board at John Lewis between 1982 and 2002, where he was Finance Director and later appointed as Deputy Chairman. Having held a number of senior positions, he is currently the Treasurer of Sheffield University. David read PPE at Corpus Christi College, Oxford. David will be leaving the Board after the AGM on 23 May 2012.



Jörn Rausing † ‡
Non-Executive Director

Jörn joined the Board in 2003 with the initial investment by Apple Trust (now the Apple II 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.



Douglas McCallum † ‡
Non-Executive Director

Douglas McCallum joined the Board in October 2011. Doug has been a pioneer of the internet industry for 17 years; for the last ten years at eBay where he led the UK business and then turned around the pan-European business. Prior to eBay he was founder and general manager of a number of businesses in the internet, broadcasting, software and hardware industries. Douglas read PPE at the University of Oxford, and has an MBA from Harvard Business School.

* Audit Committee † Remuneration Committee ‡ Nomination Committee

Statement of corporate governance

Introduction

The following sections explain how the Company applies the main principles set out in the UK Corporate Governance Code, June 2010 issued by the Financial Reporting Council (the "2010 Code"), as required by the Listing Rules of the Financial Services Authority and meets the relevant information provisions of the Disclosure and Transparency Rules of the Financial Services Authority. This statement of corporate governance covers the following:

- the role of the Board;
- the Board's effectiveness;
- the Board's committees;
- the Group's risk management and internal control framework; and
- relations with the Company's shareholders and the AGM.

The Company has applied the principles and complied with the provisions of the 2010 Code during the period, 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) and the relevant provisions in the 2010 Code. Recognising that it is a newly listed company (with its Admission on 26 July 2010) 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 2010 Code can be found at www.frc.org.uk.

This separate statement of corporate governance forms part of the Directors' report as required by the Disclosure and Transparency Rule 7.2.1 and accordingly is approved by the Board and signed on behalf of the Board by a Director. Certain parts of this statement of corporate governance have been reviewed by the Company's auditors, PricewaterhouseCoopers LLP, for compliance with the 2010 Code to the extent required, as mandated by Listing Rule 9.8.10R(2).

For the Chairman's statement on the Company's corporate governance see the Chairman's letter on page 3.

The Board

The Company is led by the Board. The names, responsibilities and details of the current (as at the date of this annual report) Directors on the Board are set out in the Board of Directors section on pages 28 to 29. During the period and following period end there were a number of changes to the Board, both on the executive and the non-executive sides.

Mark Richardson was appointed to the Board on 23 January 2012 to a newly created Board role of Operations Director. Mark was previously Ocado's Head of Technology. He is now responsible for the day-to-day running of the Ocado operation, including Customer Fulfilment Centres, logistics developments, business planning, engineering and IT. At this time, Jason Gissing, one of the co-founders of the business and current Executive Director; and Neill Abrams, current Executive Director and Legal and Business Affairs Director assumed changed executive responsibilities. Jason assumed the new Board position of Commercial Director; responsible for Ocado's retail activities, including buying, supplier and customer relationships, marketing and brand development. Neill assumed responsibility for HR, which was previously part of Jason's former role.

The Company appointed three Non-Executive Directors to the Board. Douglas McCallum joined the Board on 3 October 2011 as a Non-Executive Director. Wendy Becker was appointed to the Board as a Non-Executive Director; such appointment to take effect on 30 March 2012. On 14 March 2012, the Company announced the appointment of Alex Mahon as a new Non-Executive Director; such appointment to commence on 1 June 2012.

The Company announced on 23 January 2012, that Executive Director and Chief Financial Officer, Andrew Bracey, had tendered his resignation from the Board, and that he was expected to leave following publication of this annual report. Andrew Bracey will join Michael Page International plc as its new Chief Financial Officer. A formal process to identify his successor is ongoing.

The Company also announced on 23 January 2012 the retirement of David Young, a Non-Executive Director; from the Board, such retirement to take effect on 23 May 2012, being the date of the Company's AGM.

The Non-Executive Director, Patrick Lewis, resigned from the Board effective on 15 February 2011. As stated in the Company's Prospectus dated 6 July 2010, the John Lewis Pension Fund agreed with the Company 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 Board if the John Lewis Pension Fund's holding of ordinary shares in Ocado fell below 10 per cent. of the issued ordinary share capital of the Company. On 11 February 2011, the Company announced that the John Lewis Pension Fund had sold its entire shareholding in the Company. Accordingly, Patrick Lewis resigned from the Board, as agreed.

Director election

The rules that the Company has about the appointment and replacement of Directors are described in the Directors' report on pages 56 to 57.

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 Directors (current at that time) were re-elected at the last annual general meeting on 11 May 2011. Each current Director, including the appointed Directors noted above, will seek re-election by shareholders at the Company's AGM on 23 May 2012, except Andrew Bracey who has tendered his resignation, David Young who will retire as Non-Executive Director and therefore will not be seeking re-election and Alex Mahon whose appointment is effective on 1 June 2012. A biography of each current Director (as at the date of this annual report) is set out in the Board of Directors section on pages 28 to 29.

Chief Executive Officer

The Company's Chief Executive Officer is Tim Steiner. His biographical details are set out on page 28.

The Chairman

Lord Grade joined the Board as an independent Non-Executive Director and Chairman in 2006. His biographical details are set out on page 28 and indicate the Chairman's significant time commitments outside of the Company. During the period these other commitments changed with Lord Grade's appointments as Director of WRG Worldwide Limited, a creative agency, and as a member of the Press Complaints Commission Limited.

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, and ensuring its effectiveness. Lord Grade was responsible during the period for influencing the direction of the Board's agenda and ensuring that adequate time was allocated to discussing agenda items including the most material business matters, such as strategy.

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.

Senior Independent Director

David Grigson, who joined the Board as an independent Non-Executive Director in February 2010, is the Board's Senior Independent Director. His biographical details are set out on page 28. The Senior Independent Director's role is to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary. The Senior Independent Director is available to shareholders of the Company to assist in resolving concerns of such shareholders.

Independence

The 2010 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 Board, as at the date of this annual report, comprises 12 members. The Directors expect that at the time that the various Board appointments and resignations (outlined above) take effect the Board will comprise 13 members, including the Chairman, five independent Non-Executive Directors, five Executive Directors and two Non-Executive Directors who are not deemed to be independent for the purposes of the 2010 Code. The Company does not therefore comply with the relevant requirements of the 2010 Code (provision B.1.1) in relation to the balance of Executive and independent Non-Executive Directors.

The Company expects that as existing members of the Board step down and new directors are appointed, the Company will become compliant with the 2010 Code in this respect. The Board believes that providing some continuity of leadership is important and therefore has taken a measured approach to transforming the Board to one that is compliant with the independence requirements of the 2010 Code. In due course, the re-composed Board (including the Director appointees) will comprise eight Non-Executive Directors, of which the Chairman, David Grigson, Ruth Anderson, Douglas McCallum, Wendy Becker and Alex Mahon are deemed independent as defined in the 2010 Code. However in respect of the other Non-Executive Directors:

- Robert Gorrie is not deemed independent for the purposes of the 2010 Code because he was an Executive Director of Ocado from April 2000 until April 2006 and has been a Non-Executive Director since May 2006. He also provides consulting services to the Group under a separate consulting agreement and acts as chairman of the Ocado Council; and
- Jörn Rausing is not deemed independent for the purposes of the 2010 Code because the Apple II Trust (of which he is a beneficiary) is a major shareholder of the Company.

Statement of corporate governance continued

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 Board 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 the Non-Executive Directors and the Executive Directors, particularly during discussions at Board meetings. At the Board's strategy conference held in June 2011, the Board discussed the Group's medium-term and long-term plans and objectives. The Non-Executive Directors debated such proposals presented by management and provided input to help develop these plans. Such constructive debates on Group strategy are considered by the Directors to be beneficial in that they assist the Company to focus its efforts and planning in the most effective areas for delivering business growth and to balance the risks associated with those changes.

As required under the 2010 Code, 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.

The Board's role

The Board is collectively responsible for the long-term success of the Company. 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 Board has a number of key responsibilities and formally reserved powers, as set out in the schedule of matters reserved for the Board. 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 oversight of the Group's operations, including management and planning, sound risk management and internal control systems, adequate accounting and other records and compliance with statutory and regulatory obligations. 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's role also includes oversight of the Group's capital structure including any share issues and share buy backs. The Directors report on pages 60 to 61 includes a description of the powers of the Directors to issue and buy back the Company's shares.

During the period, the Board's activities included:

- receiving reports from senior management on trading, business performance, financing and operational projects;
- receiving progress reports from senior management on the construction of CFC2 and on the development of capacity projects in CFC1;
- approving the annual budget and the business plan for the Group;
- reviewing and approving the Group's results announcements, the annual report and Notice of Meeting;
- receiving reports on and discussing various business development and strategic opportunities;
- receiving reports on and discussing the Group's marketing and procurement strategy and development of the customer offer;
- receiving update reports on health and safety, investor relations and legal and company secretary matters;
- receiving reports from the chairman of each of the Audit Committee, the Nomination Committee and the Remuneration Committee;
- discussing risk management and internal control and reviewing the Group's risk matrix;
- discussing succession plans and Board re-composition;
- approving new governance policies including the Group's anti-bribery policy; and
- approving various new share scheme issues including a second issue under the Group's JSOS scheme and a new share incentive plan.

In addition, the Board convened its strategy conference at which the Board discussed the Group's medium and long-term strategy and plans. Various papers were presented by senior management to the Board on potential projects for the growth of the business in future. Some of these plans were prioritised by the Board and were progressed over the period including the Group's expansion of its non-food product range.

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. A project team meets frequently to monitor progress of development of the CFC2 project. 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, as required by Disclosure and Transparency Rules 7.2.7 and 7.2.8 and the 2010 Code.

Attendance

The table below shows the attendance of the Directors (during the period) at scheduled Board and Board committee meetings during the period. The Board had scheduled 11 Board meetings during the period and convened three additional ad hoc Board meetings. The composition of two of the Board committees changed during the period, as described in the Board committee's description set out below, hence some members of the committees did not attend all of the relevant committee meetings during the period.

	Board of Directors ¹		Audit Committee		Remuneration Committee		Nomination Committee	
	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible
Executive Directors								
Tim Steiner	14	14	-	-	-	-	-	-
Neill Abrams	14	14	-	-	-	-	-	-
Andrew Bracey	14	14	-	-	-	-	-	-
Jason Gissing	13	14	-	-	-	-	-	-
Non-Executive Directors²								
Lord Grade (Chairman)	14	14	-	-	-	-	3	3
David Grigson	12	14	5	5	-	-	3	3
David Young	13	14	5	5	3	3	3	3
Jörn Rausing	11	14	-	-	2	3	2	3
Ruth Anderson	14	14	5	5	3	3	3	3
Robert Gorrie	14	14	5	5	3	3	3	3
Douglas McCallum ³	2	2	-	-	1	1	-	-
Former Directors								
Patrick Lewis ⁴	2	3	-	-	-	-	-	-

Notes:

¹ As noted above various Directors have joined the Board since the end of the period, namely Mark Richardson, Wendy Becker and Alex Mahon and so are not listed in the attendance table.

² Jörn Rausing, David Grigson and Patrick Lewis did not attend the Board meeting on 4 February 2011 as the date of Board meeting had been changed at short notice and these Directors already had prior commitments.

³ Douglas McCallum joined the Board of the Company on 3 October 2011.

⁴ Patrick Lewis resigned from the Board of the Company effective on 15 February 2011.

Statement of corporate governance continued

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 was reviewed as part of the Board evaluation exercise, noted below.

Non-Executive Directors appointed to the Board during the period participated in an induction programme including a CFC1 visit, work in CFC1 as a personal shopper and making deliveries accompanying a CSTM on a delivery route. The induction also includes meetings with members of senior management and receipt of an induction booklet comprising the Group's key Board and governance documents and policies.

The Board received reports and presentations from some members of senior management from time-to-time which help maintain the Non-Executive Directors' understanding of the business and the sector and maintain their links to the remainder of the business, on matters such as the non-food business plan, CFC2 planning and progress and succession planning. During the period a Board meeting was held at CFC1. This allowed the Non-Executive Directors the opportunity to see the development, testing or operation of various new capital projects at CFC1. A Board meeting is scheduled to be held at CFC2 in 2012.

The need for Director training is assessed by the Chairman from time-to-time. The Company Secretary, Neill Abrams, arranged for newly appointed Directors to receive information and a presentation on the duties and obligations of a listed company director. Training for Directors is available via various external advisers to the Company, on an ongoing basis to meet any particular needs. Following the end of the period, the Non-Executive Directors were invited to join a non-executive director network group which provides access to know-how on current issues relevant to the role of company director. Members of the Audit Committee receive written know-how and technical updates from the Company's auditors, PricewaterhouseCoopers LLP, to keep them abreast of the latest accounting, auditing and tax developments.

The committees have access to sufficient resources to discharge their duties, as required by the 2010 Code. In this regard, remuneration consultants had advised the Remuneration Committee on executive remuneration during the period. The Company retained the services of professional services consultants for the recruitment of new Directors. Members of the Board may take independent professional advice at the Company's expense in the furtherance of their duties.

Company Secretary

The Board is assisted by the Company Secretary (who is also the Legal and Business Affairs Director), Neill Abrams, who reports to the Chairman in respect of his core secretarial 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 2010 Code. The appointment and removal of the Company Secretary is one of the matters reserved for the Board.

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 his or her induction process, a newly appointed Director completes a questionnaire which requires them to disclose any conflicts of interests to the Company. No Director has declared to the Company any actual or potential conflicts of interest between any of his duties to the Company and his private interests and/or other duties, except in the case of an Executive Director who holds the position of Director of the Company and director of a number of Group subsidiary companies.

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.

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 contains provisions that are permitted by the director liability provisions of the Companies Act and the Company's Articles. An indemnity deed is usually entered into by a Director at the time of their appointment to the Board. 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 effectiveness of the Board is important to the success of the Group and accordingly the Board considers that reviewing its own performance is helpful.

During the period, each of the Executive Directors was subject to a full performance evaluation from each other, the Management Committee and the Non-Executive Directors.

In addition, the Board carried out a Board evaluation in which all of the then current Directors participated (except those noted below). This evaluation covered the Board, the Remuneration Committee, the Nomination Committee, the Audit Committee and each of the Non-Executive Directors individually and was designed to assess how well they were performing collectively and individually, and how their performance could be improved.

These evaluations were based on a written questionnaire customised by the Company Secretary with support from an external consultant, Independent Audit Limited. The Board evaluation questionnaire covered the following key areas: strategy, leadership and accountability, Board effectiveness, quality of information presented to the Board, Board culture, risk governance and interaction with management. Each Board committee questionnaire sought to evaluate that committee's performance in fulfilling its functions and key responsibilities as set out in the relevant committee's terms of reference. The questionnaires were issue based with scoring, but the Directors were encouraged to expand on their scoring and assessments with additional comments, including with respect to areas for improvement.

The findings of the evaluations were reviewed by the Company Secretary and the Chairman and a report summarising the findings was provided to each Director. The Board discussed the Board evaluation report noting areas for improving effectiveness in future. The Chairman separately reviewed the individual Non-Executive Director performance evaluation reports.

In addition the findings of the Board committee evaluations were reviewed by the Company Secretary and each committee chairman and a report summarising the findings was delivered to each committee. The committees will use these evaluation findings as the basis for formulating plans for improving their effectiveness in future. The Remuneration Committee recommended that individual performance reviews form a formal part of the criteria taken into account in the Executive Director remuneration.

The Chairman and the Non-Executive Directors met without the Executive Directors being present, as required by the 2010 Code, to discuss the performance of the Board and the Executive Directors. The Senior Independent Director and the Non-Executive Directors also met without the Executive Directors or the Chairman being present, as required by the 2010 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. The Board has based, in part, its recommendations for re-election on its review of the results from the Board evaluation process and the Chairman's review of individual evaluations which concluded that each Director's performance continues to be effective and that each Director has demonstrated substantial commitment to the role (including time for Board and committee meetings and other responsibilities).

Various Directors did not participate in the Board evaluation process but are standing for re-election at the AGM. Douglas McCallum joined the Board close to the period end and two Directors (namely Mark Richardson and Wendy Becker) joined or expressed their intention to join the Board after the end of the period. Consequently the Board based its recommendation to re-elect these Directors on the same reasoned principles and judgments it applied in appointing the Directors to the Board at that time. Finally, Alex Mahon who will join the Board after the AGM on 23 May 2012, is expected to stand for re-election at the 2013 annual general meeting.

During the period, the Board agreed to conduct a Board evaluation process facilitated by an independent third party in a future period, as required by the 2010 Code. The Directors considered that such review would be more valuable to the Board at a later point at which the re-composed Board had had sufficient time to settle, given the significant changes to its make-up during the period and intended changes in the short-term.

Statement of corporate governance continued

Board committees

As envisaged by the 2010 Code, the Board has established three Board committees: the Nomination Committee, the Remuneration Committee and the Audit Committee. The Chairman of each committee provides a report or update of each meeting of the respective committee to the Board at the subsequent Board meeting. The committees are described in more detail below, as required by Disclosure and Transparency Rules 7.1.5, 7.2.7 and 7.2.8 and the 2010 Code.

➤ 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 Directors. The Nomination Committee also makes recommendations for the membership of the Audit Committee and the Remuneration Committee.

During the period the Nomination Committee met primarily to discuss the composition of the Board and the recruitment of new Non-Executive Directors to help with the Company's objective of moving the composition of the Board towards compliance with the 2010 Code. Subsequent to period end, it met to discuss the appointment of two new Non-Executive Directors and the process for the recruitment of a new Chief Financial Officer of the Group.

Meetings: The Nomination Committee meets when necessary and will normally meet no fewer than twice a year. The Nomination Committee met three times during the period.

Members and chairman: The Nomination Committee is chaired by the Senior Independent Director, David Grigson, and all of the other Non-Executive Directors (including the Chairman) are members of the Nomination Committee. The composition of the Nomination Committee changed during the period with the appointment of Douglas McCallum effective on 3 October 2011 and will change subsequent to period end with the appointments of Wendy Becker and Alex Mahon.

Independence: The 2010 Code requires that a majority of members of a nomination committee be independent non-executive directors.

The Nomination Committee, as at the date of this annual report, comprises seven members. The Directors expect that at the time that the various Board appointments and resignations (noted above) take effect the Nomination Committee will comprise eight members, including the Chairman, five independent Non-Executive Directors, and two Non-Executive Directors who are not deemed to be independent for the purposes of the 2010 Code. Accordingly, the Company will comply with the relevant requirements of the 2010 Code.

Non-Executive Director Appointments: 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. The Nomination Committee's work has resulted in the recruitment of three new independent Non-Executive Directors, namely, Douglas McCallum, Wendy Becker and Alex Mahon.

In each case of Non-Executive Director appointment, the process was led by the chairman of the Nomination Committee. Professional services consultants, Lygon Group and The Zygos Partnership were instructed by the chairman of the Nomination Committee in connection with separate recruitment processes. In each case, the Nomination Committee considered the skills, knowledge, background and experience required for the role of the non-executive director; 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 numerous candidates for each 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. Following extensive searches, the chairman of the Nomination Committee made separate recommendations to the Board to appoint as independent Non-Executive Director Douglas McCallum, Wendy Becker and Alex Mahon. As noted above, the appointments of Wendy Becker and of Alex Mahon to the Board were made following the period end.

Executive Director Appointments: The Nomination Committee's and Board's deliberations during the period included a discussion about the size and composition of the Executive Director team. The Board felt that additional executive support for the Chief Executive Officer would be needed in overseeing the Group's operations. Consequently, in January 2011, the Board approved the appointment of Mark Richardson, previously Head of Technology and a long-standing member of the Management Committee to the position of Operations Director. This new Executive Director role means that Mark Richardson has taken responsibility for the day-to-day technical and operating side of the business, and in turn allows the Chief Executive Officer to spend additional time on the Group's strategy and growth plans. This appointment was also significant in that it was the Group's first internal promotion to executive director level.

Following the announcement on 23 January 2012 that Executive Director and the Chief Financial Officer, Andrew Bracey, had indicated that he intended to resign from the Board, the Nomination Committee commenced a formal process to identify his successor. This recruitment process which is being conducted by Tim Steiner and the Company's director of Human Resources, under the oversight of the Nomination Committee, is ongoing as at the date of this annual report.

Reviewing Board composition: 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 including Executive Director roles.

The Company will continue to seek to recruit new non-executive directors so that the Board meets the independence requirements of the 2010 Code. Given the large number of changes to the Board in the past 12 months the Nomination Committee has decided to allow some time for the current Board composition to settle before making further appointments.

As part of this process, the Nomination Committee expects to reassess in due course the current balance of skills and experience of the re-composed Board with the aim that it will highlight areas of skill and experience that could be filled by any new Board appointees, in future.

Diversity: In considering the size and composition of the Board the Nomination Committee had taken account of various factors including skills, experience and diversity of the existing Board. The Nomination Committee remained conscious of the need to address the diversity of the Board, including gender diversity, as part of its plan to recruit new non-executive directors. As noted above, both of the most recent appointments to the Board are women.

Terms of reference: As described above, the Nomination Committee has reviewed its own performance and terms of reference to ensure it is operating effectively and has recommended any changes it considers necessary to the Board for approval. As a result, amendments to the Nomination Committee's terms of reference were made and approved by the Board.

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

David Grigson
Chairman of the Nomination Committee

Statement of corporate governance continued

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, the Executive Directors and the Company Secretary. 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 2010 Code.

Members and chairman: As at the date of this annual report, the Remuneration Committee is chaired by David Young and its other members are Ruth Anderson, Robert Gorrie, Jörn Rausing and Douglas McCallum. The composition of the Remuneration Committee changed during the period with the appointment of Douglas McCallum to the Remuneration Committee effective on 3 October 2011 and will change subsequent to period end with the appointment of Wendy Becker to the Remuneration Committee effective 31 March 2012. Effective immediately following the Company's AGM, Wendy Becker will assume the role of Remuneration Committee chairman when the current chairman, David Young, retires from the Board.

The Director of Human Resources, the Chief Executive Officer and company secretariat attended some or all of the Remuneration Committee meetings during the period.

Independence: The 2010 Code requires a board to establish a remuneration committee of at least three members, all of whom must be independent non-executive directors.

The Remuneration Committee, as at the date of this annual report, comprises five members. The Directors expect that at the time that the various Board appointments and resignations (outlined above) take effect the Remuneration Committee will be re-composed and include three independent Non-Executive Directors (Ruth Anderson, Douglas McCallum and Wendy Becker), and two Non-Executive Directors who are not deemed to be independent for the purposes of the 2010 Code. Accordingly, the Company does not comply with the relevant requirements of the 2010 Code in relation to the membership of the Remuneration Committee.

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

Duties: The Remuneration Committee's key duties, as set out in its terms of reference, are as follows:

- determine and agree with the Board the framework or broad policy for the remuneration (including pension) of the Company's Chief Executive Officer; the Chairman, the Executive Directors and the Company Secretary, including the need for a significant proportion of Executive Directors' remuneration to be structured so as to link rewards to corporate and individual performance;
- review the ongoing appropriateness and relevance of the remuneration policy;
- approve the design of, and determine targets for any performance related schemes for Executive Directors 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 the 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 (as defined in Listing Rule LR 9.4) 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 the Executive Directors and the Company Secretary;
- 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;
- within the terms of the agreed policy and in consultation with the Chairman and/or the Chief Executive Officer as appropriate, determine the total individual remuneration package of each Executive Director; the Company Secretary and the Chairman including bonuses, incentive payments, share options or other share awards and any compensation payments;
- in determining such packages and arrangements, give due regard to any relevant legal requirements, the provisions and recommendations in the 2010 Code and the Listing Rules and associated guidance;
- review and note annually the remuneration trends across the Group. The Remuneration Committee should also monitor the level and structure of remuneration for senior management;
- oversee any major changes in employee benefits structures throughout the Company or the Group;
- review the policy for authorising claims for expenses from the Chief Executive Officer and the Chairman;
- ensure that all provisions regarding disclosure of remuneration, including pensions, are fulfilled;

- 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.

Principal activities of the Remuneration Committee: In line with its terms of reference, the following key matters were considered by the Remuneration Committee during the period (and in some cases shortly after period end):

- approval of the 2010 Directors' remuneration report;
- appointing and receiving a report from remuneration consultants concerning the Executive Director remuneration and advice on the 2011 annual incentive plan;
- implementation of the 2011 annual incentive plan including consideration of the design, selection of performance targets and finalising the plan rules;
- review of performance under the 2011 annual incentive plan and consideration of any bonuses payable;
- consideration of the 2012 annual incentive plan;
- review of the design and scope of proposed new share schemes for all employees including a share incentive plan and the second share issue under the JSOS scheme;
- receiving a report from management on Executive Director remuneration benchmarking;
- consulting the Chief Executive Officer on performance and remuneration of the Executive Directors;
- receiving a report on Group-wide and management remuneration for 2011 and 2012;
- undertaking a tender process for the appointment of a new remuneration consultant to advise in respect of 2012 onwards;
- oversight of the proposed new Management Committee contracts;
- review of the Remuneration Committee's performance; and
- review of and proposed amendment to the terms of reference.

Directors' remuneration report: The Remuneration Committee has produced the Directors' remuneration report (see pages 46 to 55) and will put it to the Company's shareholders for consideration at the AGM on 23 May 2012.

External Advice: The Remuneration Committee appointed and received advice during the period from remuneration consultants, Towers Perrin (now Towers Watson), on certain remuneration issues. The Remuneration Committee is satisfied that there is no connection between the Company and Towers Watson.

In addition, the Company received advice from BDO LLP (who provided tax advice), Slaughter and May (who provided tax and schemes advice) and Appleby Trust (Jersey) Limited (who advised on the employee benefit trust) in connection with the implementation of the Group's second issue of shares under the JSOS scheme.

Since the period end, the Remuneration Committee had undertaken a competitive tender process for the appointment of new remuneration consultants to advise the Remuneration Committee. This process, which had involved the input from the Chief Executive Officer, resulted in the appointment of the remuneration advisers, Deloitte LLP. Deloitte LLP have been appointed by the Remuneration Committee as its independent adviser, such appointment to commence after the date of this annual report. The Remuneration Committee is satisfied that there is no connection between the Company and Deloitte LLP. Deloitte LLP confirmed to the Company that it is a member of the Remuneration Consultants Group and as such operates under the Code of Conduct in relation to Executive Remuneration Consulting in the UK.

In addition to the external advice received, the Remuneration Committee consulted and received reports from the Company's Chief Executive Officer, the Director of Human Resources and the Deputy Company Secretary.

Terms of reference: As described above, the Remuneration Committee has reviewed its own performance and terms of reference to ensure it is operating effectively and has recommended any changes it considers necessary to the Board for approval. As a result, amendments to the Remuneration Committee's terms of reference were made and approved by the Board.

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

David Young
Chairman of the Remuneration Committee

Statement of corporate governance continued

Audit Committee



Role of the Audit Committee: The Audit Committee is primarily responsible for:

- monitoring the integrity of the financial statements of the Company and the financial reporting process;
- monitoring the effectiveness of the Company's internal financial controls and its internal control and risk management systems;
- reviewing the audit plans of the external auditors and for monitoring the conduct of the audit;
- reviewing the effectiveness, independence and objectivity of the auditors and monitoring the Company's policy on the engagement of the auditors to supply non-audit services;
- monitoring the need for an internal audit function; and
- making recommendations to the Board for a resolution to be put to shareholders of the Company in relation to the appointment and remuneration of the external auditors.

The Audit Committee's full terms of reference, which set out the above responsibilities, are available on the Corporate website (www.ocadogroup.com/corporate-responsibility/corporate-governance.aspx).

The following section describes the work of the Audit Committee in discharging these responsibilities.

Composition of the Audit Committee: The Audit Committee is chaired by Ruth Anderson, and its other members are David Grigson, David Young and Robert Gorrie. As required by the 2010 Code, Ruth Anderson and David Grigson are considered by the Board to have competence in accounting and/or auditing and recent and relevant financial experience. The biography of each member of the Audit Committee is set out on pages 28 and 29.

The composition of the Audit Committee did not change during the period. The Audit Committee's make-up will change effective on 1 June 2012 when new Non-Executive Director, Alex Mahon joins the Board and becomes a member of the Audit Committee.

Independence: The 2010 Code requires a board to establish an audit committee of at least three independent non-executive directors. From the perspective of the 2010 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 2010 Code in this respect. When Alex Mahon joins the Audit Committee and David Young retires from the Board three of the four members of the Audit Committee will meet the 2010 Code definition of an independent non-executive director.

Meetings and attendance: The Audit Committee held five meetings during the period to coincide with the Company's reporting timetable. Attendance at the meetings is shown on page 33. The Chief Financial Officer, Andrew Bracey, and senior members of the finance department, company secretariat and the auditors regularly attended the Audit Committee meetings during the period.

The Audit Committee met with the auditors during the period to discuss their remit and any issues arising from the audit, without management being present. The Audit Committee also met with the Group's finance executives without the auditors present.

The external auditors had meetings with the chairman of the Audit Committee without the Company's finance executives present.

Principal activities of the Audit Committee

The Audit Committee undertook a number of principal activities during the period as described below.

Financial statements and reporting: The Audit Committee reviewed the Group's financial statements including, prior to the period end, a review of the significant financial reporting issues, estimates and judgements. The Board and the Audit Committee have reviewed the narrative reporting for this annual report and accounts, as well as the half year report and accounts. In addition, the Board reviewed prior to publication the various interim management statements and trading statements made by the Company.

The Audit Committee and the full Board reviewed the basis for preparing the Group consolidated financial statements on a going concern basis including in particular the assumptions underlying the going concern statement and the associated risk factor disclosures. The Audit Committee's review included consideration of the reports produced by the Company in connection with the audit work.

Internal controls and risk management: The Audit Committee received regular reports from management on the Company's risk management plans and processes. The Company's internal control and risk management systems are described in more detail below.

The Audit Committee also received and considered reports during the period on the work undertaken by the auditors, PricewaterhouseCoopers LLP, in reviewing and auditing the Group's 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.

Internal audit: The Group does not have a dedicated internal audit function. The Audit Committee considered the need for an internal audit function, as required by the 2010 Code (provision C.3.5) and concluded that, given the Group's current stage of development and existing monitoring and internal control measures, it was not necessary. The Audit Committee was satisfied that management had given sufficient assurances that other monitoring processes (including internal reviews of the Group's operations undertaken periodically by senior finance staff) were being applied and would be developed using the existing expertise of the finance department to help ensure that the Group's system of internal control was functioning as intended. The Board accepted the Audit Committee's recommendation to not establish an internal audit function. The need for an internal audit function will be monitored by the Audit Committee and subject to an annual review in 2012.

Whistle blowing and fraud: The Audit Committee receives an update at each of its meetings from management on whether there have been any frauds or improprieties including those 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. No instances brought to the attention of the Audit Committee during the period were viewed as material in the context of the Group. However, as a result of such reporting, measures were considered by the Audit Committee and taken by the Company to improve certain internal controls, including physical security procedures at some of its sites.

Bribery Act: In July 2011, the Bribery Act 2010 came into force. Consequently the Board approved an anti-bribery policy which sets out the Company's approach to dealing with bribery and corruption and provides guidance for employees on when gifts and hospitality given or received during the course of employment are acceptable or prohibited. The Audit Committee receives a report at each of its meetings concerning the gifts and hospitality register (which was established during the period) and any issues of non-compliance with the anti-bribery policy. The Audit Committee will continue to monitor compliance with the policy and the Company's procedures for the prevention of bribery and will review the effectiveness of the policy in due course. The Audit Committee's terms of reference were amended to reflect this expanded remit.

Review of responsibilities: The Audit Committee has reviewed its own performance and terms of reference to ensure it is operating effectively and has recommended any changes to the terms of reference it considers necessary to the Board for approval. As a result, amendments to the Audit Committee's terms of reference were made and approved by the Board.

External auditors

The Audit Committee's work during the period included oversight of the engagement of the external auditors, PricewaterhouseCoopers LLP.

Auditors' independence: The 2010 Code requires that the Board establish formal arrangements for maintaining an appropriate relationship with its auditors and to explain how the auditors' objectivity and independence is maintained. During 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 the provision of non-audit services by the Company's auditors does not have an impact on their independence and objectivity. 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 the Company's auditors, PricewaterhouseCoopers LLP, during the period was: (i) the review of the Company's half-year accounts; and (ii) tax and accounting advice provided in relation to the Company's establishment of a subsidiary entity in Poland and associated work. Given the auditors' knowledge in these areas and the relatively small engagement fees concerned it was concluded that it was in the interests of the Company to utilise the services of the auditors (rather than another third party provider) for the non-audit work. The total of non-audit fees and audit fees paid to PricewaterhouseCoopers LLP during the period is set out in the Note 2.1.3 to the consolidated financial statements.

Statement of corporate governance continued

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.

The Audit Committee is satisfied that, notwithstanding the Company's auditors, PricewaterhouseCoopers LLP had provided non-audit services to the Group during the period, the quantum of such non-audit fees relative to the audit fees together with the other measures taken by the Company and the auditors to safeguard independence, mean that PricewaterhouseCoopers LLP's independence from the Group was not compromised in the circumstances.

Auditors' re-appointment and remuneration: In relation to considering the re-appointment and remuneration of the auditors, PricewaterhouseCoopers LLP, the Audit Committee, in line with the Company's policy on auditors re-appointment:

- reviewed the proposed terms of engagement and the proposed audit fees for the previous audit;
- evaluated the effectiveness and performance of the PricewaterhouseCoopers LLP audit team on the previous audit (as noted above); and
- made certain assessments about auditors independence (noted above), and received assurances from PricewaterhouseCoopers LLP regarding their ongoing independence.

The Audit Committee was also satisfied as to the adequacy of the previous audit plan and that the level of audit fees payable in respect of the audit services provided was appropriate and that an effective audit could be conducted for such a fee.

On the basis of this review of the previous audit, the Audit Committee recommended to the Board the re-appointment of PricewaterhouseCoopers LLP as auditors to the Company and that the remuneration and terms of engagement of PricewaterhouseCoopers LLP as auditors to the Company be approved (as required by the 2010 Code). The Board accepted these recommendations and proposals will be put to the shareholders at the AGM on 23 May 2012 that PricewaterhouseCoopers LLP be re-appointed as auditors of the Company and that the Directors be authorised to determine the level of the auditors' remuneration. The existing authority for the Directors (including the Audit Committee) to determine the current remuneration of the auditors is derived from the shareholder approval granted at the Company's annual general meeting in 2011.

The Audit Committee discussed during the period, the requirements of the APB Ethical Standards for Auditors for the rotation of audit partners. The Audit Committee has monitored the auditors' compliance with this requirement, as

set out in the Company's auditors appointment policy (which reflects the guidance laid out in the Guidance on Audit Committees published by the Financial Reporting Council (in December 2010)) and confirms that the policy has been complied with. As a result, the audit partner will rotate after the date of this annual report.

Internal control

Overview: The Board has oversight of the system of internal controls for the Group 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.

Review: 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. Neither the Audit Committee's nor the Board's deliberations concerning internal control have included a detailed consideration of the 'Turnbull Guidance' (Internal Control: Revised Guidance for Directors on the Combined Code (October 2005) issued by the Financial Reporting Council), for reviewing the effectiveness of internal control. There is an ongoing process for identifying, evaluating and managing the risks faced by the Group and the operational effectiveness of the related controls. A system of internal controls has been in place during the period, up to the date of approval of this annual report. 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 Group's strategy and business objectives and so can only provide reasonable and not absolute assurance against loss.

IT controls: Since its Admission in July 2010, the Company has continued to make improvements to the Group's system of internal controls to address issues raised in the full year external assessments, including upgrades to the financial systems and strengthening of the finance team. An important area of internal control for the Group is information technology ("IT") controls and governance. The Audit Committee discussed during the period, placing additional attention on formalising IT governance structures to respond to the changes in the Group's risk environment which result from the growth and increasing complexity of both the IT function and the Group. In addition, the Audit Committee determined that further work is needed to refine the risk management and control processes used by the Group in undertaking IT system upgrades, given the large number of IT changes made to the Group's systems during the period, several of which resulted in significant albeit very short-term

disruption to the Group's operations during the period. The Group's Director of Technology will report at future Audit Committee meetings on the progress made to formalise the Group's IT governance structures.

Main features of system: The following lists the main features of the Group's internal control and risk management systems including those relating to the financial reporting process and process for preparing the Group's consolidated accounts:

- 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;
- formal budgeting and re-forecasting processes. Variances from budget and forecasts are monitored and any significant differences are explained to the Board by management at each Board meeting;
- a capital approval policy that controls the Group's capital expenditure that restricts what can be undertaken without Executive Director or Board approval;
- monitoring the progress of major projects, including the CFC2 project, by management and the Executive Directors and by the Board;
- a review of key accounting policies by the Audit Committee each period;
- monitoring by the Audit Committee of the integrity of the financial statements and the financial reporting process (discussed above);
- monitoring by the Audit Committee of the effectiveness of the Company's internal financial controls;
- a risk committee, which will report to the Audit Committee, that will seek to implement risk control processes and embed risk analysis as part of normal business decision-making (discussed below);
- a review of reports on any whistle blowing, fraudulent activity or bribery by employees by the Audit Committee each period;
- an IT security committee that monitors the Group's IT security measures;
- a treasury policy overseen by the treasury committee that manages financial risk including liquidity and controls the Group's cash and deposits, investments, foreign exchange and interest rates (outlined in more detail below); and
- other control measures outlined elsewhere in this Audit Committee report and in the principal risks and uncertainties section.

Treasury: The Group's treasury committee reports periodically to the Audit Committee on its activities. These reports cover various matters set out in the Group's treasury policy concerning the Group's cash and deposits, investments, foreign exchange and applicable interest rates. During the period, the treasury committee monitored the Group's working capital, existing treasury deposits and reinvestment options for certain bank deposits and oversaw the hedging of the Group's exposure to movements in interest rates and currency in relation to CFC2.

The treasury policy and treasury committee, headed by the Director of Finance and Risk, forms part of the Group's measures for financial risk management. The treasury committee's objectives are to minimise the risks associated with treasury management, to ensure sufficient liquidity to meet the Group's long and short term requirements, to minimise financing costs and to maximise investment returns, as well as ensuring compliance with relevant regulatory and legal obligations. The Group's policies and strategies for managing financial risk to the extent material to assess the financial performance or position of the Group, are discussed in Note 4.5 to the consolidated financial statements and in the principal risks and uncertainties description as set out on page 21.

After the period end, the treasury committee undertook a review of the treasury policy which it does from time-to-time and made recommendations to the Audit Committee which were considered and discussed by the Audit Committee.

Statement of corporate governance continued

Risk management

The Board accepts that risk is an inherent part of the business. The Group's risk management system is designed to identify key risks and provide assurance that these risks are fully understood and managed within the context of the Company seeking to achieve its strategic objectives.

As noted above, the Board must maintain and have oversight of the Company's risk management and internal control system. The 2010 Code provides that the Board should, at least annually, conduct a review of the effectiveness of Ocado's risk management systems, while the Disclosure and Transparency Rules require that the Audit Committee must monitor the effectiveness of Ocado's risk management systems.

Risk committee: Management is responsible for implementing and maintaining the necessary risk management and internal control systems and processes. To help management undertake this role, following review and discussion by the Audit Committee during the period, the Company established a risk committee. The risk committee is not a Board committee but rather is comprised of members of senior management and the Head of Risk Management and is chaired by an Executive Director, the Legal and Business Affairs Director. It will report to the Audit Committee and the Board on its responsibilities in order to help them fulfil their duties and responsibilities. The risk committee had its first two meetings after the period end.

The duties of the risk committee are set out in its terms of reference and include monitoring the Company's overall risk assessment processes that inform the Board's decision making and developing, implementing, testing and reviewing internal control mechanisms and disaster recovery planning for the Group.

The intention is that, in conjunction with the Company's Head of Risk Management, the risk committee will continue to develop and refine the Group's risk register, which is a comprehensive register of all risks known to management that affect the business of the Group.

The risk register will be reviewed by the risk committee as a whole with the aim of identifying the key operational risks for the Group and developing a coordinated cross-departmental approach to improving control measures for the most significant business risks.

During the period the Board and the Audit Committee received reports from management concerning risk management. The Audit Committee reviewed the risk register, focusing on the process for compiling the risk register at an operational level including the mitigating controls and risk ratings applied.

In the context of reviewing the annual budget the Board considered the key operational risks to the Group achieving its budget targets for the forthcoming period. In addition the Board discussed from time-to-time during the period some of the significant external risks impacting the business, as set out in the principal risks and uncertainties section of this annual report.

The Audit Committee received a report at most of its meetings during the period concerning the steps being taken by management to implement a more formal and comprehensive risk management system for the Group. As part of its discussions, the Audit Committee (though not the full Board, as required by the 2010 Code (provision C.2.1)) considered, during the period, the effectiveness of the Group's existing risk management framework and the recommendations made by management for evolving that framework. As a result of such review, one of the key outcomes was the establishment of the risk committee, as noted above.

Ruth Anderson

Chairman of the Audit Committee

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 and the larger shareholders were offered the opportunity to meet with the Chairman during the period. The Chairman met with shareholders during the period. The Senior Independent Director also met with a large shareholder of the Company during the period.

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 usually attend such presentations by the Company. The Board regularly receives feedback from the Company's brokers and the Executive Directors on the views of major shareholders and the investor relations programme and also receives reports at each Board meeting on the main changes to the composition of the Company's share register. One of the Company's largest shareholders, the Apple II Trust has Jörn Rausing (who is a beneficiary of that trust) as a 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). All shareholders can choose to receive an annual report 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 11:00 a.m. on 23 May 2012 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).

Share capital, voting rights and significant shareholders

Details concerning the Company's share capital, significant shareholders, special rights, voting rights and other matters required by the Disclosure and Transparency Rule 7.2 are set out in the Directors' report on pages 57 to 62.

Going concern and business model

The Company's going concern statement and certain related matters required by Listing Rule 9.8 are set out in the Directors' report on page 64. For an explanation of the Company's business model as required by the 2010 Code see the Directors' report on page 63.

Directors' remuneration report

Introduction

This Directors' remuneration report, prepared by the Remuneration Committee on behalf of the Board, has been drawn up in accordance with the 2010 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 23 May 2012.

The relevant regulations require that a company's auditors report on the 'audited information' in a directors' remuneration report and to state that this section has been properly prepared in accordance with these regulations. For this reason this Directors' remuneration report is divided into part A (containing the unaudited information) and part B (containing the audited information). The Company's auditors, PricewaterhouseCoopers LLP, have reviewed Part B of this Directors' remuneration report.

Part A: Unaudited information

(a) Remuneration Committee

Role and operations: The Remuneration Committee's role and duties, together with other information regarding the operation of the Remuneration Committee, are described in the statement of corporate governance on pages 38 to 39, and is incorporated into this Directors' remuneration report by reference.

(b) Remuneration policy

Policy outline: The Company's current remuneration policy for the Executive Directors 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 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.

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.

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.

Employee share schemes: Currently, the Company's remuneration policy for Executive Directors is that a relatively large proportion of the Executive Directors' remuneration be linked to their shareholding in the JSOS incentive scheme. For the purposes of Listing Rule 9.8.8(10), the Company's current policy is that all employees, including Executive Directors, are issued options under the ESOS shortly after commencing employment with the Group. The Company does not have an arrangement for the annual issue of options or shares to Executive Directors under the existing employee share schemes (namely ESOS and JSOS schemes). Exceptionally, additional options may be granted to senior employees (but not Executive Directors) under the ESOS, from time-to-time. The Company does not have any other long-term incentive schemes.

Review of remuneration policy: Since the end of the period, the Remuneration Committee has appointed new external remuneration advisers, Deloitte LLP, to advise the Remuneration Committee. The mandate, which is expected to commence after the date of this annual report, will entail the review of the Company's existing remuneration policies and the development of a strategy and policy for Executive Director remuneration for the medium-term. The outcomes of this review will be reported to the Remuneration Committee in due course. In the meantime, the Company's existing remuneration policy outlined in this Directors' remuneration report will continue to apply.

Executive Director remuneration: The current remuneration of the Executive Directors consists of the following elements which are outlined in more detail in this report:

- base pay;
- bonus pay under the annual incentive plan;
- pension;
- incentivisation under the JSOS share scheme as well other Group-wide share schemes namely ESOS and Sharesave Scheme; and
- various other benefits including Group-wide employee benefits.

This broad remuneration framework did not change from the previous period, except for the introduction of a formal bonus plan (instead of a discretionary bonus plan).

The Remuneration Committee considers that these components in aggregate ensure that there is sufficient balance between reward for short-term success and long-term growth of the Group.

Non-Executive Director remuneration: The Non-Executive Directors' remuneration consists of a Director fee (including in the case of each Board committee chairman an additional fee for chairing a Board committee). Their remuneration does not include bonus payments, options or shares. The remuneration policy for Non-Executive Directors did not change during the period.

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 a report from management on the Group's current framework for pay, share schemes and other employee benefits for senior management and the Group generally and management's proposals for changes to these in the subsequent period. The Remuneration Committee took this information into account in making its recommendations on Executive Director base pay.

Changes in base pay: The base pay for Executive Directors did not change over the course of the period, and has not increased since December 2009. The Remuneration Committee made this recommendation on the basis of a number of factors, having first consulted the Chief Executive Officer. In light of the lower than forecast trading performance of the business and the operational problems faced by the business during the period, the Remuneration Committee felt that keeping base pay unchanged for the time being was commensurate with such lower than targeted performance and more in keeping with the remuneration trends within the Group (which saw moderate increases during the period).

The base pay of Executive Directors will be subject to further review in the subsequent period as part of the review to be undertaken by the new remuneration advisers.

Director fees: 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.

Non-Executive Directors: The Board determines the remuneration of the Non-Executive Directors within the limits set in the Company's Articles, noted above. The Board considers that the remuneration for Non-Executive Directors reflects the time commitment and responsibilities of the role.

The fees paid to Non-Executive Directors during the period are set out in the remuneration table in Part B of this report.

Annual incentive plan

As foreshadowed in the last annual report, the Remuneration Committee approved that a new Executive Director annual incentive plan be put in place for the period.

The new annual incentive plan was designed to include performance targets that were very closely aligned with the Company's expected financial results and the Company's strategy. The 2011 financial performance measures related to the Group's sales growth and EBITDA for the period. A smaller but meaningful proportion of the overall bonus was tied to a strategic target concerning the achievement of certain budget and timing milestones for the CFC2 project.

The Remuneration Committee, in setting such performance targets, sought to ensure that there was a balance between achieving the Company's shorter-term objective of delivering the financial projections for 2011 and the Company's critical strategic objective of growing the business in the medium-term by expanding capacity with the development of CFC2. It was anticipated that these targets would encourage and incentivise management to deliver the Group's business priorities and so help to keep them aligned with the interests of the Company's shareholders.

Directors' remuneration report continued

The annual incentive plan requires the Group to achieve stretching targets in order for the Executive Directors to be eligible to be paid the maximum bonus (being a percentage of salary, 100% or below as applicable). Bonus payments, if made, are payable in cash shortly after the approval of this annual report.

The annual incentive plan requires that the Remuneration Committee take into account the performance of the Group and the performance of the individual Executive Directors to determine the amount to be awarded each year.

Bonus payments for the period: On the recommendation of the Remuneration Committee there were no bonus payments made to the Company's Executive Directors under the 2011 annual incentive plan. The annual incentive plan for the period stipulated that if the Group did not achieve positive earnings before tax for the period irrespective of the achievement of other performance targets, no bonuses would be paid. As this was the case, no bonuses were paid to the Executive Directors.

2012 annual incentive plan: Following the period end, the Remuneration Committee approved the implementation of an annual incentive plan for the Executive Directors applicable to the 2012 period. This plan broadly reflects the framework of the 2011 annual incentive plan. In addition to the performance measures related to sales growth, profitability and strategic objectives, the 2012 annual incentive plan will also include customer service based targets, which reflects the Company's renewed focus on maintaining high levels of customer service during the 2012 period. The maximum bonus levels payable under the 2012 annual incentive plan are unchanged from those applicable in the 2011 annual incentive plan.

Non-Executive Directors: Neither the Chairman nor any Non-Executive Director were paid a bonus during the period.

Director shareholding

While the Company does not have a formal policy requiring Directors to own shares in the Company, in keeping with the Company's philosophy of encouraging employee share ownership across the Group, all Directors are encouraged to invest in the Company's shares.

The Executive Directors and most of the Non-Executive Directors, collectively, hold a substantial shareholding in the Company (as noted below), which helps to align their interests with those of shareholders of the Company.

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.

The details of pension payments made in respect of the Executive Directors are set out in the table in Part B of this report.

(c) Share plans

The Group currently operates three employee share incentive schemes, described below. The Executive Directors participate in all of these share schemes.

Further information on the Group's share schemes can be found in Note 4.7 to the consolidated financial statements. The remuneration arrangements for Non-Executive Directors do not include share options or shares. However, at the period end date a Non-Executive Director, Robert Gorrie, held share options in the Company which were granted to him while he held the position of Executive Director of the Company. These options expired since period end and therefore are no longer capable of being exercised.

ESOS

The Ocado 2001 Executive Share Option Scheme ("ESOS") is the Group's share option scheme approved by HMRC, which was established by Ocado in 2001. Options may also be granted under the terms of a schedule, which is not approved by HMRC.

The employees who are eligible to participate in the ESOS are all the Executive Directors and employees, including the officers and employees of Ocado's subsidiaries.

In the case of Directors no grant of options shall be made to them without the consent of the Remuneration Committee, as provided in the ESOS rules. The number of any options granted to Directors is set by the Remuneration Committee.

All Executive Directors participate in the ESOS. Details of their holdings in the ESOS are set out below. No options under the ESOS were granted to Directors during the period. The Remuneration Committee does not, as at the date of this report, have any intention of making an award of options under the ESOS scheme to the Executive Directors.

Individual award limits under the ESOS are discussed below.

JSOS

The JSOS is a share ownership scheme under which its participants and Appleby Trust (Jersey) Limited, the EBT Trustee, acquire separate beneficial interests in ordinary shares in the Company.

The JSOS is intended to retain and incentivise the Group's Executive Directors, the Management Committee and certain senior employees. The employees eligible to participate in the JSOS are all bona fide employees of the Company or its subsidiaries.

The Remuneration Committee oversees the operation of the scheme, and is responsible for deciding the identity of the participants and the number of ordinary shares that may be acquired by them.

All Executive Directors participate in the JSOS. No shares were issued under the JSOS to the Directors during the period. Details of their shareholdings in the JSOS are set out below.

Individual limits: While the JSOS scheme rules do not specify limits applicable to individual participants in the scheme, the JSOS rules have overriding limits on the number of shares that may be allocated under the JSOS. These dilution limits, which were recommended by the Remuneration Committee and approved by the Company's shareholders at the annual general meeting on 11 May 2011, are consistent with those in the Company's other employee share schemes and within the guidelines of the institutional shareholders.

Up to 7.5% of the Company's issued ordinary share capital may be held under the JSOS. In addition, the JSOS is subject to the following limits: (i) on any date, the aggregate nominal amount of new ordinary shares which may be allocated under the JSOS may not, when added to the nominal amount of new ordinary shares allocated in the previous ten years under all employee share schemes of the Group, exceed 10% of the Company's issued share capital; and (ii) on any date, the aggregate nominal amount of new ordinary shares which may be allocated under the JSOS may not, when added to the nominal amount of new ordinary shares allocated in the previous ten years under the JSOS and any other employee share scheme of the Group established for the benefit of selected employees, exceed 5% of the equity share capital of the Company. For these purposes, no account is taken of ordinary shares allocated prior to the Admission of the Company's ordinary shares to the Official List of the UK Listing Authority.

The Remuneration Committee consider that these limits place significant constraint on the size of potential awards of shares to individuals (including the Executive Directors) under the JSOS.

The applicable dilution limits in paragraphs (i) and (ii) set out above also apply to the Sharesave Scheme and the ESOS.

Sharesave Scheme

The Sharesave Scheme 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. Their participation commenced with options granted in October 2010 and a savings contract period that started in December 2010. A second invitation to employees was made under the

Sharesave Scheme in February 2012. Employees were offered the opportunity to participate at an option price which was discounted by 10% from the applicable market value of the Company's shares at the date of grant.

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 in 2002 and 2004 well before he became a Director in 2009. 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.

Share ownership of Directors

As outlined below, all of the Executive Directors own shares in the Company and collectively they have a substantial shareholding in the Company's issued share capital, as at the date of this annual report.

Almost all of the Non-Executive Directors own shares in the Company.

Performance conditions in share schemes

JSOS: The JSOS was structured to incentivise the participants (including the Executive Directors) over the longer term, by allowing the participant to benefit from the increase (if any) in the value of the shares above a pre-determined market price (the "hurdle price", noted in the table below). The hurdle prices were set by the Remuneration Committee. Interests in the Company's shares are granted in tranches, each vesting a year apart with a higher hurdle rate for each tranche to reflect the targeted growth in the Company's share price over the four year period. Details of this for the Executive Directors are set out in the table in Part B below.

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 and the vesting period for each tranche, there are no performance conditions attaching to the shares in the JSOS.

Given the participants invest their own money or take a Company loan to pay for their allocation of shares in the JSOS (except that no loan was offered to an Executive Director), they stand to lose money under the JSOS if the hurdles are not met which is unlike most other employee share schemes. The Directors believe that the JSOS helps to properly incentivise its senior employees and that its structure helps align directly their interests with those of shareholders.

Directors' remuneration report continued

There are currently no performance conditions in existence in connection with the Company's other share schemes, including the ESOS.

Performance graph

The following graph shows the total shareholder return ("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). The TSR was calculated by reference to the movements in share price. The Company has not paid a dividend in the period concerned so the Company's TSR does not include a dividend amount. The Company's TSR was calculated using a fair method.



(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, except in the case of Mark Richardson. Mark Richardson joined the Board as an Executive Director on 23 January 2012, following the period end and his new service contract was entered into with Ocado Limited, effective then.

The Company's Executive Director remuneration policy provides that 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 (including Mark Richardson who did not serve as a Director during the period) 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	41
Tim Steiner	13/04/2000	09/03/2010	Continuous employment until terminated by either party	12	6	42
Neill Abrams	08/09/2000	10/12/2009	Continuous employment until terminated by either party	12	6	47
Andrew Bracey	03/11/2009	10/12/2009	Continuous employment until terminated by either party	12	6	45
Mark Richardson	03/02/2012	23/01/2012	Continuous employment until terminated by either party	12	6	47

As explained in the statement of corporate governance on pages 30 to 45, the Company announced on 23 January 2012 that the Company's Chief Financial Officer, Andrew Bracey, resigned from the Board. Andrew Bracey is expected to leave the Company following the date of this annual report.

All of the Executive Directors, except Andrew Bracey, have been proposed for re-election at the Company's AGM.

Non-Executive Directors' letters of appointment

The Chairman and the Non-Executive Directors do not have service contracts and were appointed to the Company by letter of appointment. The details of each Non-Executive Director appointment (including those that served as a Director during the period) 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	52
David Young	13/10/2000	09/03/2010	3 years	1 month	70
Jörn Rausing	13/03/2003	09/03/2010	3 years	1 month	52
Lord Grade	15/09/2006	09/03/2010	3 years	6 months	69
David Grigson	03/02/2010	09/03/2010	3 years	1 month	57
Ruth Anderson	—	09/03/2010	3 years	1 month	58
Patrick Lewis	—	09/03/2010	3 years	1 month	46
Douglas McCallum	—	03/10/2011	3 years	1 month	45

The Company appointed three Non-Executive Directors to the Board, two of which are to take effect after period end. Douglas McCallum joined the Board on 3 October 2011 as a Non-executive Director. Wendy Becker was appointed to the Board as a Non-Executive Director; such appointment to take effect on 30 March 2012. On 14 March 2012, the Company announced the appointment of Alex Mahon, 38, as a new Non-Executive Director; such appointment to commence on 1 June 2012.

The Company also announced on 23 January 2012, the resignation of David Young, a Non-Executive Director from the Board, such resignation to take effect on the 23 May 2012, being the date of the Company's AGM. Patrick Lewis resigned from the Board of the Company on 15 February 2011.

(e) Directors' interests in ordinary shares

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

Director	Ordinary shares of 2 pence each 27 November 2011	Ordinary shares of 2 pence each 28 November 2010
Tim Steiner	14,396,400	14,396,400
Jason Gissing	9,657,600	9,657,600
Andrew Bracey	812,555	812,555
Robert Gorrie	627,900	627,900
Neill Abrams	360,600	360,600
Lord Grade	329,110	189,110
Ruth Anderson	50,000	26,666
David Young	24,200	13,400
David Grigson	15,000	15,000

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 the date of this annual report, except an increase in Neill Abrams' shareholdings and decrease in his holding of options under the ESOS due to two exercises of options in early February 2012. These share options were due to expire on 6 February 2012. Neill exercised 175,000 options at an exercise price of 100.00 pence per ordinary share and subsequently sold some of the resulting ordinary shares to fund the cost of exercising. This resulted in him holding 3,354 additional ordinary shares in the Company after the period end. For 90,000 options, 87,022 ordinary shares were sold at a market price of 107.00 pence per ordinary share. For 85,000 options, 84,624 ordinary shares were sold at a market price of 101.65 pence per ordinary share.

No Director had an interest in any of the Company's subsidiaries at the beginning or end of the period.

Directors' remuneration report continued

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 27 November 2011	Ordinary shares of 2 pence each 28 November 2010
Jörn Rausing	62,740,777	59,080,100
Tim Steiner	13,291,200	15,291,200
Jason Gissing	7,659,300	7,659,300
Neill Abrams	1,100,800	1,100,800

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 (2010: 133,100) ordinary shares of the Company.

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 27 November 2011 and has been audited.

	Salaries and fees 2011 £'000	Benefits in kind ¹ 2011 £'000	Annual bonus 2011 £'000	Total 2011 £'000	Total (restated) ² 2010 £'000
Executive Directors					
Tim Steiner	350	4	0	354	574
Jason Gissing	250	3	0	253	403
Andrew Bracey	250	3	0	253	403
Neill Abrams ⁵	200	3	0	203	322
Non-Executive Directors					
Lord Grade	100	—	—	100	200
David Grigson	62	—	—	62	37
David Young	48	—	—	48	37
Ruth Anderson	50	—	—	50	30
Robert Gorrie ³	40	—	—	40	20
Jörn Rausing ⁴	40	—	—	40	—
Douglas McCallum	7	—	—	7	—
Patrick Lewis	8	—	—	8	14
Total	1,405	13	—	1,418	2,040

¹ Benefits in kind comprise private medical and life insurance.

² Total remuneration for 2010 has been restated to exclude employer's National Insurance and Company pension contributions.

³ 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 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 5.4 to the consolidated financial statements

⁴ In addition to his annual salary in the current period, Jörn Rausing received £20,000 relating to unpaid accrued amounts from the previous financial year.

⁵ In addition to his role as Executive Director of the Company, Neill Abrams is an alternate non-executive director of Mr Price Group Limited, listed on the Johannesburg Stock Exchange (registration number 1933/004418/06, incorporated in the Republic of South Africa). The role does not involve any remuneration paid or payable to Neill Abrams and consequently there is nothing to disclose under provision D.1.2 of the 2010 Code.

In addition to the emoluments detailed above, £130,000 (2010: £176,000) has been charged to the income statement in respect of Directors' share-based payments.

Pension

Total pension contributions made on behalf of Directors to the defined contribution Group personal pension scheme (which is administered by Standard Life) were as follows:

Director	2011 £'000	2010 £'000
Tim Steiner	28	28
Jason Gissing	20	20
Neill Abrams	16	16
Andrew Bracey	4	—
	68	64

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

ESOS

The Directors have, as at period end, the following options over ordinary shares in the Company which they were awarded (without payment) under the Group's ESOS:

Director	Date of issue	27 November 2011	Exercise price (£)	28 November 2010	Exercise price (£)	Exercise period
Tim Steiner	May-05	200,000	1.15	200,000	1.15	16/05/08 - 15/05/15
Neill Abrams	May-02	175,000	1.00	175,000	1.00	07/02/05 - 06/02/12
	May-02	175,000	1.50	175,000	1.50	07/02/05 - 06/02/12
	Nov-03	100,000	0.90	100,000	0.90	30/11/06 - 29/11/13
	May-05	100,000	1.15	100,000	1.15	16/05/08 - 15/05/15
Andrew Bracey	Nov-09	46,296	1.35	46,296	1.35	16/11/12 - 15/11/19
Jason Gissing	May-05	200,000	1.15	200,000	1.15	16/05/08 - 15/05/15
Robert Gorrie	May-02	175,000	1.50	175,000	1.50	07/02/05 - 06/02/12

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

	27 November 2011		28 November 2010	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	1,171,296	1.22	1,646,296	1.17
Granted during the period	—	—	—	—
Forfeited during the period	—	—	(200,000)	1.15
Exercised during the period	—	—	(275,000)	0.96
Outstanding at the end of the period	1,171,296	1.22	1,171,296	1.22
Exercisable at the end of the period	1,125,000	1.21	1,125,000	1.21

No options were exercised by Directors during the period and consequently the aggregate of gains made by Directors on the exercise of options during the period was nil. Following the period end, Neill Abrams exercised 175,000 options at an exercise price of 100.00 pence per ordinary share, as noted above. After selling 171,646 ordinary shares to fund the cost of exercise, he retained the balance of 3,354 ordinary shares and therefore no proceeds from the sale of shares were payable to him in respect of these exercised options.

During the prior period Robert Gorrie exercised 2,750 options before the Group's restructuring, realising gains of £106,000. These 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.

There were no options issued under the Group's ESOS to the Directors during the period (2010: nil).

Directors' remuneration report continued

No options in the ESOS held by the Directors lapsed during the period. However, following the period end 175,000 options held by Neill Abrams and 175,000 options held by Robert Gorrie, both noted in the table above, were not exercised by them and consequently lapsed. The 46,296 options held by Andrew Bracey will automatically lapse when he leaves the Company following the date of this annual report.

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 over ordinary shares of the Company:

	Date of issue	27 November 2011	Exercise price (£)	28 November 2010	Exercise price (£)	Exercise period
Andrew Bracey	Feb-02	886,700	0.90	886,700	0.90	04/02/02 - 04/02/17
	Jan-04	435,300	1.03	435,300	1.03	03/01/04 - 03/01/18

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

JSOS

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

Director	Date of issue	27 November 2011	Hurdle price (£)	28 November 2010	Hurdle price (£)	Exercise period
Tim Steiner	Feb-10	2,513,100	1.73	2,513,100	1.73	01/01/11 - 01/01/19
	Feb-10	2,513,100	1.91	2,513,100	1.91	01/01/12 - 01/01/19
	Feb-10	2,513,100	2.08	2,513,100	2.08	01/01/13 - 01/01/19
	Feb-10	2,513,000	2.28	2,513,000	2.28	01/01/14 - 01/01/19
Neill Abrams	Feb-10	1,017,200	1.73	1,017,200	1.73	01/01/11 - 01/01/19
	Feb-10	1,017,200	1.91	1,017,200	1.91	01/01/12 - 01/01/19
	Feb-10	1,017,200	2.08	1,017,200	2.08	01/01/13 - 01/01/19
	Feb-10	1,017,100	2.28	1,017,100	2.28	01/01/14 - 01/01/19
Andrew Bracey	Feb-10	1,675,400	1.73	1,675,400	1.73	01/01/11 - 01/01/19
	Feb-10	1,675,400	1.91	1,675,400	1.91	01/01/12 - 01/01/19
	Feb-10	1,675,400	2.08	1,675,400	2.08	01/01/13 - 01/01/19
	Feb-10	1,675,300	2.28	1,675,300	2.28	01/01/14 - 01/01/19
Jason Gissing	Feb-10	1,675,400	1.73	1,675,400	1.73	01/01/11 - 01/01/19
	Feb-10	1,675,400	1.91	1,675,400	1.91	01/01/12 - 01/01/19
	Feb-10	1,675,400	2.08	1,675,400	2.08	01/01/13 - 01/01/19
	Feb-10	1,675,300	2.28	1,675,300	2.28	01/01/14 - 01/01/19

Of the JSOS shares listed against Andrew Bracey in the table above, 3,350,700 shares which have not vested under JSOS scheme rules, will lapse when Andrew leaves the Company following the date of this annual report.

Details of the movement in the number of interests in ordinary shares in the Company pursuant to the Group's JSOS were as follows:

	27 November 2011		28 November 2010	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	27,524,000	2.00	—	—
Granted during the period	—	—	27,524,000	2.00
Forfeited during the period	—	—	—	—
Exercised during the period	—	—	—	—
Outstanding at the end of the period	27,524,000	2.00	27,524,000	2.00
Exercisable at the end of the period	6,881,100	1.73	—	—

For further information relating to the Group's JSOS see Note 4.7.1 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	27 November 2011	Exercise price (£)	28 November 2010	Exercise price (£)	Exercise period
Tim Steiner	Oct-10	7,745	1.16	7,745	1.16	01/12/13 - 01/06/14
Neill Abrams	Oct-10	7,745	1.16	7,745	1.16	01/12/13 - 01/06/14
Andrew Bracey	Oct-10	7,745	1.16	7,745	1.16	01/12/13 - 01/06/14
Jason Gissing	Oct-10	7,745	1.16	7,745	1.16	01/12/13 - 01/06/14

For further information relating to the Sharesave Scheme see Note 4.7.1 to the consolidated financial statements.

Share price and other option information

The closing market price of the Company's shares as at 25 November 2011, being the last trading day in the period ending on 27 November 2011, was 85.00 pence per ordinary share (2010: 151.00 pence per ordinary share) and the share price range applicable during the period was 81.00 pence to 285.00 pence per ordinary share.

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

21 March 2012

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 27 November 2011 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 27 November 2011, including an analysis of the position of the Group at the end of the period, analysis of the Group's performance using key performance indicators 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 our performance section on pages 2 to 9, the about Ocado section on pages 10 to 17, the principal risks and uncertainties description on pages 18 to 23, the corporate social responsibility report on pages 24 to 27 and the Directors' report (set out below) of this annual report. The business review and the Directors' report (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 5.1 to the consolidated financial statements.

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

Corporate governance

The statement of corporate governance as required by the Disclosure and Transparency Rule 7.2.1 is set out on pages 30 to 45 and is incorporated by reference into this Directors' report.

Risk management

The Group's procedures for managing risk are described on page 44 and the Group's principal risks and uncertainties are described on pages 18 to 23 and those descriptions are incorporated by reference into this Directors' report.

The Group's policies and strategies for managing financial risk, to the extent material to assessing the financial performance or position of the Group, are summarised in Note 4.5 to the consolidated financial statements, in the principal risks and uncertainties description as set out on page 21, and in the statement of corporate governance as set out on page 44, as required by Disclosure and Transparency Rules 4.1.8 and 4.1.11.

Employee involvement, equal opportunities and disabled employees

The corporate social responsibility section on pages 25 to 26 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 on pages 26 to 27. 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 on pages 28 to 29 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 on pages 36 to 37.

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 reappointment. 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 reappointment 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' interests

The Directors' beneficial interests in the shares of the Company are shown in the Directors' remuneration report as set out on pages 51 to 52.

Directors' indemnity

The Directors' indemnity arrangements are described in the statement of corporate governance as set out on page 34.

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 statement of corporate governance).

The Company's authorised and issued ordinary share capital as at 27 November 2011 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 4.6.1 to the consolidated financial statements. During the period, shares in the Company were issued as set out in Note 4.6.1 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 under the rules of the JSOS (as noted below).

Directors' report continued

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, 36,305,099 ordinary shares are held by Greenwood Nominees Limited on behalf of the EBT Trustee, at period end. In respect of 7,957,000 ordinary shares which have vested under the JSOS and remain in the trust at period end, the EBT Trustee may vote in respect of such ordinary shares at the request of a participant. The total of 36,305,099 ordinary shares held by Greenwood Nominees Limited on behalf of 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 36,305,099 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 (if any), but the hurdles of the JSOS would be reduced proportionally by the amount of the dividend payment 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 at the expiry of the relevant restricted period as set out in the JSOS rules. 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.

Other than as described above, the Company is not aware of any agreements existing at the end of the period 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.

Directors' report continued

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 11 May 2011, it was resolved that:

(1) The Board be authorised to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company:

(A) up to a nominal amount of £3,693,429 (such amount to be reduced by the nominal amount allotted or granted under paragraph (B) below in excess of such sum); and

(B) comprising equity securities (as defined in section 560(1) of the Companies Act) up to a nominal amount of £7,386,858 (such amount to be reduced by any allotments or grants made under paragraph (A) above) in connection with an offer by way of a rights issue: (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and (ii) 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 AGM (or, if earlier, until the close of business on 11 August 2012) 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 under any such offer or agreement as if the authority had not ended.

(2) The Board be given power to allot equity securities for cash under the authority given by that resolution and/or to sell ordinary 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:

(A) 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 (B) of Resolution 1, by way of a rights issue only): (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and (ii) 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; and

(B) in the case of the authority granted under paragraph (A) of resolution 1 and/or in the case of any sale of treasury shares for cash, to the allotment (otherwise than under paragraph (A) above) of equity securities or sale of treasury shares up to a nominal amount of £554,014,

such power to apply until the end of the AGM (or, if earlier, until the close of business on 11 August 2012) 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.

These standard authorities for issuing shares on a non-pre-emptive basis for cash may be renewed annually. The Directors will seek to renew these authorities at the Company's 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 4.1.1(4), Listing Rule 9.8.6(4) and the relevant company regulation. The Company may purchase its shares only out of distributable reserves or the proceeds of a new issue of the Company's shares made for the purpose of funding the repurchase.

By resolutions of the Company's shareholders passed on 11 May 2011, 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 ordinary shares of 2 pence each, such power to be limited:

- (A) to a maximum number of 55,401,437 ordinary shares;
- (B) by the condition that the minimum price which may be paid for an ordinary share is 2 pence and the maximum price which may be paid for an ordinary share is the highest of:
- (i) an amount equal to 5% above the average market value of an ordinary share for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and
 - (ii) 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, in each case, exclusive of expenses,

such power to apply until the end of the AGM (or, if earlier, 11 August 2012) but in each case so that the Company may enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after the power ends and the Company may purchase ordinary shares pursuant to any such contract as if the power had not ended.

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

The Company has not acquired its shares during the period or a previous period. The Company did not hold or dispose of any shares in the Company that were acquired by it in a previous period. It is the Company's present intention to cancel any shares it buys back in future, rather than hold them in treasury. The Company's shares were not made the subject of a lien or other charge taken by the Company.

Significant shareholders

As required under 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), during the period (up to 27 November 2011):

	Number of ordinary shares	Percentage of issued share capital at notification date	Nature of holding
The London and Amsterdam Trust Company Limited	61,512,060	11.11	Direct & Indirect
Hamilton Trust Company Limited as trustee for the Apple II Trust	61,880,100	11.08	Direct
FMR LLC	54,761,301	9.88	Indirect
The Nomad Investment Partnership L.P.	28,423,655	5.09	Not stated
The Steiner 2008 Millennium Trust	27,687,600	5.00	Direct & Indirect
FIL Limited	27,287,909	4.93	Indirect
The Goldman Sachs Group, Inc	Below 3%	Below 3%	Not stated
UBS Investment Bank	Below 3%	Below 3%	Direct & Indirect
Tempest Capital Limited	Below 3%	Below 3%	Not stated
Walker Fund Services Limited	Nil	Nil	N/A
John Lewis Partnership Pensions Trust	Nil	Nil	N/A

These figures represent the number of shares and percentage held as at the date of notification to the Company. As at period end the Company's issued share capital consisted of 558,362,139 issued ordinary shares.

As required under Listing Rule 9.8.6(2)(a) 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) from 28 November 2011 to 16 March 2012 (being not more than one month prior to the likely date of the Notice of Meeting):

Directors' report continued

	Number of ordinary shares	Percentage of issued share capital at notification date	Nature of holding
The Nomad Investment Partnership L.P.	33,742,828	6.04	Direct & Indirect
FIL Limited	28,520,881	5.1	Indirect
Manning and Napier Advisers LLC	26,914,371	5.00	Direct
UBS Investment Bank	Below 3%	Below 3%	Direct & Indirect

These figures represent the number of shares and percentage held as at the date of notification to the Company. As at 16 March 2012 the Company's issued share capital consisted of 558,702,597 issued ordinary shares.

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 sourcing arrangements, reputation and brand are 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 privately owned retailer John Lewis Partnership. Waitrose has over 270 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 £4.97 billion and made an operating profit of £274.9 million (source: www.johnlewispartnership.co.uk).

The Group's £100 million credit facility with Barclays Bank plc, HSBC Bank plc and Lloyds TSB Bank plc, described below, may be terminated in certain circumstances, including if the Group were to breach one or more of the covenants under this facility which would put the Group in default of this facility. This would jeopardise the Group's expansion plans and threaten the Group's ability to continue as a going concern. Details concerning each of the lenders under the facility can be found on, in the case of Barclays Bank, its website (<http://group.barclays.com/>), in the case of HSBC Bank, its website (www.hsbc.com) and in the case of Lloyds TSB Bank, its website (www.lloydstsb.com/).

The principal risks and uncertainties section on pages 18 to 23 describes these risks and the other principal risks and uncertainties facing the Group that may have an adverse impact on the Group's operations, performance or future prospects.

Contracts of significance

For the purposes of Listing Rule 9.8.4(10), there were no contracts of significance subsisting during the period to which the Company or any Group subsidiary were a party and in which a Director of the Company were materially interested, other than to note that the Directors were party to certain lock-up agreements with the Company that were entered into in July 2010 in connection with the Company's Admission, whereby the Directors agreed to certain lock-up arrangements that prevented the transfer of their shares in the Company (subject to certain exceptions). These lock-up agreements ended during the period. There were no contracts of significance subsisting during the period between the Company or any Group subsidiary and a controlling shareholder of the Company.

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.

Credit facility agreement: As noted above, the Group has a £100 million credit 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 CFC1 and/or CFC2 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 CFCI since August 2004. Of these agreements, 18 remain at period end with total amounts outstanding of £19.5 million. The agreement may be terminated on one month's notice by either party, but without prejudice to rights accrued under any leasing agreements made thereunder. 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 it should be noted that: (i) provisions of the Company's share schemes may cause options and shares granted to employees under such schemes to vest on a takeover; and (ii) certain members of senior management (not including the Directors) are entitled to a payment contingent on a change of control of the Company or merger of the Company (irrespective of loss of employment) as set out in his or her respective employment contract.

Results and dividends

The Group's results for the period are set out in the consolidated income statement on page 67. The Group's loss before tax for the period amounted to £2.4 million (2010: £12.2 million).

The Directors do not propose to pay a dividend for the period (2010: nil).

Interest capitalised

The amount of the interest capitalised by the Group is set out in Note 4.3.1 to the consolidated financial statements on page 93. Cumulative capitalised borrowing costs were £699,000 (2010: £147,000). There is no immediately available tax relief related to the capitalised borrowing costs.

Post balance sheet events

Important events occurring after the balance sheet date that affect the Group are disclosed in Note 5.5 to the consolidated financial statements.

Market value of properties

The Directors are of the opinion that the aggregate market value of the Group's interests in land as at 27 November 2011 is in line with the net book value as set out in Note 3.2.1 to the consolidated financial statements.

Creditor payment policy

It is the Group's policy for all trade payables 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 payables. The Group did not follow any code or standard on payment practice in the period. The average trade payables payment period of the Group's main trading company, Ocado Limited, for the 52 weeks ended 27 November 2011 was 26 days (2010: 26 days), based on the ratio of its average trade payables relating to resale goods for the period to the amounts invoiced during the year by those trade payables.

Research and development and future developments

The Group has dedicated in-house software, logistics and engineering design and development teams with primary focus on IT and improvements to the CFCs and the 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 including its strategy are described in the about Ocado section on pages 10 to 17.

Business model and strategy

As required by the 2010 Code, the about Ocado section on pages 10 to 17 describes the Company's business model for sustainable growth. This provides an explanation of the basis on which the Group generates value and preserves it over the long-term and its strategy for delivering its objectives.

Directors' report continued

Going concern

In adopting the going concern basis for preparing the financial statements, the Directors have made appropriate enquiries and have considered the Group's cash flows, liquidity position and borrowing facilities and business activities as set out on page 56 and the Group's principal risks and uncertainties as set out on pages 18 to 23. Based on the Group's rolling forecasts, 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.

The principal risks and uncertainties section on pages 18 to 23 describes the principal risks and uncertainties facing the Group including those that may have an adverse impact on the Group's operations, performance or future prospects and the going concern basis noted above. The Group's cash flows, liquidity position and borrowing facilities and business activities are described on page 56 and set out in the Group's financial statements on pages 67 to 114. Further information on going concern is set out in Section 1 to the consolidated financial statements on page 73.

The Company's going concern statement has been reviewed by the Company's auditors, PricewaterhouseCoopers LLP, as required by Listing Rule 9.8.10R(1).

Borrowings and covenants

The most material of the Group's borrowing facilities is its £100 million credit facility with Barclays Bank plc, HSBC Bank plc and Lloyds TSB Bank plc. The facility contains customary covenant provisions in respect of net debt, gross debt and interest cover. The financial covenants are as follows:

- Net debt ratio – the net debt financial covenant requires that the ratio of net debt to adjusted EBITDA at the end of each quarter period must not exceed 3:1 for each test period until the test period falling in November 2011, must not exceed 3.25:1 for the test period falling in February 2012, must not exceed 3.5:1 for each test period thereafter until the test date falling in August 2013, and must not exceed 3.25:1 thereafter; and
- Interest cover ratio – the interest cover financial covenant requires that the ratio of EBITDA to net interest at the end of each quarter period be not less than 3:1 until the test date falling in May 2011, not less than 3.5:1 thereafter until the test date falling in August 2011 and not less than 4:1 thereafter; and
- Gross debt ratio – the gross debt financial covenant requires that the ratio of gross debt to adjusted EBITDA must not exceed 5.5:1 for any test period in respect of which EBITDA is less than £35 million.

EBITDA in respect of a test period refers to EBITDA for the relevant prior 12 month period. All covenant tests which exist under the terms of the facility are tested quarterly.

The table below outlines the relevant covenant tests and the actual position of the Group at the end of the period:

	Covenant	Actual
Net debt/EBITDA	<3:1	0.74:1
Fixed interest cover	>4:1	5.76:1
Gross debt/EBITDA	<5.5:1	4.04:1

At the date of entering the facility agreement on 5 July 2010, the net debt covenant applicable to the life of the facility was not in excess of 3:1. During the period the Group agreed with the lenders under the facility that the net debt ratio financial covenant be amended such that the ratio be increased from 3:1 to the new net debt ratios outlined above.

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 parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the result of the Company and 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, who held office at the date of the approval of this annual report, confirms, to the best of their knowledge that:

- 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 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Disclosure of information to auditors

In accordance with the Companies Act, 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 of 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 reappointment 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.

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 Legal and Business Affairs Director

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 27 November 2011 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 as set out on pages 64 and 65, 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 27 November 2011 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 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act

In our opinion:

- the information given in the Directors' report for the financial year for which the Group 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 30 to 45 in the annual report 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 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 56 to 65, 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 the UK Corporate Governance 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 27 November 2011 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

21 March 2012

Consolidated income statement

for the 52 weeks ended 27 November 2011

	Notes	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Revenue	2.1.2	598,309	515,688
Cost of sales		(413,551)	(354,043)
Gross profit		184,758	161,645
Other income		12,550	6,245
Distribution costs		(151,725)	(132,809)
Operating profit before administrative expenses and exceptional items		45,583	35,081
Administrative expenses		(44,511)	(36,895)
Exceptional items		—	(3,542)
Operating profit/(loss)	2.1.3	1,072	(5,356)
Finance income	4.3.1	1,168	1,502
Finance costs	4.3.1	(4,663)	(8,357)
Loss before tax		(2,423)	(12,211)
Taxation	2.2.1	1,920	5,000
Loss for the period attributable to the owners of the parent		(503)	(7,211)
		pence	pence
Loss per share			
Basic and diluted loss per share	2.3	(0.10)	(1.63)

Non-GAAP measure: Earnings before interest, taxation, depreciation, amortisation, impairment and exceptional items (EBITDA)

	Notes	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Operating profit/(loss)		1,072	(5,356)
Adjustments for:			
Depreciation of property, plant and equipment	3.2.1	21,261	19,333
Amortisation expense	3.1.1	5,460	4,474
Impairment of property, plant and equipment	3.2.1	76	14
Exceptional items		—	3,542
EBITDA		27,869	22,007

Consolidated statement of comprehensive income

for the 52 weeks ended 27 November 2011

	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Loss for the period attributable to the owners of the parent	(503)	(7,211)
Other comprehensive income/(expense):		
Cash flow hedges		
— Gains arising on forward foreign exchange contracts	568	818
— Gains transferred to property, plant and equipment	(1,232)	(92)
— Losses arising on interest rate swaps	(52)	—
Foreign exchange loss on translation of foreign subsidiary	(1)	—
Other comprehensive (expense)/income for the period, net of tax	(717)	726
Total comprehensive expense for the period attributable to the owners of the parent	(1,220)	(6,485)

Consolidated balance sheet

as at 27 November 2011

	Notes	27 November 2011 £'000	28 November 2010 £'000
Non-current assets			
Intangible assets	3.1.1	13,233	8,069
Property, plant and equipment	3.2.1	194,114	100,031
Deferred tax asset	2.2.2	9,615	7,300
Available-for-sale financial asset	3.3.1	395	395
		217,357	115,795
Current assets			
Inventories	3.4.1	14,310	12,480
Trade and other receivables	3.4.2	37,885	18,569
Derivative financial instruments	4.4.1	11	472
Short-term investment	3.4.3	—	30,000
Cash and cash equivalents	3.4.4	92,102	124,639
		144,308	186,160
Total assets		361,665	301,955
Current liabilities			
Trade and other payables	3.4.5	(75,555)	(55,491)
Borrowings	4.1.2	(3,270)	(2,282)
Obligations under finance leases	4.1.3	(19,643)	(16,485)
Derivative financial instruments	4.4.1	(318)	—
Provisions	3.5.1	(686)	(115)
		(99,472)	(74,373)
Net current assets		44,836	111,787
Non-current liabilities			
Borrowings	4.1.2	(45,793)	(9,774)
Obligations under finance leases	4.1.3	(42,561)	(45,573)
Provisions	3.5.1	(555)	(446)
Deferred tax liability	2.2.2	(395)	—
		(89,304)	(55,793)
Net assets		172,889	171,789
Equity			
Share capital	4.6.1	11,167	11,068
Share premium	4.6.1	213,783	206,094
Treasury shares reserve	4.6.1	(53,805)	(47,741)
Reverse acquisition reserve	4.6.1	(116,230)	(116,230)
Other reserves	4.6.1	9	726
Retained earnings		117,965	117,872
Total equity		172,889	171,789

The consolidated financial statements on pages 67 to 114 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)

21 March 2012

Consolidated statement of cash flows

for the 52 weeks ended 27 November 2011

	Notes	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Cash flows from operating activities			
Loss before tax		(2,423)	(12,211)
Adjustments for:			
— Depreciation of property, plant and equipment	3.2.1	21,261	19,333
— Amortisation expense	3.1.1	5,460	4,474
— Impairment of property, plant and equipment	3.2.1	76	14
— Loss/(profit) on disposal of property, plant and equipment	2.1.3	38	(63)
— Provision for dilapidations expense	3.5.1	201	80
— Provision for insurance claims	3.5.1	479	115
— Share-based payments expense	4.7.1	596	320
— Foreign exchange movements		(265)	—
— Finance income	4.3.1	(1,168)	(1,502)
— Finance costs	4.3.1	4,663	8,357
Changes in working capital:			
— Movement in inventories		(1,830)	(3,267)
— Movement in trade and other receivables		(17,769)	(1,897)
— Movement in trade and other payables		17,048	4,791
Cash generated from operations		26,367	18,544
Interest paid		(6,219)	(10,319)
Net cash flows from operating activities		20,148	8,225
Cash flows from investing activities			
Purchase of property, plant and equipment		(105,184)	(14,681)
Proceeds from sale of property, plant and equipment		—	87
Purchase of intangible assets		(8,980)	(5,850)
Decrease/(increase) in short-term investment		30,000	(30,000)
Interest received		949	167
Net cash flows from investing activities		(83,215)	(50,277)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital net of transaction costs		1,248	210,104
Proceeds from borrowings		39,291	11,374
Repayments of borrowings		(2,284)	(54,063)
Proceeds from asset based financing arrangements		9,889	1,676
Repayments of obligations under finance leases		(19,013)	(15,417)
Settlement of forward foreign exchange contracts		1,134	—
Net cash flows from financing activities		30,265	153,674
Net (decrease)/increase in cash and cash equivalents		(32,802)	111,622
Cash and cash equivalents at the beginning of the period		124,639	13,017
Exchange adjustments		265	—
Cash and cash equivalents at the end of the period	3.4.4	92,102	124,639

Consolidated statement of changes in equity

for the 52 weeks ended 27 November 2011

	Notes	Share capital £'000	Share premium £'000	Treasury shares reserve £'000	Reverse acquisition reserve £'000	Other reserves £'000	(Accumulated deficit)/ Retained earnings £'000	Total equity £'000
Balance at 29 November 2009		40	310,836	—	—	—	(343,026)	(32,150)
Loss for the period		—	—	—	—	—	(7,211)	(7,211)
Other comprehensive income/ (expense):								
Cash flow hedges								
— Gains arising on foreign exchange contracts	4.6.1(d)	—	—	—	—	818	—	818
— Gains transferred to property, plant and equipment	4.6.1(d)	—	—	—	—	(92)	—	(92)
Total comprehensive income/ (expense) for the period		—	—	—	—	726	(7,211)	(6,485)
Transactions with owners:								
— Issue of ordinary shares in Ocado Limited	4.6.1	3	49,443	(47,741)	—	—	—	1,705
— Cancellation of Ocado Limited ordinary shares	4.6.1(b)	(43)	—	—	—	—	43	—
— Issue of ordinary and convertible preference shares by Ocado Group plc	4.6.1(b)	476,509	—	—	(476,509)	—	—	—
— Ocado Group plc capital reduction	4.6.1(b)	(467,846)	—	—	—	—	467,846	—
— Reverse acquisition of Ocado Limited by Ocado Group plc	4.6.1(c)	—	(360,279)	—	360,279	—	—	—
— Issue of ordinary shares by Ocado Group plc on IPO	4.6.1	2,380	211,862	—	—	—	—	214,242
— Ordinary shares issue costs	4.6.1	—	(6,881)	—	—	—	—	(6,881)
— Issue of ordinary shares in Ocado Group plc	4.6.1	25	1,113	—	—	—	—	1,138
— Share-based payments charge	4.7.1	—	—	—	—	—	220	220
Total transactions with owners		11,028	(104,742)	(47,741)	(116,230)	—	468,109	210,424
Balance at 28 November 2010		11,068	206,094	(47,741)	(116,230)	726	117,872	171,789
Loss for the period		—	—	—	—	—	(503)	(503)
Other comprehensive income/ (expense):								
Cash flow hedges								
— Gains arising on forward foreign exchange contracts	4.6.1(d)	—	—	—	—	568	—	568
— Losses arising on interest rate swaps	4.6.1(d)	—	—	—	—	(52)	—	(52)
— Gains transferred to property, plant and equipment	4.6.1(d)	—	—	—	—	(1,232)	—	(1,232)
Translation of foreign subsidiary	4.6.1(d)	—	—	—	—	(1)	—	(1)
Total comprehensive expense for the period		—	—	—	—	(717)	(503)	(1,220)
Transactions with owners:								
— Issue of ordinary shares	4.6.1	99	7,652	(6,308)	—	—	—	1,443
— Disposal of treasury shares	4.6.1	—	37	244	—	—	—	281
— Share-based payments charge	4.7.1	—	—	—	—	—	596	596
Total transactions with owners		99	7,689	(6,064)	—	—	596	2,320
Balance at 27 November 2011		11,167	213,783	(53,805)	(116,230)	9	117,965	172,889

Notes to the consolidated financial statements

Section I — Basis of preparation

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 statements comprise the results of the Company and its subsidiaries (hereafter “the Group”), see Note 5.1. The financial period represents the 52 weeks ended 27 November 2011. The prior financial period represents the 52 weeks ended 28 November 2010.

Basis of preparation

The financial statements have been prepared in accordance with the Listing Rules and the Disclosure and Transparency Rules of the UK Financial Services Authority (where applicable), International Financial Reporting Standards (IFRS’s) and International Financial Reporting Interpretation Committee (IFRS IC) interpretations as endorsed by the European Union (“IFRS-EU”), and with 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. They have been prepared under the historical cost convention, except for derivative financial instruments that have been measured at fair value.

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.

Standards, amendments and interpretations adopted by the Group in 2010/11 or issued but are not yet effective, and which have not been early adopted by the Group:

The Group has considered the following new standards, interpretations and amendments to published standards that are effective for the Group for the financial year beginning 29 November 2010 and concluded that they are either not relevant to the Group or that they would not have a significant impact on the Group’s financial statements.

- IFRIC 15, “Arrangements for the Construction of Real Estate”. This IFRIC was effective 1 January 2009 but EU endorsed for 1 January 2010.
- IFRIC 19, “Extinguishing Financial Liabilities with Equity Instruments”
- Amendments to various IFRSs and IASs arising from the IASB’s annual improvements project in 2009

The following new standards, interpretations and amendments to published standards and interpretations which are relevant to the Group have been issued but are not effective for the financial year beginning 29 November 2010 and have not been adopted early:

- IFRS 9, “Financial Instruments”*
- IFRS 10, “Consolidated Financial Statements”*
- IFRS 11, “Joint Arrangements”*
- IFRS 12, “Disclosure of Interests in Other Entities”*
- IFRS 13, “Fair Value Measurement”*
- IAS 24 (revised), “Related Party Disclosures”
- IAS 27 (revised 2011), “Separate Financial Statements”*
- IAS 28 (revised 2011), “Investments in Associates and Joint Ventures”*
- Amendments to various IFRSs and IASs arising from the IASB’s annual improvements project in 2010

* Not yet endorsed by the EU.

Basis of consolidation

The consolidated financial statements include the financial statements of all subsidiaries. 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.

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.

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out in the relevant notes to these financial statements. Accounting policies not specifically attributable to a note are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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 remeasured. 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.

Section I — Basis of preparation continued

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 profit/(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 other comprehensive income. 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 Group to all periods presented in the financial statements.

Critical accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS-EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Estimates and judgements 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 set out below and in more detail in the related notes:

- Recognition of deferred tax assets (Note 2.2);
- Intangible assets — capitalised software (Note 3.1);
- Property, plant and equipment (Note 3.2);
- Trade and other receivables — supplier income (Note 3.4);
- Leases (Note 4.1); and
- Going concern basis including its effect on the impairment of assets (see below).

Going concern basis including its effect on the impairment of assets

The Group has cash reserves and maintains a mixture of short and medium-term debt and lease finance arrangements that are designed to ensure that it has sufficient available funds to finance its operations. The Board monitors rolling forecasts of the Group's liquidity requirements based on a range of precautionary scenarios to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its 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.

Under all the above scenarios the Directors have a reasonable expectation that the existing facilities provide sufficient funding for the Group to operate as a going concern for the foreseeable future. As part of the above, the Board continues to monitor the timing and amounts of uncommitted capital projects. Expenditure on these capital projects and other discretionary expenditure can be delayed if the Group is performing at the lower end of the range of these scenarios.

After making appropriate enquiries and having considered the business activities as set out on page 56 and the Group's principal risks and uncertainties as set on pages 18 to 23, 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 a going concern basis.

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 does 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 and cost of future funding.

Notes to the consolidated financial statements continued

Section 2 — Results for the year

2.1 Loss before tax

Accounting policies

Revenue

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services.

Sales through the Webshop 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. Delivery charges are included in revenue.

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 Group's discounted pre-pay delivery scheme, is recognised in the period to which it relates on an accruals basis.

Cost of sales

Cost of sales represents 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 CFC I.

At the period end the Group is required to estimate supplier income due from annual agreements. Estimates are required due to the fact that the majority of these agreements end after the financial year end of the Group, which results in the Group only receiving firm confirmation of amounts due after the period end. This income is estimated on historical data and review of major contracts with suppliers.

Other income

Other income comprises the fair value of consideration received or receivable for advertising services provided by Ocado to suppliers and other third parties on the Webshop, commission income and sublease payments receivable.

Employee benefits

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 to which they relate.

Distribution costs

Distribution costs consist of all the costs incurred, excluding product costs, to the point of sale, usually the customer's 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, call centre costs and payment processing charges.

Administrative expenses

Administrative expenses consist of 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.

Exceptional items

Exceptional items, as disclosed on the face of the income statement, are items that due to their material and non-recurring nature have been classified separately in order to draw them to the attention of the reader of the financial statements.

2.1.1 Segmental reporting

The Group's principal activity is that of grocery retailing, derived solely from the UK. The Group is not reliant on any major customer for 10% or more of its revenue.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, as required by IFRS 8. 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 managed as one segment. The Group 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 chief operating decision-maker's main indicator of performance of the segment is EBITDA, which is reconciled to operating profit/(loss) below the income statement.

2.1.2 Gross sales

	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Revenue	598,309	515,688
VAT	36,508	27,285
Marketing vouchers	7,983	8,126
Gross sales	642,800	551,099

2.1.3 Operating profit/(loss)

	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Operating profit/(loss) is stated after charging/(crediting) the following:		
Cost of inventories recognised as an expense	400,878	344,796
Employment costs	2.1.4 113,331	96,739
Amortisation expense	3.1.1 5,460	4,474
Depreciation of property, plant and equipment	3.2.1 21,261	19,333
Impairment of property, plant and equipment, included in:	3.2.1 76	14
— Distribution costs	76	8
— Administrative expenses	—	6
Loss/(profit) on disposal of property, plant and equipment	38	(63)
Impairment of receivables	36	45
Operating lease rentals		
— Land and buildings	2,878	2,347
— Other leases	481	413
Net foreign exchange (gains)/losses	(194)	147

Notes to the consolidated financial statements continued

2.1.3 Operating profit/(loss) continued

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

	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Audit services		
— Statutory Group and Company audit	47	40
— Statutory audit of subsidiaries	162	185
Non-audit services		
— Advisory support	19	—
— Services pursuant to legislation and compliance†	—	975
— Other services	—	108
	228	1,308

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

2.1.4 Employee information

Employment costs during the financial period were as follows:

	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
	Notes	
Staff costs during the period:		
Wages and salaries	109,236	91,699
Social security costs	10,328	8,665
Pension costs — defined contribution plans	1,414	1,197
Share-based payments expense	596	320
Total gross employment costs	121,574	101,881
Staff costs capitalised	3.1.1 (8,243)	(5,142)
Total net employment costs	113,331	96,739
Average monthly number of employees (including Executive Directors) by function:		
Operational staff	4,567	3,835
Support staff	613	417
	5,180	4,252

The share-based payments expense relates to the Group's equity-settled share schemes (see Note 4.7 for information on the Group's share option schemes). The prior period included a cash-settled share-based payment of £0.1m.

2.1.5 Exceptional items

There were no exceptional costs in the current period. In the prior period the Group incurred costs relating to its IPO. The portion allocated to profit and loss represents the portion of directly attributable costs relating to the secondary shares traded on Admission and other costs attributable to the Listing. Total costs expensed in the prior period were £3.5 million and related primarily to legal and professional fees.

2.2 Taxation

Accounting policies

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

Current taxation

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

Deferred taxation

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Recognition, therefore, involves judgement regarding the prudent forecasting of future taxable profits of the business and in applying an appropriate risk adjustment factor. The final outcome of some of these items may give rise to material profit and loss and/or cash flow variances. 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 £9.6 million with respect to available tax losses. 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 offset current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Notes to the consolidated financial statements continued

2.2.1 Taxation — Income statement

	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Recognised in the income statement		
Current tax:		
UK corporation tax on profits of the period	—	—
Adjustments in respect of prior periods	—	—
Total current tax	—	—
Deferred tax:		
Origination and reversal of temporary differences	(1,920)	(5,000)
Total deferred tax	(1,920)	(5,000)
Income tax credit	(1,920)	(5,000)

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 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Loss before tax	(2,423)	(12,211)
Effective tax credit at the UK tax rate of 26.68% (2010: 28.00%)	(646)	(3,419)
Effect of:		
Change in UK corporation tax rate	541	—
Permanent differences	(27)	138
Tax losses for which no deferred tax asset recognised	(3,802)	(4,119)
Temporary differences on which no deferred tax recognised	2,014	2,400
Income tax credit for the period	(1,920)	(5,000)

As announced in the March 2011 Budget, the standard rate of corporation tax in the UK changed from 28% to 26% with effect from 1 April 2011. This reduction was in addition to the decrease to 27% enacted by the Finance Act 2010. Accordingly, the effective rate for the period is 26.68%.

The Budget also announced a further reduction in the standard rate of corporation tax from 26% to 23% phased in over three years at 1% per annum from April 2012. The change from 26% to 25% with effect from 1 April 2012 was enacted in the Finance Act 2011 and so deferred tax has been provided at 25% as the asset is expected to be realised on or after 1 April 2012. A deferred tax credit of £0.5 million has been recognised in the current period in respect of this.

Further changes have not been substantively enacted at the balance sheet date and are therefore not included in these financial statements. The proposed reductions are expected to be enacted separately each year. The overall effect of the further changes from 25% to 23%, if applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax asset by £0.8m (being £0.4 million recognised in 2013 and £0.4 million recognised in 2014).

2.2.2 Taxation — Balance sheet

Movement in the deferred tax asset is as follows:

	Tax losses carry- forwards £'000
As at 29 November 2009	2,300
Tax losses recognised through the income statement	5,000
As at 28 November 2010	7,300
Effect of change in UK corporation tax rate	(541)
Tax losses recognised through the income statement	2,856
As at 27 November 2011	9,615

Movement in the unrecognised deferred tax asset is analysed below:

	Tax losses carry- forwards £'000	Accelerated capital allowances £'000	Share-based payments £'000	Derivative financial instruments £'000	Other short-term timing differences £'000	Total £'000
As at 29 November 2009	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)
As at 28 November 2010	70,195	19,086	607	—	—	89,888
Adjustments in respect of prior period	(1,106)	(2,221)	—	—	—	(3,327)
Effect of change in UK corporation tax rate	(5,217)	(1,413)	(44)	—	—	(6,674)
Potential movement in the period unrecognised through:						
— Income statement	(3,803)	2,359	(445)	77	37	(1,775)
— Equity	—	—	(118)	—	—	(118)
As at 27 November 2011	60,069	17,811	—	77	37	77,994

As at 27 November 2011 the Group had approximately £279 million of unutilised tax losses (2010: approximately £287 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £9.6 million (2010: £7.3 million) of such losses, the recovery of which is supported by the expected level of future profits of the Group.

No deferred tax asset has been recognised in respect of the remaining losses on the basis that their future economic benefit is uncertain given the unpredictability of future profit streams. All tax losses, both recognised and unrecognised, can be carried forward indefinitely.

Notes to the consolidated financial statements continued

2.2.2 Taxation — Balance sheet continued

Movement in the recognised deferred tax liability is analysed below:

	Intangible assets £'000
As at 28 November 2010	—
Recognised through the income statement	(395)
As at 27 November 2011	(395)

As at 27 November 2011 the Group recognised a deferred tax liability of £0.4 million in respect of intangible assets that management deemed to qualify for research and development corporation tax relief. After corporation tax relief, the timing of tax deductions in respect of expenditure incurred on these assets differs to the amortisation profile of the assets giving rise to the deferred tax liability. This liability will be unwound over the useful lives of the assets.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential shares. The Company has two categories of potentially dilutive shares, namely share options and shares held pursuant to the JSOS.

The calculation for the prior period basic and diluted loss per share reflects 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.

2.3 Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares held pursuant to the Group's JSOS and accounted for as treasury shares.

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 as follows:

	52 weeks ended 27 November 2011 '000	52 weeks ended 28 November 2010 '000
Issued shares at the beginning of the period	520,959	400,051
Effect of share options exercised in the period	619	927
Effect of treasury shares disposed of in the period	105	—
Effect of shares issued in the period	—	41,237
Weighted average number of shares at the end of the period	521,683	442,215
	£'000	£'000
Loss attributable to the owners of the parent	(503)	(7,211)
	pence	pence
Basic and diluted loss per share	(0.10)	(1.63)

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 340,000 share options.

Section 3 — Operating assets and liabilities

3.1 Intangible assets

Accounting policies Intangible assets

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 lives of three to seven 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 are charged to administrative expenses in the period in which they arise. For the Group's impairment policy on non-financial assets see Note 3.2.

3.1.1 Intangible assets — computer 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.

Estimation of useful life

The charge in respect of periodic amortisation is derived by estimating 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 amortisation charge in the income statement.

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. For unique software products developed and controlled 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 life, such as changes in technology.

	27 November 2011 £'000	28 November 2010 £'000
Cost		
At the beginning of the period	34,362	28,503
Additions	2,381	717
Disposals	(29)	—
Internal development costs capitalised	8,243	5,142
At the end of the period	44,957	34,362
Accumulated amortisation		
At the beginning of the period	(26,293)	(21,819)
Disposals	29	—
Charge for the period	(5,460)	(4,474)
At the end of the period	(31,724)	(26,293)
Net book value		
At the end of the period	13,233	8,069

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

	27 November 2011 £'000	28 November 2010 £'000
Cost	4,282	2,470
Accumulated amortisation	(2,674)	(2,404)
Net book value	1,608	66

Notes to the consolidated financial statements continued

3.1.1 Intangible assets — computer software continued

The movement in cost includes assets of £0.2 million (2010: £nil) reclassified from owned assets to assets held under finance lease following asset based financing arrangements.

For the 52 weeks ended 27 November 2011, internal development costs capitalised were £8.2 million (2010: £5.1 million) and represented approximately 78% (2010: 88%) of expenditure on intangible assets and 7% (2010: 15%) of total capital spend including property, plant and equipment.

3.2 Property, plant and equipment

Accounting policies

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 lives. Residual values and expected useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Land is held at cost and not depreciated. Depreciation on other non-current assets is charged to distribution costs and is calculated based on the useful 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
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/(loss).

Property, plant and equipment represents 54% of the total asset base of the Group in 2011 (2010: 33%). Therefore, the estimates and assumptions made to determine the carrying value of property, plant and equipment and related depreciation are important to the Group's financial position and performance.

For more information on the Group's policy on capitalisation of borrowings costs, see Note 4.3.

Estimation of useful life

The charge in respect of periodic depreciation is derived by estimating 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 useful life, such as changes in technology.

Impairment of non-financial assets

An annual impairment review is performed and assets which do not have indefinite useful lives are subject to an annual depreciation or amortisation 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 the end of each reporting period.

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 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, other than that recognised in the income statement.

3.2.1 Property, plant and equipment

	Land and buildings £'000	Fixtures, fittings, plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost				
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)
At 28 November 2010†	38,241	126,343	27,425	192,009
Additions	59,158	49,179	7,121	115,458
Disposals	—	(499)	(2,995)	(3,494)
At 27 November 2011†	97,399	175,023	31,551	303,973
Accumulated depreciation and impairment				
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
At 28 November 2010	(11,090)	(69,609)	(11,279)	(91,978)
Charge for the period	(1,574)	(14,117)	(5,570)	(21,261)
Impairment	—	(76)	—	(76)
Disposals	—	499	2,957	3,456
At 27 November 2011	(12,664)	(83,303)	(13,892)	(109,859)
Net book value				
At 28 November 2010	27,151	56,734	16,146	100,031
At 27 November 2011	84,735	91,720	17,659	194,114

† Cost includes cumulative capitalised borrowing costs of £699,000 (2010: £147,000). The current period capitalisation rate is the same as that incurred on the underlying borrowings, being LIBOR plus 3.5%. No borrowing costs were capitalised in the prior period.

The net book value of land and buildings comprises:

	27 November 2011 £'000	28 November 2010 £'000
Freehold	70,105	11,274
Short leasehold — less than 50 years	13,865	15,877
Long leasehold	765	—
	84,735	27,151

Notes to the consolidated financial statements continued

3.2.1 Property, plant and equipment continued

The net book value of non-current assets held under finance leases is set out below:

	Land and buildings £'000	Fixtures, fittings, plant and machinery £'000	Motor vehicles £'000	Total £'000
At 28 November 2010				
Cost	26,509	57,685	26,455	110,649
Accumulated depreciation and impairment	(10,632)	(32,200)	(10,618)	(53,450)
Net book value	15,877	25,485	15,837	57,199
At 27 November 2011				
Cost	26,588	67,762	29,721	124,071
Accumulated depreciation and impairment	(11,958)	(38,465)	(12,260)	(62,683)
Net book value	14,630	29,297	17,461	61,388

The movement in cost includes assets of £9.7 million (2010: £2.1 million) 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 both financial periods arises in respect of assets that have been superseded.

Included within property, plant and equipment is capital work-in-progress for land and buildings of £60.0 million (2010: £1.8 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £35.2 million (2010: £4.2 million).

Property, plant and equipment with a net book value of £66.7 million (2010: £10.3 million) has been pledged as security for the secured loans (Note 4.1.2). Included in this amount is £57.2 million (2010: £nil) relating to assets pledged as security for amounts already drawn down under the £100 million credit facility.

3.3 Available-for-sale financial assets

Accounting policies Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Management considers that the 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. Valuations below cost are recognised as impairment losses in the income statement. Dividends are recognised in the income statement when the right to receive payment is established.

3.3.1 Available-for-sale financial assets

	27 November 2011 £'000	28 November 2010 £'000
Unlisted equity investment — cost and net book value	395	395

The unlisted equity investment comprises a 25% interest in Paneltex Limited (“Paneltex”) whose registered office is at Paneltex House, Somerden Road, Hull, HU9 5PE. The Group’s 25% interest in Paneltex has not been treated as an associated undertaking as the Group does not have significant influence over the company. 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 due to the position of the majority shareholder as Executive Managing Director. The relationship between the Group and the company is at arm’s length.

The shares of Paneltex are not quoted in an active market and their fair value cannot be reliably measured. As such, the investment in Paneltex 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.

3.4 Working capital

Accounting policies 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.

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.

Notes to the consolidated financial statements continued

3.4 Working capital continued

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor; probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

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 investments

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

3.4.1 Inventories

	27 November 2011 £'000	28 November 2010 £'000
Goods for resale	12,391	11,113
Consumables	1,919	1,367
	14,310	12,480
Write down of inventories	5,045	3,652

No security has been granted over inventories.

3.4.2 Trade and other receivables

	Notes	27 November 2011 £'000	28 November 2010 £'000
Trade receivables		12,142	7,190
Less: provision for impairment of trade receivables	4.5.2	(270)	(234)
Net trade receivables		11,872	6,956
Other receivables		19,112	7,260
Prepayments		6,264	3,634
Accrued income		637	719
		37,885	18,569

No security has been granted over trade and other receivables.

Included in other receivables is £9.8 million (2010: £5.4 million) due from suppliers in relation to supplier funded promotional activity.

The ageing analysis of trade and other receivables (excluding prepayments), including the provision for impairment, is set out below:

	27 November 2011		28 November 2010	
	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Not past due	30,224	—	13,222	—
Past due 0–3 months	1,459	(90)	1,681	(96)
Past due 3–6 months	118	(92)	192	(86)
Past due over 6 months	90	(88)	74	(52)
	31,891	(270)	15,169	(234)

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.

Trade receivables that were past due but not impaired amounted to £1.4 million (2010: £1.7 million) 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:

	27 November 2011 £'000	28 November 2010 £'000
Past due 0–3 months	1,369	1,585
Past due 3–6 months	26	106
Past due over 6 months	2	22
	1,397	1,713

3.4.3 Short-term investment

	27 November 2011 £'000	28 November 2010 £'000
Treasury deposit	—	30,000

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

Notes to the consolidated financial statements continued

3.4.4 Cash and cash equivalents

	27 November 2011 £'000	28 November 2010 £'000
Cash at bank and in hand	92,102	124,780
Bank overdraft	—	(141)
	92,102	124,639

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.

Cash and cash equivalent balances of the Group do not include treasury deposits with maturity dates of over three months. In the prior period, a treasury deposit of £30 million held by the Group was classified as a short-term investment.

£0.6 million of the Group's cash and cash equivalents are held by the Group's captive insurance company to maintain its solvency requirements. Therefore, these funds are deemed to be restricted and are not available to circulate within the Group on demand.

3.4.5 Trade and other payables

	27 November 2011 £'000	28 November 2010 £'000
Trade payables	50,771	34,645
Taxation and social security	4,361	3,851
Accruals	17,774	14,801
Deferred income	2,649	2,194
	75,555	55,491

Deferred income represents the value of delivery income received under the "Ocado Delivery Pass" scheme allocated to future periods, as well as media income from suppliers which relate to future periods.

3.5 Provisions

Accounting policies

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 potential motor insurance claims and potential public liability claims where accidents have occurred but a claim has yet to be made. The provision is made based on estimates provided to Ocado by the third-party manager of the Ocado Cell in Atlas Insurance PCC Limited (the "Ocado Cell").

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 cash outflow.

3.5.1 Provisions

	Insurance claims £'000	Dilapidations £'000	Total £'000
As at 29 November 2009	—	366	366
Charged/(credited) to the income statement			
— additional provision	115	203	318
— unused amounts reversed	—	(1)	(1)
Used during the period	—	(122)	(122)
As at 28 November 2010	115	446	561
Charged/(credited) to the income statement			
— additional provision	506	320	826
— unused amounts reversed	—	—	—
Used during the period	(27)	(119)	(146)
As at 27 November 2011	594	647	1,241

Analysis of total provisions as at 28 November 2010

	Insurance claims £'000	Dilapidations £'000	Total £'000
Current	115	—	115
Non-current	—	446	446
	115	446	561

Analysis of total provisions as at 27 November 2011

	Insurance claims £'000	Dilapidations £'000	Total £'000
Current	594	92	686
Non-current	—	555	555
	594	647	1,241

Insurance claims

The Ocado Cell uses statistical information built up over several years to estimate, as accurately as possible, the future outturn of the total claims value incurred but not reported as at the balance sheet date. In practice the Ocado Cell receives newly reported claims after the end of the underwriting period that have to be allocated to the year of loss (i.e. the underwriting year of occurrence). The calculation of this provision involves estimating a number of variables, principally the level of claims which may be received and the level of any compensation which may be payable. Uncertainty associated with these factors may result in the ultimate liability being different from the reported provision. Although it is expected that most claims will be settled within 12 months of the balance sheet date, the exact timing of utilisation of the provision is uncertain.

Dilapidations

The dilapidations provision is based on the future expected repair costs required to restore the Group's leased buildings and vans to their fair condition at the end of their respective lease terms.

The CFCI lease expires in 2032, with leases for the spokes expiring between 2014 and 2021. Contractual amounts are due to be incurred at the end of the respective lease terms.

Leases for vans run for five years, with the contractual amount per van due at the end of the five year lease term. If a non-contractual option to extend individual leases for a further six months is exercised by the Group, the contractual obligation remains the same but is deferred by six months.

Notes to the consolidated financial statements continued

Section 4 — Capital structure and financing costs

4.1 Leases and borrowings

Accounting policies

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, measured 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 the 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 upfront cash payments or rent-free periods. Lease incentives are capitalised and spread over the period of the lease term.

Critical accounting estimates and assumptions

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 affected depending on the relative size of the amounts apportioned to capital repayments and depreciation. IAS 17 "Leases" requires the Group to consider splitting property leases into their component parts (i.e. land and building elements). As only the building 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.

Loans and 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 capitalised to qualifying assets or recognised in the income statement over the period of the borrowings on the effective interest rate basis. Interest bearing borrowings have been subcategorised on the balance sheet as borrowings and obligations under finance leases.

4.1.1 Borrowings and finance leases

	Notes	27 November 2011 £'000	28 November 2010 £'000
Current liabilities			
Borrowings	4.1.2	3,270	2,282
Obligations under finance leases	4.1.3	19,643	16,485
		22,913	18,767
Non-current liabilities			
Borrowings	4.1.2	45,793	9,774
Obligations under finance leases	4.1.3	42,561	45,573
		88,354	55,347
Total borrowings and finance leases		111,267	74,114

4.1.2 Borrowings

	Less than one year £'000	Between one year and two years £'000	Between two years and five years £'000	Total £'000
As at 28 November 2010				
Secured loans	2,145	3,718	6,056	11,919
Unsecured loans	137	—	—	137
Total borrowings	2,282	3,718	6,056	12,056
As at 27 November 2011				
Secured loans	3,270	3,160	42,633	49,063
Total borrowings	3,270	3,160	42,633	49,063

The secured loans outstanding at period end can be analysed as follows:

Principal amount £'000	Inception	Secured over	Current interest rate	Instalment frequency	Final payment due	Carrying value as at 27 November 2011 £'000	Carrying value as at 28 November 2010 £'000
8,000	May-07	Certain warehouse assets	Clearing bank base rate + 3.0%	Quarterly	Feb-15	5,579	7,158
1,530	Dec-06	Freehold property	Clearing bank base rate + 1.5%	Quarterly	Feb-12	803	956
1,466	Feb-09	Freehold property	LIBOR + 2.25%	Quarterly	Feb-12	1,063	1,210
2,848	Dec-09	Freehold property	LIBOR + 3.5%	Quarterly	Jan-13	2,328	2,595
40,234	Jul-10	Property, plant and equipment	LIBOR + 3.5%	Note †	Jan-14	39,290	—
						49,063	11,919
Disclosed as:							
Current						4.1.1	2,282
Non-current						4.1.1	9,774
						49,063	12,056

† No capital repayments are due on the £100 million credit facility until 5 January 2014. It is the Group's intention to refinance the facility at that time in accordance with the long-term capital management strategy of the Group. The carrying value as at 27 November 2011 is net of capitalised transaction costs. Details of the associated covenants of this facility can be found in the Directors' report on page 63.

There were no unsecured loans outstanding at period end (2010: £0.1 million).

Notes to the consolidated financial statements continued

4.1.3 Obligations under finance leases

		27 November 2011 £'000	28 November 2010 £'000
Obligations under finance leases due:			
Within one year		19,643	16,485
Between one and two years		18,127	16,121
Between two and five years		17,512	21,947
After five years		6,922	7,505
Total obligations under finance leases		62,204	62,058
	Notes	27 November 2011 £'000	28 November 2010 £'000
Minimum lease payments due:			
Within one year		23,072	20,087
Between one and two years		20,217	18,576
Between two and five years		20,019	24,546
After five years		7,921	9,459
		71,229	72,668
Less: future finance charges		(9,025)	(10,610)
Present value of finance lease liabilities		62,204	62,058
Disclosed as:			
Current	4.1.1	19,643	16,485
Non-current	4.1.1	42,561	45,573
		62,204	62,058

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.

4.2 Analysis of net (debt)/cash

4.2.1 Net (debt)/cash

		27 November 2011 £'000	28 November 2010 £'000
	Notes		
Current assets			
Cash and cash equivalents	3.4.4	92,102	124,639
Short-term investment	3.4.3	—	30,000
		92,102	154,639
Current liabilities			
Borrowings	4.1.2	(3,270)	(2,282)
Obligations under finance leases	4.1.3	(19,643)	(16,485)
		(22,913)	(18,767)
Non-current liabilities			
Borrowings	4.1.2	(45,793)	(9,774)
Obligations under finance leases	4.1.3	(42,561)	(45,573)
		(88,354)	(55,347)
Total net (debt)/cash		(19,165)	80,525

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

	27 November 2011 £'000	28 November 2010 £'000
Net (decrease)/increase in cash and cash equivalents	(32,802)	111,622
Exchange adjustments	265	—
(Decrease)/increase in short-term investment	(30,000)	30,000
Net (increase)/decrease in debt and lease financing	(27,883)	56,430
Non-cash movements:		
— Assets acquired under finance lease	(9,270)	(10,479)
Movement in net (debt)/cash in the period	(99,690)	187,573
Opening net cash/(debt)	80,525	(107,048)
Closing net (debt)/cash	(19,165)	80,525

4.3 Finance income and costs

Accounting policy

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 which are not capitalised are charged to finance costs, using the effective interest rate method.

4.3.1 Finance income and costs

	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Interest on cash balances and short-term investment	1,164	557
Other interest	4	12
Fair value movement in derivative financial instruments	—	933
Finance income	1,168	1,502
Borrowing costs		
— Bank loans and overdrafts	(17)	(31)
— Obligations under finance leases	(4,080)	(4,356)
— Borrowings	(957)	(3,970)
Capitalised borrowing costs	552	—
Fair value movement on derivative financial instruments	(161)	—
Finance costs	(4,663)	(8,357)
Net finance costs	(3,495)	(6,855)

The current period fair value movement on the derivative financial instruments arose from fair value adjustments on the Group's cash flow hedges. The prior period fair value movement on the derivative financial instruments arose from fair value adjustments on warrant agreements.

Included in interest on borrowings is an amount of £nil (2010: £197,000) relating to the accelerated amortisation of prepaid arrangement fees.

Notes to the consolidated financial statements continued

4.4 Derivative financial instruments

Accounting policies

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the contract date and are subsequently measured at their fair value at each balance sheet date. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. At 27 November 2011 the Group's derivative financial instruments consist of interest rate swaps which are designated as cash flow hedges of the future interest payments, and forward foreign exchange contracts which are designated as cash flow hedges of highly probable forecast transactions.

The Group documents at the inception of the hedge the relationship between hedging instruments and hedged items, the risk management objectives and strategy and its assessment 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.

This assessment is performed retrospectively at each financial reporting period. Movements on the hedging reserve within shareholders' equity are shown in the consolidated statement of comprehensive income. The full fair value of hedging derivatives are classified as current 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 as cash flow hedges and qualify for hedge accounting 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 within the depreciation expense. During the period all the Group's cash flow hedges were 100% effective and there is therefore no ineffective portion recognised in profit or loss.

4.4.1 Derivative financial instruments

	27 November 2011 £'000	28 November 2010 £'000
Derivative asset		
Forward foreign exchange contracts (cash flow hedges)	11	472
Derivative liability		
Forward foreign exchange contracts (cash flow hedges)	(266)	—
Interest rate swaps (cash flow hedges)	(52)	—
	(318)	—

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 27 November 2011 were €31.6 million (2010: €17.6 million). The corresponding amounts in sterling at 27 November 2011 were £27.4 million (2010: £14.1 million).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next ten months. Cumulative gains and losses recognised in the hedging reserve within other comprehensive income are £1.4 million (2010: £0.8 million). These gains are recognised in the income statement in periods during which the hedged forecast transaction affects the income statement, which for property, plant and equipment is over the useful life of the asset (three to 25 years).

Interest rate swaps

The Group has entered into interest rate swaps to convert interest payable on certain floating rate debt from a variable to a fixed interest rate. As at 27 November 2011 the notional amount of interest rate swaps was £25.4 million (2010: £nil), representing 50.25% (2010: nil) of gross Group borrowings.

The swaps have been accounted for as cash flow hedges with interest payable on non-current borrowings designated as the hedged item. The hedged item and the hedging interest have the same critical terms and thus all hedges were highly effective for the period.

4.5 Financial instruments

Accounting policies

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

The Group classifies its financial instruments in the following categories:

- Available-for-sale;
- Loans and receivables;
- Other financial liabilities at amortised cost; and
- Financial assets and 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.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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 include but are 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 value 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 value 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.

4.5.1 Fair value of financial instruments

Financial instruments carried at fair value in the balance sheet comprise the derivative assets and liabilities, see Note 4.4.1. The Group uses the following hierarchy for determining and disclosing the fair value of these financial instruments:

- Quoted prices (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 liabilities that are not based on observable market data (that is unobservable inputs) (level 3)

The Group's derivative assets and liabilities are classified as Level 2.

Notes to the consolidated financial statements continued

4.5.1 Fair value of financial instruments continued

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

	Notes	27 November 2011		28 November 2010	
		Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Financial assets					
Cash and cash equivalents	3.4.4	92,102	92,102	124,639	124,639
Short-term investment	3.4.3	—	—	30,000	30,000
Trade receivables	3.4.2	11,872	11,872	6,956	6,956
Other receivables (incl. accrued income, excl. prepayments)	3.4.2	19,749	19,749	7,979	7,979
Derivative asset	4.4.1	11	11	472	472
Available-for-sale financial asset	3.3.1	395	395	395	395
Total financial assets		124,129	124,129	170,441	170,441
Financial liabilities					
Trade payables	3.4.5	(50,771)	(50,771)	(34,645)	(34,645)
Accruals	3.4.5	(17,774)	(17,774)	(14,801)	(14,801)
Borrowings	4.1.2	(49,063)	(44,741)	(12,056)	(11,739)
Finance lease obligations	4.1.3	(62,204)	(62,204)	(62,058)	(62,058)
Derivative liability	4.4.1	(318)	(318)	—	—
Total financial liabilities		(180,130)	(175,808)	(123,560)	(123,243)

The derivative asset 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 such contracts at period end.

The derivative liability relates to forward foreign exchange contracts and interest rate swaps. The fair value of the forward foreign exchange contracts was determined with reference to the forward rate to the date of maturity for all outstanding forward foreign exchange contracts at period end. The fair value of the interest rate swaps was determined with reference to the fixed rate to the date of maturity for all outstanding interest rate swaps at period end.

The Group's only available-for-sale financial asset consists of an unlisted equity investment of which the fair value cannot be reliably determined, and which is therefore measured at cost. There has been no movement in this investment during the period.

The fair values of cash and cash equivalents, the short-term investment, receivables, payables and accruals and borrowings 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 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% (2010: 5%).

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.

4.5.2 Credit risk

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

Exposure to credit risk

The carrying value of these financial assets, as set out in Note 4.5.1, represents the maximum credit exposure. No collateral is held as security against these assets.

Cash and cash equivalents and short-term investment

The Group's exposure to credit risk on cash and cash equivalents and the short-term investment is managed by investing in banks and financial institutions with strong credit ratings and by regular review of counterparty risk in light of the current economic climate. The Group's guideline is to maintain transactional bank accounts and term deposits with financial institutions which carry a Moody's rating of Aa3/P1 for long-term and short-term deposits.

4.5.2 Credit risk continued

Trade and other receivables

Trade and other receivables at the period end comprise mainly monies due from suppliers, which are 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.

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

	Notes	27 November 2011 £'000	28 November 2010 £'000
At the beginning of the period		(234)	(189)
Increase in provision for impairment of receivables		(251)	(304)
Uncollectible amounts written off		215	217
Recovery of amounts previously provided		—	42
At the end of the period	3.4.2	(270)	(234)

4.5.3 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. During the period the Group cancelled its committed standby bank overdraft facility of £5 million and replaced it 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 its 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 4.8.

The table below analyses the Group's 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
Financial liabilities							
Trade payables	3.4.5	(34,645)	(34,645)	(34,645)	—	—	—
Accruals	3.4.5	(14,801)	(14,801)	(14,801)	—	—	—
Secured loans	4.1.2	(11,919)	(12,891)	(2,580)	(4,033)	(6,278)	—
Unsecured loans	4.1.2	(137)	(141)	(141)	—	—	—
Obligations under finance leases	4.1.3	(62,058)	(72,668)	(20,087)	(18,576)	(24,546)	(9,459)
28 November 2010		(123,560)	(135,146)	(72,254)	(22,609)	(30,824)	(9,459)

Notes to the consolidated financial statements continued

4.5.3 Liquidity risk continued

	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
Financial liabilities							
Trade payables	3.4.5	(50,771)	(50,771)	(50,771)	—	—	—
Accruals	3.4.5	(17,774)	(17,774)	(17,774)	—	—	—
Secured loans	4.1.2	(49,063)	(54,825)	(5,999)	(5,764)	(43,062)	—
Obligations under finance leases	4.1.3	(62,204)	(71,229)	(23,072)	(20,217)	(20,019)	(7,921)
Derivative liabilities	4.4.1	(318)	(318)	(315)	(3)	—	—
27 November 2011		(179,812)	(190,322)	(95,653)	(24,023)	(62,725)	(7,921)

4.5.4 Market risk

Currency risk

The Group has foreign currency exposure in relation to its foreign currency trade payables and a portion of its cash and cash equivalents.

Foreign currency trade payables arise principally on purchases of plant and equipment. 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 to hedge future purchases of plant and equipment in Euro.

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

	27 November 2011 £'000	28 November 2010 £'000
Cash and cash equivalents — Euro	507	5,318
Trade payables at period end — Euro	(768)	(1,254)
Derivative (liability)/asset (forward foreign exchange contracts) — Euro	(255)	472
	(516)	4,536

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

	27 November 2011		28 November 2010	
	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	143	2,718	760	1,453
10% depreciation of the euro	(130)	(2,471)	(734)	(1,324)

A strengthening of the euro, as indicated, against sterling at 27 November 2011 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.

4.5.4 Market risk continued

Interest rate risk

The Group is exposed to interest rate risk on its floating rate 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. Interest rate risk on significant floating rate interest bearing borrowings is managed using interest rate swaps.

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

	27 November 2011 £'000	28 November 2010 £'000
Fixed rate instruments		
Financial assets	41,737	79,628
Financial liabilities	(62,204)	(62,195)
Variable rate instruments		
Financial assets	50,366	75,011
Financial liabilities	(49,063)	(11,919)

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. A rate of 100 basis points was deemed appropriate, 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.

	27 November 2011 £'000	28 November 2010 £'000
Equity		
Gain	349	600
Income		
Gain	349	600

Notes to the consolidated financial statements continued

4.5.5 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 assets and liabilities at fair value through profit and loss £'000	Total £'000
As at 28 November 2010						
Financial assets as per the balance sheet						
Cash and cash equivalents	3.4.4	—	124,639	—	—	124,639
Trade and other receivables (excluding prepayments)	3.4.2	—	44,935	—	—	44,935
Available-for-sale financial asset	3.3.1	395	—	—	—	395
Derivative asset	4.4.1	—	—	—	472	472
		395	169,574	—	472	170,441
Financial liabilities as per the balance sheet						
Trade payables	3.4.5	—	—	34,645	—	34,645
Accruals	3.4.5	—	—	14,801	—	14,801
Borrowings	4.1.2	—	—	12,056	—	12,056
Obligations under finance leases	4.1.3	—	—	62,058	—	62,058
		—	—	123,560	—	123,560

	Notes	Available- for-sale £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Financial assets and liabilities at fair value through profit and loss £'000	Total £'000
As at 27 November 2011						
Financial assets as per the balance sheet						
Cash and cash equivalents	3.4.4	—	92,102	—	—	92,102
Trade and other receivables (excluding prepayments)	3.4.2	—	31,621	—	—	31,621
Available-for-sale financial asset	3.3.1	395	—	—	—	395
Derivative asset	4.4.1	—	—	—	11	11
		395	123,723	—	11	124,129
Financial liabilities as per the balance sheet						
Trade payables	3.4.5	—	—	50,771	—	50,771
Accruals	3.4.5	—	—	17,774	—	17,774
Borrowings	4.1.2	—	—	49,063	—	49,063
Obligations under finance leases	4.1.3	—	—	62,204	—	62,204
Derivative liability	4.4.1	—	—	—	318	318
		—	—	179,812	318	180,130

4.6 Share capital and reserves

Accounting policy

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

4.6.1 Share capital and reserves

	27 November 2011		28 November 2010	
	Number of shares	£'000	Number of shares	£'000
Authorised				
Ordinary shares of 2 pence each	600,000,000	12,000	600,000,000	12,000
Allotted and fully paid				
Ordinary shares of 2 pence each	558,362,139	11,167	553,428,201	11,068

Included in the total number of ordinary shares outstanding above are 36,305,099 (2010: 32,476,700) shares held by the Group's employee benefit trust (see Note 4.6.1(a)).

As at 27 November 2011, the number of ordinary shares available for issue under the Block Listing Facility were 4,352,024 (2010: 5,276,413). These ordinary shares will only become allotted when share options under the Group's ESOS and non-employee share options have been exercised, and are therefore not included in the total number of ordinary shares outstanding above.

Notes to the consolidated financial statements continued

4.6.1 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 of shares	Convertible preference shares Number of shares	Ordinary shares £'000	Convertible preference shares £'000	Share premium £'000
At 29 November 2009		1,525,757	2,474,749	15	25	310,836
Allotted in respect of executive share ownership scheme of Ocado Limited	4.7.1(a)	6,635	—	—	—	731
Allotted in respect of joint share ownership scheme of Ocado Limited	4.7.1(b)	324,767	—	3	—	48,712
Cancellation of Ocado Limited ordinary and convertible preference shares	4.6.1(b)	(1,857,159)	(2,474,749)	(18)	(25)	—
Issue of ordinary and convertible preference shares by Ocado Group plc	4.6.1(b)	185,715,900	247,474,900	204,287	272,222	—
Ocado Group plc capital reduction	4.6.1(b)	—	—	(200,573)	(267,273)	—
Reverse acquisition of Ocado Limited by Ocado Group plc	4.6.1(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	4.7.1(a)	1,032,921	—	21	—	978
Allotted in respect of non-employee share options issued by Ocado Group plc	4.7.1(c)	180,700	—	4	—	135
At 28 November 2010		553,428,201	—	11,068	—	206,094
Allotted in respect of executive share ownership scheme	4.7.1(a)	935,137	—	19	—	940
Allotted in respect of joint share ownership scheme	4.7.1(b)	3,990,799	—	80	—	6,704
Allotted in respect of sharesave scheme	4.7.1(d)	602	—	—	—	1
Allotted in respect of non-employee share options	4.7.1(c)	7,400	—	—	—	7
Disposal of treasury shares		—	—	—	—	37
At 27 November 2011		558,362,139	—	11,167	—	213,783

The ordinary shares held by the trustee of the Group's employee benefit trust pursuant to the joint share ownership scheme 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 at the end of each period differs from that used in the loss per share calculation in Note 2.3 as loss per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

4.6.1 Share capital and reserves continued

In the prior period, 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 one share in Ocado Limited. The shares in the Company have a nominal value of 2 pence each.

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 ordinary share. Also in conjunction, 247,474,900 convertible preference shares converted to ordinary shares.

Also in the prior period, costs relating directly to the new issue of shares to the amount of £6.9 million were deducted from the share premium account. Attributable IPO costs were 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 were expensed.

In the prior period, costs expensed in the amount of £3.5 million in relation to the IPO related primarily to legal and professional fees.

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

	Notes	Treasury shares reserve £'000	Reverse acquisition reserve £'000	Other Reserves	
				Fair value reserve £'000	Foreign currency translation reserve £'000
At 29 November 2009		—	—	—	—
Allotted in respect of joint share ownership scheme of Ocado Limited	4.7.1(b)	(47,741)	—	—	—
Issue of ordinary and convertible preference shares by Ocado Group plc	4.6.1(b)	—	(476,509)	—	—
Reverse acquisition of Ocado Limited by Ocado Group plc	4.6.1(c)	—	360,279	—	—
Fair value movement on derivative financial instrument	4.6.1(d)	—	—	726	—
At 28 November 2010		(47,741)	(116,230)	726	—
Allotted in respect of joint share ownership scheme	4.7.1(b)	(6,308)	—	—	—
Disposal of treasury shares		244	—	—	—
Fair value movement on derivative financial instrument	4.6.1(d)	—	—	(716)	—
Translation of foreign subsidiary		—	—	—	(1)
At 27 November 2011		(53,805)	(116,230)	10	(1)

Notes to the consolidated financial statements continued

4.6.1 Share capital and reserves continued

(a) Treasury shares reserve

This reserve arose in the prior period when Ocado Limited (prior to the Group's restructuring) issued equity share capital under the JSOS, which is held in trust by the trustee of the Group's employee benefit trust. During the current period, the Company issued a further 3,990,799 ordinary shares to the Group's employee benefit trust pursuant to a new phase of the Group's JSOS. The consideration paid is deducted from total shareholders' equity and classified as treasury shares on consolidation. Treasury shares cease to be accounted for as such when they are sold or the interest is transferred in full to the participant pursuant to the terms of the JSOS. See Note 4.7.1 (b) for more information on the JSOS.

(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 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 preference shares for each Ocado Limited ordinary share and/or 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 both the current and prior periods have been presented as if the Company had always been the parent company of the Group.

(d) Other reserves

Other reserves consist of the foreign currency translation reserve and the fair value reserve.

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

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

4.7 Share-based payments

Accounting policies

Employee benefits

Employees (including Directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for rights over shares ("equity-settled transactions"). The cost of equity-settled transactions with employees is measured with reference to the fair value at the date on which they are granted. Fair value is measured using the Black-Scholes Option 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").

At each reporting date, the cumulative expense recognised for equity-settled transactions reflects the extent to which the vesting period has expired and the number of awards, that in the opinion of the Directors, will ultimately vest. Directors' estimates are based on the best available information at that date.

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 Payment" only in respect of bad leaver provisions in the Group's JSOS.

4.7.1 Share options and other equity instruments

The Group currently operates three employee share incentive schemes, namely the executive share ownership scheme (the "ESOS"), the joint share ownership scheme (the "JSOS") and the Sharesave Scheme.

The total expense for the period relating to employee share-based payment plans was £0.6 million (2010: £0.3 million), all of which related to equity-settled share-based payment transactions, except for £0.1 million in the prior period relating to a cash-settled share-based payment.

(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 employees, including the employees of the Company'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 the 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 ten years from the date of grant or the employee leaves the Group, 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 ordinary share. The prior period opening balance and movements during the prior period have been disclosed as if the conversion occurred at the beginning of that period.

Notes to the consolidated financial statements continued

4.7.1 Share options and other equity instruments continued

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

	Year of issue	27 November 2011	Exercise price (£)	28 November 2010	Exercise price (£)	Exercise period
Approved	2001	260,308	0.80	593,725	0.80	21/08/03 – 29/11/11
	2001	17,744	0.90	17,744	0.90	30/11/04 – 29/11/11
	2002	59,162	0.90	128,181	0.90	31/05/05 – 29/11/12
	2003	97,194	0.90	120,053	0.90	31/05/06 – 29/11/13
	2004	123,385	0.90	183,426	0.90	31/05/07 – 29/11/14
	2005	255,088	1.00	367,789	1.00	31/05/08 – 29/11/15
	2005	66,866	1.15	70,170	1.15	31/05/08 – 30/05/15
	2006	86,320	1.40	138,890	1.40	31/05/09 – 30/05/16
	2006	86,327	1.50	115,028	1.50	30/11/09 – 29/11/16
	2007	414,270	1.50	587,939	1.50	31/05/10 – 29/11/17
	2008	166,816	1.35	225,578	1.35	30/11/11 – 29/11/18
	2008	393,212	1.20	445,751	1.20	31/05/11 – 30/05/18
	2009	225,796	1.20	240,554	1.20	31/05/12 – 30/05/19
	2009	1,182,523	1.35	1,354,121	1.35	02/11/12 – 29/11/19
	2010	981,348	1.65	1,151,593	1.65	30/06/13 – 29/06/20
	2011	325,811	1.89	—	—	19/07/14 – 18/07/21
	2011	805,243	2.55	—	—	14/02/14 – 13/02/21
Total approved options		5,547,413		5,740,542		
Non-Approved	2001	21,563	0.80	46,563	0.80	21/08/03 – 29/11/11
	2001	10,856	0.90	35,856	0.90	30/11/04 – 29/11/11
	2002	31,009	0.90	56,787	0.90	31/05/05 – 29/11/12
	2002	175,000	1.00	175,000	1.00	07/02/05 – 30/05/12
	2002	350,000	1.50	350,000	1.50	07/02/05 – 30/05/12
	2003	100,000	0.90	100,000	0.90	30/11/06 – 29/11/13
	2005	754	1.00	754	1.00	30/11/08 – 29/11/15
	2005	787,436	1.15	808,236	1.15	16/05/08 – 29/11/15
	2007	50,833	1.50	50,833	1.50	31/05/10 – 30/05/17
	2009	267,500	1.20	267,500	1.20	31/05/12 – 30/05/19
	2009	24,074	1.35	24,074	1.35	16/11/12 – 15/11/19
	2011	37,038	1.89	—	—	19/07/14 – 18/02/21
Total unapproved options		1,856,063		1,915,603		
Total		7,403,476		7,656,145		

4.7.1 Share options and other equity instruments continued

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	27 November 2011		28 November 2010		Exercise period
	Number of share options	Exercise price (£)	Number of share options	Exercise price (£)	
2005	170,670	1.15	170,670	1.15	31/05/08 – 30/05/15
2009	254,000	1.20	254,000	1.20	31/05/12 – 30/05/19
Total options subject to performance criteria	424,670		424,670		

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

	27 November 2011		28 November 2010	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	7,656,145	1.27	10,593,611	1.15
Granted during the period	1,352,275	2.36	1,313,929	1.65
Forfeited during the period	(669,807)	1.72	(2,554,974)	1.12
Exercised during the period	(935,137)	1.02	(1,696,421)	1.02
Outstanding at the end of the period	7,403,476	1.46	7,656,145	1.27
Exercisable at the end of the period	3,092,598	1.20	3,662,300	1.11

Since the Company's Admission, the market value of the Company's shares at each option grant date was taken to be the closing mid-market price of the shares on the day prior to issuance. Prior to the Admission, 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 relevant period. The Share Valuation Office of HMRC has confirmed in correspondence that in respect of options granted prior to Admission, the exercise price was not less than the market value of the Company's shares at each option grant date.

The ESOS share options were exercised on a regular basis throughout the current and prior periods. For these exercises, the weighted average share price at the date of exercise was £2.17 (2010: £1.53).

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

	27 November 2011	28 November 2010
Weighted average share price	£2.36	£1.65
Weighted average exercise price	£2.36	£1.65
Expected volatility	0.25	0.25
Weighted expected life — years	3.00	3.00
Risk-free interest rate	3.5%	3.5%
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 a similar industry. 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 under the ESOS are equity-settled.

Notes to the consolidated financial statements continued

4.7.1 Share options and other equity instruments continued

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

	27 November 2011			28 November 2010		
	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	281,871	—	0.80	640,288	1.0
	0.90	439,350	1.9	0.90	642,047	3.0
	1.00	430,842	2.5	1.00	543,543	3.8
	1.15	854,302	3.5	1.15	878,406	4.5
	1.20	886,508	7.4	1.20	953,805	8.4
	1.35	1,373,413	7.9	1.35	1,603,773	8.9
	1.40	86,320	4.5	1.40	138,890	5.5
	1.50	901,430	3.7	1.50	1,103,800	5.1
	1.65	981,348	8.6	1.65	1,151,593	9.6
	1.89	362,849	9.6	—	—	—
	2.55	805,243	9.2	—	—	—
Outstanding at the end of the period		7,403,476			7,656,145	

(b) JSOS

The JSOS is an executive incentive scheme which was introduced to incentivise and retain its Executive Directors and select members of senior management of the Group (the "Participants"). It is a share ownership scheme under which the Participants and Appleby Trust (Jersey) Limited, the EBT Trustee, held at balance sheet date separate beneficial interests in 36,305,099 (2010: 32,476,700) ordinary shares which represents 6.5% (2010: 5.9%) of the issued share capital of the Company.

Participants

Awards are granted to the Executive Board and a select group of senior management. In the prior period they acquired interests in 32,476,700 ordinary shares with an issue price of £1.50 per share, in accordance with the Group's first JSOS scheme ("JSOS1"). In the current period, interests in a further 3,990,799 ordinary shares with an issue price of £1.70 were acquired by a select group of senior management (excluding Directors) in accordance with the Group's second JSOS scheme ("JSOS2").

Nature of interests

Interests take the form of a restricted interest in ordinary shares in the Company (the "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 specified threshold amounts. In order to acquire an Interest, a Participant must enter into a joint share ownership agreement with the EBT Trustee, under which the Participant and the EBT 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 insofar as the value of the Shares exceeds the threshold amount. For the initial Interests acquired by the Participants, there are four tranches, each with their own threshold or hurdle price as follows:

JSOS1				JSOS2			
Tranche	Vesting date	Hurdle price	% of issue price	Tranche	Vesting date	Hurdle price	% of issue price
1 (2011)	01/01/2011	£1.73	115%	1 (2012)	30/06/2012	£1.96	115%
2 (2012)	01/01/2012	£1.91	127%	2 (2013)	30/06/2013	£2.15	127%
3 (2013)	01/01/2013	£2.08	139%	3 (2014)	30/06/2014	£2.36	139%
4 (2014)	01/01/2014	£2.28	152%	4 (2015)	30/06/2015	£2.59	152%

For JSOS1, Participants were required to purchase their Interest for 2% of the issue price. For JSOS2, the price was in a range of 7.1% to 10.8%. When an Interest vests, the EBT Trustee will transfer Shares to the Participant of equal value to the Participant's Interest or the Shares will be sold and the EBT Trustee will account to the Participant for the balance, i.e. the difference between the sale proceeds (less expenses) and the hurdle price.

4.7.1 Share options and other equity instruments continued

Vesting conditions

The vesting of the Interests granted to Participants is 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 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 Payment", market based vesting conditions and the share price target conditions in the JSOS have been taken into 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.

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

JSOS1	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	£1.91	£2.08	£2.28
Expected volatility	0.25	0.25	0.25	0.25
Weighted expected life — years	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%

JSOS2	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Weighted average share price	£1.70	£1.70	£1.70	£1.70
Weighted average exercise price	£1.96	£2.15	£2.36	£2.59
Expected volatility	0.25	0.25	0.25	0.25
Weighted expected life — years	1.0	2.0	3.0	4.0
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 a basket of others of a similar size or which operate in a similar industry.

(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. As a result of the Group's restructuring in the prior period, these options are now held over ordinary shares in Ocado Group plc.

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

Date of issue	27 November 2011		28 November 2010		Exercise period
	Number of share options	Exercise price (£)	Number of share options	Exercise price (£)	
Feb-02	—	—	7,400	0.90	04/02/04 – 03/02/14
Feb-02	886,700	0.90	886,700	0.90	04/02/02 – 04/02/17
Jan-04	435,300	1.03	435,300	1.03	03/01/04 – 03/01/18
Outstanding at the end of the period	1,322,000		1,329,400		

Notes to the consolidated financial statements continued

4.7.1 Share options and other equity instruments continued

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

	27 November 2011		28 November 2010	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	1,329,400	0.95	1,471,400	0.92
Granted during the period	—	—	—	—
Forfeited during the period	—	—	—	—
Exercised during the period	(7,400)	0.90	(142,000)	0.70
Outstanding at the end of the period	1,322,000	0.95	1,329,400	0.95
Exercisable at the end of the period	1,322,000	0.95	1,329,400	0.95

In the prior period the Company documented an option to Hawkeye Capital Partners Limited to subscribe for 38,700 ordinary shares at a price of £1.03 per share. These options were exercised on IPO at a weighted average price of £1.03.

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

	27 November 2011			28 November 2010		
	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	886,700	5.2	0.90	894,100	6.2
	1.03	435,300	6.1	1.03	435,300	7.9
Outstanding at the end of the period		1,322,000			1,329,400	

(d) Sharesave Scheme

In the prior period the Group launched the Ocado Group 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 the Company at a price equal to 85% of the market value of the shares at the launch date.

At 27 November 2011 employees of the Company's subsidiaries held 681 (2010: 819) contracts in respect of options over 2,314,294 (2010: 2,724,513) shares. Details of the movement in the number of Sharesave options outstanding during each period are as follows:

	27 November 2011		28 November 2010	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	2,724,513	1.162	—	—
Granted during the period	—	—	2,728,850	1.162
Forfeited during the period	(409,617)	1.162	(4,337)	1.162
Exercised during the period	(602)	1.162	—	—
Outstanding at the end of the period	2,314,294	1.162	2,724,513	1.162
Exercisable at the end of the period	—	—	—	—

4.7.1 Share options and other equity instruments continued

There were no Sharesave options granted during the period. In determining the fair value of the share options granted during the prior period, 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 — years	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.

4.8 Capital management

The Boards objective is to maintain an appropriate balance of debt and equity financing to enable the Group to continue as a going concern, to sustain future development of the business and to maximise returns to shareholders and benefits to other stakeholders.

The Board closely manages trading capital, defined as net assets plus net debt. Net debt is calculated as total debt (obligations under finance leases and borrowings as shown in the balance sheet), less the short-term investment and cash and cash equivalents. The Group's net assets at the end of the period were £172.9 million (2010: £171.8 million) and it had net debt of £19.2 million (2010: net cash of £80.5 million).

The main areas of capital management revolve around working capital management and compliance with externally imposed financial covenants. Throughout the period, the Group has complied with all covenants imposed by lenders.

The components of working capital management include monitoring inventory turn, age of inventory, age of receivables, receivables days, payables days, balance sheet reforecasting, 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 by the Board. There were no changes in the Group's approach to capital management during the period.

Given the Group's commitment to expand the business and the investment required to complete CFC2, the declaration and payment of a dividend is not part of the short-term capital management strategy of the Group.

At the balance sheet date, the Group's undrawn facilities, short-term investment and cash and cash equivalents are as follows:

		27 November 2011 £'000	28 November 2010 £'000
Total facilities available		191,488	191,373
Facilities drawn down†	4.1.1	(112,643)	(74,114)
Undrawn facilities at end of period		78,845	117,259
Short-term investment		—	30,000
Cash and cash equivalents gross of drawn overdraft facility	3.4.4	92,102	124,780
		170,947	272,039

† Excluded from the amount of facilities drawn down is £1.4 million (2010: £nil) relating to capitalised transaction costs.

Notes to the consolidated financial statements continued

Section 5 — Other notes

5.1 Subsidiaries

The principal subsidiary undertakings of the Company are set out below. A schedule of interests in all undertakings is filed with the annual return.

	Principal activity	Share of issued ordinary share capital and voting rights	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
Last Mile Developments Limited	Property development	100%	England and Wales
Ocado Cell in Atlas Insurance PCC Limited	Insurance company	100%	Malta

In addition to the companies shown above, the Company also holds an investment in another subsidiary undertaking, which in the Directors' opinion does not significantly affect the figures in the consolidated financial statements. In accordance with Section 410(2)(a) of the Companies Act, a full list of subsidiaries was annexed to the 2010 annual return and submitted to Companies House. A full list of subsidiaries will be submitted to Companies House with the 2011 annual return.

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.

5.2 Commitments

Capital commitments

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

	27 November 2011 £'000	28 November 2010 £'000
Land and buildings	11,501	21,392
Property, plant and equipment	88,872	13,661
Total capital expenditure committed at the end of the period	100,373	35,053

£86.0 million of the total capital expenditure committed at the current period end relates to the construction of CFC2. The remainder relates to CFC1 upgrades, IT development and fleet expansion. The land and buildings commitment in the prior period relates to the purchase of land on which CFC2 is being built.

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 27 November 2011, the ageing profile of future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	27 November 2011 £'000	28 November 2010 £'000
Due within one year	3,379	2,480
Due after one year but less than five years	9,912	8,434
Due after five years	36,853	35,024
Total future minimum lease payments	50,144	45,938

5.3 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.

5.4 Related party transactions

Key management personnel

Only the Executive and Non-Executive Directors are deemed to be key management personnel. It is the Board which has responsibility for planning, directing and controlling the activities of the Group. Remuneration of Directors is disclosed in the Directors' remuneration report on pages 46 to 55.

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

	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Purchase of goods		
— Company of a close family member of an Executive Director	—	42
Purchase of professional services		
— Non-Executive Directors	9	30
	9	72

All transactions are on an arm's 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 (2010: £nil).

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

Notes to the consolidated financial statements continued

5.4 Related party transactions continued

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 treated as an associated undertaking as it does not have significant influence over Paneltex Limited. Further information on the Group's relationship with Paneltex Limited is provided in Note 3.3.1.

The following direct transactions were carried out with Paneltex Limited:

	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Direct transactions		
Sale of goods		
— Plant and machinery	34	94
— Other	2	—
	36	94
Purchase of goods		
— Plant and machinery	32	220
— Consumables	167	143
Total purchase of goods	199	363
Amounts payable/(receivable) at the end of the period	24	(93)

The following indirect transactions were carried out with Paneltex Limited:

	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Indirect transactions		
— Plant and machinery	3,664	5,590

Indirect transactions comprise the value of the Group's transactions with Paneltex Limited which are included in amounts of finance obtained from some of the Group's finance lease counterparties.

5.5 Post balance sheet events

The Group drew down a further £7.6 million and £9.7 million on the £100 million credit facility in December 2011 and February 2012, respectively.

In January 2012, an order was placed with Mercedes-Benz for 50 delivery vans.

On 31 January 2012 the Group opened a new spoke in Oxfordshire which will increase the delivery capacity in the Thames corridor and in South Midlands.

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 27 November 2011 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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' responsibilities statement set out on pages 64 and 65, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company 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 parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 27 November 2011 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; and
- have been prepared in accordance with the requirements of the Companies Act.

Opinion on other matters prescribed by the Companies Act

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act; 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 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 27 November 2011.

Clive Hinds (Senior Statutory Auditor)

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

St Albans

21 March 2012

Company balance sheet

as at 27 November 2011

	Notes	27 November 2011 £'000	28 November 2010 £'000
Non-current assets			
Investments	3.1.1	478,436	477,840
		478,436	477,840
Current assets			
Other receivables	3.2.1	137,952	61,250
Short-term investment	3.2.2	—	30,000
Cash and cash equivalents	3.2.3	85,330	114,361
		223,282	205,611
Total assets		701,718	683,451
Current liabilities			
Trade and other payables	3.2.4	(9,543)	(323)
		(9,543)	(323)
Net current assets		213,739	205,288
Net assets		692,175	683,128
Equity			
Share capital	4.1.1	11,167	11,068
Share premium	4.1.1	213,746	206,094
Retained earnings		467,262	465,966
Total equity		692,175	683,128

The Company financial statements on pages 116 to 136 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)

21 March 2012

Company statement of cash flows

for the 52 weeks ended 27 November 2011

	Notes	52 weeks ended 27 November 2011 £'000	51 weeks ended 28 November 2010 £'000
Cash flow from operating activities			
Profit/(loss) before income tax		700	(2,084)
Adjustments for:			
— Finance income		(1,105)	(1,529)
— Finance costs		—	5
Changes in working capital:			
— Movement in other receivables		(79,186)	(61,250)
— Movement in trade and other payables		9,219	323
Net cash outflow from operations		(70,372)	(64,535)
Interest paid on behalf of group undertakings		(106)	(156)
Net cash outflow from operating activities		(70,478)	(64,691)
Cash flow from investing activities			
Interest received		917	553
Decrease/(increase) in short-term investment		30,000	(30,000)
Net cash from investing activities		30,917	(29,447)
Cash flow from financing activities			
Proceeds from issue of ordinary share capital net of transaction costs		967	208,499
Proceeds from borrowings received on behalf of group undertakings		9,563	—
Net cash from financing activities		10,530	208,499
Net (decrease)/increase in cash and cash equivalents		(29,031)	114,361
Cash and cash equivalents at beginning of period		114,361	—
Cash and cash equivalents at end of period	3.2.3	85,330	114,361

Company statement of changes in equity

for the 52 weeks ended 27 November 2011

	Notes	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 8 December 2009		—	—	—	—
Loss for the period		—	—	(2,084)	(2,084)
Total comprehensive expense for the period		—	—	(2,084)	(2,084)
Transactions with owners:					
— Issue of ordinary and convertible preference shares	4.1.1	476,509	—	—	476,509
— Capital reduction	4.1.1	(467,846)	—	467,846	—
— Issue of ordinary shares on IPO	4.1.1	2,380	211,862	—	214,242
— Ordinary shares issue costs	4.1.1	—	(6,881)	—	(6,881)
— Issue of ordinary shares		25	1,113	—	1,138
— Share-based payments charge		—	—	204	204
Total transactions with owners		11,068	206,094	468,050	685,212
Balance at 28 November 2010		11,068	206,094	465,966	683,128
Profit for the period		—	—	700	700
Total comprehensive income for the period		—	—	700	700
Transactions with owners:					
— Issue of ordinary shares	4.1.1	99	7,652	—	7,751
— Share-based payments charge		—	—	596	596
Total transactions with owners		99	7,652	596	8,347
Balance at 27 November 2011		11,167	213,746	467,262	692,175

Notes to the Company financial statements

Section I — Basis of preparation

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 financial period represents the 52 weeks ended 27 November 2011 (prior period 51 weeks ended 28 November 2010).

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretation Committee (IFRS IC) interpretations as endorsed by the European Union ("IFRS-EU"), 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. 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 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 profit for the period is £700,000 (2010: loss of £2,084,000).

Standards, amendments and interpretations adopted by the Company in 2010/11 or issued, but are not yet effective and have not been early adopted by the Company

The Company has considered the following new standards, interpretations and amendments to published standards that are effective for the Company for the financial year beginning 29 November 2010 and concluded that they are either not relevant to the Company or that they would not have a significant impact on the Company's financial statements.

- IFRIC 15, "Arrangements for the Construction of Real Estate". This IFRIC was effective 1 January 2009 but EU endorsed for 1 January 2010
- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"
- Amendments to various IFRSs and IASs arising from the IASB's annual improvements project in 2009

The following new standards, interpretations and amendments to published standards and interpretations which are relevant to the Group have been issued but are not effective for the financial year beginning 29 November 2010 and have not been adopted early:

- IFRS 9, "Financial Instruments"*
- IFRS 10, "Consolidated Financial Statements"*
- IFRS 11, "Joint Arrangements"*
- IFRS 12, "Disclosure of Interests in Other Entities"*
- IFRS 13, "Fair Value Measurement"*
- IAS 24 (revised), "Related Party Disclosures"
- IAS 27 (revised 2011), "Separate Financial Statements"*
- IAS 28 (revised 2011), "Investments in Associates and Joint Ventures"*
- Amendments to various IFRSs and IASs arising from the IASB's annual improvements project

* Not yet endorsed by the EU.

Accounting policies

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 remeasured. 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.

Taxation

The tax credit 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 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.

Critical accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS-EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The critical accounting estimates or judgements relevant to the consolidated financial statements are embedded with the relevant notes to the consolidated financial statements.

Notes to the Company financial statements continued

Section 2 — Results for the year

2.1 Profit before tax

Accounting policies

Administrative expenses

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

2.1.1 Operating loss

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

	52 weeks ended 27 November 2011 £'000	51 weeks ended 28 November 2010 £'000
Audit services		
— Statutory Company audit	47	40
Non-audit services		
— Services pursuant to legislation and compliance†	—	975
— Other services	—	108
	47	1,123

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

2.1.2 Employee information

The Company does not incur any direct staff costs as the Group's employees are employed by a subsidiary company.

Analysis and disclosures in relation to share-based payments are given in Note 4.2.

Section 3 — Operating assets and liabilities

3.1 Investments

Accounting policies

Available-for-sale financial assets

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

3.1.1 Investments

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. Valuations below cost are recognised as impairment losses in the income statement. Dividends are recognised in the income statement when the right to receive payment is established.

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

	27 November 2011 £'000	28 November 2010 £'000
Cost	476,510	476,510
Contributions to subsidiaries:		
— Novation of derivative liability in respect of warrants issued by Ocado Limited	1,126	1,126
— Group equity settled share-based payments	800	204
Carrying value at end of period	478,436	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 5.1.

Notes to the Company financial statements continued

3.2 Working capital

Accounting policies 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 investments

Short-term investments comprise treasury deposits with a maturity of greater than three months at the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents comprise 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.

Financial liabilities

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.

3.2.1 Other receivables

	27 November 2011 £'000	28 November 2010 £'000
Other receivables	50	174
Prepayments	—	6
Accrued income	214	402
Amounts due from subsidiary undertakings	137,688	60,668
	137,952	61,250

No security has been granted over other receivables.

3.2.2 Short-term investment

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

3.2.3 Cash and cash equivalents

	27 November 2011 £'000	28 November 2010 £'000
Cash at bank and in hand	85,330	114,361

The prior period cash and cash equivalents balance does not include a £30 million treasury deposit held by the Company, which was classified as a short-term investment (see Note 3.2.2).

3.2.4 Trade and other payables

	27 November 2011 £'000	28 November 2010 £'000
Trade payables	321	98
Other payables	58	—
Accruals	3	225
Amounts due to subsidiary undertakings	9,161	—
	9,543	323

Notes to the Company financial statements continued

Section 4 — Capital structure and financing

4.1 Share capital and premium

Accounting policies

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

4.1.1 Share capital and premium

The Company has authorised share capital of 600 million ordinary shares of 2 pence each at 27 November 2011.

At 27 November 2011, the number of ordinary shares available for issue under the Block Listing Facility were 4,352,024 (2010: 5,276,413). These ordinary shares will only become allotted when share options under the Group's ESOS and non-employee share options have been exercised, and are therefore not included in the total number of ordinary shares outstanding above.

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:

	Notes	Ordinary shares Number of shares	Convertible preference shares Number of shares	Ordinary shares £'000	Convertible preference shares £'000	Share premium £'000
As at 8 December 2009		—	—	—	—	—
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 option scheme		1,032,921	—	21	—	978
Allotted in respect of non-employee share options	4.2.1(c)	180,700	—	4	—	135
As at 28 November 2010		553,428,201	—	11,068	—	206,094
Allotted in respect of the executive share option scheme	4.2.1(a)	935,137	—	19	—	940
Allotted in respect of the joint share ownership scheme	4.2.1(b)	3,990,799	—	80	—	6,704
Allotted in respect of the sharesave scheme	4.2.1(d)	602	—	—	—	1
Allotted in respect of non-employee share options	4.2.1(c)	7,400	—	—	—	7
As at 27 November 2011		558,362,139	—	11,167	—	213,746

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.

4.1 Share capital and premium continued

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 held in Ocado Limited. The shares in the Company have a nominal value of 2 pence each.

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 ordinary share. Also in conjunction, 247,474,900 convertible preference shares converted to ordinary shares.

Also in the prior period, costs relating directly to the new issue of shares to the amount of £6.9 million were deducted from the share premium account. Attributable IPO costs were 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 were expensed.

4.2 Share-based payments

Accounting policies Employee benefits

Employees (including Directors) of the Company's subsidiaries receive remuneration in the form of share-based payments, 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 on which they are granted. Fair value is measured by use of the Black-Scholes Option 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"). 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 relevant subsidiaries in accordance with IFRS 2.

4.2.1 Share options and other equity instruments

The Group currently operates three employee share incentive schemes, namely the executive share ownership scheme (the "ESOS"), the joint share ownership scheme (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 employees, including the employees of the Company'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.

Notes to the Company financial statements continued

4.2.1 Share options and other equity instruments continued

The Directors of Ocado or the 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 ten years from the date of grant or the employee leaves the Group, 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 the Company on a 1:100 basis with a nominal value of 2 pence per ordinary share. The prior period opening balance and movements during the prior period have been disclosed as if the conversion occurred at the beginning of that period.

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

	Year of issue	27 November 2011	Exercise price (£)	28 November 2010	Exercise price (£)	Exercise period
Approved	2001	260,308	0.80	593,725	0.80	21/08/03 – 29/11/11
	2001	17,744	0.90	17,744	0.90	30/11/04 – 29/11/11
	2002	59,162	0.90	128,181	0.90	31/05/05 – 29/11/12
	2003	97,194	0.90	120,053	0.90	31/05/06 – 29/11/13
	2004	123,385	0.90	183,426	0.90	31/05/07 – 29/11/14
	2005	255,088	1.00	367,789	1.00	31/05/08 – 29/11/15
	2005	66,866	1.15	70,170	1.15	31/05/08 – 30/05/15
	2006	86,320	1.40	138,890	1.40	31/05/09 – 30/05/16
	2006	86,327	1.50	115,028	1.50	30/11/09 – 29/11/16
	2007	414,270	1.50	587,939	1.50	31/05/10 – 29/11/17
	2008	166,816	1.35	225,578	1.35	30/11/11 – 29/11/18
	2008	393,212	1.20	445,751	1.20	31/05/11 – 30/05/18
	2009	225,796	1.20	240,554	1.20	31/05/12 – 30/05/19
	2009	1,182,523	1.35	1,354,121	1.35	02/11/12 – 29/11/19
	2010	981,348	1.65	1,151,593	1.65	30/06/13 – 29/06/20
	2011	325,811	1.89	—	—	19/07/14 – 18/07/21
	2011	805,243	2.55	—	—	14/02/14 – 13/02/21
Total approved options		5,547,413		5,740,542		

	Year of issue	27 November 2011	Exercise price (£)	28 November 2010	Exercise price (£)	Exercise period
Non-Approved	2001	21,563	0.80	46,563	0.80	21/08/03 – 29/11/11
	2001	10,856	0.90	35,856	0.90	30/11/04 – 29/11/11
	2002	31,009	0.90	56,787	0.90	31/05/05 – 29/11/12
	2002	175,000	1.00	175,000	1.00	07/02/05 – 30/05/12
	2002	350,000	1.50	350,000	1.50	07/02/05 – 30/05/12
	2003	100,000	0.90	100,000	0.90	30/11/06 – 29/11/13
	2005	754	1.00	754	1.00	30/11/08 – 29/11/15
	2005	787,436	1.15	808,236	1.15	16/05/08 – 29/11/15
	2007	50,833	1.50	50,833	1.50	31/05/10 – 30/05/17
	2009	267,500	1.20	267,500	1.20	31/05/12 – 30/05/19
	2009	24,074	1.35	24,074	1.35	16/11/12 – 15/11/19
	2011	37,038	1.89	—	—	19/07/14 – 18/02/21
Total unapproved options		1,856,063		1,915,603		
Total		7,403,476		7,656,145		

4.2.1 Share options and other equity instruments continued

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	27 November 2011		28 November 2010		Exercise period
	Number of share options	Exercise price (£)	Number of share options	Exercise price (£)	
2005	170,670	1.15	170,670	1.15	31/05/08 – 30/05/15
2009	254,000	1.20	254,000	1.20	31/05/12 – 30/05/19
Total options subject to performance criteria	424,670		424,670		

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

	27 November 2011		28 November 2010	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	7,656,145	1.27	10,593,611	1.15
Granted during the period	1,352,275	2.36	1,313,929	1.65
Forfeited during the period	(669,807)	1.72	(2,554,974)	1.12
Exercised during the period	(935,137)	1.02	(1,696,421)	1.02
Outstanding at the end of the period	7,403,476	1.46	7,656,145	1.27
Exercisable at the end of the period	3,092,598	1.20	3,662,300	1.11

Since the Company's Admission, the market value of the Company's shares at each option grant date was taken to be the closing mid-market price of the shares on the day prior to issuance. Prior to the Admission, 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 relevant period. The Share Valuation Office of the Inland Revenue has confirmed in correspondence that in respect of options granted prior to Admission, the exercise price was not less than the market value of the Company's shares at each option grant date.

The ESOS share options were exercised on a regular basis throughout the current and prior periods. For these exercises, the weighted average share price at the date of exercise was £2.17 (2010: £1.53).

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

	27 November 2011	28 November 2010
Weighted average share price	£2.36	£1.65
Weighted average exercise price	£2.36	£1.65
Expected volatility	0.25	0.25
Weighted expected life — years	3.00	3.00
Risk-free interest rate	3.5%	3.5%
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 a similar industry. 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 under the ESOS are equity-settled.

Notes to the Company financial statements continued

4.2.1 Share options and other equity instruments continued

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

	27 November 2011			28 November 2010		
	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	281,871	—	0.80	640,288	1.0
	0.90	439,350	1.9	0.90	642,047	3.0
	1.00	430,842	2.5	1.00	543,543	3.8
	1.15	854,302	3.5	1.15	878,406	4.5
	1.20	886,508	7.4	1.20	953,805	8.4
	1.35	1,373,413	7.9	1.35	1,603,773	8.9
	1.40	86,320	4.5	1.40	138,890	5.5
	1.50	901,430	3.7	1.50	1,103,800	5.1
	1.65	981,348	8.6	1.65	1,151,593	9.6
	1.89	362,849	9.6	—	—	—
	2.55	805,243	9.2	—	—	—
Outstanding and the end of the period		7,403,476			7,656,145	

(b) JSOS

The JSOS is an executive incentive scheme which was introduced to incentivise and retain its Executive Directors and select members of senior management of the Group (the "Participants"). It is a share ownership scheme under which the Participants and Appleby Trust (Jersey) Limited, the EBT Trustee, held at balance sheet date separate beneficial interests in 36,305,099 (2010: 32,476,700) ordinary shares which represents 6.5% (2010: 5.9%) of the issued share capital of the Company.

Participants

Awards are granted to the Executive Board and a select group of senior management. In the prior period they acquired interests in 32,476,700 ordinary shares with an issue price of £1.50 per share, in accordance with the Group's first JSOS scheme ("JSOS1"). In the current period, interests in a further 3,990,799 ordinary shares with an issue price of £1.70 were acquired by a select group of senior management (excluding Directors) in accordance with the Group's second JSOS scheme ("JSOS2").

Nature of interests

Interests take the form of a restricted interest in ordinary shares in the Company (the "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 specified threshold amounts. In order to acquire an Interest, a Participant must enter into a joint share ownership agreement with the EBT Trustee, under which the Participant and the EBT 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 insofar as the value of the Shares exceeds the threshold amount. For the initial Interests acquired by the Participants, there are four tranches, each with their own threshold or hurdle value as follows:

JSOS1				JSOS2			
Tranche	Vesting date	Hurdle value	% of issue price	Tranche	Vesting date	Hurdle value	% of issue price
1 (2011)	01/01/2011	£1.73	115%	1 (2012)	30/06/2012	£1.96	115%
2 (2012)	01/01/2012	£1.91	127%	2 (2013)	30/06/2013	£2.15	127%
3 (2013)	01/01/2013	£2.08	139%	3 (2014)	30/06/2014	£2.36	139%
4 (2014)	01/01/2014	£2.28	152%	4 (2015)	30/06/2015	£2.59	152%

For JSOS1, Participants were required to purchase their Interest for 2% of the issue price. For JSOS2, this price was in a range of 7.1% to 10.8%. When an Interest vests, the EBT Trustee will transfer Shares to the Participant of equal value to the Participant's Interest or the Shares will be sold and the EBT Trustee will account to the Participant for the balance, i.e. the difference between the sale proceeds (less expenses) and the hurdle value

4.2.1 Share options and other equity instruments continued

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 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 into 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.

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

JSOS1	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 — years	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%

JSOS2	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Weighted average share price	£1.70	£1.70	£1.70	£1.70
Weighted average exercise price	£1.96	£2.15	£2.36	£2.59
Expected volatility	0.25	0.25	0.25	0.25
Weighted expected life — years	1.0	2.0	3.0	4.0
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.

(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. As a result of the Group's restructuring in the prior period, these options are now held over ordinary shares in the Company.

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

Date of issue	27 November 2011		28 November 2010		Exercise period
	Number of share options	Exercise price (£)	Number of share options	Exercise price (£)	
Feb-02	—	—	7,400	0.90	04/02/04 – 03/02/14
Feb-02	886,700	0.90	886,700	0.90	04/02/02 – 04/02/17
Jan-04	435,300	1.03	435,300	1.03	03/01/04 – 03/01/18
Outstanding at the end of the period	1,322,000		1,329,400		

Notes to the Company financial statements continued

4.2.1 Share options and other equity instruments continued

	27 November 2011		28 November 2010	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	1,329,400	0.95	1,471,400	0.92
Granted during the period	—	—	—	—
Forfeited during the period	—	—	—	—
Exercised during the period	(7,400)	0.90	(142,000)	0.70
Outstanding at the end of the period	1,322,000	0.95	1,329,400	0.95
Exercisable at the end of the period	1,322,000	0.95	1,329,400	0.95

In the prior period the Company documented an option to Hawkeye Capital Partners Limited to subscribe for 38,700 ordinary shares at a price of £1.03 per share. These options were exercised on IPO at a weighted average price of £1.03.

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

	27 November 2011			28 November 2010		
	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	886,700	5.2	0.90	894,100	6.2
	1.03	435,300	6.1	1.03	435,300	7.9
Outstanding at the end of the period		1,322,000			1,329,400	

(d) Sharesave Scheme

In the prior period the Group launched the Ocado Group 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 the Company at a price equal to 85% of the market value of the shares at the launch date.

At 27 November 2011 employees of the Company's subsidiaries held 681 (2010: 819) contracts in respect of options over 2,314,294 (2010: 2,724,513) shares. Details of the movement in the number of Sharesave options outstanding during each period are as follows:

	27 November 2011		28 November 2010	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	2,724,513	1.162	—	—
Granted during the period	—	—	2,728,850	1.162
Forfeited during the period	(409,617)	1.162	(4,337)	1.162
Exercised during the period	(602)	1.162	—	—
Outstanding at the end of the period	2,314,294	1.162	2,724,513	1.162
Exercisable at the end of the period	—	—	—	—

4.2.1 Share options and other equity instruments continued

There were no Sharesave options granted during the period. In determining the fair value of the share options granted during the prior period, 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 — years	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.

4.3 Financial instruments

Accounting policies

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 into 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.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

4.3.1 Fair value of financial instruments

Set out below is a comparison by category of carrying values 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 cash and cash equivalents, the short-term investment, receivables and payables are assumed to approximate to their carrying values but for completeness are included in the analysis below.

	Notes	27 November 2011		28 November 2010	
		Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Financial assets					
Investments	3.1.1	476,510	476,510	476,510	476,510
Cash and cash equivalents	3.2.3	85,330	85,330	114,361	114,361
Short-term investment	3.2.2	—	—	30,000	30,000
Other receivables	3.2.1	137,952	137,952	61,244	61,244
Total financial assets		699,792	699,792	682,115	682,115
Financial liabilities					
Trade and other payables	3.2.4	(9,543)	(9,543)	(323)	(323)
Total financial liabilities		(9,543)	(9,543)	(323)	(323)

Notes to the Company financial statements continued

4.3.1 Fair value of financial instruments continued

4.3.2 Credit risk

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

Exposure to credit risk

The carrying value of financial assets, as set out in Note 4.3.1, represents the maximum credit exposure. No collateral is held as security against these assets.

Cash and cash equivalents and short-term investment

The Company's exposure to credit risk on cash and cash equivalents and the short-term investments is managed by investing in banks and financial institutions with strong credit ratings and by regular review of counterparty risk in light of the current economic climate. The Company's guideline is to maintain transactional bank accounts and term deposits with financial institutions which carry a Moody's rating of Aa3/P1 for long-term and short-term deposits.

Other receivables

Other receivables at the end of both periods consist primarily of amounts due from subsidiary undertakings. Management provides 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 is set out below:

	Notes	27 November 2011		28 November 2010	
		Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Not past due		137,952	—	91,244	—
Past due 0–3 months		—	—	—	—
Past due 3–6 months		—	—	—	—
Past due over 6 months		—	—	—	—
	3.2.1	137,952	—	91,244	—

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.

4.3.3 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 capital management strategy see Note 4.8 in the consolidated financial statements.

The table below analyses the Company's 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
Financial liabilities							
Trade and other payables	3.2.4	(323)	(323)	(323)	—	—	—
28 November 2010		(323)	(323)	(323)	—	—	—

4.3.3 Liquidity risk continued

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
Financial liabilities						
Trade and other payables	3,24	(9,543)	(9,543)	(9,543)	—	—
27 November 2011		(9,543)	(9,543)	(9,543)	—	—

4.3.4 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 (including a short-term investment in the prior period). 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:

	27 November 2011 £'000	28 November 2010 £'000
Fixed rate instruments		
Financial assets	37,127	70,000
Variable rate instruments		
Financial assets	48,203	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. A rate of 100 basis points was deemed appropriate, 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.

	27 November 2011 £'000	28 November 2010 £'000
Equity		
Gain	800	744
Income		
Gain	800	744

Notes to the Company financial statements continued

4.3.5 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					
Financial assets					
Investments	3.1.1	476,510	—	—	476,510
Cash and cash equivalents	3.2.3	—	114,361	—	114,361
Short-term investment	3.2.2	—	30,000	—	30,000
Other receivables	3.2.1	—	61,244	—	61,244
Total		476,510	205,605	—	682,115
Financial liabilities					
Trade and other payables	3.2.4	—	—	323	323
Total		—	—	323	323

	Notes	Available-for-sale £'000	Loans and receivables £'000	Other financial liabilities at amortised cost £'000	Total £'000
As at 27 November 2011					
Financial assets					
Investments	3.1.1	476,510	—	—	476,510
Cash and cash equivalents	3.2.3	—	85,330	—	85,330
Short-term investment	3.2.2	—	—	—	—
Other receivables	3.2.1	—	137,952	—	137,952
Total		476,510	223,282	—	699,792
Financial liabilities					
Trade and other payables	3.2.4	—	—	9,543	9,543
Total		—	—	9,543	9,543

4.4 Capital management

The Board's objectives and policies for the Company are consistent with those of the Group. Full details are provided in Note 4.8 to the consolidated financial statements.

Section 5 — Other notes

5.1 Subsidiaries

The principal subsidiary undertakings of the Company are set out below. A schedule of interests in all undertakings is filed with the annual return.

	Principal activity	Share of issued ordinary share capital and voting rights	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
Last Mile Developments Limited†	Property development	100%	England and Wales
Ocado Cell in Atlas Insurance PCC Limited†	Insurance company	100%	Malta

† Wholly owned held indirectly through subsidiary undertakings.

In addition to the companies shown above, the Company also holds an investment in another subsidiary undertaking, which in the Directors' opinion do not significantly affect the figures in the consolidated financial statements. In accordance with Section 410(2)(a) of the Companies Act, a full list of subsidiaries was annexed to the 2010 annual return and submitted to Companies House. A full list of subsidiaries will be submitted to Companies House in the 2011 annual return.

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.

Notes to the Company financial statements continued

5.2 Related party transactions

Key management personnel

Only the Executive and Non-Executive Directors are deemed to be key management personnel. It is the Board which 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.

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 income of £7,000 was earned on these loans at market related interest rates during the period (2010: £nil).

	52 weeks ended 27 November 2011 £'000	51 weeks ended 28 November 2010 £'000
Transactions with subsidiaries		
Dividends received from subsidiary undertakings	—	—
Equity-settled share-based payments	596	204
Increase in amounts due from subsidiary undertakings	77,020	60,668
Increase in amounts due to subsidiary undertakings	(9,161)	—
	27 November 2011 £'000	28 November 2010 £'000
Year-end balances arising from transactions with subsidiaries		
Receivables		
Loans and receivables due from subsidiaries	137,688	60,668
Payables		
Loans and payables due to subsidiaries	(9,161)	—

5.3 Post balance sheet events

There were no events after the balance sheet date which require adjustment to or disclosure in these financial statements.

Glossary

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 23 May 2012 at 11am at One Bunhill Row, London, EC1Y 8YY.

Articles — means the articles of association of the Company.

Block Listing Facility — means the facility whereby a number of shares have been block listed but will only be allotted when options under the ESOS and non-employee share schemes have been exercised.

Board — means the board of directors of the Company or of Ocado Limited from time-to-time as the context may require.

CFC1 — means the Customer Fulfilment Centre in Hatfield, Hertfordshire.

CFC2 — means the Customer Fulfilment Centre in Dordon, Warwickshire.

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.

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 CFC1.

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; which is the title given to our customer facing delivery drivers.

Customer Fulfilment Centre or CFC — means a dedicated highly automated warehouse used for the operation of the business.

Distribution costs — means 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, call centre costs and payment processing charges.

Directors — means the directors of the Company whose names are set out on pages 28 and 29, 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.

EBIT — means operating profit/(loss) before interest (including interest on finance leases) and taxation.

EBITDA — means the non-GAAP measure which Ocado has defined as earnings before net finance costs, taxation, depreciation, amortisation, impairment and exceptional items.

EBITDA margin — means EBITDA as a percentage of revenue.

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.

Exceptional items — means items that, due to their material and non-recurring nature, have been classified separately in order to draw them to the attention of the reader of the financial statements.

Executive Directors — means Tim Steiner, Jason Gissing, Neill Abrams, Andrew Bracey and Mark Richardson.

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 — means Financial year.

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.

Glossary continued

IFRS IC — means the International Financial Reporting Standards 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 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.

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 of the Company designated as such on pages 28 and 29.

Notice of Meeting — means the notice of the Company's AGM.

Ocado Council — means the Ocado forum used to consult with our employees.

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

Ocado Saving Pass — means the Ocado discount membership scheme which entitles customers to receive fixed discounts on selected branded products from Ocado within a Saving Pass group for the length of membership (and any renewal).

Other income — means primarily advertising revenue for advertising services provided by Ocado to suppliers and other third parties on the website, commission income and sublease payments receivable.

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 eches) per hour.

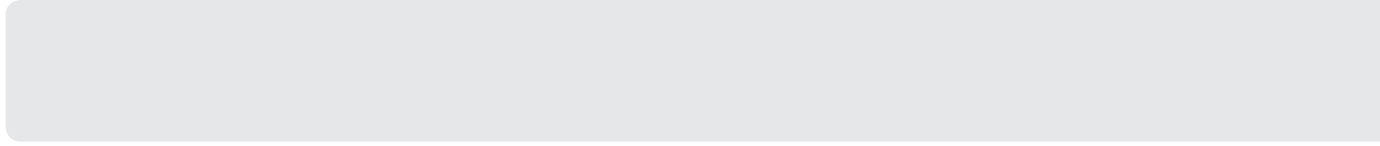
Waitrose — means Waitrose Limited, a company incorporated in England and Wales with registered number 00099405.

Webshop — means the customer facing internet-based virtual shop accessible on the website.

Website — means www.ocado.com.

Company information

Registered office	Titan Court 3 Bishops Square Hatfield Hertfordshire AL10 9NE
Company number	07098618
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 10 Bricket Road St Albans Hertfordshire AL1 3JX
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU





This Annual Report is printed by an FSC® (Forest Stewardship Council), certified printer using vegetable based inks.

This report has been printed on Novatech matt, a white coated paper and board using 100% EFC pulp.



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