NO STORES, NO LIMITS

Uniquely Positioned for Consumer Channel Shift

ocado

Ocado Group plc
Annual Report for the 52 weeks ended 1 December 2013

www.ocadogroup.com Stock Code: OCDO

Welcome

Welcome to Ocado, the world's largest dedicated online grocery retailer. We have developed and operate a unique business model which positions us strongly as more consumers choose to shop online.

Our focus is on improving our customers' shopping experience, with the clear objectives of driving strong growth and delivering long-term shareholder value.

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Contents

Front Cover
These icons illustrate the change in how customers shop and the format of grocery retail operations. More information about the changing trends and channel shift can be found on pages 8-9.


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Chairman's Letter

Dear Shareholder,

On behalf of the Board, may I present Ocado Group plc's Annual Report and Accounts for the 52 weeks ended 1 December 2013.

A transformational year

I have assumed the role of Chairman in what has been a truly transformational year for the Group. The expansion of our offer into the non-food sector took a leap forward in January 2013 with the opening of a dedicated Non-Food Distribution Centre and again in June, with the launch of an online pet store, Fetch. February saw the completion and opening of our second Customer Fulfilment Centre at Dordon, Warwickshire ("CFC2"). The initial phase of this project, ultimately costing over £230 million, was delivered on time and on budget, and will eventually increase capacity by around 180,000 orders per week. This increase in potential capacity was instrumental in securing another milestone event, the signing of the agreement with Wm Morrison Supermarkets plc ("Morrisons") to provide the technology and logistics for their online grocery offering. The deal is part of the Group's wider strategy to commercialise our industry-leading know-how and intellectual property through agreements with strategic customers in the UK and worldwide. Further detail on the Morrisons transaction can be found on pages 24 and 25 and in the case study on page 37.

Strong financial and operational performance and balance sheet

I am also pleased to report the Group's strong financial performance. The rate of sales growth increased year-on-year and EBITDA increased 35.1% to £45.8 million for the period (2012: £33.9 million)[1]. Operational efficiency levels continued to improve over the financial year as the utilisation of CFC2 increased.

The Group's financial position improved markedly following the sale to and lease back from Morrisons of the land and buildings at CFC2 and a 50% interest in the related mechanical handling equipment, allowing the full repayment of approximately £85 million of outstanding debt and creating a significant cash reserve.

Despite making a loss before tax for the period of £(12.5) million (2012: 53 week basis: loss of £(0.6) million) our shareholders have recognised the Company's overall improved performance and position, given that total shareholder returns for the Company increased by more than 450% over the past 12 months[2]. Further detail on the Group's financial position and performance can be found in the Chief Financial Officer's Review on pages 40 to 43.

Customers and suppliers

It was an exciting year for the Group and its suppliers, with the expansion into non-food, significant growth of our product range by about 6,000 products including continued increase in the Ocado own-label range. This range growth provides opportunities for more suppliers and greater choice for our customers. Our continued rapid growth suggests that our focus on improving our offer to customers through broader product range, better pricing initiatives, enhanced online usability and maintaining the reliability of our service, is meeting a growing group of customers' expectations.

Corporate governance

One of the Board's responsibilities is ensuring that the Group applies good corporate governance to facilitate effective management of the Company. As the Company's new Chairman I am pleased to note that the Group is fostering an environment of innovation and progress in a framework of strong governance and risk management. A detailed statement on corporate governance can be found on pages 56 to 65.

The Ocado family

Our success this year would not have been possible without the passion and commitment of our outstanding employees. On behalf of the Board, I would like to thank all members of the Ocado family for their contribution in making this an outstanding year for the Group.

I am very proud to report that during the last year Ocado has created over 1,000 new jobs in the UK, through the opening and expansion of CFC2 and Non-Food Distribution Centre in Welwyn Garden City ("NFDC"), the significant growth of our head office in Hatfield, and growth at all nine of our spoke sites in England. At the end of the period we employed over 6,700 people in the UK.

Looking to the future

With the first orders under the Morrisons deal being fulfilled in January this year, the Group has entered the next phase of its development. Looking to the future, the Group intends to make greater investment in the innovation and development of its intellectual property and technology. The Board remains committed to finding further strategic customers, monetising our intellectual property and to supporting and overseeing the executive team in driving growth and the creation of further long-term shareholder value in our business.

Sir Stuart Rose
Chairman
Ocado Group plc

"I have assumed the role of Chairman in what has been a truly transformational year for the Group."

Notes

[1] Financial performance compared to 52 weeks in 2012.

[2] Total shareholder return is the increase in the Company's share price in the 12 months up to 4 March 2014 (being the last practical date prior to publication of this Annual Report). The Company did not pay any dividends in that period.

Highlights[1]

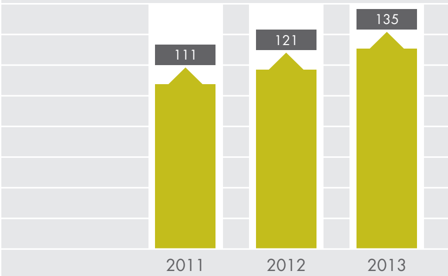
STRATEGIC AND OPERATIONAL HIGHLIGHTS

- Landmark agreement signed with Morrisons to provide technology and operating services, with Morrisons.com launched in January 2014
- Industry leading service levels improved further with on time deliveries 95.2% and order accuracy 99.0%
- Range extended to 34,000 SKUs
- Active customers increased to over 385,000
- Average baskets increased to £113.53
- Improved Hatfield CFC ("CFC1") productivity to 135 units per hour ("UPH")
- Delivery performance improved to 160 deliveries per van per week ("DPV")
- CFC2 opened on time and on budget, generating over 60,000 orders per week ("OPW") by the end of the period

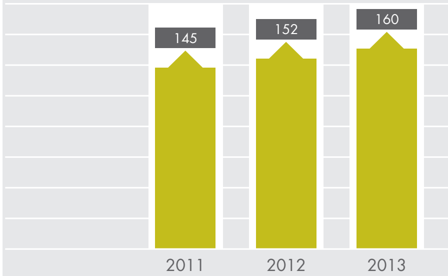
ON TIME OR EARLY
%

AVERAGE BASKET SIZE
£

CFC EFFICIENCY (CFC1)
UPH



SERVICE DELIVERY
DPV

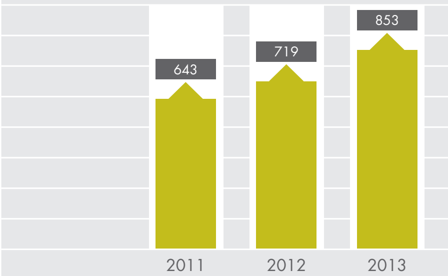


READ MORE Our business and strategy PAGE 14

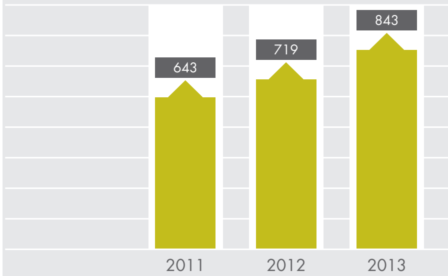
FINANCIAL HIGHLIGHTS

- Gross sales (Group) up 18.6% to £852.5m
- Gross sales (Retail) up 17.2% to £843.0m
- Revenue up 18.8% to £792.1m
- EBITDA up 35.1% to £45.8m
- Loss before tax and exceptional items of £5.1m (2012: profit of £1.8m)
- Balance sheet transformed following sale and leaseback of CFC2 real estate and equipment with net assets of £202.4m

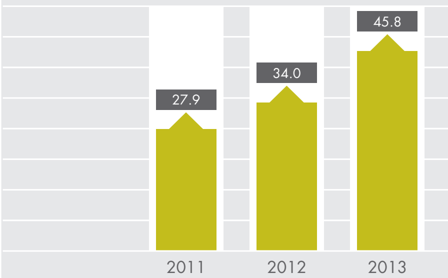
GROSS SALES (GROUP)
£m



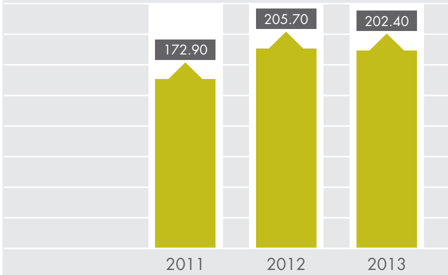
GROSS SALES (RETAIL)
£m



EBITDA
£m



NET ASSETS
£m



READ MORE Performance PAGE 26

Notes
[1] 2012 was a 53 week accounting period. 2012 comparable figures based on 52 weeks to 2 December 2012.

STRATEGIC REPORT

OVERVIEW

"...We are uniquely positioned for consumer channel shift"

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Ocado at a glance

Ocado was established in the UK over 13 years ago and listed on the London Stock Exchange in July 2010. We are the world's largest dedicated online grocery retailer. Our objective is to provide customers with the best shopping proposition while building a business that delivers attractive financial returns.

"Our operating model is built on technology and logistics skills."

What do we do?

We sell groceries and other everyday products to consumers exclusively using online ordering and user interfaces. We have developed and operate an entirely different end-to-end solution for the retail of everyday products, from a supplier to a customer's home. Our operating model is built on technology and logistics skills rather than store based real estate. We invest in this platform to deliver an ever more compelling proposition to a broader set of customers and now offer the widest range of branded and private label grocery products, including both Ocado and Waitrose brands, of any UK supermarket as well as a rapidly growing selection of non-food and speciality ranges.

READ MORE Operating model PAGE 16

Why do we do it?

The underlying grocery market is over 50% of total retail spend in the UK with online generally recognised as the fastest growing channel within the grocery space. This channel shift in the way customers interact with and buy product from retailers presents a huge opportunity, but an equally significant challenge for the incumbent industry as sales are cannibalised, footfall declines and costs increase from providing additional services. We are entirely focused on the online channel and concentrate on providing the best proposition for customers and delivering attractive returns for investors, without the burden of legacy real estate assets.

READ MORE Marketplace PAGE 10

Where do we operate?

Our current delivery area covers over 70% of the UK population. We fulfil orders from our centralised CFCs in Hatfield, Hertfordshire and Dordon, Warwickshire. From these CFCs we deliver directly to local catchment customers, with the remainder of orders being "trunked" to spoke sites, from where local delivery takes place.

Key

- Customer fulfilment centre
- Non-food distribution centre
- Spoke

Our customers and awards

The rapid growth of online in grocery retailing is driven by the increasing demand from consumers who want the benefits of online for their weekly grocery shop. Our active customers have grown significantly since inception, and now form a loyal base of customers who shop frequently with us. Our customers come from a wide cross section of the population, geographically and demographically, as we have broadened the appeal of our shop.

We are frequently recognised in consumer awards, reflecting our customers' constant support and appreciation of our business. In 2013 these included the World's Best Online Retailer by The Grocer (The World's 50 Best Grocers), the Best Online Grocer by Which? (Members' Annual Satisfaction Survey), and Supermarket of the Year in the Loved by Parents Awards.

We also won awards specifically for our user experience including the Grocer 33 Best Mobile Shopping Experience, and for our Ocado own-label products. These included the Loved by Parents Best Grocery Product for our Ocado own-label organic vegetable boxes, and Gold Star Awards from the Great Taste Awards for a number of Ocado own-label products.

We received recognition of our continuing efforts in CSR from the International CSR Excellence Awards (Gold Award for Corporate Social Responsibility) and the World CSR Awards (Gold Award for Environmental Responsibility).

Our Values

We're in it together

Teamwork is what makes us greater than the sum of our parts. By being able to depend on one another, we can transform what we do from something good to something great.

Value each person

We will look out for each other, and remember that every individual is important, whether they're a customer or an Ocado team member. Our willingness to be different means your opinion will always count.

Love what we do

Each one of us can make a big difference to what we achieve by going the extra mile. If we all care passionately and put every effort into what we do, we can make incredible things happen.

We can be even better

Never settle for the way things are. By being proactive and finding better, smarter ways of doing things, we can all have a huge impact on the way we work. Let's all promise that "it'll do" will never do.

> "We are frequently recognised in consumer awards, reflecting our customers' constant support and appreciation of our business."

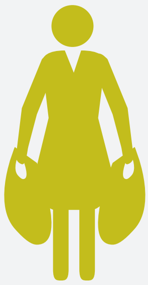
READ MORE Connecting with customers online PAGE 19

READ MORE Corporate Social Responsibility Report PAGE 48

Ocado own-label products are growing rapidly in popularity

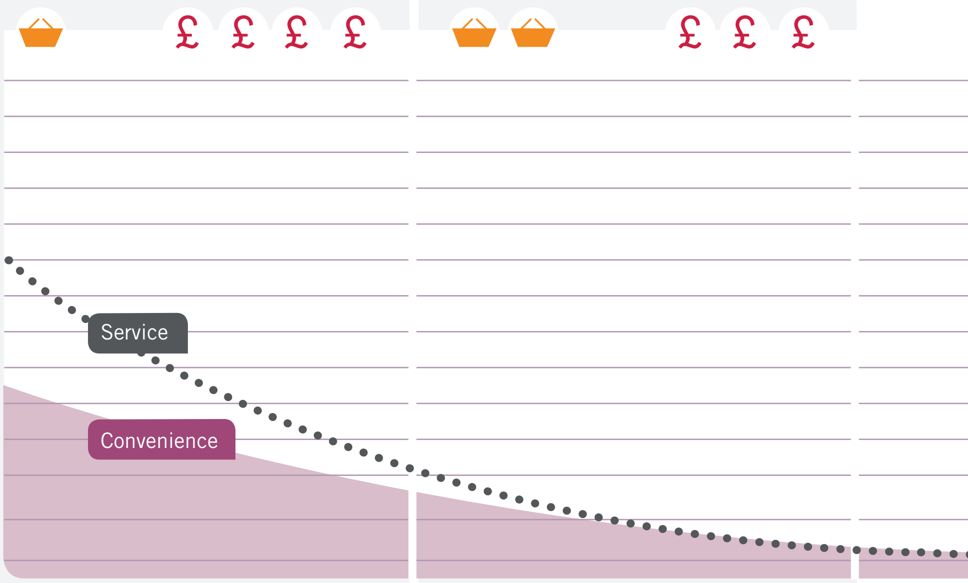
The opportunity: channel shift

The grocery market has seen enormous change since the days of numerous small independent shops selling to their immediate local street catchment areas. In particular, the way that customers shop and the format of retail operations have changed significantly. Changing formats have reflected "channel shift" in the market.



Pre 1950s

1950s to 1960s



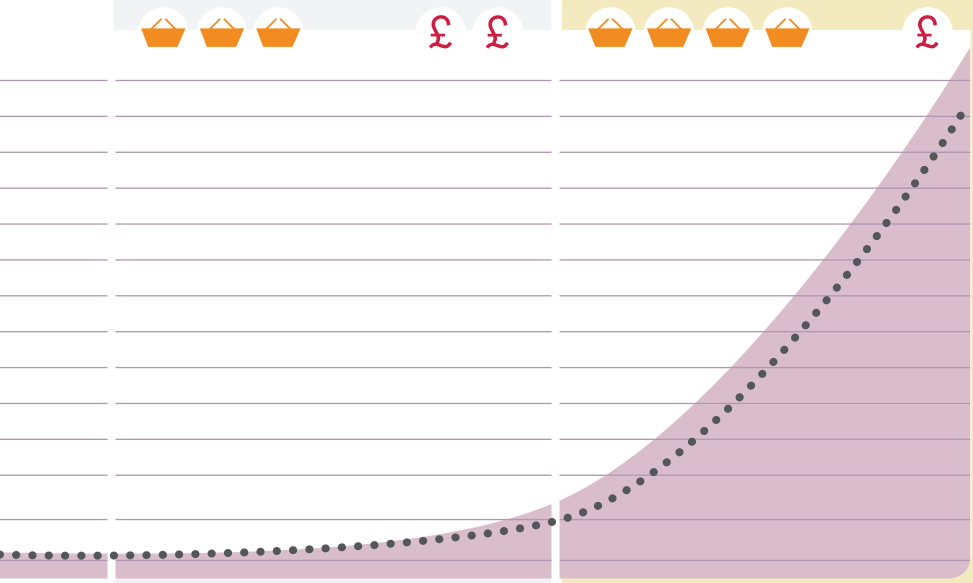
Prior to the 1950s, groceries were sold in small stores, with limited range and prices set by suppliers under retail price maintenance ("RPM").

The introduction of self-service started in the 1950s, where customers picked their own products rather than being served "over the counter".

RPM was abolished in the 1960s giving rise to price competition, and different product categories were then introduced into larger stores leading to the emergence of "supermarkets" in the high streets.

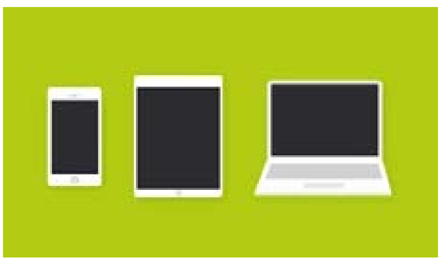
1970s to 1990s

Today and into the future



Next, retailers started to build larger stores out of town, and attracted customers to these emerging superstores and hypermarkets through the lure of even greater range and lower prices.

The next channel shift is online. We have seen other segments of retail migrate to online with very significant impact, and customers are shopping online for their groceries in increasing numbers. Ocado has built its business to be at the forefront of, and benefit from, this next channel shift in grocery.



Key

Price

Range

Service

Convenience

A number of features are common to each of these channel shifts:

- Channel shift has taken place over a sustained period of time, typically 20-25 years before the next format becomes mainstream
- Over 50% of customers move to the next format which in time becomes the primary shopping channel
- The range of products offered and the pricing improves with each shift. The level of service has steadily eroded, with the customer doing increasing amounts of the required work (driving to the store, walking the aisles and picking the items, packing product at the checkout, loading the delivery vehicle (car), and delivering to home)
- The market leader has changed over time, often coinciding with the changing way in which people shop.

Marketplace

The underlying grocery market in the UK is substantial, while shopping online for groceries is growing in importance for consumers, evidenced by the online growth figures reported across the industry. As the UK's only operator exclusively focused on the online channel, we are strongly placed to benefit from this growing market trend.

Grocery is the largest by far of all retail segments representing around half of all retail spending in most developed markets. IGD estimates that in the year to April 2013, grocery sales reached nearly £170 billion in the UK. Around 64% came from supermarkets, superstores or hypermarkets – the so-called "big box" format stores. The remainder came from discounters, convenience stores and other smaller traditional retailers (grocers, newsagents, forecourts) and online.

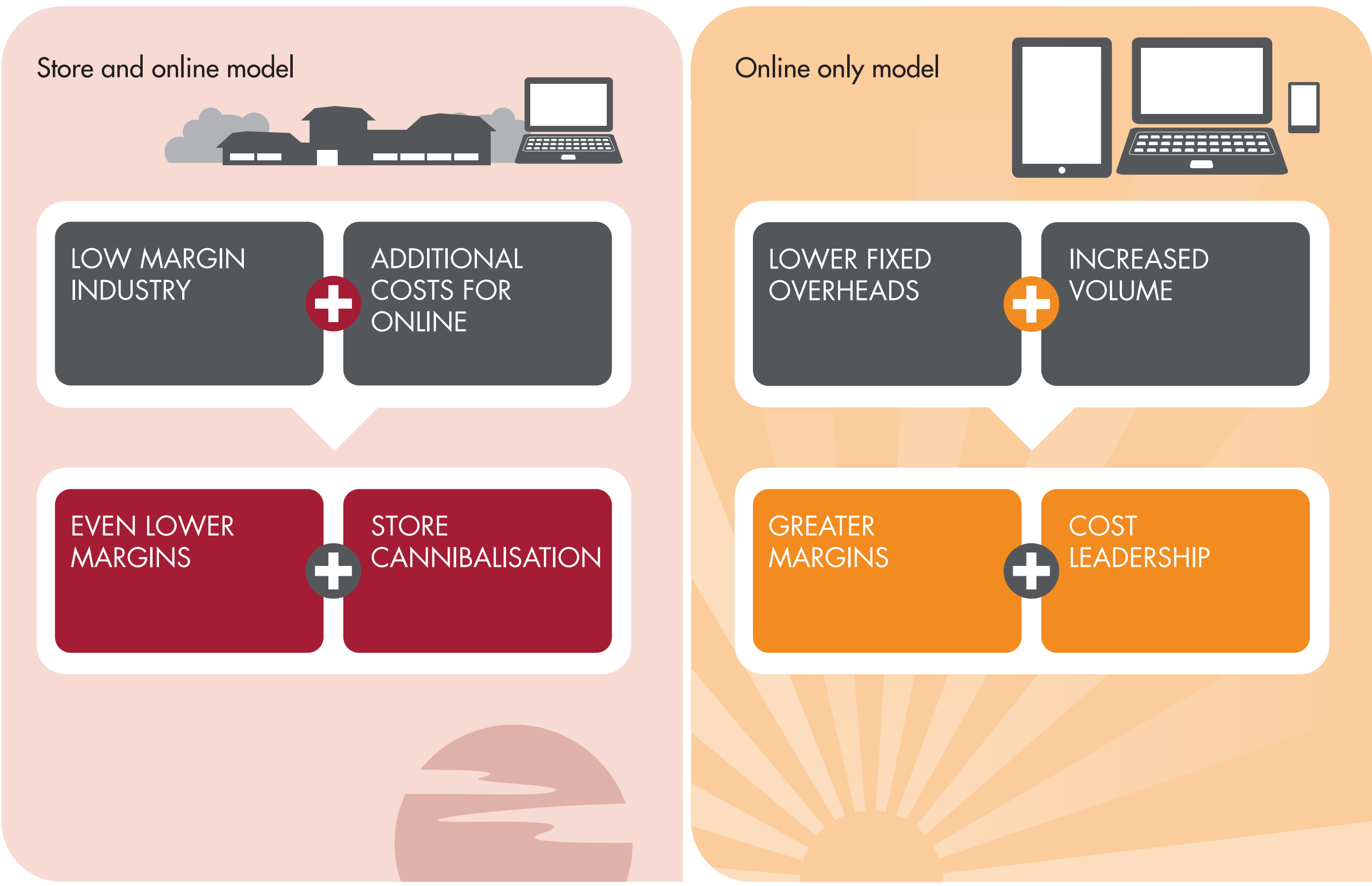
Growth in grocery has traditionally been driven by the opening of new store space, either through the extension of existing stores or the opening of new shops. This has created a "space race" model for growth which is dependent on increasingly expensive real estate and growing customer footfall.

Although very large, the grocery sector as a whole grows relatively slowly, particularly once inflation has been taken into account suggesting volume growth is low. Supermarket operators regularly report very low or even declining year on year sales growth from same store space, and indeed in independent data surveys growth is often reported as falling for any particular period among these large supermarket groups. Clearly this challenges the traditional growth driver in the sector – the expansion of retail real estate space.

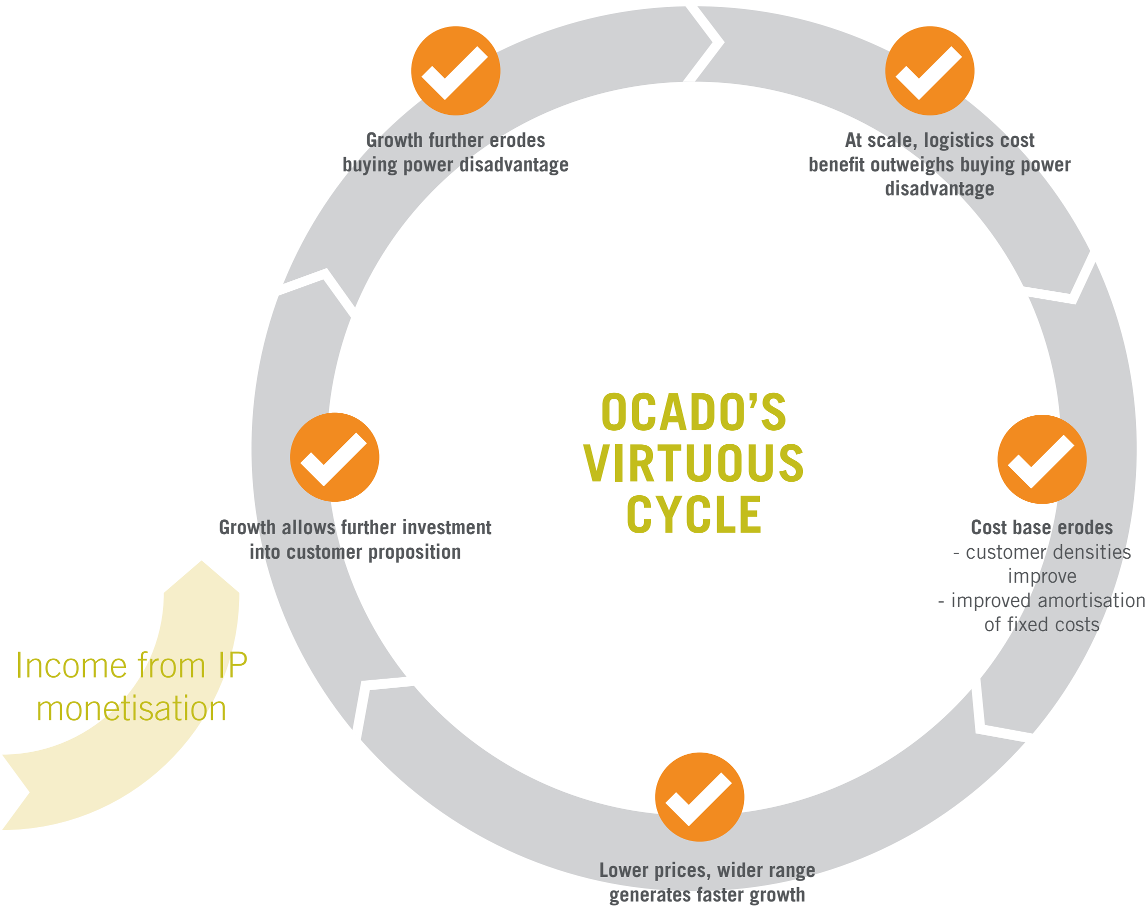
However, there are three segments that are experiencing more rapid growth – online, food discounters and convenience store formats. Given the relatively rapid growth rates, it is expected each segment will see significant growth at the expense of the big box stores over the coming years, thereby cannibalising this traditional format. Indeed, the supermarkets increasingly face a difficult dilemma – to invest in online and convenience formats and cannibalise themselves, or not make such investment and risk losing customers and market share.

> "In the year to April 2013, grocery sales reached nearly £170 billion in the UK."

THE NEW DAWN FOR GROCERY SHOPPING



ONCE AT SCALE ...



> "Online will be the fastest growing channel in grocery over the next five years."

IGD suggests that online will be the fastest growing channel in grocery over the next five years. While it estimates that around 4% of groceries are currently bought online, it forecasts that this will almost double over the next five years, representing in value terms an increase of over 120%.

As customers adopt the online channel for groceries, retailers are increasingly investing in capacity and in delivering a better service while suppliers are devoting more resources to online. Indeed, the entry of Morrisons, the last of the "big four" supermarket groups to launch an online service (see Morrisons case study on page 37 for details of how it utilised Ocado's IP and operating services) is likely to further stimulate consumer interest in the channel.

Key to driving online adoption is the quality of the proposition offered to customers. Consumers have seen the benefits of convenience and ease of ordering online for many general merchandise items such as books, music and consumer electronic products, and are increasingly seeking these benefits for their regular grocery shop. Shoppers want good, reliable service and a wide choice of products at competitive prices. Improved technology, faster broadband and better mobile devices all support and facilitate the growth of online shopping. These technology advances, together with improvements to the broader shopping proposition to the consumer help to drive adoption of the online channel.

READ MORE Strategic objectives PAGE 18

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Ten reasons to invest

Having pioneered our unique approach to online grocery shopping, we believe we are well placed to deliver significant financial returns for our investors. Key considerations for investors include the following:

Significant market opportunity – enormous global grocery market

READ MORE Marketplace PAGE 10

Largest dedicated **online** grocery **supermarket** in the world

READ MORE Maximising efficiency PAGE 22
READ MORE Dordon Case Study PAGE 35

Proprietary intellectual property platform developed over 13 years of investment has created significant barriers to entry

READ MORE Utilising knowledge PAGE 23

Operating model supports a virtuous cycle of growth, **technology led investment** and improved returns

READ MORE Operating model PAGE 16
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"Commercialising intellectual property offers significant value creation in the UK and internationally."

Unique operating model with **structural advantages** over traditional retail models

READ MORE Operating model PAGE 16

Considerable **operational leverage** with margin potential

READ MORE Maximising efficiency PAGE 22
READ MORE Operating model PAGE 16

Uniquely positioned to benefit from the next "**channel shift**" – incumbents face considerable challenges

READ MORE Marketplace PAGE 10

Commercialising intellectual property offers **significant value creation** opportunities in the UK and internationally

READ MORE Utilising knowledge PAGE 23
READ MORE Morrisons Case Study PAGE 37

Superior customer offer in online grocery retailing delivering the highest industry service levels, wider choice and competitive prices for customers

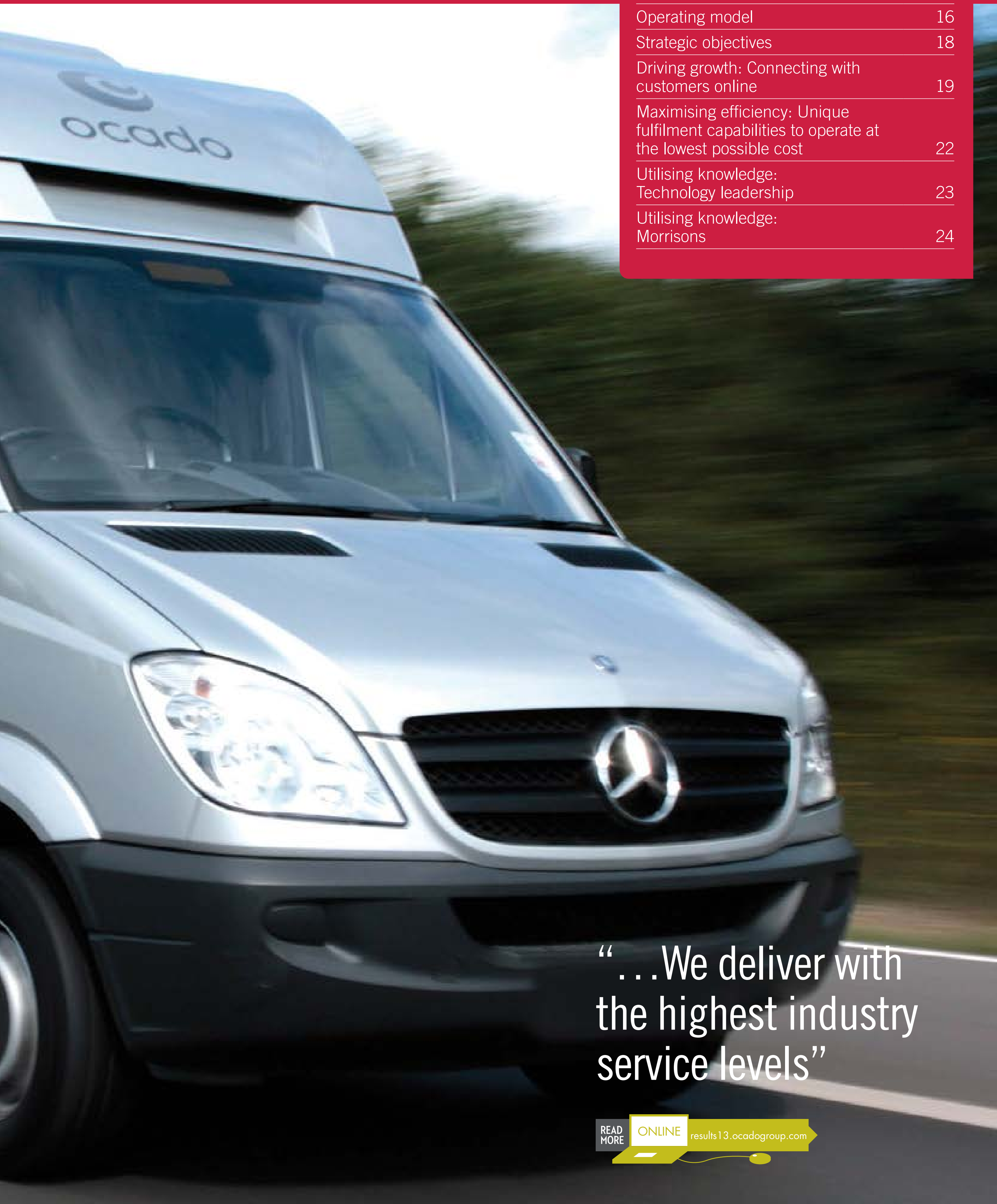
READ MORE Connecting with customers online PAGE 19

Proven management team driving continued growth and value creation

READ MORE Board of Directors PAGE 54

STRATEGIC REPORT

OUR BUSINESS AND STRATEGY



"…We deliver with the highest industry service levels"

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Operating model

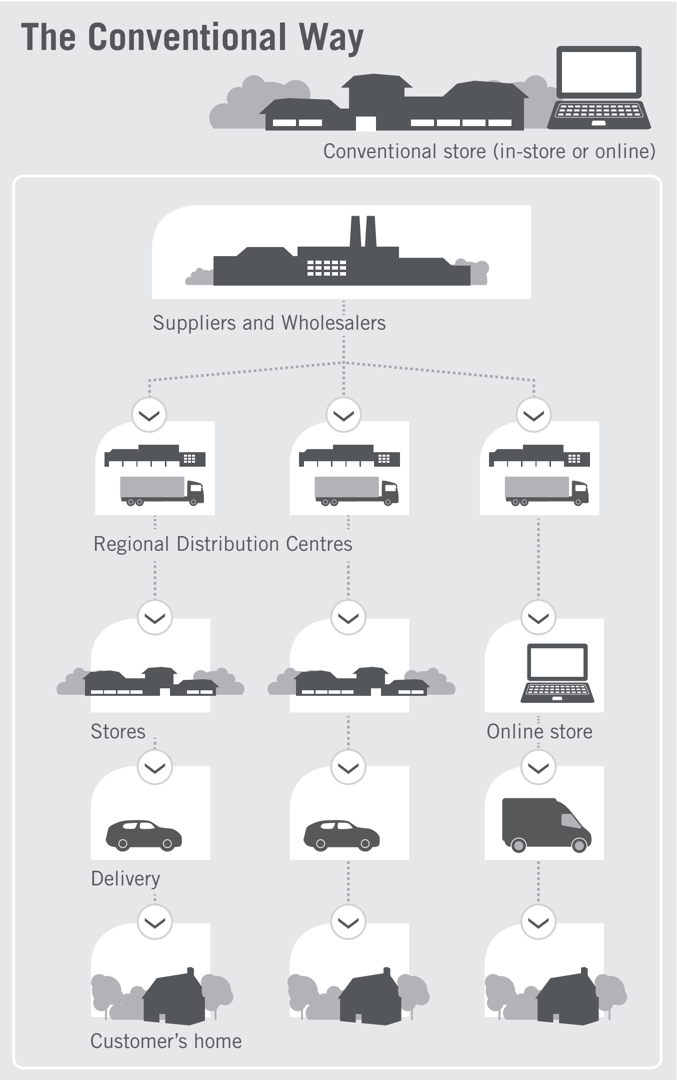
As customer behaviour shifts towards shopping for groceries online, incumbent retailers are trying to adapt their existing businesses to meet this fundamental change. We are solely focused on the online channel, and committed to providing the best customer shopping experience available, without the distraction of legacy bricks and mortar operations. Our objective has been to be a cost leader and create a virtuous cycle between growth, efficiency and investment.

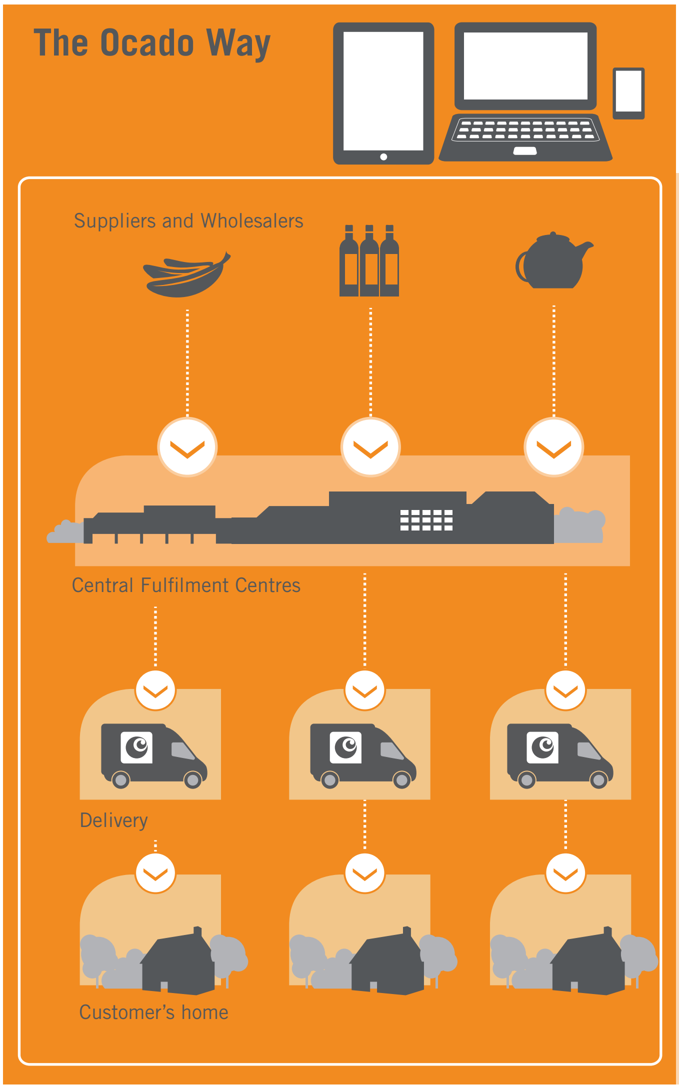
Ultimately the retail mission is to move a product from a supplier to a customer's home. However, traditional retail models only deliver half of this mission, moving a product only as far as the shop shelf. The customer performs the other half of the mission by coming to the store, "picking, packing and delivering" the product themselves. Notwithstanding, grocery retail remains a relatively slim margin business today. By offering online services, the retailer commits to complete the entire retail mission, including that part currently performed by the customer. The extra work entails additional cost for the retailer, and represents the fundamental challenge to the grocery retail industry.

There is no single strategy for online retailing. In grocery, different approaches are being adopted, with traditional supermarket operators largely using existing store based fulfilment. Some have started to build so called "dark stores", stores without customers or in effect small warehouses with limited automated processes, with a turnover similar to a typical supermarket dedicated only to servicing online orders. Both a store pick and a dark store approach incur the costs associated with traditional store retailing, but the incremental cost of picking, packing and delivery drives margins from the online channel down significantly.

By contrast, Ocado has adopted a very different approach with the objective of removing significant costs from the traditional grocery supply chain. We

"We are solely focused on the online channel, and committed to providing the best customer shopping experience available."





"Ocado has adopted a very different approach with the objective of removing significant costs from the traditional grocery supply chain."

do this through the centralisation of our picking operation from large warehouses, which are over 20 times the size of a big supermarket, which aggregates activities to give each function scale, and through the use of automation and technology. We distribute orders directly from our picking facilities and through a series of local spoke sites located around the country.

Our operating model removes many of the costs incurred in a traditional store or dark store model. These include redistribution costs of stock from a separate distribution centre, significantly reduced "put away" costs of stock into our pick aisles (the equivalent of a supermarket shelf), and the costs of a physical store network itself, with expensive real estate, multiple stock locations, manual processes, and poor economies of management and scale. As we grow and scale our operation further, we will benefit from the operating leverage inherent in our model. This will drive the virtuous cycle between growth, improving cost economics, and investment into the proposition to customers.

Our model also gives natural benefits to the customer. Our food should be fresher as it take less time to reach the shelves and spends less time on those shelves. We have higher predictability of stock available than a single store. We are able to make new range extensions available to all our customers very quickly from central locations, enabling us to add products to our range quickly and effectively without a high risk of stock obsolescence. The significant knowledge we have developed has resulted in industry leading delivery metrics which underpin our customer service proposition.

Our commitment to environmentally friendly and sustainable business practices is supported by our operating model. The efficiency of our model ensures we have what we believe to be the lowest product waste levels in the industry. We believe our model to be a more energy efficient way to distribute groceries into customers' homes. We use closed refrigerated areas in a limited number of buildings. Furthermore, every delivery we make potentially reduces up to 20 customers making the journey to and from a supermarket.

We have developed this pioneering approach to grocery retail over 13 years using our own bespoke systems, know-how and software, making our operation difficult to replicate.

Business benefits	Customer benefits
Removes requirement and cost of separate (regional) distribution centres to receive stock from suppliers, re-palletise and redistribute to store/dark store network, as we receive stock directly from suppliers or wholesalers	Convenience of ordering online, saving time and effort of going to the store, with the leading on-time delivery service
Automate stock "put-away" processes reducing operating costs	Faster and more extensive range extension as stock has only to be held in two locations (today)
No physical check-out process, because we have no stores, reducing labour costs	Higher predictability of stock, improving ability to fulfil customers' orders accurately and with minimal substitutions
Significantly lower product waste from faster stock turn, representing both a cost saving and more sustainable food supply chain	Fresher products as the supply chain from suppliers is generally shorter – we guarantee the life of our fresh products
Significantly lower property and occupation costs through, for example, cheaper real estate (we use warehouse space not expensive retail space) lower energy usage, and better economies of management and scale.	Cost savings generated as a result of our operating model allows for investment into prices, giving the customer good value at competitive prices

The significant cost savings from the business benefits enable us to invest in picking and delivery services for the benefit of our customers

Strategic objectives

Strategic objectives

Our ultimate goal is to build a business where the interests of our customers, investors and other stakeholders are aligned to deliver long-term shareholder value. We drive shareholder value through the application of our intellectual property and technology. This allows us to deliver through a number of complementary strategic objectives – to drive growth, maximise efficiency and utilise our proprietary knowledge. In order to achieve our strategic objectives we seek to provide the best possible proposition to our customers while becoming a cost leader and create a virtuous cycle of growth and investment.

PROPRIETARY INTELLECTUAL PROPERTY AND TECHNOLOGY

Objective	Actions	Drivers
Drive Growth	Develop the proposition to customers	Service – deliver highest standard of on-time delivery, accuracy and usability
		Range – offer the widest choice of products, with superior freshness and availability
		Price – offer good value and give confidence in pricing
	Grow customer numbers and encourage spend	Increase awareness through marketing initiatives
		Communicate continual improvements to the proposition and shopping experience
Maximise Efficiency	Optimise operations	Deploy cost efficient fulfilment automation
		Continually improve our operating systems, to drive efficiency
	Enhance efficiency of future capacity and drive scale benefits	Add efficient fulfilment capacity and develop ever more capital efficient infrastructure solutions
		Leverage scale to improve margin, delivery efficiency and fixed cost allocation
Utilise Knowledge	Use our IP to deliver shareholder value	Commercialise value from this proprietary platform
		Explore opportunities across further geographic areas and product lines to deliver long-term value

"Our ultimate goal is [that]… the interests of our customers, investors and other stakeholders are aligned to deliver long-term shareholder value."

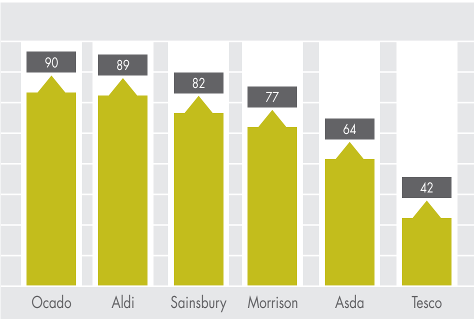
READ MORE Key Performance Indicators PAGE 38

Driving growth: Connecting with customers online

Connecting with customers

We continually focus on improving the retail proposition we offer to customers. Consumers are influenced by the attractiveness of the shopping experience and the way retailers engage with and service customers. There are two primary points of interaction with our customers – at the time of ordering on the customer interface (webshop or mobile app) and at the point of delivery. Our focus on improving the user experience at each of these contact points, along with each aspect of the service in between, ensures that we give customers a market leading proposition which drives growth, loyalty and spend. Recent customer satisfaction surveys suggest we are making progress in this area.

OCADO CUSTOMER SATISFACTION



Source: YouGov BrandIndex 12 weeks to 18/11/13, Redburn

Service – the shopping interface

Shoppers are more inclined to use an online shop if it is relevant to that customer in terms of the ease of use and the quality of what is on offer.

Ease of use

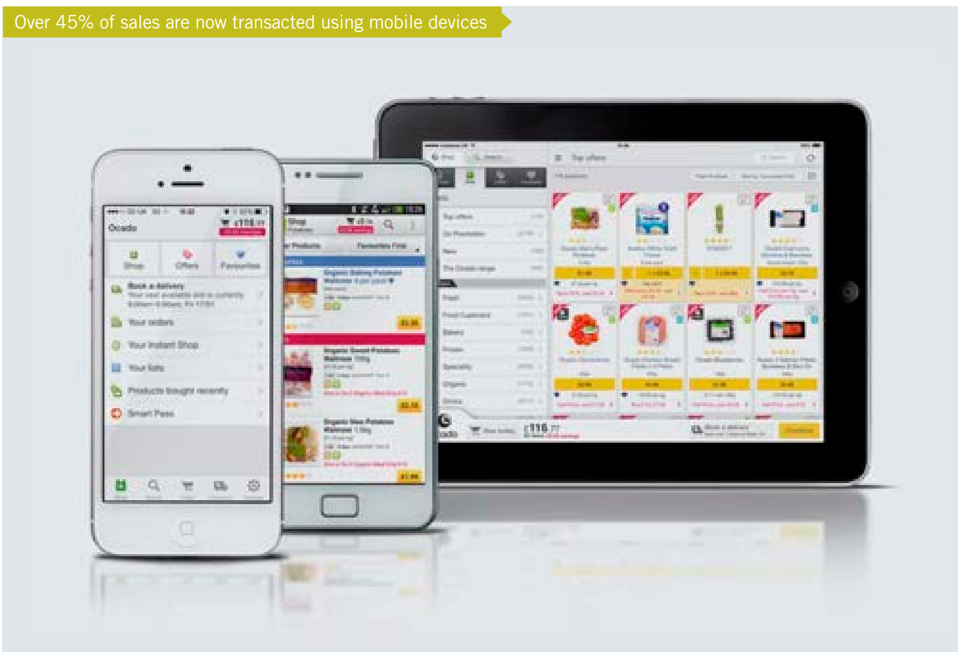
Convenience is a major driver to shopping online. The service needs to be convenient, quick, reliable and easy to use. Ordering "anytime, anywhere" using the easiest of interfaces is very important.

Our in-house software development allows for the rapid introduction of new functionality, be it new website developments, the latest apps which are constantly updated for the latest operating systems (in 2009 we were the first grocer to launch a fully transactional app) or feedback mechanisms.

Shopping could not be easier from being able to order using a mobile device or computer from any location at any time of day with the click of a button, with the narrowest delivery time window in the market. Our latest developments include a shortened registration process for new customers, Facebook registration login facilities, and enabling customers to import their "favourites" from other retailers.

We aim to continue improving the shopping experience for our customers, and develop further capabilities to enable greater personalisation for each customer, enhancing knowledge of and access to our wide range of products, for example through improved recipe offerings and intelligent purchase suggestions.

"Our in-house software development allows for the rapid introduction of new functionality."



Over 45% of sales are now transacted using mobile devices

Shopping anytime anywhere

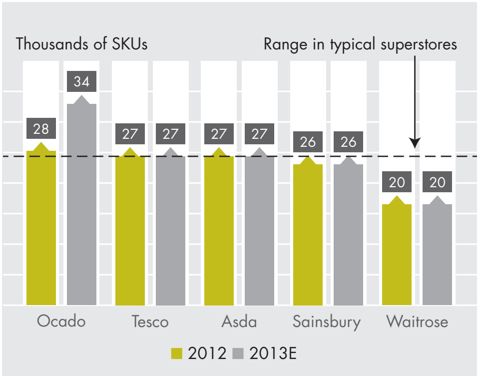
Driving growth: Connecting with customers online continued

Range

Customers seek access to a wide choice of products and will be more inclined to shop online where choice, and freshness, is greater. Offering more of the groceries each customer desires in one store reduces the need for a customer to visit elsewhere to complete their weekly shopping.

Our current range of 34,000 SKUs makes us the most extensive grocery store today.

OCADO PRODUCT RANGE v PEERS



Source: Companies, Redburn

We are continually increasing the number of product lines that we sell. Our operating model and the facilities that we use allow us to expand range relatively easily with limited stockholding exposure, enabling us to stock many specialist and niche lines as well as everyday favourites.

The expansion of some of our non-food categories – for pets (we now have a specialist pet store, Fetch), the home, babies and children, health and beauty products for all the family, and gifts – further reduces the need for customers to shop elsewhere for all of their daily essentials, and increasingly little luxuries as well.

Freshness

As well as convenience, customers still want the freshest produce.

The product life of all our fresh food is guaranteed. Our model removes one stage of the grocery supply chain, as our stock is delivered directly to us by suppliers or wholesalers, which when combined with rapid stock turn means we often get product to customers the same or next day following receipt into our CFCs. This can be quicker than other supermarkets can get the product into their own stores. We offer a product guarantee giving confidence to customers that their groceries have a minimum remaining life when delivered.

“The product life of all our fresh food is guaranteed.”

READ MORE Fetch Case Study PAGE 33


Offering the freshest products

Our range has grown to be the most extensive grocery store offering today

"Consistent order reliability is essential for customers... 95.2% on time and 99.0% as ordered."

Prices

Our customers want to feel that they receive good value and can save money by shopping online.

The automation and aggregation of our model strips out costs and increases efficiency. These savings allow us to offer products at competitive prices.

We invest in price matching initiatives to give consumers confidence about the cost competitiveness of their basket of shopping when bought at Ocado. We work hard with our suppliers to provide to our customers market leading promotions, and now have a level of promotional activity to rival the biggest supermarkets. Our strategy of increasing the numbers of products with different price points in the same category, particularly driven by the growth of the Ocado own label, has continued to resonate well with customers.

Service – delivery into the kitchen

Our customers expect, and deserve, the highest level of service delivery. We seek to maintain the highest level of customer service, with our own Customer Service Team Members and fleet of delivery vans.

Reliability

Consistent order reliability is essential for customers. The combination of our centralised model and our proprietary software leads to unrivalled reliability with 95.2% on time and 99.0% as ordered. Our systems have evolved, following much iteration, to integrate and optimise all aspects of the order fulfilment process.

Availability

Customers expect high stock availability and minimal substitutions, within a short time frame. Our deliveries are available next day, with same day delivery possible in some postcodes. We offer one hour time slots seven days a week, and the widest number of slots available from 6:00am until 11:30pm.

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

Maximising efficiency: Unique fulfilment capabilities to operate at the lowest possible cost

We invest in our infrastructure to service the growing demand for our business and continually seek to drive efficiency throughout our end-to-end operations.

Optimising operations

Inside our CFCs we invest in, and deploy, technology and automation to drive the overall efficiency of our business. This involves optimisations throughout the operation – from receiving, putting away and managing stock, picking and organising orders, loading delivery vehicles to efficiently routing and delivering customers' orders. We work in partnership with hardware equipment manufacturers to develop equipment suitable for application in our fulfilment operations.

These optimisations allow us to operate with strong stock control and high productivity, the lowest inventory and product waste levels in the industry and a smaller van fleet than would be required for similar sales volumes using store or dark store assets.

Critical to our operation is the software that controls it. This software is largely developed in-house by a highly skilled team, and cannot be bought "off the shelf" on the open market. The in-house nature of our software development allows for rapid solution development as efficiency improvement opportunities are identified. This proprietary technology protects our business and makes it difficult to replicate.

Enhance efficiency of future capacity and drive scale benefits

We now operate the world's two largest and most sophisticated single pick grocery stores – CFC1 in Hatfield and CFC2 in Dordon. The CFCs form a critical part of the unique end-to-end solution Ocado has developed for online grocery retail.

CFC2 opened on time and on budget in February 2013, and when operating at full capacity will generate over 180,000 orders per week, equivalent to around £1 billion of sales.

Our CFCs have been designed and built to handle the unique challenges that exist in picking groceries with speed, accuracy and efficiency. These stem from the task of picking a basket of multiple items (typically more than 50 discrete products) across three different temperature zones and having a customer's order ready to go on a delivery vehicle in the same short time window as the other multiple orders scheduled to go on the same vehicle.

Future CFCs – improving capital efficiency

We shall commit to further CFC capacity at the appropriate time, with the next commitment likely during 2014. While the existing CFCs represent the most efficient warehouse operations of their kind, we concentrate on improving capital efficiency with the objective of a more scalable and modular approach in the future. Such developments will underpin future expansion in the UK and international markets.

Non-food and spokes

We forecast our future capacity needs, and invest in appropriate fulfilment assets and delivery spokes. We opened a dedicated non-food warehouse in January 2013 which forms part of our integrated fulfilment process. We expect to open further spokes in 2014, and commenced operations in the first of these in Ruislip Middlesex, in February.

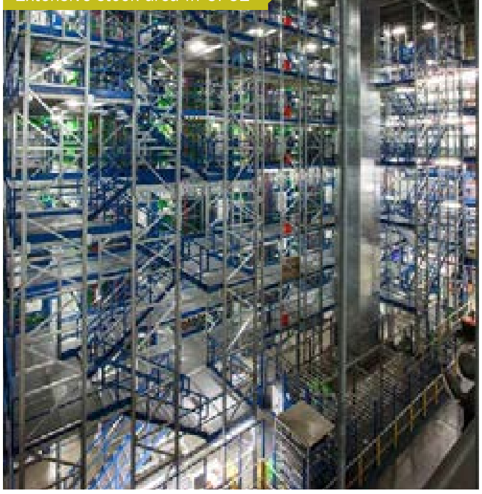
Leveraging scale

Expanding the scale of our business enables us to improve our gross margins and work more closely with suppliers. We can also improve the efficiency of our delivery operations as customer density increases and allocate administration and fixed costs more efficiently.

"Critical to our operation is the software that controls it. This software is largely developed in-house."

High speed conveyor line inside CFC2

Extensive stock area in CFC2



Utilising knowledge: Technology leadership

“We develop and utilise proprietary processes, systems and software throughout our business.”

READ MORE Utilising knowledge: Morrisons PAGE 24

READ MORE Morrisons Case Study PAGE 37

Technology is at the core of our business. We develop and utilise proprietary processes, systems and software throughout our business to improve efficiency and operations, and to provide market leading user interfaces and applications for our customers.

We did not set out to make supermarket shopping a little bit better. Our aim was to build a unique online shopping and fulfilment solution that would revolutionise the way people buy their groceries.

There was no blueprint to follow or off the shelf solution we could buy. We have built it ourselves and almost all of the software that powers Ocado is developed in-house, from the optimisation algorithms that fine-tune our daily delivery routes in the 500 milliseconds of a mouse click, to the machine learning techniques that drive our consumer demand forecasting and the real time control systems that operate our vast fulfilment centres.

To our customers we are an online retail business, albeit one that offers a level of choice, quality and service that is market leading. Our business is all about providing a customer experience that is compelling in terms of its convenience and simplicity, with our award winning websites and mobile apps.

We continue to invest in the skilled people that enable this capability, and during the year opened a software office in Krakow, Poland, to complement our UK based developers.

Having developed this technology expertise, we have built a platform of valuable intellectual property and operating knowledge over the last 13 years. It was developed for the purposes of powering a best-in-class online grocery operation. As with any valuable platform, there exists the opportunity to utilise the intellectual property in other situations and markets. The commercialisation of our technology and operating knowledge is a key strategic objective which we believe has the potential to be a significant source of value in the future. In May 2013, we announced the first commercialisation of our intellectual property with the signing of a 25 year agreement with Morrisons.

In order to retain our market leading customer experience and operating performance we will continue investing in our technology platform, adding significantly to our technology team which numbered almost 400 people by the end of the period. This investment will facilitate developing new technologies, user enhancements and improved operational processes.

Krakow, location of our new software office

Utilising knowledge: Morrisons

On 17 May 2013, we announced an agreement with Morrisons. This is the first example of commercialising our intellectual property, our expertise and knowledge in technology and operating capabilities.

Under this 25 year agreement, we provide Morrisons with certain technology, logistics and distribution services. The agreement also involved a sale and leaseback of property and equipment at CFC2 in Dordon, and a commitment to share the ongoing fixed and capital costs of this and future capacity. This enabled them to launch their own online grocery business, Morrisons.com on 10 January 2014.

Given the significance of the agreement to Ocado, shareholder approval was required which was granted by a vote of 99.9% in favour at a General Meeting held on 25 July 2013 following publication of a circular detailing the terms of the agreement.

Technology licensing and services agreement

The agreement centres on us providing to Morrisons a range of services which enabled them to launch Morrisons.com initially operating out of CFC2 where Morrisons now have the right to 50% of capacity. In return, Morrisons paid an upfront payment of approximately £30 million, and will pay a number of annual fees. A bonus fee will be payable dependent on the profitability of Morrisons.com. Morrisons also shares in the costs of operating CFC2, certain parts of our delivery infrastructure and future capacity that it uses.

Sale and leaseback of property and equipment

Under the agreement, Morrisons has acquired certain interests in the land, buildings and mechanical handling equipment ("MHE") of CFC2. Rather than continuing to hold a long lease interest in the land and buildings, we now pay annual rent to our new landlord (Morrisons), half of which is charged back to Morrisons.com to reflect its 50% usage of the site. The MHE is now owned by a company which is jointly owned (50:50) by Ocado and Morrisons. Morrisons paid to us approximately £82 million for the property interests, and approximately £58 million for a 50% share of the MHE assets.

"This is the first example of commercialising our intellectual property."

READ MORE Morrisons Case Study PAGE 37

Morrisons.com fleet ready to go at CFC2 in Dordon

"The long-term nature and approach to the agreement allows us to build a business relationship with full commitment from each party."

Key terms of the agreement

Technology licensing and services	Sale and leaseback of property and equipment
› Upfront payment by Morrisons of about £30 million to provide technology and logistics services and cover initial integration costs › IT annual fee: 1% of Morrisons' net sales (revenues) up to £1 billion, with a reducing percentage above £1 billion (minimum fee £3.5 million) › Management fee: 4% of applicable operating costs › Annual R&D fee (up to £8 million pa) › Services Bonus fee (min 25% of positive EBIT of Morrisons.com)	› Sale and leaseback (25 years) of Dordon CFC land and buildings with Morrison as counterparty at approximately £82 million › 50% of annual rental oncharged to Morrisons.com › MHE sold to a joint venture (50:50 owned Ocado: Morrisons). Ocado received approximately £58 million plus 50% share of joint venture › Future capital costs shared in relation to capacity

Why is this attractive to Ocado?

There are multiple attractions of this agreement. It enables greater and faster investment into future R&D, which in turn will facilitate improvements to the proposition to our customers enabling faster growth and profitability, and hence support the virtuous cycle of investment, growth and return.

The cost sharing aspects and faster utilisation of the fulfilment capacity at Dordon improves our economic model. The long-term nature and approach to the agreement allows us to build a business relationship with full commitment from each party. The sale and leaseback arrangements strengthen the balance sheet (we used some of the proceeds to repay in full our previous bank facility) and increase our financing options in the future. We also consider this agreement to be a strong validation of our operating model, providing a template for future agreements.

Morrisons.com – how does it work?

Morrisons.com was launched with first orders being delivered on 10 January 2014. Marketing and advertising to the customer, along with range sourcing and pricing are the responsibility of Morrisons, who also collect payments from customers. We operate all the other aspects of the business, from the webshop, the movement of stock in the CFC, picking, packing and loading of orders, to delivery to customers and running of a call centre.

Waitrose

Our existing product sourcing agreement with Waitrose is unaffected by our agreement with Morrisons. Our agreement with Waitrose entitles us to purchase directly from suppliers Waitrose private label and certain branded products on the same terms as Waitrose, which are sold in Ocado.com.

We remain committed to this relationship with Waitrose.

STRATEGIC REPORT

PERFORMANCE

"Our operating model supports a virtuous cycle of growth, technology led investment and improved returns"

READ MORE ONLINE results13.ocadogroup.com

Chief Executive Officer's Review

The last twelve months have been an important period of development for Ocado as we improved the shopping experience for our customers, while making significant progress in each of our strategic objectives of driving growth, maximising our efficiency and utilising our knowledge, each important elements for our ultimate goal of delivering long term shareholder value. In particular, we have opened our new Customer Fulfilment Centre in Dordon, Warwickshire, and signed a landmark agreement with Morrisons to launch and operate their online grocery business. Our offer to customers continued to improve and we delivered year-on-year sales growth ahead of the online grocery market.

At the same time the underlying market for online grocery shopping continues to expand, with all major supermarket groups investing to satisfy this growing demand and a general acknowledgement of the structural shift to online taking place in the grocery sector. Our strategy, intellectual property and unique approach, which is based on aggregation of scale, automation and proprietary technology position us strongly in this expanding market.

Strategic objectives

We drive shareholder value through the application and commercialisation of our proprietary intellectual property and technology. This allows us to deliver our strategic objectives through a number of complementary strategic actions:

- Developing our proposition to customers to retain our market leading position in terms of service, range and price;
- Growing customer numbers and spend by building an ever growing base of loyal and valuable customers and encouraging them to use Ocado for more of their needs;
- Optimising operations to operate our service at the lowest possible cost;
- Enhancing the capital efficiency of future capacity and driving scale benefits; and
- Developing and leveraging our proprietary intellectual property and technology to generate significant value through monetisation.

As a growing company operating in a rapidly changing marketplace, we have to make decisions on certain investments to support the continued growth and development of our business, even where they have an impact on short term profitability. As examples, the investments in the CFC2 and NFDC projects will, we believe, benefit the long term prospects of the business, although in the short term have resulted in a pre-tax loss before exceptionals of £5.1 million.

Developing our proposition to customers

We have continued to improve the key elements of our proposition to customers – the quality of our service, the range of products we offer, and consumers' confidence in our prices.

A high quality and reliable delivery service is critical to consumers adopting the online channel for their grocery shopping. We believe our customer delivery service remains market leading in the accuracy of orders and on time performance. Orders delivered on time or early significantly improved to 95.2% (2012: 92.7%) and order accuracy also improved to 99.0% (2012: 98.0%) during the period.

We recognise the importance of the shopping experience for existing and potential new customers with speed, ease of use and convenience particularly key elements. We continued to improve each of these aspects during the period. We simplified and shortened the registration process for first time users and enabled customers to import their favourites from existing online shopping competitors, both features reducing the barriers for a new shopper to come to Ocado. We introduced Smart Pass, our membership scheme which combines free delivery, everyday discounts on a range of brands, priority Christmas Delivery slots and exclusive discounts. The majority of orders are now made by Smart Pass holders. We remain at the forefront of the mobile shopping trend, as we continue to enhance our iOS and Android apps. Over 45% of all orders delivered are now checked out over a mobile device, with mobile apps accounting for 34% of all checkouts.

Our aim is to make the shopping experience more personal for each customer, and we have continued along this path by having personalised homepages for customers when they are logged in. We seek to provide customers with inspiration for their cooking, and in the year we introduced recipes on "edit order" reminders.

We extended our range at Ocado.com during the period by around 20% to 34,000 products, including everyday items, our own brand, more non-food and additional specialist ranges. This now significantly exceeds the offer in a standard supermarket. Recent new ranges include international selections such as a South African shop bringing a taste of the savannah to customers, and specialist ranges such as the East India Company's speciality foods.

The Ocado own-label brand continues to grow in popularity with sales up over 60% year-on-year, and the average basket now containing over four Ocado own-label products. Towards the end of the year we started to introduce more tiering into our own brand products, as part of our programme to increase the choice for our customers.

The growth of our non-food range has continued through the period, with more customers adding an increasing proportion of non-food items to their basket. This reflects the appeal to customers of having non-food products delivered in the same convenient one hour time slot as their groceries.

"Our aim is to make the shopping experience more personal for each customer."

READ MORE Connecting with customers online PAGE 19

"The Ocado own-label brand continues to grow in popularity with sales up over 60% year-on-year."

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READ MORE Maximising efficiency PAGE 22
READ MORE Fetch Case Study PAGE 33
READ MORE Dordon Case Study PAGE 35

We soft launched the first of our destination sites, Fetch, our pet store, during the period, with the roll out to all of our customers to be completed over the next few months. Fetch is a highly curated specialist pet store with over 6,000 products, including premium pet food and medicinal products such as Hill's, James Wellbeloved, Frontline and Drontal. Again, delivery of items from Fetch can be conveniently delivered alongside customers' weekly grocery orders. We plan to launch further destination sites, with the first during 2014.

Our Low Price Promise ("LPP") basket matching initiative continues to resonate well with our customers, reflecting the competitiveness of our prices and adding transparency to our pricing strategy. By the end of the period, when checking for LPP, over 75% of our customers' baskets were already cheaper at Ocado, reflecting our competitiveness in prices and increased promotional activity.

Growing customer numbers and spend

Our efforts in improving the proposition to customers were reflected both in growing customer numbers and in customer satisfaction surveys, with YouGov BrandIndex results showing that we led our peers towards the end of the period.

Our active customers at the end of the period stood at 385,000 (2012: 355,000). Our focus on attracting more new customers continued through the period, with the rate of new customer acquisition over 40% up on the previous year. Our order growth from frequent shoppers has been stronger, with the number of frequent customers increasing over twice as quickly as the growth in active customers. We have placed less focus on occasional customers who typically are motivated by promotional vouchers and as a result the number of infrequent customers reduced as a proportion of our active customers as we reduced voucher activity.

While total marketing expenditure on attracting new customers has increased, our corresponding reduction in retention vouchering activities has seen overall marketing costs, including voucher spend, marginally down as a percentage of sales.

As we increase our range and the ease with which our customers can shop, it is more likely our customers will purchase more of their weekly requirements from us. Reflecting this trend our customers' average baskets stood at £113.53 (2012: £112.10).

Optimising operations

CFC1 continued to operate to a high level and with improved efficiency. Using the units per hour efficiency measure, the average productivity for the period in CFC1 was 135 UPH (2012: 121 UPH).

Order volumes have grown to an average of over 143,000 orders per week ("OPW") (2012: 123,000 OPW) with the highest number of orders delivered in a week exceeding 166,000 during the period. Following the opening of CFC2 in February, we have been executing an operational plan to migrate some orders to be fulfilled from it. At the end of the period, approximately 60% of orders were fulfilled from CFC1 with the balance from CFC2, in line with our expectations.

While still in ramp up phase, CFC2 started to demonstrate its potential for improved efficiency and orders became cheaper to be picked from CFC2 than CFC1 during the second half of the year. The success of the ramp up of capacity utilisation in CFC2 gives us confidence in our ability to manage the additional throughput of products and orders from Morrisons.com.

We continue to introduce new developments to our CFCs to further improve efficiency in a cost effective manner. Our first purpose designed bagging machine, introduced into CFC1, is now an integrated part of the fulfilment operation in Hatfield, and we shall be investing in additional bagging machines during 2014.

Our delivery performance continued to improve, benefiting from increased customer density, with DPV of 160 (2012: 152 DPV).

Enhancing the capital efficiency of future capacity

CFC2, formally opened by the Prime Minister, the Rt Hon David Cameron MP in April, went live with the first customer orders picked on 24 February 2013, on time and on budget. We have been steadily ramping up this facility since then, with CFC2 reaching a peak during the period of approximately 60,000 OPW.

CFC2 opened with capacity for 120,000 OPW, and since opening we have committed to our Phase 2 development, which will take CFC2 capacity up to over 180,000 OPW at a capital cost of £41 million over an 18 month period. Morrisons will pay for part of this capital cost under our agreement with them. During Phase 2 works, scheduled to be completed in the second half of 2014, there may be some short-term impact on UPH in 2014, while our long term efficiency target for CFC2 remains to exceed 200 UPH.

We also commenced operations at our NFDC in Welwyn Garden City, Hertfordshire, which we

Chief Executive Officer's Review continued

opened in January 2013. This will support the longer-term growth in non-food, our dedicated pet store, Fetch, and future destination sites.

As a result of our agreement with Morrisons, capacity in CFC2 will be utilised faster than had originally been planned. Consequently, during the coming year, we are likely to commit to the next CFC project to ensure that we continue to have sufficient fulfilment capacity to accommodate future growth. In addition, we are looking at options to modularise future fulfilment capacity investments, to further improve our capital efficiency and potentially reduce the lead time to build. We anticipate providing further details on these plans during 2014.

We plan to invest further in CFC1 to increase capacity and to improve resilience. We intend to add to our spoke capacity with the opening of additional spoke locations next year, sharing both costs and capacity with Morrisons.

Anticipated capital expenditure in 2014 on capacity (CFCs, spokes and vehicles) is approximately £100 million, excluding expenditure on new CFCs. This includes our planned expenditure on new technology covered below.

Developing and leveraging our proprietary intellectual property ("IP")

Since inception we have utilised proprietary IP and technology as the foundation of our business. Maintaining and enhancing technology leadership in systems, processes and equipment supports our market-leading proposition to customers and drives operating excellence. This technology leadership affords us opportunities to generate significant value for Ocado through the commercialisation of our IP and operating knowledge. During the period we filed patents on a number of developments, with further patent filing in progress.

In May we announced our first strategic client for our IP and operating services with the signing of a 25 year agreement with Morrisons to launch and operate its new online grocery business, Morrisons.com. This agreement covers a number of arrangements which provide additional revenue and profit streams, improve our economic model with the sharing of capital and operational costs, deliver faster utilisation of capacity and more efficient scalability, strengthen our balance sheet and enable greater investment in R&D in the future.

On 18 July, shareholder approval, as required under the Listing Rules, was obtained for these arrangements to be concluded. Consequently, a 25 year sale and leaseback of the Dordon CFC and related Mechanical Handling Equipment ("MHE") was concluded, together with the payment of initial contract revenues resulting in the inflow of approximately £170 million.

Following significant preparation work, we were pleased that Morrisons.com was launched as planned with the first orders delivered on 10 January 2014.

Ocado's rights and obligations to source products (including Waitrose own-label products) from Waitrose remain unaffected by these arrangements.

In addition to the direct benefits to Ocado of this agreement, we consider it a strong validation of Ocado's operating model, providing a unique solution for the challenges faced by grocery retailers worldwide as the online channel continues to increase in importance. It also endorses the commercial value of our IP and operating knowledge, providing a template for future deals. We are expanding our IT team, and expect to increase the number of developers and other IT staff by around 50% by the end of 2014. The primary focus will be on re-platforming our IT systems to enable the faster replication and roll out for international expansion, the rapid improvement of customer interfaces and other projects to drive efficiency in both our operations and central teams.

Market backdrop

While there appears to be a more positive outlook for broader economic growth in the UK, we believe this has yet to translate into sustained improvements in consumer spending and the broader consumer environment remains subdued.

However, the market for online grocery shopping continues to expand, evidenced by the online growth figures reported across the industry, as more consumers see the benefits of doing their grocery shopping from the comfort of their own homes. All the major UK supermarket groups are now investing to satisfy this growing demand, with a general acceptance that online will become a significant channel in grocery shopping. Overseas there continues to be more interest and investment in online services in many markets, including by major incumbent supermarket groups seeking to address this structural shift and by online retailers, such as the expansion of Amazon Fresh in the US.

"We have utilised proprietary IP and technology as the foundation of our business."

READ MORE Utilising knowledge PAGE 23

READ MORE Morrisons Case Study PAGE 37

"Our customers regularly commented on the outstanding service provided by our delivery team."

People, recognition and awards

Having created over 1,000 jobs during the year, by the end of the period we employed over 6,700 people and their energy and commitment remain central to our success. I wish to acknowledge their tremendous efforts throughout this very busy period. Once again, our customers regularly commented on the outstanding service provided by our delivery team of over 2,500 Customer Service Team Members.

With our own growth and with the agreement to provide services to Morrisons.com, we anticipate total employee numbers to rise by around 1,000 during 2014.

We were delighted to be recognised with a number of awards during 2013, including the World's Best Online Retailer by the Grocer (The World's 50 Best Grocers), the Best Online Grocer by Which? (Members' Annual Satisfaction Survey) and Supermarket of the Year in the Loved by Parents Awards.

We also won awards for our user experience including the Grocer 33 Best Mobile Shopping Experience, and for our Ocado own-label products. These included the Loved by Parents Best Grocery Product for our Ocado own-label organic vegetable boxes and Gold Star Awards from the Great Taste Awards for a number of Ocado own-label products.

We received recognition for our continuing efforts in Corporate Social Responsibility ("CSR") from the International CSR Excellence Awards (Gold Award for Corporate Social Responsibility) and the World CSR Awards (Gold Award for Environmental Responsibility).

Board update

Further to his appointment to the Board as an independent Non-Executive Director and Chairman Designate in March 2013, Sir Stuart Rose assumed the role of Chairman following our annual general meeting on 10 May 2013. Lord Grade retired as a Non-Executive Director and Chairman at the 2013 annual general meeting.

Reporting, current trading and outlook

As the contribution from the Morrisons agreement becomes more material, we plan to provide segmental reporting, but have not provided this for 2013 as it is not material to the results. We have given the key metrics including total sales and ratios for margins and costs for Ocado.com (including Fetch) to facilitate analysis of underlying trends and our business model. We have also provided information on cash flow and debt on an "external" basis, thus removing the impact of the finance lease from our asset holding joint venture with Morrisons.

We finished the year with annual growth in gross sales for Ocado.com of 17.2% year-on-year. This includes the benefits of a sustained period of significant increase in customer growth year-on-year. In 2014, we expect to grow broadly in line with, or slightly ahead of, the market.

Operating review: Driving growth

Growth is driven by increasing the active group of valuable customers. Our focus is on attracting new shoppers, retaining more of these customers on a long-term basis and encouraging our customers to shop more frequently and spend more with us.

During 2013 we have been particularly focused on attracting new shoppers to Ocado. Underpinning this has been further improvements to the retail proposition, combined with marketing initiatives targeted at shoppers not yet using Ocado. These have included sponsorship of Big Brother, Jamie Oliver's Food Tube channel and awareness advertising on Digital TV channels, as well as continued successful co-marketing with partners such as Appliances Online, WH Smith and Boden.

We are continuing to explore ways in which we can increase the retention rate for new customers.

We seek to constantly improve the appeal of our shop – taking our service and usability to ever higher industry leading levels, offering the widest range of fresh, quality products which are competitively priced and good value for money.

Drivers	Key initiatives		
SERVICE Online retail is service led – we seek to remain at the forefront of the market providing industry leading customer service	**Reliability** Orders need to be reliable on a consistent basis – on time and delivered as ordered, with all deliveries within a one hour time slot. We maintained our market leading service and continue to optimise all aspects of our customer fulfilment process with 95.2% on time and 99.0% delivered as ordered.	**Availability** Customers expect high stock availability and minimal substitutions, within a short time frame. We continued to develop our proprietary product logistics systems, which when combined with the scale of our CFCs leads to fundamentally higher product availability.	**Ease of use** Convenience is a major driver to shopping online. The service needs to be quick, convenient and easy to use. In 2013 we introduced simpler registration and "import my favourites" functionality to facilitate usage for first time shoppers. Our iOS and Android apps continued to be enhanced. Our customers increased their use of our services on mobile devices with over 45% of all orders delivered now checked out via mobile devices.
RANGE Customers seek a wide choice of products and will be more inclined to shop where choice, and freshness, is greater	**Range** Our current range of 34,000 branded and private label SKUs gives us the largest offer of any UK supermarket. Our operating model allows us to extend our range with limited stockholding exposure. We continued to expand our non-food categories – for the home, pets (see case study on Fetch), babies and children, health and beauty products and gifts, allowing our customers to satisfy more of their shopping requirements with us.	**Freshness** Customers want the freshest produce. The product life of all our fresh food is guaranteed to have the number of days life displayed on the website or more. We also now show on customers' receipts fresh product by date order to assist customers in organising their food consumption and minimising waste.	
PRICE Our customers want good value and to seek to save money shopping online	**Everyday value for money** The automation and aggregation of our model strips out costs and increases efficiency. These savings allow us to offer products at compelling prices. We have continued to work closely with our suppliers to provide market leading promotions to our customers and we now run a level of product promotions similar to those of the biggest supermarkets. We have continued to introduce products with different price points in the same category, particularly driven by the growth of Ocado own-label, with over 60% sales growth, giving customers more choice of items to suit their budgets and tastes.	**Low Price Promise ("LPP")** Our LPP basket matching initiative continues to underpin our price commitment to customers. LPP matches the basket cost of items including comparable branded and standard tier own-label to the equivalent basket at Tesco. At the end of the period the basket is cheaper at Ocado in over 75% of customer baskets. This again reflects the increasingly strong pricing initiatives we have adopted. LPP has proven to be popular with our customers, helping to change their perception of our pricing. We have more work to do to achieve the same level of awareness in shoppers who currently do not shop with Ocado.	

Operating review: Driving growth
Fetch Case Study

What's the news?

On 1 June 2013 we launched Fetch, our new specialist store for pet products. This represents the next stage of development of our non-food strategy of launching separate destination sites for key categories, with delivery available alongside the weekly Ocado grocery order. The national roll out of Fetch has been slightly delayed against our initial plan, due to a switch in IT resources onto the Morrisons project. We are steadily increasing the reach of this service which we plan to make available to all our customers by Spring 2014.

Why pets and what's special about Fetch?

- Recent Ocado customer survey data showed that over half our customers own a pet, but only 20% bought pet products from Ocado, the main obstacles being the lack of range, brands and awareness.
- Fetch is our first destination site to be launched, and is a specialist online pet store supported by a veterinary team, offering customers a wide variety of brands across key categories such as pet food, animal health care and accessories. These include specialty pet food and drug, that are available from a vet or specialist pet shop but not a supermarket, including the brand leaders such as Hill's, James Wellbeloved, Frontline and Drontal.
- Fetch works closely with healthcare suppliers to improve compliance on preventative medicines, and keeps up to date with trends in the pet accessories category.

Key Attractions

- Fetch allows customers to be the "Perfect Pet Parents", offering them the opportunity to buy small niche brands only sold in a few specialist stores alongside the brand leaders;
- Compelling delivery options utilising the reliable Ocado delivery slots, with some same day deliveries in selected geography, and plans to reach the entire UK by courier service (if not covered by Ocado);
- More than 6,000 products currently available and growing;
- The site can be personalised to create unique pet profiles, filtering down the thousands of products on site to have a unique shop for each pet;
- All lines are dispatched from stock (i.e. we hold them physically) allowing rapid and reliable service;
- While Fetch is a separate shop, it shares login details and card payment details with Ocado.com.

Initial customer reaction

"First order ...excellent website ...straightforward and easy to use ...excellent delivery service too ...plus I used your discount voucher ...pleasure doing business with you Fetch!! And thanks to Ocado for your brochure!!"

"Yes thanks, my daughter is very excited that she may get to feed the hedgehogs, let's hope they've not hibernated. Great choice of range"

"Yes!! Very excited to be able to have the dog food delivered & at such good prices. Good website & good selection of food, toys & treats. I will definitely recommend my friends to use this...."

See Fetch.co.uk

"[Fetch] represents the next stage of development of our non-food strategy of launching separate destination sites for key categories."

Selected pet products available at fetch.co.uk

Operating review: Maximising efficiency

Our strategy for delivering long-term shareholder value is to operate industry leading service at the lowest possible cost. We seek to maximise efficiency and achieve this through the operating model we adopt, and by optimising operational efficiency in each part of our business, all enabled by the intellectual property that we have developed. We run a centralised fulfilment model which utilises the aggregation of scale into a few large locations to drive many of the cost savings that we benefit from versus traditional retail models. We use automation and technology where there is an efficiency or cost benefit from doing so.

We constantly seek to improve the capital efficiency of our physical assets to gain ever improving economics. As we grow, our increased scale enables us to allocate fixed costs more efficiently.

Drivers	Key initiatives
OPTIMISING OPERATIONS Key to operating at the lowest possible cost is optimising our operations	**Automation** Our approach is to automate many of the tasks which would be manual in traditional retail operations. This enables us to drive overall efficiency and remove costs. We have introduced additional automation to our CFCs, for example with the commissioning of our first proprietary developed tote bagging machine. **Technology and software** Critical to our operation is the software that controls it. Our software is largely developed in-house by a highly skilled team, and cannot be bought "off the shelf" on the open market. We have continued to introduce new software controls and optimisations to our operations during this period.
ENHANCING EFFICIENCY OF FUTURE CAPACITY AND DRIVE SCALE BENEFITS Constantly improving cost and capital efficiency of fulfilment assets and driving benefits from increased scale	**CFCs** In February 2013 we opened CFC2. We utilised the many years of learning from CFC1 to create this state-of-the-art and even more efficient facility. At full capacity, CFC2 will be the largest single grocery "store" in the world (replacing CFC1 for that title). Additional investment is underway in the CFC2 to take the ultimate capacity to over 180,000 orders per week. **Non-Food Distribution Centre** In January 2013 we opened our first dedicated NFDC. This warehouse supports the growth of our non-food business and forms part of the integrated fulfilment solution for a customer's shopping. **Delivery network** Sales growth in 2013 did not benefit from an expansion of the existing delivery area. However the growth in the number of orders, within an unchanged geography, has helped to improve the efficiency of the delivery team. During the period the cost of the delivery operation was not impacted by openings of new spokes and also benefited from the replacement of an existing spoke in Coventry by direct deliveries from CFC2. In 2014 additional spokes are expected within the current geography as a number of sites are at, or close to, capacity. The resulting increase in fixed costs will be offset by additional efficiencies from reduced average route lengths once these new spokes have completed their initial ramp up phase. **Future fulfilment assets** We constantly strive to improve the capital efficiency of our fulfilment assets, and work continues to make our solutions more scalable, modular and lower cost in the future. **Leveraging scale** Additional fixed costs, including depreciation, were incurred as a result of opening two new warehouses during the period, both of which are only partially utilised. The anticipated sales growth in 2014 combined with the fulfilment of orders for Morrisons.com will enable Ocado to leverage these fixed costs against higher volumes.

Operating review: Maximising efficiency
Dordon Case Study

What's the news?

On 23 February 2013, the first delivery left our newly opened CFC2 in Dordon, Warwickshire.

In a little under two years, we had successfully bought, built and delivered a fully functioning site, based largely on our learnings from our existing Hatfield CFC and Service Delivery operations.

Utilisation of the Dordon CFC ramped up since opening ahead of internal expectations, and is now starting to demonstrate its efficiency with a lower picking cost per order than the Hatfield CFC.

How much did it cost?

The entire project will cost (following phase 2 capital expenditure) over £230 million gross. Of this the land and buildings account for just over £80 million, although have subsequently been subject to a sale and leaseback transaction as part of our agreement with Morrisons.

The balance of the capital expenditure is for mechanical handling equipment (cranes, conveyors and storage racking) and technology investment.

Why is it important?

The opening of CFC2 ensures we can continue to grow our business, as it will increase our fulfilment capacity by over 180,000 orders per week.

It is also a significant demonstration of our capabilities in designing, constructing and commissioning a facility of this scale, with the Dordon CFC now the world's largest and most sophisticated grocery "store", surpassing the Hatfield CFC for that title. The scale and complexity involved were both significant, particularly in the given timeframe.

At scale, the Dordon CFC will improve the operating efficiency of our business. The years of learning that have gone into the design of this CFC, combined with the latest automation and operating knowledge will lower operating costs for fulfillment to new levels. Although using the UPH measure of efficiency Dordon CFC has not yet reached Hatfield CFC levels, by the end of the period it was already cheaper to pick an order in Dordon than in Hatfield and we expect Dordon efficiency to continue to improve with further utilisation.

The capacity it provides also played an instrumental part in the structuring of another milestone event in 2013, the signing of our agreement with Morrisons (see case study on page 37).

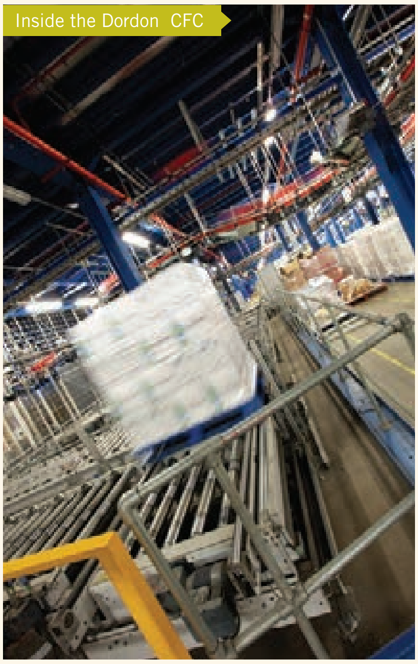
What's next?

We will continue to utilise Dordon CFC as part of our fulfilment solution for our retail business. We have also utilised part of the capacity to launch the online business for Morrisons.

We continue to review our expected capacity requirements, including those required by Morrisons, and will make further commitments as appropriate. We continue to work on improving the capital efficiency of our future fulfilment assets, with the objective of making them more capital efficient and quicker to construct and commission.

> "CFC2 is now the world's largest and most sophisticated grocery 'store'."

Inside the Dordon CFC



The Dordon CFC

Operating review: Utilising knowledge

We own significant proprietary intellectual property, which stems from the knowledge we have gained from developing our business. This covers the entirety of our business – our operating model, the automated processes and the technology to run and update the end-to-end system. Technology is at the core of our business.

We utilise our platform of proprietary knowledge to constantly improve our business, both in terms of our proposition to customers, and operational efficiency (see Maximising efficiency on pages 34 and 35). We believe our knowledge also offers multiple opportunities for leverage through commercialisation and expansion of business into new product categories or geographies.

Drivers	Key initiatives
COMMERCIALISE VALUE FROM IP	There exist opportunities to commercialise and gain value from our IP beyond our existing business. Our agreement with Morrisons (see case study) is the first example. Under this agreement we provide operating and IT services to Morrisons that has enabled them to launch their own online grocery business, Morrisons.com. The value is captured through a series of payments over a significant period (25 years in this case).
EXPLORE OPPORTUNITIES ALONG GEOGRAPHIC AND PRODUCT LINES TO DELIVER LONG-TERM VALUE	Given the likely growth in importance of online shopping to grocery customers outside the UK, and the challenges for incumbent retailers entering online business, we believe significant opportunities exist to expand our business outside the UK and we will seek to capitalise on such opportunities in the future. We shall also consider attractive opportunities to expand across further general merchandise categories, in the UK and overseas.

Ocado Technology develops software across a range of platforms

Operating review: Utilising knowledge
Morrisons Case Study

What's the news?

On 17 May 2013, we announced Ocado had entered into a 25 year agreement with Morrisons to provide operating and technology services to enable Morrisons to launch and operate Morrisons.com, its online grocery business. Our shareholders approved the agreement on 25 July 2013 in a general meeting. Morrisons.com was successfully launched with first orders delivered on 10 January 2014.

Why is it important?

We drive shareholder value through the application of our intellectual property and technology, which in turn powers our market leading customer experience and operating efficiency. Given the proprietary nature of our software and business processes, there exist multiple opportunities to deliver value using our IP. Our agreement with Morrisons represents the first case of commercialising our knowledge, and is a clear validation of our operating model.

What's the deal?

There are two parts to the agreement. Licensing of services and technology to Morrisons results in a series of annual fees to Ocado for IT, R&D and operating services as well a bonus fee dependent on Morrisons.com's profits in the future. A sale and leaseback of property and equipment, completed in July 2013, has resulted in payments to Ocado of approximately £140 million, together with a sharing of fixed costs at the Dordon CFC and other CFCs or spokes that may be jointly developed in the future.

How does it work?

Morrisons.com was launched utilising part of the capacity of the Dordon CFC. Morrisons.com is a Morrisons owned business, and Morrisons is responsible for marketing to customers, organising and delivering product range to the Dordon CFC, and deciding on their commercial terms and pricing. All other aspects of the operation are run by Ocado.

The sharing of capacity in Dordon and future CFCs and spokes, including sharing the fixed costs and capital expenditure, further enhances our ability to scale our operations efficiently.

Why is it attractive to Morrisons?

As well as a very attractive agreement for Ocado, this arrangement was very compelling for Morrisons. It enabled them to launch, in a very short time frame, a full online offering with market leading service. The investment was arguably significantly less than they might have had to invest with a standalone business and the nature of the arrangements gives Morrisons the benefit of utilising any future Ocado technology developments.

What's next?

We shall seek further opportunities to expand our business along geographic and product lines in the future, including arrangements with third parties.

> "Given the proprietary nature of our knowledge, there exist multiple opportunities to deliver value using our IP."

The first delivery leaves Dordon

Key Performance Indicators

We measure the achievements of our strategic objectives through the use of qualitative assessments and monitoring the performance of quantitative key performance indicators ("KPIs"). In doing so we examine our business carefully, including seeking the opinions of our customers and the wider public. This allows us to better understand where we have improved our service and proposition, and the areas that we should prioritise for further attention.

The following table sets out the strategic objectives, the key qualitative and quantitative measures, and their performance over the last two financial years, with references to relevant risk or other pages for information.

The KPIs are shown in bold.

Strategic element	Strategic objectives	Driven by	2013	2012	Read more
Driving growth: Developing the proposition to customers	To provide market leading levels of service, and ease of use for customers	Better interfaces Growth on mobile Orders delivered in full[1] (high stock availability) Orders delivered on time or early	New webshop functionality Update to apps Mobile App checkout represents 34% of total checkouts. Over 45% of all orders delivered are checked out via a mobile device **Delivered as ordered 99.0%** **Deliveries on time or early 95.2%**	Webshop enhancements New generation apps App checkout 28% Website on mobile checkout growing strongly Delivered as ordered 98.0% Deliveries on time or early 92.7%	PAGE 19 Connecting with customers online
	To provide a wider range than traditional store based shops, with superior freshness and product life guarantees	Ocado own-label growth New ranges Non-food growth	Total SKU count 34,000 Non-food over 9,000 SKUs Fetch launched now over 6,000 SKUs New specialty lines launched	Total SKU count over 28,000 Non-food over 6,000 SKUs Several specialty lines launched Biggest "free from" range of nearly 800 SKUs	
	To provide good value pricing and increase consumer confidence in our pricing position	Ocado own-label growth Promotional strategies Price commitment initiatives	75% baskets under LPP already cheaper at Ocado Own-label over 60% sales growth Promotional activity continued at levels similar to industry leaders	Launched LPP basket match Own-label sales up over 70% Promotional activity similar to industry leaders	
Driving growth: Increasing customer numbers and encouraging spend	Increase customer numbers, loyalty and spend	Attract new customers Increase frequency of shop Increase basket size[2]	Active customers up by 8.5% to 385,000 Growth in new acquisition customers increased by 40% year-on-year Growth in frequent customers twice as fast as active customers **Average basket size increased by 1.3% to £113.53**	Active customers at 355,000 Average basket size of £112.17	PAGE 19 Connecting with customers online

	Strategic element	Strategic objectives	Driven by	2013	2012	Read more
Maximising efficiency	Optimising operations	To drive efficiency and achieve the lowest operating cost model through investment in automation and technology	CFC efficiency measured by units per hour ("UPH")[3] Service delivery efficiency measured by deliveries per van per week ("DPV") Product waste (as a % revenue)[4]	**CFC1 135 UPH** **DPV 160** **Product waste 1.0%** (Q4 0.7%)	CFC 121 UPH DPV 152 Product waste 0.7%	PAGE 22 Maximising effciency
Maximising efficiency	Enhancing capital efficiency of future capacity and driving scale benefits	Develop ever more capital efficient infrastructure solutions To have sufficient CFC capacity To have appropriate non-food fulfilment capacity To ensure capacity in our distribution spoke network Leverage of administrative expenses	CFC capacity measured by orders per week ("OPW") Opening of new CFCs Non-food facilities Spoke development Administrative expenses as a % of revenue	**Average OPW over 143,000, peaking at over 166,000** CFC2 opened Administrative expenses increased as a % of revenue due to additional depreciation of new CFC during the period and in other growth initiatives	Average OPW over 123,000, peaking at over 140,000 CFC2 build completed Oxford spoke opened Administrative expenses increased as a % of revenue due to investments in non-food and other resources	PAGE 22 Maximising effciency
Utilising knowledge	Developing and commercialising proprietary knowledge	Use our IP to deliver shareholder value	Commercial agreements to monetise IP International opportunities	Signed first commercial IP agreement with Morrisons	Continual improvements to technology platform	PAGE 23 Utilising knowledge

1. Percentage of all items delivered exactly as ordered, i.e. the percentage of items neither missing nor substituted.
2. Average retail value of goods a customer receives (including VAT and delivery charge) per order.
3. Measured as units dispatched from the CFC per variable hour worked by CFC1 operational personnel.
4. Net value of products purged for having passed Ocado's "use by" life guarantee post any recovery income, divided by revenue.

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Chief Financial Officer's Review

For the period to 1 December 2013 Ocado delivered enhanced sales growth driven by improvements to the proposition to customers and growth in the number of new customer acquisitions, and supported by increased capacity from CFC2. Operating profitability in the period was lower than the previous year because of an increase in depreciation and amortisation from the opening of CFC2. This offset gains from better operational efficiency and from the Morrisons agreement.

As the utilisation of CFC2 increases we expect it to become a net contributor to profitability.

The current year results comprise 52 weeks, the prior year comprised 53 weeks. For comparison purposes a summary of the financial performance in 2012 on a 52 week basis excluding the first trading week is also provided below and all year-on-year movement data referred to below is on a 52 week basis unless stated otherwise.

"Ocado delivered enhanced sales growth driven by improvements to the proposition to customers."

	52 Weeks 2013 £m	52 Weeks 2012 £m	53 Weeks 2012 £m	52 Weeks Variance %
Gross sales	**852.4**	719.0	731.9	18.6%
Revenue	**792.1**	666.6	678.6	18.8%
Gross profit	**247.5**	203.4	207.3	21.7%
EBITDA (pre-exceptional)	**45.8**	33.9	34.5	35.1%
Operating profit before share of result from joint venture and exceptional items	**1.0**	5.3	5.4	
Share of result from joint venture	**0.9**	—	—	
(Loss)/profit before tax before exceptional items[1]	**(5.1)**	1.8	1.8	
Exceptional items[1]	**(7.4)**	(2.3)	(2.4)	
Loss before tax	**(12.5)**	(0.5)	(0.6)	

1. Exceptional items include exceptional finance costs

Sales

Gross sales increased by 18.6% (53 week basis: 16.5%) to £852.4 million for the period. Gross sales from retail related activities were £843.0 million, an increase of 17.2%. Sales growth continued to be driven by rising demand with average orders per week of 143,000 up from 123,000 in 2012 and the average order size of £113.53 up from £112.10 in 2012.

The Morrisons agreement contributed £9.4 million of gross sales in 2013. This comprises annual fees for services, IT support and R&D and a recharge of relevant variable and fixed costs and management fees.

Revenue grew by 18.8% (53 week basis: 16.7%) to £792.1 million. There was a change in marketing focus from the second half of 2012 which involved more tailored voucher activity targeted at acquiring new customers rather than reactivating lapsed customers and greater emphasis on marketing initiatives targeted at our existing customers including Low Price Promise, our basket price matching scheme. In addition there was an increase in promotional activity and further growth in our product range. The change in marketing activity resulted in an overall decrease in voucher spend in the period, down from 1.7% of revenue in 2012 to 1.2% of revenue in 2013. This impacts on year-on-year growth in gross sales as marketing vouchers are included in the definition of gross sales but excluded from the definition of revenue.

Gross profit

Gross profit rose by 21.7% year-on-year to £247.5 million. Gross margin was 31.2% of revenue (2012: 30.5%), ahead of 2012 predominantly due to additional Morrisons gross profit. Average product wastage in 2013 was 1.0% of retail revenue (2012: 0.7%). Wastage costs were higher in the first six months of operations at CFC2 but in the final quarter overall product wastage was 0.7% of retail revenue, in line with 2012.

Other income increased to £23.1 million, reflecting a 40.0% increase on 2012. Media income of £18.5 million was 2.4% of retail revenue (2012: 2.3%). Supplier demand for website related activities has grown slightly ahead of the rate of increase in revenue due to the benefits of scale and a wider product range. Other income also included £3.9 million of rental income arising from the leasing arrangements with Morrisons for CFC2.

Operating profit

Operating profit before share of result from joint venture and exceptional items ("adjusted operating profit") for the period was £1.0 million, compared with £5.3 million in 2012. The opening of CFC2 increased depreciation costs by £9.6 million in the period.

READ MORE Our Financials PAGE 115

"Increased utilisation of CFC2 capacity during 2014 will offset the increase in depreciation costs."

At £200.0 million, distribution costs increased by 20.1% compared to 2012 and increased as a percentage of revenue from 25.0% in 2012 to 25.2% in the current period. Distribution costs, excluding depreciation, as a percentage of Group revenue have decreased from 22.1% in 2012 to 21.6% of revenue in the current period. Operational efficiencies were achieved through year-on-year improvements in UPH of 12.2% in CFC1, improvements in the number of deliveries per van per week due to increased number of deliveries in an unchanged geographic area and increased utilisation of the existing spoke network. CFC2 efficiency steadily improved during the year and increased utilisation of CFC2 capacity during 2014 will offset the increase in depreciation costs driven by CFC2.

Administrative expenses including marketing and depreciation costs were £69.6 million, an increase of 44.7% year-on-year, and as a percentage of revenue was 8.8% (2012: 7.2%).

Administrative expenses	52 Weeks 2013 £m	52 Weeks 2012 £m	53 Weeks 2012 £m	52 Weeks Variance %
Central costs	44.9	32.4	32.9	38.6%
Depreciation and amortisation	14.6	9.2	9.2	58.7%
Marketing costs (excluding vouchers)	10.1	6.5	6.7	55.4%
Total administrative expenses	**69.6**	48.1	48.8	44.7%

Administration central costs include the implementation of new senior management long-term incentive schemes, which when combined with a higher payment for annual incentives due to the improved revenue and EBITDA performance of the business, increased costs by £5.5 million in 2013. Excluding the senior management incentive costs, the administration central costs increased year-on-year by 21.8% driven by additional payroll costs, in particular in Technology and Non-Food, and as a percentage of revenue was 5.0% (2012: 4.9%). Depreciation and amortisation costs were £14.6 million, an increase of 58.7% year-on-year as a consequence of the increased investment in computer hardware and software required for the development of CFC2 and NFDC. Marketing costs excluding voucher spend were £10.1 million, an increase of 55.4% year-on-year due to the switch from retention vouchering activities, which were netted off against revenue, to advertising and acquisition marketing activities in the period.

Share of results from joint venture

MHE JV Co Limited ("MHE JV Co") was incorporated in the period, with Ocado owning a 50% equity interest in this entity. The Group entered into a 25 year sale and leaseback transaction of its MHE relating to CFC2, as part of the Morrisons agreement. The MHE was sold to MHE JV Co and Ocado received £58.0 million and a 50% share of MHE JV Co. The Group share of MHE JV Co profit after tax in the period amounted to £0.9 million.

Exceptional items

Exceptional items of £7.4 million included costs relating to the pre-opening costs for CFC2 and NFDC, legal and professional fees associated with the Morrisons agreement and the write off of capitalised arrangement fees in relation to the credit facility that was repaid during the year. There was also an exceptional credit of £0.2 million relating to a reduced impairment charge for a former spoke site in Coventry which has now been leased to a third party.

Net finance costs

Net finance costs (excluding exceptional items) were £7.0 million (2012: 53 week basis: £3.6 million). Interest costs of £1.9 million relating to loans for the construction and fit-out of CFC2 were charged to the income statement following the opening of CFC2; these costs had been capitalised prior to opening. The sale and leaseback arrangement MHE JV Co accounted for increased interest costs of £1.9 million in 2013.

Loss before tax

Adjusted (excluding exceptional costs) loss before tax for the period was £(5.1) million (2012: 53 week basis: profit of £1.8 million). Loss before tax for the period was £(12.5) million (2012: 53 week basis: loss of £(0.6) million).

Taxation

Due to the availability of capital allowances and group loss relief, the Group did not pay corporation tax during the year. No deferred tax credit was recognised in the period. Ocado has approximately £279.5 million of unutilised carried forward tax losses at the end of the period.

Loss per share

Basic and diluted loss per share increased from 0.46p to 2.16p.

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Chief Financial Officer's Review continued

Capital expenditure and cash flow

During the year Ocado completed the construction of CFC2 and NFDC. On 25 July 2013 Ocado sold the company owning the land and buildings at CFC2 to Morrisons and the MHE at CFC2 to MHE JV Co, both of which are leased back over 25 years.

Reported additions to tangible and intangible assets for the period of £188.4 million included the £112.1 million leaseback of the MHE assets. Capital expenditure for the period, excluding the effects of this transaction are noted below:

	52 Weeks 2013 £m	53 Weeks 2012 £m
CFC1	5.9	15.6
CFC2	38.0	80.4
Delivery	10.8	8.9
Technology	14.1	14.4
Other	7.5	5.2
Total capital expenditure[1] (excluding sale & leaseback)	76.3	124.5

[1] Capital expenditure includes tangible and intangible assets.

Investment in CFC1 capital expenditure was £5.9 million on both capacity and resiliency projects, a lower rate versus 2012 due to completion of a number of large projects.

In the period we opened CFC2 and incurred a further £38.0 million capital expenditure to bring CFC2 into operation. This site was opened on time, on budget and with an initial capacity of approximately 120,000 OPW and work continues to increase the capacity to over 180,000 OPW.

Investment in new vehicles, which are typically on five year financing contracts, was £9.0 million (2012: £7.4 million) driven by business growth. The delivery capital expenditure also included investments in new hand held terminals to support the growth in van numbers and spoke site costs for a new spoke to be opened in early 2014.

Ocado continued to invest in technology by developing its own software for activities which enabled us to retain the intellectual property rights. In the period £10.4 million (2012: £11.5 million) of internal development costs were capitalised as intangible assets with a further £3.7 million (2012: £2.9 million) spent on computer hardware.

At 1 December 2013, capital commitments contracted, but not provided for by the Group, amounted to £28.8 million (2 December 2012: £43.4 million). We expect capital expenditure in 2014 to be approximately £100 million, before any investment in further CFCs, as we continue our investment to support our long-term strategic goals.

"[CFC2] was opened on time, on budget."

"The Group had cash and cash equivalents of £110.5 million at the end of the period."

Net operating cash flow after finance costs increased to £60.4 million, up 67.4% on a 53 week basis from £36.1 million in 2012 as detailed below:

	52 Weeks 2013 £m	53 Weeks 2012 £m
EBITDA	45.8	34.5
Working capital movement[1]	23.5	7.2
Exceptional items	(4.6)	(2.4)
Other non-cash items[2]	2.8	1.4
Finance costs paid[1]	(7.1)	(4.6)
Operating cash flow	60.4	36.1
Capital investment[1]	(77.5)	(100.9)
Increase in net debt/finance obligations[3]	34.2	27.1
Proceeds from share issues net of transaction costs	3.8	35.1
Increase/(decrease) in cash and cash equivalents	20.9	(2.6)

[1] Capital investment has been adjusted for £4.5 million of capitalised borrowing costs due to an adjustment in working capital and finance costs paid.
[2] Other non-cash items include movements in provisions, share of income from MHE JV Co and share based payment charges.
[3] Includes sale and leaseback of MHE assets to MHE JV Co.

The overall improvement in the net operating cash flow was primarily driven by an increase in EBITDA and an improvement in working capital of £11.3 million and £16.3 million respectively. The working capital improvement reflected an increase in trade payables largely due to un-amortised proceeds from the upfront £29.7 million from Morrisons fees.

Balance sheet

The Group had cash and cash equivalents of £110.5 million at the period end (2012: £89.6 million).

Initial proceeds from the Morrisons agreement including cash deposits disposed of were £169.8 million. As a result of this agreement, the drawn element of the primary debt facility of £85.3 million was repaid in July 2013. At the same time a finance lease was created with MHE JV Co, the company jointly owned by Ocado and Morrisons, to lease back the MHE at CFC2.

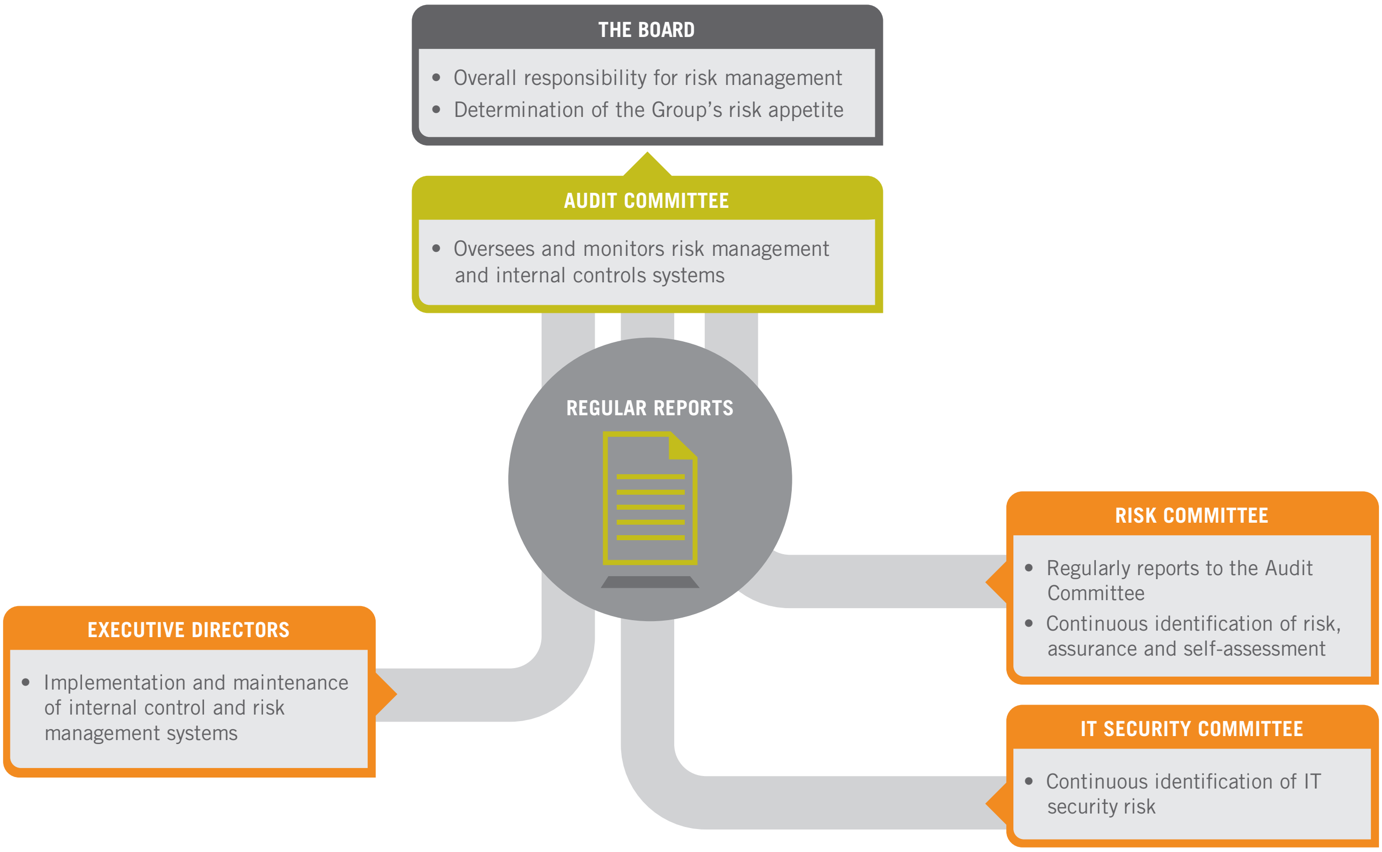
Gross debt at the period end was £161.4 million (2012: £144.8 million). External gross debt at the period end, excluding the £112.7 million finance lease payable to MHE JV Co, was £48.7 million (2012: £144.8 million).

Our Risks

HOW WE MANAGE RISK

Risk management and internal control

The Board is responsible for the Group's system of internal control and risk management and for determining the nature and extent of the significant risks it is willing to take in seeking to achieve its strategic objectives. Below the Board, the Audit Committee (on behalf of the Board), the Executive Directors and the risk committee have roles in the Group's risk management. The Group's risk governance framework is structured as follows:

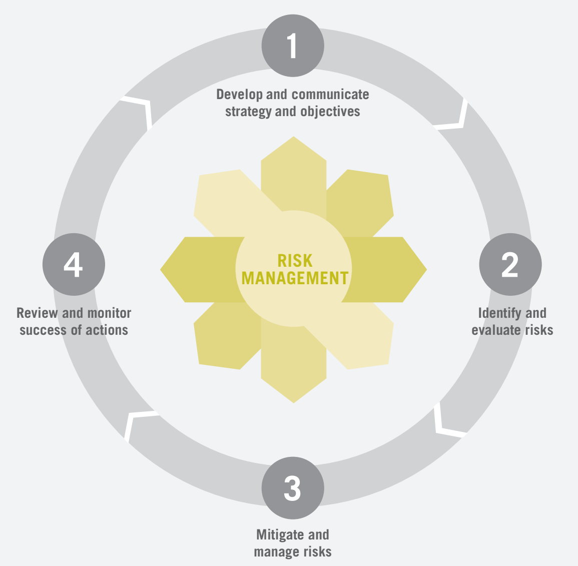


The key features of the Group's system of internal control and risk management include:

- an organisational structure with clear segregation of duties, control and authority;
- a system of financial reporting, business planning and re-forecasting processes;
- a capital approval policy that controls the Group's capital expenditure and a capital expenditure post-completion review process for selected projects;
- monitoring the progress of major projects by management, the Executive Directors and by the Board;
- monitoring by the Audit Committee of the quality of financial statements and consideration of any findings reported by the auditors, PricewaterhouseCoopers LLP ("PwC"), in relation to the Group's control environment and its financial reporting procedures;
- a risk committee, which reports to the Audit Committee. This oversees risk control processes and risk analysis from each part of the business;
- an IT Security committee that monitors the Group's IT security measures;
- a treasury policy overseen by the treasury committee that manages the Group's cash and deposits, investments, foreign exchange and interest rates, so as to ensure liquidity and minimise financial risk;
- a food and product technology department, responsible for designing and monitoring compliance with the Group's processes for the procurement and handling of foods and other goods for resale;
- other control measures outlined elsewhere in this Annual Report, including legal and regulatory compliance and health and safety.

The risk management framework

The Board believe a successful risk management framework balances risk and reward, and applies reasoned judgement and consideration of likelihood and impact in determining the Group's principal risks. The Group's risks are reviewed regularly and updated as appropriate.



1. Our strategy informs the setting of objectives across the business and is widely communicated.
2. Executive Directors evaluate the most significant strategic risks for the Group. In addition each divisional director prepares a risk register for their respective division and the most significant risks are added to a quadrant risk heat map. These top-down and bottom-up representations are reviewed by the risk committee and consolidated into a Group-wide risk heat map to ensure that no significant risks have been omitted.
3. Divisional directors identify how they will manage or mitigate their significant risks. These mitigation actions are then summarised into a description of the Group-wide mitigation process for each risk.
4. Group-wide risk heat maps and mitigation processes are reviewed by the risk committee and the Audit Committee.

Activities during the year

The risk committee meets regularly and reports to each Audit Committee meeting.

The on-going processes and procedures described above for identifying, evaluating and managing the principal risks faced by the Group were used during the period to identify the principal risks and uncertainties facing the Group. Such a system can only provide reasonable, and not absolute, assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

For further information on the Audit Committee's and Board's review of financial reporting and processes refer to page 67 of the Audit Committee report. The steps taken by the Audit Committee in reviewing the need for an internal audit function are described on page 68 of the Audit Committee report. For a description of the Company's externally facilitated control and governance review see page 68 of the Audit Committee report.

The Audit Committee, on behalf of the Board, undertook a review of the effectiveness of the risk management systems and internal controls, covering all material controls including financial, operational and compliance controls and risk management systems. The Audit Committee is satisfied, following such review, that no significant weaknesses or failings were drawn to its attention.

Our Risks continued

Principal risks and uncertainties

The risks and uncertainties described below represent those which the Directors consider to be the most significant to delivering 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 transpire to have a material adverse effect on the Group's business, financial condition or future prospects. The relevant mitigating factors are also described below. Further information on the financial risks that the Group faces and how they are managed is provided on pages 145 to 147.

	Strategic Element	Risk Description	Management and/or mitigating actions
Driving Growth	Develop the proposition to customers	Failure to maintain competitive pricing position	Implementation of LPP; Increasing number of promotional offers; Creation of a choice of tiered price points within each category.
		A risk of decline in high service levels	Weekly monitoring of the key indicators and the underlying drivers against published targets; Continuing investment in new equipment and technology to improve service levels.
		Failure to maintain a compelling range	Growth of the Ocado own label range along side continued provision of the Waitrose range; Growth of branded ranges and expansion of supplier base.
	Growing the number of customers	Failure to achieve sales growth and utilisation of existing capacity	Continued investment and optimisation of the marketing channels to acquire to new customers; Investment in the proposition to improve the offer to customers; Investment in new customer retention tools.
Maximising Efficiency	Optimise operations	A risk that future efficiency improvements may be limited	Regular monitoring of a wide range of KPIs to identify any underperforming areas; Expanding the technology team to enable faster implementation of improvements; Increasing rate of R&D spend to enable further improvements.
	Enhance efficiency of future capacity and drive scale benefits	A risk of delays in the implementation of new capacity for both Ocado and Morrisons	Resources have been dedicated to the modularisation of technology and logistics systems, to enable faster replication; Detailed plans for new capacity are in progress.
Utilising Knowledge	Commercialise value of IP	Failure to develop a competitive model for further commercialisation	Engagement with a wide number of international grocers to understand market needs; Experienced teams in place who understand the current solutions and are aware of global alternatives used in other industries; Commenced formal "freedom to operate" studies to identify existing patents that may affect the Group's ability to operate its current model in new markets.
		Failure to protect current technology and process	Processes set up to identify patentable inventions and patent writing programme commenced in July 2013.

Strategic Element	Risk Description	Management and/or mitigating actions
Assurance	A risk of a food or product safety incident	Experienced legal, food technology and health and safety professionals monitor operations to ensure regulations are complied with; Supplier approval process; Centralised health and safety policies with appropriate divisional procedures.
	A risk of changes in regulations impacting our business operations	Regular monitoring of regulatory developments to ensure that changes are identified; Monitoring operational performance to minimise the Group's environmental impact.
	Failure of technology or data loss	IT systems are structured to operate reliably and securely; Denial of Service protection service is in place; The security of our IT systems is regularly tested by third parties; No customer payment card data is held on Ocado's databases; Access to customer personal data is restricted to those who need this information as part of their job.
	Business interruption	Dedicated engineering teams on site with daily maintenance programs to support the continued operation of equipment; Insurers advise on engineering and risk management in the design and operation of the CFCs; High level of protection for CFCs and equipment.
	A risk of unintentional infringement of competition legislation	All members of the buying and business planning teams are trained on their responsibilities under competition law; Codes of conduct, information barriers and access restriction policies have been implemented as part of the Morrisons agreement.

The Group's circumstances and priorities have changed significantly in 2013 and in particular following the successful opening of CFC2 and commercial agreement with Morrisons. As such the principal risks and uncertainties have also changed and some identified in 2012 have been removed from the report.

Corporate Social Responsibility Report

INTRODUCTION

This Corporate Social Responsibility report explains how we carry out our responsibilities with respect to the environment, our employees and the community. Running 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.

During the period, the Company engaged an external consultant to help facilitate a review of the Group's initiatives. The results of that review will form the basis for the Company's CSR policy in future years. Following the end of the period the Group appointed its first Head of Corporate Responsibility and established a group of CSR champions to follow up a series of recommendations from the review. It is expected that such changes will help to promote various corporate social responsibility initiatives that are closely aligned with the Company's ethos.

"Our ambition is to be the UK's greenest, most innovative and best value grocery retailer."

ENVIRONMENT

Our ambition is to be the UK's greenest, most innovative and best value grocery retailer, by providing a greener, more sustainable alternative to store-based supermarkets. As described on page 16, the Ocado operating model of warehouses and spokes is considered by management to be a more efficient way of grocery shopping than traditional supermarket undertakings.

Because of the inherent flexibility in the Ocado operating model, some elements of our operations have been developed with the aim of reducing the business's environmental impact.

- *Closed-loop recycling*: Carrier bags from Ocado, as well as from other shops or supermarkets, are collected from customers and recycled to make new carrier bags. Approximately 65% of Ocado's bags are made from recycled material collected in this way.
- *Green van slots:* Customers can choose a 'green van slot' to minimise the carbon impact of their delivery.
- *Reducing food wastage:* The Directors believe that our food waste as a percentage of revenue (1.0% of the revenue for the period) is significantly less than any of our competitors. This percentage is higher than the long-term trend due to the opening of CFC2 which is not yet fully utilised. We expect to return to the long-term trend of less than 1.0%. The business monitors this food waste performance indicator to ensure that actual waste does not exceed historical waste levels. Some of this food (despite being accounted for as waste as it is beyond the Ocado guaranteed product life) is still within the use-by date, and is donated to various charities or sold at a discount including at Company Shop Limited (a third party operator which sells to consumers at a discount through their own network).
- *Electricity production:* Some of our food waste is sent to Ancilliary Components Limited, who use the waste to produce electricity.

These initiatives and others are aimed at reducing the Group's effect in the areas of primary environmental impact, namely greenhouse gas emissions and waste.

Potential changes in environmental regulation can impact the operation of the business. Potential regulations restricting the use of plastic bags or governing the maximum weight of vans may change the manner or cost of running the business. Legislation could be introduced to restrict the level of greenhouse gas emissions by the Group. Management monitors these regulatory changes to ensure that it can anticipate any operational impact on the Group.

In recognition of our commitment to environmental issues, Ocado was awarded Gold in the Environment category at the 2013 International Corporate Social Responsibility Excellence Awards and Gold for Environmental Responsibility at the World CSR Awards.

Suppliers and products

We now have around 600 products in our Ocado own-label range. We support British and EU farming, and where possible, source own-label products from the British Isles. All Ocado own-label products are responsibly sourced: Ocado fish is responsibly caught, Ocado fresh meat and poultry is raised to British, EU or New Zealand welfare standards and Ocado boxed eggs are free-range.

GREENHOUSE GAS EMISSIONS

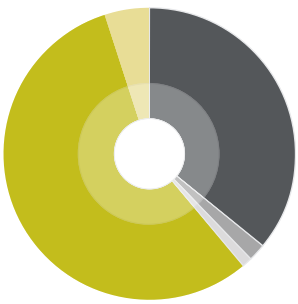
Greenhouse gas emissions are one of the main environmental impacts of the Group. This section outlines the Group's greenhouse gas emissions for the period. The reporting period covered by the emissions data is the same as the financial year, being the 52 weeks ended 1 December 2013. As this is the first year that the Company has collected all of the relevant information on CO_2e emissions, there is no comparative data for the previous financial year.

Gross Emissions — CO_2e tonnes

2012/13

Scope 1 - Direct	38,341
Scope 2 - Indirect	21,457
Total gross emissions (CO_2e tonnes)	59,798

The biggest contributor to the Group's CO_2e emissions comes from the burning of diesel in the lorries that transport orders from the CFCs to spokes and in the customer delivery vans that make deliveries to customers' homes. CFC and spoke electricity consumption is the other major factor which is illustrated with the following emissions chart:



56%	Diesel 33,664
36%	Electricity 21,457
5%	Dry Ice 3,067
2%	Gas 844
1%	Refrigerant 767

INTENSITY MEASURE — CO_2E PER 1,000 ORDERS

2012/13

8.05 tonnes

INTENSITY MEASURE — CO_2E PER EMPLOYEE[1]

2012/13

10.41 tonnes

1. The number of employees used to calculate this intensity measure is 5,742 employees, being the average number of employees over the period.

Methodology

The Group's reported emissions have been prepared with reference to environmental reporting guidelines (June 2013), issued by Defra and the WRI/WBCSD GHG Protocol Corporate Accounting and Reporting Standard Revised (the "GHG Protocol"). The emissions have been calculated using revised carbon conversion factors published by DECC/Defra in May 2013 and Bitzer Report 17 for additional refrigeration gases. The data is sourced from invoices, purchasing requisitions, direct data measurement and estimations where required.

Organisation boundary and responsibility

The emissions data presented includes all the activities where the Company has operational control. Operational control is the basis on which the Company has defined the boundaries for the activities for which it is responsible for the purposes of reporting emissions, in accordance with the GHG Protocol.

Emissions have been reported for the Group's UK and Polish operations for Scope 1 and Scope 2 as required by UK government regulations. We have excluded emissions relating to a third party warehouse which provides additional freezer product storage capacity as this is not in our operational control. Reporting of Scope 3 emissions is not currently required, however we will consider reporting these in the future.

The Morrisons operations commenced after period end, in January 2014, and so do not impact the data presented for the period.

Intensity measure

In order to express our annual emissions in relation to a quantifiable factor associated with activities, the data presented shows the Group's orders as the intensity measure, as this is the most relevant indication of the Group's growth and provides for the best comparative measure over time. By way of comparison, the data presented includes a ratio against the aggregate number of employees over the period as an alternate intensity measure.

Based on extrapolation from previous emissions data collected, the Directors believe that the Group's normalised emissions (normalised by the total number of the Group's orders) will be lower in the future years as compared to the 2012/13 period. The Directors believe that efficiency gains will come from an increase in the volume of orders being fulfilled at CFC Dordon, which opened during the period, the opening of new spokes, which will result in some shorter van routes, and continuing improvements in the Group's delivery routing software, which optimises the delivery route for each van journey and improvements in technology in the CFCs.

Statement of limited assurance

PricewaterhouseCoopers LLP has carried out a limited assurance engagement in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements' (ISAE 3410), issued by the International Auditing and Assurance Standards Board. A copy of the limited assurance report is available in the Responsibility section of the Company's corporate website (www.ocadogroup.com).

Corporate Social Responsibility Report continued

PEOPLE

We deliver superior customer service and business success through our people, which is why it is important for us to appropriately engage, listen to, reward and develop our employees. We continue to focus on the six pillars of our people strategy.

1. We will develop inspirational people managers who lead and motivate successful teams

We have created and rolled-out a management development programme, which gives our employees the opportunity to progress their careers. We run a graduate programme which plays an important part in developing talented people for our future. We have also embedded appraisal processes and succession plans into the business.

2. We will enable our people to drive Ocado to the next level through the right skills and infrastructure

Our in-house training team delivered over 1,200 training sessions during the last year, varying from one to one coaching to group workshops, in subjects ranging from core operational skills to regulatory and compliance education. The team trains across the full spectrum of employees, delivering manual skills training as well as providing management development courses. These training sessions attracted over 8,000 attendees during the period with many people attending several courses.

We keep our organisational structures under review to ensure that they remain efficient and effective and provide employees the support necessary to help us deliver the Company's objectives.

3. We will continuously improve our business through listening to and engaging with our people

Our employees are given a voice through the Ocado Council, our employee representative body, which helps facilitate employee participation and consultation in our rapidly growing business. Representatives of the Union of Shop, Distributive and Allied Workers ("USDAW") participate in the Ocado Council, giving employees a choice of independent or union-sponsored representatives to voice their views on pay, holiday entitlements and the number of working hours, along with other topics of general interest.

We also conduct an annual employee survey across the whole business to measure levels of employee engagement and identify the areas where we can make improvements as an employer.

We engage with our employees in a number of ways to encourage the alignment of employee and business goals. Our employees are kept well informed of the performance of the Group and our business direction through briefing meetings and communications via the intranet, email, our internal magazine and video.

4. We will recognise and reward achievement and desired behaviours

Our employee benefits package includes a pension, life assurance, healthcare, an employee assistance programme, a staff discount on grocery and non-food orders, free delivery on certain days and a discounted company shop. We believe all of our employees should have the opportunity to own a part of the business and have granted share options to all employees as part of their benefits package.

Ocado's staging date for Pensions Auto-enrolment was 1 May 2013. Ocado is keen to ensure that pension choice is a key feature for employees going forward and Ocado now offers a choice of two pensions and two contribution levels to all of its employees: a Group Personal Pension and a Money Purchase scheme. In the three months after our staging date, Ocado's pension participation went from 16% to 82%, with half of the pension participants choosing to contribute more than the legislative minimum. Ocado continues to support its employees through continuous education about pensions. We are proud to have been shortlisted for best auto-enrolment strategy by Workplace Savings and Benefits publication.

We have again offered our employees the opportunity to sign up to a three year Sharesave scheme. The original 2010 Sharesave scheme has now ended with employees able to exercise their options.

5. We will develop an Employer Brand which reflects the real Ocado to attract and retain the best talent

Our employer brand is central to our ability to attract the best talent at the rate we need to match our growth.

We advertise and recruit in-house and externally, and work with local councils and agencies to attract local candidates. Furthermore we cooperate with Welfare to Work agencies, where appropriate, in order to assist unemployed people back into the world of work.

During the period, the average number of employees employed by the Group increased to 5,742 employees, excluding agency workers (2012: 5,256).

6. We will live our values in everything we do

The four Ocado values underpin everything we do, see page 7. To ensure they remain at the core of the business we have values-led monthly recognition schemes for our operational employees and have embedded our values into our appraisal processes.

Diversity

We are committed to carrying out our business in a non-discriminatory way. We are committed to equal opportunities for all of our people, regardless of disability or background. 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, gender, sexual orientation, marital status, political views or religious belief. It is our policy 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 our policy 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.

The charts below show a breakdown of the number of people of each sex who were Directors of the Company, senior managers of the Group and employees of the Group, at the end of the period. When reviewing the Company's succession plans, management is conscious of the need to improve the gender balance in its management positions and employees across the Group.

Human rights

Ocado is committed to upholding and respecting human rights. Whilst we do not operate a separate human rights policy, these values are reflected in our equal opportunities policy, which is regularly reviewed.

We expect all our suppliers to operate in a fair and honest way towards their employees and with whom they do business.

COMMUNITY

We support the community through a number of initiatives.

Charity of the Year: The Ocado 2013 Charity of the Year was Macmillan Cancer Support, which was elected by our employees through the annual employee survey. During the period, our charity committee organised a number of events, which helped to raise £62,255 for Macmillan.

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. In June 2013, we worked with Peace One Day to launch a nationwide poetry competition, which encouraged children to explore the theme of peace and what it means to them. We continue to co-sponsor the Peace One Day Primary Education Resource and during the period made a donation of £51,820.

Root Camp: Root Camp is an organisation providing unique and engaging camping cookery courses for teenagers. During the period, we made a donation of £15,000 to sponsor places on the residential course for underprivileged children.

Waitrose Foundation: We make donations to the Waitrose Foundation through our Sourcing Agreement with Waitrose. The Waitrose Foundation is a partnership created in 2005 to help improve the lives of farm workers and smallholders in South Africa, Ghana and Kenya who grow produce for the Waitrose Foundation range of products.

Prince of Wales's Charitable Foundation: During the period, we made a donation of over £145,000 to the Prince of Wales's Charitable Foundation, a group of 20 non-profit organisations, through our sales of Duchy branded products.

Other charities: During the period we made smaller donations totalling £34,880 and donated Ocado vouchers to approximately 700 other registered charities.

Political donations

No political donations were made by the Group to any political party, organisation or candidate during the period (2012: nil).

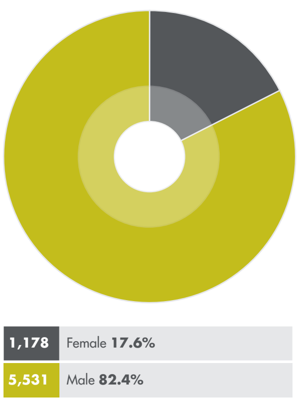
STRATEGIC REPORT

The Company's Strategic report is set out on pages 2 to 51.

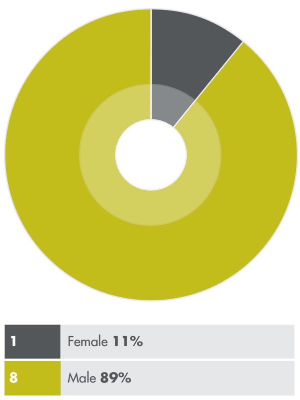
Approved by the Board and signed on its behalf by

Neill Abrams
Legal and Business Affairs Director and Company Secretary
12 March 2014
Ocado Group plc

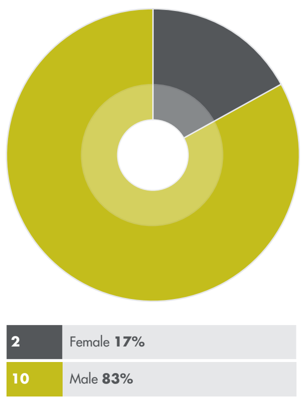
ALL EMPLOYEES [1]



SENIOR MANAGERS [2]



DIRECTORS



[1] Number of employees as at period end (including employees in Poland).
[2] Senior Managers means the Management Committee excluding Executive Directors.

GOVERNANCE


Vaseline
LIP THERAPY
ALOE VERA
GUACAMOLE
Montezuma's
MILK CHOCOLATE
MINTED
WITH CRUNCHY PEPPERMINT
NEW RECIPE
the original organic baby food co.
FOR FLAVOURSOME HOME COOKING
12 OXO Vegetable

"…We deliver the widest range and the freshest produce"

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ocado

Board of Directors

Sir Stuart Rose
Chairman
Age 65

Appointment to the Board
11 March 2013

Committee Membership
Nomination

External Appointments
- Chairman of Fat Face Group Limited
- Chairman of A. Levy & Son Limited (trading as Blue Inc.)
- Chairman of Oasis Healthcare Limited
- Non-Executive Director of Woolworths Holdings Limited, listed in South Africa

Relevant Experience
Sir Stuart Rose has worked in retail for over 40 years. He has held Chief Executive Officer positions at Argos plc, Booker plc, Arcadia Group plc and Marks and Spencer plc. He was Chairman of Marks and Spencer plc from 2008 to 2011. Sir Stuart was a Non-Executive Director at Land Securities Group plc until January 2014. Sir Stuart was knighted in 2008 for services to the retail industry and corporate social responsibility.

Timothy Steiner
Chief Executive Officer
Age 44

Appointment to the Board
13 April 2000

Relevant Experience
Tim is a founding Director. Prior to Ocado, he spent eight years as a banker at Goldman Sachs, during which time he was based in London, Hong Kong and New York in the Fixed Income division. Tim graduated from Manchester University in 1992 with an honours degree in Economics, Finance and Accountancy.

Duncan Tatton-Brown
Chief Financial Officer
Age 48

Appointment to the Board
1 September 2012

External Appointments
- Non-Executive Director and Audit Committee Chairman of Rentokil Initial plc

Relevant Experience
Prior to joining Ocado, Duncan was Chief Financial Officer of Fitness First plc, and previously Group Finance Director of Kingfisher plc, one of the world's largest home improvement retailers. He has also been Finance Director of B&Q plc, Chief Financial Officer of Virgin Entertainment Group and held various senior finance positions at Burton Group Plc. Duncan holds a masters degree in Engineering from King's College, Cambridge. He is also a member of the Chartered Institute of Management Accountants.

Jason Gissing
Co-founder and Commercial Director
Age 43

Appointment to the Board
2 February 2000

Relevant Experience
Jason is a founding Director. He has Board responsibility for Ocado's retail activities, including buying, supplier and customer relationships, marketing and all brand development. He was previously Chief Financial Officer for almost ten years. From 2010 to 2012 Jason was the champion of all employee and internal cultural matters as the business made a transition from a private to listed company. 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
Age 49

Appointment to the Board
3 February 2012

Relevant Experience
Mark was Head of Technology at Ocado from 2001 until he joined the Board in 2012. 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 joining Ocado, Mark held a number of IT positions at the John Lewis Partnership, including Head of Selling Systems at Waitrose. He graduated from University College London with a degree in Physics.

Neill Abrams
Legal and Business Affairs Director and Company Secretary
Age 49

Appointment to the Board
8 September 2000

External Appointments
- Non-Executive Director of Mr Price Group Limited, listed in South Africa

Relevant Experience
Neill has been a Director since 2000, having advised Ocado since its founding. He has Board responsibility for legal, insurance, risk management and human resources. Prior to Ocado, he 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 in 1989 with a masters degree in Law, 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 Africa Advocate.

David Grigson

Non-Executive Director and Senior Independent Director

Age 59

Appointment to the Board

9 March 2010

Committee Membership

Audit, Remuneration, Nomination

External Appointments

- Chairman of Trinity Mirror plc
- Chairman of Creston plc
- Chairman of Investis Limited
- Non-Executive Director and Audit Committee Chairman of Standard Life plc
- Director/Trustee of the Dolma Development Fund

Relevant Experience

David 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 graduated from the University of Manchester with a degree in Economics, and is also a member of the Institute of Chartered Accountants of England and Wales.

Ruth Anderson

Non-Executive Director

Age 60

Appointment to the Board

9 March 2010

Committee Membership

Audit, Remuneration, Nomination

External Appointments

- Non-Executive Director of Travis Perkins plc
- Non-Executive Director of Coats plc
- Non-Executive Director of The Royal Parks, an executive agency of the Department of Culture, Media and Sport

Relevant Experience

Ruth was a Vice-Chairman of KPMG in the UK, having joined the company in 1976 and becoming Partner in 1989. She has worked extensively as an adviser with UK and international businesses. Ruth graduated from Bradford University with an honours degree in French and Spanish. She is also a fellow of the Institute of Chartered Accountants of England and Wales and a member of the Chartered Institute of Taxation.

Douglas McCallum

Non-Executive Director

Age 47

Appointment to the Board

3 October 2011

Committee Membership

Remuneration, Nomination

External Appointments

- Chairman of Trainline Investment Holdings Limited
- Cabinet Office Digital Advisory Board
- President of eBay for Charity

Relevant Experience

Douglas has been a pioneer of the internet industry for 18 years; for the last 12 years at eBay Inc. where he led the UK business and then turned around the pan-European business. Prior to joining eBay Inc. he was founder and general manager of a number of businesses in the internet, broadcasting, software and hardware industries. Douglas read Politics, Philosophy and Economics at the University of Oxford, and has an MBA from Harvard Business School.

Alexandra Mahon

Non-Executive Director

Age 40

Appointment to the Board

1 June 2012

Committee Membership

Audit, Nomination

External Appointments

- Chief Executive Officer of Shine Group
- Non-Executive Director of the Edinburgh TV Festival

Relevant Experience

Before Shine Group and 21st Century Fox, Alex spent seven years in the television industry at talkbackTHAMES, FremantleMedia and RTL Group. Previously she worked in the internet sector as a consultant. She holds a Physics degree from Imperial College London and a Physics PhD from Imperial College and the Institute of Cancer Research.

Jörn Rausing

Non-Executive Director

Age 54

Appointment to the Board

13 March 2003

Committee Membership

Nomination

External Appointments

- Head of Mergers & Acquisitions at Tetra Laval Group
- Member of Tetra Laval Group Board, and Chairman of its Remuneration Committee
- Member of the Board of Alfa Laval AB
- Member of the Board of DeLaval Holdings AB

Relevant Experience

Jörn has over 20 years experience in corporate development and international mergers and acquisitions. Jörn holds a degree in Business Administration from Lund University, Sweden.

Robert Gorrie

Non-Executive Director

Age 54

Appointment to the Board

1 April 2000

Committee Membership

Nomination

Relevant Experience

Robert originally joined the Board in 2000 as Logistics Director, before becoming a Non-Executive Director in 2006. He was previously 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 Robert 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.

Chairman's Governance Introduction

"The Board is committed to maintaining and improving appropriate structures and processes to support the effective management of a growing business."

Dear Shareholder,

As Chairman of the Board, I am pleased to present the Company's Statement of corporate governance on behalf of the Board.

This report sets out the Company's governance policies and practices and includes details of how the Company applies the principles of the UK Corporate Governance (the "2012 Code"). The concept of publicly listed companies necessarily creates distance between the owners of companies and their operators, and the obligation of the board of each company is to ensure that the values of that company and the system by which it is directed and controlled gives assurance to the owners (and other stakeholders) that strategy is set, risks are evaluated and operations are carried out knowledgeably, transparently and with accountability. The 2012 Code sets out principles that provide guidance for achieving effective board behaviour. However, the 2012 Code is not a rigid checklist that can or should be applied mechanically, as it expressly recognises through its "comply or explain" approach.

There are a number of provisions of the 2012 Code that I believe are so important that they are worth repeating here:

- The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company.
- The "comply or explain" approach is the trademark of corporate governance in the UK.
- In providing an explanation of non-compliance, the company should aim to illustrate how its actual practices are consistent with the principle to which the particular provision relates, contribute to good governance and promote delivery of business objectives.
- In their responses to explanations, shareholders should pay due regard to companies' individual circumstances and bear in mind in particular the size and complexity of the company and the nature of the risks and challenges it faces.
- The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.
- There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

The Board is committed to maintaining and improving appropriate structures and processes to support the effective management of a growing business.

Leadership and effectiveness

This year an independent external evaluation of the Board, its Committees and individual Directors was carried out by Independent Audit Limited. A description of the exercise and outcomes is set out on page 63. The Board recognises the importance of continual and constructive evaluation of its performance, and will continue to conduct annual performance reviews internally with external input at least every three years.

The Board believes that a diverse culture is a key factor in driving the Company's success. Diversity is discussed in this report on page 61.

Relations with shareholders

We are committed to maintaining an active dialogue with our shareholders. Further details regarding engagement with our shareholders are set out on page 68. David Grigson, the Senior Independent Director and I are available to the Company's shareholders for such dialogue. Doug McCallum, the Chairman of the Remuneration Committee and I consult annually with our major shareholders on matters related to the remuneration of Executive Directors. Our Chief Executive Officer and Chief Financial Officer also maintain a regular dialogue with major shareholders.

Changes to the Board composition

Lord Grade retired as Chairman at the Group's annual general meeting on 10 May 2013. The Board would like to thank Lord Grade for his valued contribution to Ocado. We are grateful for Lord Grade's guidance and expertise during his six and a half years with Ocado and we wish him well in his retirement. Non-Executive Director, Wendy Becker, left the Company on 21 January 2013 to take up an executive role at Jack Wills Limited.

Annual General Meeting

I would like to encourage our shareholders to attend our Annual General Meeting which will be held at 3pm on 7 May 2014 at One Bunhill Row, London, EC1Y 8YY. It provides an excellent opportunity to meet the Executive Directors and Non-Executive Directors on the Board.

Sir Stuart Rose
Chairman
Ocado Group plc

Statement of Corporate Governance

Introduction

The following sections explain how the Company applies the main principles set out in the UK Corporate Governance Code, September 2012 issued by the Financial Reporting Council (the "2012 Code"), as required by the Listing Rules of the Financial Conduct Authority and meets the relevant information provisions of the Disclosure and Transparency Rules of the Financial Conduct Authority.

This Statement of corporate governance covers the following areas:

- the structure and role of the Board and its committees;
- the Board's effectiveness;
- relations with the Company's shareholders and the AGM; and
- the reports of the Nomination Committee and the Audit Committee.

The report of the Remuneration Committee is set out separately in the Directors' remuneration report on page 73 to 75.

The Group's risk management and internal control framework and the Group's principal risks and uncertainties are described on pages 44 to 47. These sections form part of this Statement of corporate governance. The Directors' report on pages 108 to 113 also contains information required to be included in this Statement of corporate governance.

Compliance with the 2012 Code

The Company has complied with the principles and provisions of the 2012 Code except where it has explained otherwise together with the reasons for, and period of, non compliance. The Company aims to explain how its practices are consistent with the principle to which the particular provision relates, contribute to good governance and promote delivery of business objectives.

This separate Statement of corporate governance forms part of the Directors' report and accordingly is approved by the Board and signed on behalf of the Board by its Legal and Business Affairs Director. Certain parts of this Statement of corporate governance have been reviewed by the Company's auditors, PwC, for compliance with the 2012 Code, to the extent required.

Further information on the 2012 Code can be found at www.frc.org.uk.

Governance structure

The structure and business of the Board is designed to ensure that the Board focuses on strategy, monitoring the performance of the Group, governance and risk and control issues.

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's main responsibilities and the key actions carried out during the period are set out below. The Board delegates certain matters to the Board Committees, and delegates the detailed implementation of matters approved by the Board and the day-to-day operational aspects of the business to the Executive Directors.

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Statement of Corporate Governance continued

Board

Responsibility	Specific actions during period		
Setting and reviewing the Group's long-term objectives and commercial strategy	Annual strategy meeting devoted to reviewing and agreeing the Group's strategic direction and regular Board updates.	Overseeing and approving the Group's agreement with Morrisons.	Receiving reports from senior management on trading, business performance, financing and key operational projects.
Risk management and accountability controls	Discussing risk management and internal control processes and reviewing key risk areas.	Reviewing and approving the Group's regulatory results announcements and annual report.	Receiving update reports at Board meetings on health and safety, investor relations and legal and company secretarial matters.
Oversight of the Group's operations	Approving the annual budget, the business plan for the Group and individual capital expenditure projects in respect of CFC1, CFC2 and new spokes.	Receiving reports on and discussing the Group's marketing and commercial initiatives.	Visiting CFC2 to assist in understanding the operational issues the business faces.
Governance	Approving the new Chairman Designate.	Approving of corporate governance arrangements and policies.	Discussing management succession plans and Board composition.

Delegated to

Executive Directors

Review operational performance and execute strategic decisions approved by the Board. Implement projects and monitors operations

Board Committees

- Audit Committee
- Remuneration Committee
- Nomination Committee

See page 59 for details on the Board's Committees.

Treasury Committee

Oversees the treasury policy concerning the Group's cash and deposits, investments, foreign exchange and applicable interest rates.

Risk Committee

Oversees risk control processes and risk analysis as part of normal business decision-making.

IT Security Committee

Monitors the Group's IT security measures.

Board Committees

Certain aspects of the Board's responsibilities have been delegated to appropriate committees to ensure compliance with the regulatory requirements including the Companies Act, the Listing Rules and the 2012 Code. 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.

A summary of the terms of reference of each Board committee is set out in the table below. The full terms of reference are available on the Company's corporate website (www.ocadogroup.com) and reports by each committee are given on pages specified in the below table:

Committee	Role and terms of reference	Membership required under the terms of reference	Minimum number of meetings per year	Committee report on pages
Audit	Reviews and reports to the Board on the Group's financial reporting, internal control and risk management systems, the independence and effectiveness of the auditors and monitors the need for an internal audit function. Makes 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.	› At least three members. › All members should be independent Non-Executive Directors.	Three	66 – 69
Remuneration	Determines the remuneration, bonuses, long-term incentive arrangements, contract terms and other benefits in respect of the Executive Directors, the Chairman and the Company Secretary.	› At least three members. › All members should be independent Non-Executive Directors.	Two	72 – 75
Nomination	Undertakes an annual review of succession planning and ensures that the membership and composition of the Board, including the balance of skills, remains appropriate. Makes recommendations for the membership of the Board, Audit Committee and the Remuneration Committee.	› All Non-Executive Directors. › Minimum of three members. › A majority of the members should be independent Non-Executive Directors.	Two	70 – 71

Statement of Corporate Governance continued

Division of Director responsibilities

The primary responsibilities of the Chief Executive Officer, the Chairman, the Senior Independent Director, the Company Secretary and the Non-Executive Directors are set out in writing and provide a system of checks and balances in which no individual has unfettered decision-making power.

CHAIRMAN

Sir Stuart Rose joined the Board on 11 March 2013 as an independent Non-Executive Director and Chairman Designate and succeeded Lord Grade as Chairman at the annual general meeting on 10 May 2013.

Sir Stuart is responsible for:

- the leadership of the Board;
- ensuring the Board's effectiveness; and
- influencing the direction of the Board's agenda.

CHIEF EXECUTIVE OFFICER

Tim Steiner is the Company's Chief Executive Officer.

Tim is responsible for:

- day-to-day management of the Group;
- 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.

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.

David's role involves:

- providing a sounding board for the Chairman;
- serving as an intermediary for the other Directors when necessary; and
- being available to shareholders to assist in resolving any concerns of such shareholders.

EFFECTIVE DIVISION OF RESPONSIBILITIES AND BOARD OPERATION

NON-EXECUTIVE DIRECTORS

The Chairman and the Non-Executive Directors bring wide and varied commercial experience to the Board's and the committees' deliberations. All Directors are encouraged to challenge and bring independent judgement to bear on all matters, whether strategic or operational.

Each Non-Executive Director's letter of appointment to the Board sets out clearly the expected time commitment from them to the Company.

COMPANY SECRETARY

The Board is assisted by the Company Secretary (who is also the Legal and Business Affairs Director), Neill Abrams. All Directors have access to the advice and services of the Company Secretary.

The Company Secretary is responsible for:

- ensuring that the Board procedures are followed;
- governance matters; and
- ensuring good information flows within the Board and its committees.

The appointment and removal of the Company Secretary is one of the matters reserved for the Board.

Current Board composition

The names 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 54 to 55. As at the date of this Annual Report, the Board comprises 12 members, including the Chairman, five Executive Directors and six Non-Executive Directors.

Board changes

There were a number of changes to the Board since the prior period, set out in chronological order in the following table:

Director	Position	Date of Appointment	Date of Resignation
Wendy Becker	Non-Executive Director	—	21/01/2013
Sir Stuart Rose	Non-Executive Director	11/03/2013	—
Lord Grade	Chairman	—	10/05/2013
Sir Stuart Rose	Chairman	10/05/2013	—

In addition to the above effective changes, Jason Gissing, co-founder and Commercial Director, will retire from the Board at the Annual General Meeting of the Company to be held on 7 May 2014.

External Board appointments

There have been a number of changes to the Directors' external appointments as set out in the table below. The Chairman and the Board are kept informed by each Director of any proposed external appointments or other significant commitments as they arise. Each Director's biographical details and significant time commitments outside of the Company are set out on pages 54 to 55.

Director	Change in commitment	Effective date of change
Sir Stuart Rose	Appointed Chairman of Fat Face Group Limited	March 2013
	Appointed Chairman of Oasis Healthcare Limited	October 2013
	Resigned as Non-Executive Director of Land Securities Group plc	January 2014
Ruth Anderson	Appointed Non-Executive Director of Coats plc	January 2014
David Grigson	Appointed Chairman of Investis Limited	November 2013
Douglas McCallum	Appointed Chairman of Trainline Investment Holdings Limited	April 2013

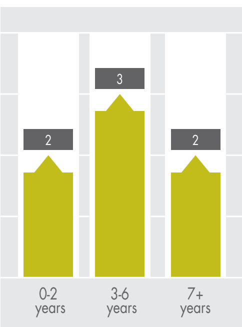
The Board is satisfied that the changes in the Chairman's significant outside commitments during the year do not impact on his ability to make the necessary time commitments to the Company.

Board diversity

A key objective of the Board is to ensure that its composition is sufficiently diverse and reflects a broad range of skills, knowledge and experience to enable it to meets its responsibilities. The Board's diversity policy contains a number of measurable objectives, including a commitment to have a meaningful representation of women on the Board and in senior positions in the Company and a commitment to only engage executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms. The Nomination Committee monitors the progress made by the Company in achieving these objectives, though its notes it will take some time for the Company to meet its gender diversity objectives.

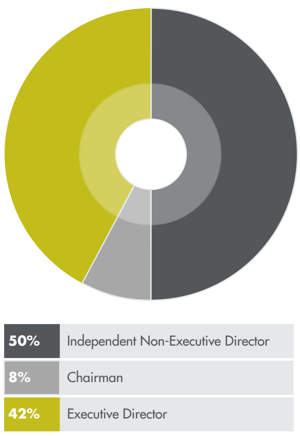
The charts below illustrate gender diversity on the Board and length of tenure of Board members. We are conscious of the fact that since the resignation of Wendy Becker the number of women on the Board has fallen below 20%. While we have never believed it was in the interests of the Company and its shareholders to set prescriptive targets for gender on the Board, and our future appointments will continue to be based on objective criteria to ensure that we appoint the best individuals for the role, we are committed to increasing the percentage of women on our Board and the number of women at senior levels of leadership within the Company. Diversity will remain an active consideration when changes to the Board's composition are contemplated. For a description of diversity considerations for all employees see page 51. The Board also takes into account the length of tenure of existing Directors when considering Directors re-appointments and succession plans. Both Jörn Rausing and Robert Gorrie have served as Directors for over 11 years and accordingly their re-appointments to the Board are subject to particular scrutiny. For the reasons noted on page 62 the Board is satisfied that their re-appointment remains appropriate.

LENGTH OF TENURE OF CHAIRMAN & NON-EXECUTIVE DIRECTORS



BOARD DIVERSITY

BOARD INDEPENDENCE



Statement of Corporate Governance continued

Independence

The 2012 Code provides that the Board should identify in the annual report each non-executive director that it considers to be independent. That is, to determine whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.

The chart above illustrates the current composition of the Board in respect of the independence of its members under the 2012 Code.

The Board considers Sir Stuart Rose to have been independent on his appointment and continues to be so; it also considers all of the other Non-Executive Directors (David Grigson, Ruth Anderson, Douglas McCallum, Robert Gorrie, Jörn Rausing and Alex Mahon) to be independent.

The 2012 Code provides that the Board should state its reasons if it determines that a Director is independent notwithstanding the existence of certain relationships or circumstances, seven examples of which are set out in provision B.1.1 of the 2012 Code. The guidance from PIRC states that: "A company's explanation that a director is independent in character does not designate the director independent. The board must provide evidence and a detailed defence of a director's independence if it considers a specific conflict to be immaterial."

Scrutiny by the Board

The Board has scrutinised the factors relevant to its determination of the independence of the Chairman, Sir Stuart Rose, and the Non-Executive Directors, Jörn Rausing and Robert Gorrie. The question of independence arises in connection with the Main Principle B.1 of the 2012 Code that a board should have "the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively."

Sir Stuart Rose

Sir Stuart Rose's remuneration includes an initial one-off award of 452,284 Ocado shares. This award was approved by shareholders at the 2013 annual general meeting. The Board believes that Sir Stuart's remuneration aligns his interests with those of the Company and does not believe that the share award compromises his independence. Relevant considerations are that (i) the award of shares was conditional on Sir Stuart acquiring at least an equal number of shares at market value (Sir Stuart acquired 750,000 of the Company's ordinary shares on his own account); (ii) that any share award will not vest until after three years of service as Chairman, that is 10 May 2016, provided that, on that date, he remains a Director of the Company; and (iii) even then, that Sir Stuart will not be entitled to sell any shares awarded to him until a year after he eventually leaves the Board. The Board does not consider the share award to be equivalent to participation in the Company's share option or performance-related pay scheme, since there are no performance conditions attached to the receipt of the shares (only continued service). There is also no possibility of any conflict arising between the terms for receipt of these shares and determination of the achievement or otherwise of any performance related scheme for the Executive Directors and senior management. Accordingly, Sir Stuart was considered independent on appointment to the Board and to the role of Chairman.

Jörn Rausing

Jörn Rausing is a beneficiary of the Apple II Trust, a material (approximately 11%) shareholder of the Company. In addition he has been a Board Director for 11 years, although less than four of these have been in the era of the Company as a listed company.

As the Board concluded and reported in the 2012 annual report and accounts, his continued membership of the Board is considered to be beneficial to the Company and supports the principles of the 2012 Code. His significant business experience at Tetra Laval enhances the balance of skills and experience on the Board, and reinforces the long-term perspective of the Board's decision making.

The Board considers Jörn to be independent in character and judgement and does not believe that the size of the Apple II Trust's shareholding or the length of Jörn's tenure on the Board amounts to a relationship or circumstance which affects his judgement. Jörn is not a representative of the Apple II Trust, nor does the Apple II Trust have any contractual or other right to appoint a Director to the Board. While Jörn benefits from the shareholding of the Apple II Trust, this is no different from the position of each of the other Non-Executive Directors, all of whom benefit from their own respective shareholdings. Jörn remains a Director of the Company because the Board believes that is in the best interests of the Company.

Robert Gorrie

Robert Gorrie has been a Director of the Company for 14 years, but less than four of these have been in the era of the Company as a listed company. Robert chairs the Ocado Council, an employee representative forum that was set up to provide primarily hourly paid employees with direct access to the Board. He received an additional £11,000 annually for performing this role (2012: £8,000). Robert was previously employed in an executive role as the Logistics Director of the Company but more than five years ago, the period of time that the 2012 Code notes as relevant.

The Board does not consider the Ocado Council services to constitute a material business relationship with the Company, nor this additional remuneration to be material in the context of impacting Robert's judgement. Moreover, the Board considers his role on the Ocado Council to be a positive asset in the promotion of good governance. It provides the Non-Executive Directors with a direct channel of communication to employees and enhances the system of checks and balances that underpins good corporate governance. The Board believes it increases their understanding of the business, increases the effectiveness of the Board and thereby reduces risk; it therefore augments the Company's compliance with the provisions of the 2012 Code. Robert's knowledge of the Company's complex IT and logistics operations assists the Board in its formulation of strategy, and also supports the Main Principle B.1. As with Jörn Rausing, the Board does not believe that Robert's length of tenure on the Board affects his judgement.

Determination of independence

The 2012 Code recommends that at least half of the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. Since, excluding the Chairman, there are six Non-Executive Directors all determined by the Board to be independent and five Executive Directors, the Board complies with this recommendation.

Similarly, the composition of the Audit Committee, Nomination Committee and the Remuneration Committee comply in all respects with the independence provisions of the 2012 Code.

Review of composition

The Board and the Nomination Committee reviewed and discussed the Board and the Board committee size and composition during the period. Certain changes were made, which are described on page 71. The Board will continue to keep the Board size and composition under regular review.

Review of Board Effectiveness

The annual Board effectiveness review provides a useful opportunity for the Directors to reflect on their collective and individual effectiveness and consider changes. The review for 2013 was facilitated externally by Independent Audit Limited. The review followed two years in which an internally facilitated review had been conducted by the Company Secretary, using a questionnaire and a process designed externally.

Independent Audit Limited (who have no other connection to the Company, and are considered to be independent) carried out a Board review which included conducting individual interviews with the Directors and the Deputy Company Secretary and observing a Board meeting. The interviewees were asked their views on a range of subjects including the role of the Board and the Board committees, the quality of the Board and committee discussions, the relationship between the Executive Directors and the Non-Executive Directors, and the Board and committee discussions on various topics such as strategy, risk, assurance, Board composition and succession planning.

The review concluded with a final report and feedback session with the Chairman and a presentation to and discussion with the Board at a Board meeting. The report contained extensive commentary on the effectiveness of the Board, the committees, the Non-Executive Directors, the Executive Directors as well as on the Company Secretariat and the support provided to the Board by management. A key observation was that the Board will need to keep under careful review the composition, skills and experience of Board members to ensure that it can continue to provide the necessary steer and guidance for the Company as it enters an important stage of its development, including potential overseas expansion. As part of this, overseeing employee development and continuing to evolve the Company's governance and risk management processes were seen as some of the challenges facing the Board in future. The Board and separately each of the committees discussed the report including the key considerations. The Board will take the findings of the report into account in formulating its future plans.

The Board recognises that a continuous and constructive evaluation of its performance is an important factor in helping the Board realise its maximum potential. The Board intends to continue to conduct annual performance reviews, with external oversight of the process at least every three years.

Apart from the formal review of the Board's effectiveness, the Chairman and the Non-Executive Directors met without the Executive Directors being present to discuss the performance of the Board and the Executive Directors. The Senior Independent Director and the Non-Executive Directors also met to discuss the performance of the Chairman without the Executive Directors or the Chairman being present and subsequently met with the Chairman to provide feedback. The Chairman regularly met with the Executive Directors during the period, on a range of Company matters and responsibilities.

Director election

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). At the last annual general meeting on 10 May 2013 all the then-current Directors other than Lord Grade stood for reappointment, and were duly elected. Each current Director, except Jason Gissing, will seek re-election by shareholders at the Company's AGM.

The rules that the Company has about the appointment and replacement of Directors are described in the Directors' report on page 109.

The explanatory notes set out in the Notice of Meeting state the reasons that the Board believes each Director proposed for re-election at the AGM should be reappointed. The Board has based, in part, its recommendations for re-election on its review of the results from the Board evaluation process, on the reviews conducted at the meetings of the Non-Executive Directors and the Chairman's review of individual evaluations; it has 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 (noted below) and other responsibilities, taking into account a number of considerations including outside commitments during the period).

Statement of Corporate Governance continued

Board and Committees attendance

The attendance record of the Directors at scheduled Board and committee meetings during the period is set out in the following table. The Board scheduled 14 meetings during the period and ad hoc meetings and conference calls were also convened to deal with specific matters which required attention between scheduled meetings, including the Morrisons agreement. The composition of the Board and committees changed during the period, as set out above and in each of the Board committee's description set out below; hence Directors did not attend all of the relevant meetings during the period.

	Board of Directors		Audit Committee		Remuneration Committee		Nomination Committee	
	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible
Executive Directors								
Tim Steiner	14	14	—	—	—	—	—	—
Duncan Tatton-Brown	14	14	—	—	—	—	—	—
Neill Abrams	14	14	—	—	—	—	—	—
Jason Gissing	14	14	—	—	—	—	—	—
Mark Richardson	14	14	—	—	—	—	—	—
Non-Executive Directors								
Sir Stuart Rose (Chairman)	11	11	—	—	—	—	—	—
David Grigson	14	14	5	5	3	3	2	2
Jörn Rausing	12	14	—	—	2	2	2	2
Ruth Anderson	14	14	5	5	5	5	2	2
Robert Gorrie	14	14	1	1	2	2	2	2
Douglas McCallum	13	14	—	—	5	5	2	2
Alex Mahon	13	14	5	5	—	—	2	2
Former Directors								
Lord Grade	6	6	—	—	—	—	2	2
Wendy Becker	2	2	—	—	1	1	1	1

Notes:

Sir Stuart Rose joined the Board of the Company on 11 March 2013. Lord Grade resigned from the Board of the Company effective on 10 May 2013. Wendy Becker resigned from the Board of the Company effective on 21 January 2013. Where a Director has not attended a Board or Committee meeting, it is due to a conflicting prior commitment.

Board induction and professional development

The Chairman and the Company Secretary are responsible for preparing and coordinating an induction programme for newly appointed Directors. The programme includes meeting with members of management and the Company Secretary and arrangements to learn about the business operations including a CFC visit, accompanying a CSTM on a delivery route and doing a personal shopper shift in the CFC. The Director also receives an induction pack comprising the Group's key Board and governance documents and policies, and training from the Company's solicitors on their duties, responsibilities and liabilities as a Director of the Company. Depending on the Director role, a newly appointed Director may meet with the Company's shareholders, brokers and/or auditors.

Every Director has access to appropriate training as required following their appointment and is encouraged to develop their understanding of the Group. The Non-Executive Directors are offered the opportunity to join two non-executive director network groups which provide access to know-how on current issues relevant to the role of company director. The members of the Audit Committee received training from the Company's auditors, PwC, on a number of topics, including the new narrative reporting regulations and changes to the role of the Audit Committee under the 2012 Code. Members of the Audit Committee also receive written know-how and technical updates from PwC to keep them abreast of the latest accounting, auditing, tax and reporting developments. The members of the Remuneration Committee received know-how and updates from the Remuneration Committee's remuneration advisers, Deloitte LLP, on the new director remuneration legislation.

Information

The Chairman is responsible for ensuring that all of the Directors are properly briefed on issues arising at Board meetings and that they have full and timely access to relevant information. To enable the Board to discharge its duties, all Directors receive appropriate information from time-to-time, including briefing papers distributed in advance of the Board meetings.

Directors can, where they judge it to be necessary to discharge their responsibilities as Directors, obtain independent professional advice at the Company's expense. The Board committees have access to sufficient resources to discharge their duties, including external consultants and advisers.

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 him or her 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 or her duties to the Company and his or her 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 or except, in one instance, a Director whose spouse is a director of a company that has been supplying services to the Company since before that Director's appointment.

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 his or her 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.

Shareholder relations

Investor relations

The Company keeps shareholders informed of its strategy and progress. The Company regularly meets with its large investors and institutional shareholders who, along with analysts, are also invited to presentations by the Company after the announcement of the Company's results. 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 Board meetings on the main changes to the composition of the Company's share register. Jörn Rausing is also a beneficiary of the Apple II Trust, one of the Company's largest shareholders.

Sir Stuart Rose, the Chairman, and David Grigson, the Senior Independent Director, are available to the Company's shareholders for discussions. During the period, the Chairman and the Chairman of the Remuneration Committee met with the Company's largest shareholders with regards to specific Director remuneration topics. The shareholder consultation matters are described in the Directors' remuneration report on page 77.

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.

Formal reporting to shareholders

The Company reports to its shareholders in a number of ways including formal regulatory news service announcements in accordance with the Company's reporting obligations, interim management statements of quarterly sales performance published in March and September each year, the preliminary announcement of annual results, the annual report and the half-year report, and investor presentations slides and videos. The Company makes the documents and other information concerning the Company available on its corporate website, www.ocadogroup.com.

The Directors take responsibility for preparing this Annual Report. The statement of Directors' responsibility on page 113 of this Annual Report is made at the conclusion of a robust and effective process undertaken by the Company for the preparation and review of the Annual Report. The Directors believe that these well established arrangements, which involve the Audit Committee, enable them to ensure that the information presented in this Annual Report complies with the disclosure requirements in the Companies Act and is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. In addition to this Annual Report, the Company's internal processes cover (to the extent necessary) the half-year report, interim management statements and other financial reporting. The Company's internal processes in the preparation and review of this Annual Report (and other financial reporting) include (but are not limited to): (1) review of iterations of the Annual Report by the Executive Directors and the full Board; (2) focused review of specific sections of the Annual Report by the relevant Board committees; (3) Audit Committee review of a management report on accounting estimates and judgements and auditor reports on internal controls, accounting and reporting matters and management representation letter concerning accounting and reporting matters; (4) Audit Committee regularly reporting to the Board on the discharge of its responsibilities; (5) input from both internal and external legal advisers and other experts to cover relevant regulatory and governance obligations; (6) discussions between contributors and management to identify relevant and material information; (7) detailed debates and discussions concerning the principal risks and uncertainties; (8) review and approval by the external auditors; and (9) separate approval by the Director of Legal and Business Affairs, the Board committees and the Board.

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 108 to 113.

The Company's Annual General Meeting

Shareholders will have the opportunity to meet and question all of the Directors at the AGM, which will be held at 3pm on 7 May 2014 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 the shareholders before the AGM. Shareholders who are unable to attend the AGM are encouraged to vote in advance of the meeting, either online at www.ocadoshares.com or by using the proxy card which will be sent with the Notice of Meeting (if sent by post) or can be downloaded at www.ocadogroup.com.

At last year's annual general meeting, all resolutions were passed with votes in support ranging from 76.54% to 100%.

Audit Committee Report

"The Audit Committee plays an important role in supporting the Board to ensure that the Annual Report is fair, balanced and understandable."

Dear Shareholder,

In the year when the Company completed the financially significant Morrisons agreement, a key focus for the Audit Committee was assessing the impact on the reporting of the Group's financial position and performance and the associated accounting issues.

This report also sets out the other significant accounting judgements and estimates which we considered, together with details of our review of risk management.

We place great importance on the quality, integrity and independence of the external auditors, PricewaterhouseCoopers LLP, and took steps to satisfy ourselves that high standards were achieved, including evaluating their performance by seeking feedback from senior management as well as the Audit Committee members. We are satisfied that we can recommend then for reappointment for the forthcoming year.

Before making this recommendation we specifically considered the changing regulatory position with regard to the retention of audit firms, but concluded that this was not the right time to tender the external audit contract.

I will be available at the AGM to answer any questions about the work of the Audit Committee.

Ruth Anderson
Audit Committee Chairman

How the Audit Committee works

Membership and meetings

The membership of the Audit Committee together with the appointment dates, is set out below:

Member	Audit Committee member since
Ruth Anderson (Chairman)	9 March 2010
David Grigson	9 March 2010
Alex Mahon	1 June 2012

The composition of the Audit Committee changed during the period with Robert Gorrie standing down from the Audit Committee in February 2013. The appointments of Ruth Anderson and David Grigson were renewed for a further three-year period in early 2013.

The 2012 Code requires at least one member of the Audit Committee to have recent and relevant financial experience. Two members of the Audit Committee (Ruth Anderson and David Grigson) are considered by the Board to have competence in accounting and/or auditing and recent and relevant financial experience. Both have professional qualifications with the Institute of Chartered Accountants of England and Wales. The biography of each member of the Audit Committee is set out on pages 54 to 55.

Other attendees at the Audit Committee meetings include:

Attendees	Regular attendee	Attend as required
Chief Financial Officer	x	
Legal and Business Affairs Director	x	
Director of Finance and Risk	x	
Deputy Company Secretary	x	
Head of Risk Management		x
External auditors	x	
Senior members of the finance department		x
Other advisers to the Company		x

Attendance by members at the meetings is shown on page 64.

Role of the Audit Committee

As set out in its terms of reference, the Audit Committee is primarily responsible for:

- monitoring the integrity of the financial statements of the Company and the financial reporting process, and in particular assisting the Board ensure this Annual Report, taken as a whole, is fair, balanced and understandable;
- 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;
- ensuring that the external audit contract is put out to tender at least every ten years and overseeing the selection process where applicable; and
- recommending to the Board a resolution to be put to the shareholders of the Company on the reappointment and remuneration of the external auditors.

What the Audit Committee focused on during 2013

The Audit Committee has an annual work plan, developed from its terms of reference, with standing items that the Audit Committee considers at each meeting, in addition to any matters that arise during the year. The main matters that the Audit Committee considered during the year are described below.

Financial statements and reporting: The Board and the Audit Committee have reviewed this Annual Report, as well as the half-year report and accounts. The Audit Committee monitored the financial reporting processes for the Group, which included receiving audit and review reports from, and discussing these with, the external auditors, PwC. For the process followed by the Company in preparing this Annual Report see page 65 of the Statement of corporate governance. As part of the year-end reporting process the Audit Committee reviewed a management report on accounting estimates and judgements, auditor reports on internal controls, accounting and reporting matters and management representation letter concerning accounting and reporting matters.

Accounting judgements and issues: The Audit Committee reviewed and discussed reports from management on significant accounting issues and treatments in relation to this Annual Report which also included the auditors' views. The Audit Committee sought to assess the reasonableness of the assumptions and/or judgements underlying the significant accounting issues. The Audit Committee considers that the Company has adopted appropriate accounting policies and, where required, made appropriate estimates and judgements.

In connection with the Class 1 circular for approval by the shareholders of the Morrisons agreement, the Board reviewed its working capital position. The Audit Committee considered, for these purposes, management reports and a report from KPMG LLP to the Committee on the impact of the Morrisons agreement on the Group's forecast profit and loss and cash flow statement. The circular contained financial information including an unaudited pro forma statement of the net assets of the Group showing the effect of the arrangements. The Audit Committee received a report from management on, and discussed, the anticipated impact on the material line items of the Company's consolidated financial statements of the agreement. The significant issues in relation to the financial statements are summarised in the table below, with those issues impacted by the Morrisons agreement marked by an asterisk.

Area	Issue	How addressed
Exceptional items*	Whether certain matters were outside the ordinary course of business and so properly disclosed as exceptional items.	A management report identified certain set-up costs associated with CFC2 and the NFDC, professional fees for the Morrisons agreement and the accelerated amortisation of prepaid arrangement fees following the repayment of the £100 million loan facility, see note 2.1.5 on page 128. It was agreed that these costs were outside the normal course of business and so it was appropriate that they are treated as a separate line item in the income statement.
Deferred tax assets	Estimates used to support the amount of recognised deferred tax asset.	A management report explained the basis of the estimates of the future taxable profits of the Group and the process used to calculate the recognised deferred tax asset, see note 2.2 on page 129.
Segmental reporting*	Whether the impact of the Group's agreement with Morrisons requires a separate segment disclosure.	A review was completed applying the tests in the accounting standard (IFRS 8) and this concluded that segmental disclosure was not required for 2013 on grounds of materiality.
Capitalisation of software	The capitalisation of costs relating to the development of software is material and involves management judgements.	A separate paper was considered by the Audit Committee on the policy and underlying processes for capitalising certain staff costs relating to the development of software for the business.
Supplier income or commercial income	Supplier media income is a material sum which is subject to a degree of judgement due to the length of some contracts.	During the year the Audit Committee was updated on the process to make judgements on supplier media income and rebates. At the end of the year the level of accruals for supplier rebates was reviewed and it was agreed that this was appropriate.
Lease recognition*	New leases resulting from the sale to and leaseback from Morrisons of the land and buildings and from MHE JV Co for the MHE had to be classified as an operating or a finance lease.	The principal characteristics of each lease were considered to determine the basis for treatment as an operating or finance lease. The MHE lease meets the definition of finance lease and is classified within leased assets on the balance sheet, see note 4.1 on page 140. The lease of the land and buildings is treated as an operating lease.
Joint arrangements*	Whether the jointly owned entity, MHE JV Co, was to be accounted for as a joint venture or a joint operation.	The appropriate accounting treatment of Ocado Limited's 50% shareholding in MHE JV Co was considered and it was agreed that it should be accounted for as a joint venture under accounting standards using the equity method, see note 3.4 on page 136
Revenue recognition*	The means for recognising the initial contract revenues received from Morrisons.	A management paper considered the terms of the Morrisons agreement and the amendments to the Group's accounting policies that were required to reflect the new sources of revenue. The revenue from the initial contract will be recognised over a five year period to match the amortisation of technology assets. The annual contract revenues will be recognised as income in the relevant period.

Audit Committee Report continued

The accounting treatment of all significant issues and judgements was subject to review by the external auditors. For further information on the critical accounting estimates and assumptions refer to the notes to the consolidated financial statements on page 125. For a discussion of the areas of particular audit focus by the auditors, refer to page 117 of the Independent Auditors' report. The financial impact of the Morrisons agreement on the Group is described on page 25.

Internal audit and governance review: The Group does not have a dedicated internal audit function. As part of its review of risk management, the Audit Committee considered the need for an internal audit function, and concluded that, given the Group's current stage of development and existing monitoring and internal control measures, it was not yet necessary. The Audit Committee concluded that the assurance measures in place remained sufficient. The Audit Committee gained its assurance from reports from management and from reports provided by the external auditors with regard to internal control and risk management. The Board accepted the Audit Committee's recommendation not to establish an internal audit function at this time. In light of Audit Committee discussions, management has sought some additional assurance around the Group's existing control environment and governance framework. The Company engaged KPMG LLP, an external consultant, to carry out a broad-ranging review of the effectiveness of the Group's governance and risk management framework. The purpose of the review was to assess the Group's governance framework against market practice for listed companies in the context of a business that is growing rapidly and given the Group's plans for future expansion. In early 2014, KPMG LLP reported to the Company on the results of its review and management intends to implement the key recommendations.

Internal controls and risk management: The Company's internal control and risk management systems are described in more detail on page 45, where the Audit Committee's work in this area is highlighted. An annual review of the effectiveness of risk management processes was carried out by the Audit Committee. The Audit Committee focused its reviews on the Company's risk mitigation and controls and the strategic and organisation-wide risks facing the Group.

Going concern assessment: The Audit Committee and the Board reviewed the going concern basis for preparing the Group's consolidated financial statements including in particular the assumptions underlying the going concern statement. As a consequence of the Morrisons agreement which completed after the half-year, the Company's £100 million debt facility was repaid in full and accordingly the going concern assessment for the full year was simplified. For further information concerning going concern see the Independent Auditors' report on page 117, the Directors' report on page 112 and the notes to the consolidated financial statements on page 125.

Other matters considered by the Audit Committee: The Audit Committee also considered the Company's existing tax strategy and concluded that management's current approach to tax management remained appropriate.

Interaction with the Board: The Chairman of the Audit Committee reports at each subsequent Board meeting on the business of the Audit Committee meeting and the recommendations made by the Audit Committee.

Annual review: In addition to its annual performance evaluation, discussed on page 63, the Audit Committee carried out a review of its terms of reference. The terms of reference were expanded to reflect the Audit Committee's increased responsibilities following the changes to the 2012 Code.

Assessing the effectiveness of the external audit process

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

Auditor oversight: The Audit Committee's oversight of the external auditors includes reviewing and approving the annual audit plan to ensure that it is consistent with the scope of the audit engagement. In reviewing the audit plan, the Audit Committee discussed and challenged the auditors' assessment of materiality and the reasons for choosing forecast revenue as the benchmark. This is fully explained in the audit opinion on pages 116 to 118. The Audit Committee discussed and agreed those financial reporting risk areas identified by the auditors as most likely to give rise to a material error or perceived to be of higher risk, and therefore requiring additional audit emphasis. The Audit Committee met with PwC at various stages during the audit process, including without management present, to discuss their remit and any issues arising from the audit.

Auditor reappointment overview: The Audit Committee considered the reappointment of PwC in line with the Company's policy on auditor appointment (which was updated during the period in light of changes to the 2012 Code). This review took into account the factors below.

Auditor effectiveness: The Audit Committee reviewed the performance of PwC based on a survey that contained various criteria for judging their effectiveness and on feedback from management. The criteria for assessing the effectiveness of the audit included the robustness of the audit, the quality of the audit delivery and the quality of the people and service. The Audit Committee also met with the finance department, including without the auditors present to hear their views on the effectiveness of the auditors. The Audit Committee concluded that the performance of PwC remained effective.

Independence: The Company's policy requires the Company to consider a number of factors that may impact on auditor independence, including whether the skills and experience of the auditors make them the most suitable supplier, and whether there are appropriate safeguards in place. PwC follows its own ethical guidelines and the Auditing Practices Board's standards. It reported to the Audit Committee that it had considered its independence in relation to the audit and confirmed to the Audit Committee that it complies with UK regulatory and professional requirements and that its objectivity is not compromised.

Non-audit work under the policy: The Company's policy is that in certain limited areas it is in the Company's and its shareholders' interests to engage the external audit firm to deliver certain services. To protect auditor objectivity and independence, the provision of any non-audit services provided by the external auditors requires prior approval for non-audit work as set out in the table.

Approval thresholds for non-audit work	Approver
Over £10,000 and up to £30,000 per engagement	Chief Financial Officer
Over £30,000 and up to £100,000 per engagement	Chief Financial Officer and Audit Committee Chairman
Greater than £100,000 per engagement, or if If the value of non-audit fees to audit fees reaches a ratio of 1:2 as a result of a new engagement, any engagement regardless of value	Audit Committee

Certain types of non-audit service are of sufficiently low risk as not to require the prior approval of the Audit Committee, whereas others are of such high risk as to be prohibited in all circumstances. Low risk activities are the "audit-related services" which are generally of an assurance nature (for example, review of interim financial information). The prohibited services are those that have the potential to conflict directly with the auditor role, such as the preparation of the Company's financial statements.

Non-audit work undertaken during the period: The significant non-audit work undertaken by PwC during the period included assurance work on the Group's carbon disclosures, advisory work on the Morrisons agreement and review of the Group's half-year accounts. The detail is set out in note 2.1.3 of the consolidated financial statements on page 127.

The total of non-audit fees and audit fees paid to PwC during the period is set out in the table below. The Audit Committee received a regular report from management regarding the extent of non-audit services performed by PwC. PwC also provided a report to the Audit Committee on the specific safeguards put in place for each piece of non-audit work confirming that it was satisfied that neither the extent of the non-audit services provided nor the size of the fees charged had any impact on its independence as statutory auditors. The Audit Committee was satisfied that the quantum of the non-audit fees relative to the audit fees together with the other measures taken by the Company and the auditors meant that the auditors' independence from the Group was not compromised.

	2013 (£)	2012 (£)	Percentage change 2012 to 2013 (%)
Audit fees	183,000	172,000	6.4%
Audit related services	27,000	26,000	3.8%
Non-audit fees (not including audit related services)	40,000	49,000	(18.4%)
Non-audit fees as a percentage of audit fees	21.9%	28.5%	

Audit fees: The Audit Committee was satisfied 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. The Audit Committee compared the proposed fees with the prior year's fees in drawing this conclusion, noting the increase in fee was mostly attributable to the increased complexity of the Group following the Morrisons agreement. The existing authority for the Directors (including the Audit Committee) to determine the current remuneration of the external auditors, as noted above, is derived from the shareholder approval granted at the Company's annual general meeting in 2013. At the annual general meeting in 2013, 99.96% of votes cast by shareholders were in favour of granting the Company this authority.

Tendering external audit contract: The 2012 Code requires that FTSE 350 companies should put the external audit contract out to tender at least every ten years. As PwC has audited the Group's accounts since 2001 and has not re-tendered for the contract since then, the Audit Committee considered whether the audit should be put out to tender. Given that the Company became a listed company following its IPO in 2010, that the audit engagement partner had changed in 2012, and that the Audit Committee remained satisfied with the independence and effectiveness of PwC, it decided not to recommend a re-tender at this time.

Recommendation to reappoint: Following its consideration, the Audit Committee recommended to the Board the reappointment of PwC. The Board has accepted this recommendation and a resolution for its reappointment for a further year will be put to the shareholders at the AGM. At the annual general meeting in 2013, 99.91% of votes cast by shareholders were in favour of reappointing PwC as auditors.

Nomination Committee Report

"In light of the various changes to the make-up of the Board, we took the opportunity to review the composition of the Board Committees."

Dear Shareholder,

A significant change to the leadership of the Board was made during the period. Following Lord Grade's announcement of his intention to retire, Sir Stuart Rose was appointed as Non-Executive Director and Chairman Designate. Sir Stuart took over as Chairman at the Company's annual general meeting on 10 May 2013, when Lord Grade's retirement became effective. In addition, Wendy Becker left the Board in January 2013 following her appointment to a new executive position at Jack Wills Limited. These Director changes saw the Board reduce from 13 to 12 Directors.

In light of the various changes to the make-up of the Board, we took the opportunity to review the composition of the Board committees and made various changes, outlined below.

Given Jason Gissing's retirement from the Board effective at the AGM, the Nomination Committee discussed, following year-end, the succession plans and again reviewed Board composition.

Further details on the Nomination Committee's work are set out in the following report.

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

David Grigson
Chairman of the Nomination Committee

Membership and meetings

The membership of the Nomination Committee together with the appointment dates, is set out below:

Member	Nomination Committee member since
David Grigson (Chairman)	9 March 2010
Robert Gorrie	9 March 2010
Jörn Rausing	9 March 2010
Ruth Anderson	9 March 2010
Douglas McCallum	3 October 2011
Alex Mahon	1 June 2012
Sir Stuart Rose	11 March 2013

The composition of the Nomination Committee changed with: (i) the resignation of Wendy Becker in January 2013; (ii) the appointment of Sir Stuart Rose as Chairman Designate in March 2013; and (iii) the resignation of Lord Grade in May 2013. The appointments of David Grigson, Robert Gorrie, Jörn Rausing and Ruth Anderson were renewed for a further three-year period in early 2013.The biography of each member of the Nomination Committee is set out on pages 54 to 55.

Other attendees at the Nomination Committee meetings include:

Attendees	Regular attendee	Attend as required
Chief Executive Officer		x
Director of Human Resources		x
Deputy Company Secretary	x	

Attendance by members at the meetings is shown on page 64.

External advice

During the period, the Nomination Committee retained external consultants, The Zygos Partnership. The Zygos Partnership has no connection to the Company other than the provision of its services to the Company outlined below or similar services for previous retainers with the Company. The Zygos Partnership had confirmed that it had adopted the "Voluntary Code of Conduct for Executive Search Firms" in line with the Company's diversity policy. The Nomination Committee is satisfied that there is no connection between the Company and The Zygos Partnership.

Principal activities of the Nomination Committee during 2013

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

Chairman appointment: The Nomination Committee, led by the Senior Independent Director, carried out a recruitment process to identify suitable candidates to succeed Lord Grade as Chairman. The Zygos Partnership were appointed to carry out recruitment searches based on criteria agreed by the Nomination Committee. All of the Directors met with the final candidate. The Chairman of the Nomination Committee consulted with the Company's largest shareholders on the succession plan and the proposed candidate. Following its deliberations, the Nomination Committee recommended to the Board to appoint Sir Stuart Rose as an Independent Non-Executive Director and Chairman Designate. Sir Stuart succeeded as Chairman on 10 May 2013. For information concerning Sir Stuart's remuneration arrangements, refer to the Directors' remuneration report on page 93.

Succession plans: The Nomination Committee is responsible for overseeing the process of succession and management development for the Executive Directors. The Nomination Committee reviewed the succession plans for the Executive Directors and the next layer of management, the Management Committee. The Chief Executive Officer and Director of Human Resources reported to the Nomination Committee the progress made on the succession plans, including the responses developed in light of changes to the executive team and the Management Committee over the course of the year. The Nomination Committee also discussed possible changes to management in view of Jason Gissing's retirement from the Board at the AGM. The Nomination Committee will consider these arrangements further, in due course. The Nomination Committee were assured that appropriate succession plans are in place.

Reviewing Board composition: The Nomination Committee had met during the period to discuss Board composition in relation to the various Board appointments noted above. The Nomination Committee also met to consider the Board's size and composition in the context of Jason Gissing's retirement from the Board. The Nomination Committee expects to give this further consideration in 2014. Further information concerning Board independence is set out on page 62.

Reviewing committee composition: The Nomination Committee made a number of decisions about changing the composition of the Board committees. During the period, it recommended to the Board that the size of the Remuneration Committee be reduced to three Directors and that the composition of both the Audit Committee and the Remuneration Committee be refreshed. As a result David Grigson was appointed to the Remuneration Committee, Robert Gorrie stood down from both the Audit Committee and the Remuneration Committee, and Jörn Rausing stood down from the Remuneration Committee.

Diversity: The Nomination Committee is also responsible for reviewing the composition of the Board, to ensure that its membership represents a mix of backgrounds and experience that will enhance the quality of its deliberations and decisions. In considering the size and composition of the Board the Nomination Committee takes account of various factors including skills, experience and diversity of the existing Board members. For further information on Board diversity and long-serving Directors refer to the Statement of corporate governance on page 61 and on employee diversity refer to page 51.

Annual review: In addition to its annual performance evaluation, discussed on page 63, the Nomination Committee carried out a review of its terms of reference during the period. The review resulted in some small changes to the terms of reference to ensure that they reflected the changes to the 2012 Code, by making specific reference to diversity, and the relevant revised guidance.

Directors' Remuneration Report

Contents of the Directors' remuneration report

This Directors' remuneration report is split into five parts as follows:

Annual Statement from the Chairman of the Remuneration Committee

> "The improvements in remuneration for Executive Directors were considered by the Remuneration Committee crucial to the retention of the senior management as Ocado enters a critical stage of its development."

Dear Shareholder,

On behalf of the Board, I am pleased to present our Directors' remuneration report for 2013.

Rewarding significant growth

In a year of significant progress and development for our Group, the Remuneration Committee made important changes to the Executive Directors' remuneration to reflect this expansion. The improvements in remuneration for Executive Directors were considered by the Remuneration Committee crucial to the retention of the senior management as the Company enters a critical stage of its development and as the potency of the online grocery model is, for the first time, almost universally acknowledged.

To encourage the Company's strategy of delivering growth through expansion and monetisation of its intellectual property, the Remuneration Committee has proposed the adoption of a new long-term incentive plan, known as the Growth Incentive Plan ("GIP"). The plan is intended to reward outstanding growth in value of the Group over the next five years. The proposed GIP will be put to shareholders for approval at the Company's AGM and is described on page 80.

Review of Remuneration policy

The Remuneration Committee undertook, during the period, an extensive review of the remuneration policy for the Executive Directors, and in making a number of meaningful changes has sought to find a position of appropriate balance between remuneration elements that attract, retain and motivate the right calibre of senior executive talent and that take into account the entrepreneurial culture of the business. The Remuneration Committee made changes to the policy in the context of a year that saw strong performance. The Group completed and implemented the Morrisons transaction, while the Group's revenue grew 18.81% to £792.1 million and EBITDA grew 35.1% to £45.8 million for the financial year ended 1 December 2013[1]. Although the Company made a loss before tax to the period of £(12.5) million (2012: 53 week basis: loss of £(0.6) million), our shareholders have recognised the Company's overall improved performance and position, given that total shareholder returns increased by more than 450% over the past 12 months.

The Remuneration policy report on pages 75 to 87 contains details of the Director remuneration policy that we propose to apply from the date of the AGM.

Key changes to the Executive Director remuneration

During the financial year, the Remuneration Committee undertook a review of the Annual Incentive Plan structure in place for our Executive Directors and concluded that the core financial measures remained sound and should be retained in order to encourage strong growth. The plan was adjusted to further align it with shareholder interests by the introduction of provisions for deferral of bonus payments into shares and clawback and malus.

Base salaries of the Executive Directors were reviewed and increased to reflect the significant change in size and complexity of the roles of the management team given the new responsibility for managing the Morrisons relationship.

The first awards were made under the new Long Term Incentive Plan, which was approved by shareholders at the 2013 annual general meeting. Following consultation with our shareholders, the performance measures for the 2014 awards under the LTIP have been changed.

Sir Stuart Rose joined the Board and succeeded Lord Grade as Chairman in May 2013. Shareholders approved his remuneration package which comprised a £200,000 annual fee and a one-off award of £400,000 of ordinary shares in the Company to match Sir Stuart's acquisition of 750,000 shares in the Company.

The Executive Directors participate in the HMRC approved employee share schemes and intend to do so when the Company launches the Share Incentive Plan for all employees, expected in mid-2014.

Finally, effective from April 2014, the Non-Executive Directors' annual fees will increase to ensure that their remuneration reflects the increased responsibility of the role. This change followed a comparative market review by the Executive Directors and the Chairman.

The Annual Report on Remuneration on pages 88 to 101 sets out details of how the remuneration policy was implemented in 2013 and is proposed to be applied in 2014.

Remuneration disclosure

We are focused on providing clear reporting on past remuneration and future policy. We welcome shareholder feedback on this new format for the Directors' remuneration report.

Douglas McCallum
Remuneration Committee Chairman

1. Financial performance compared to 52 weeks in 2012.
2. Total shareholder return is the increase in the Company's share price in the 12 months up to 4 March 2014 (being the last practical date prior to publication of this Annual Report). The Company did not pay any dividends in that period.

Description of the Remuneration Committee

This section of the Directors' remuneration report describes the membership of the Remuneration Committee, its advisers and principal activities during the period. It forms part of the Annual Report on Remuneration.

Membership

The current membership of the Remuneration Committee, together with appointment dates, is set out below:

Member	Remuneration Committee member since
Douglas McCallum (Chairman)	3 October 2011
Ruth Anderson	9 March 2010
David Grigson	5 February 2013

During the period, the Chairman of the Remuneration Committee changed with the appointment of Douglas McCallum to the position in January 2013 in place of Wendy Becker who resigned in January 2013. The composition of the Remuneration Committee changed with the appointment of David Grigson and the resignation of Robert Gorrie in February 2013. The appointment of Ruth Anderson was renewed for a further three year period. The biography of each member of the Remuneration Committee is set out on pages 54 to 55.

Other attendees at the Remuneration Committee meetings include:

Attendees	Regular attendee	Attend as required
Chairman of Board	x	
Chief Executive Officer		x
Chief Financial Officer		x
Director of Human Resources	x	
Deputy Company Secretary	x	
External advisers – Deloitte LLP	x	

The Chairman, the Company Secretary and the Executive Directors and other attendees are not involved in any decisions of the Remuneration Committee and are not present at any discussions regarding their own remuneration.

Attendance at the meetings is shown on page 64.

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Directors' Remuneration Report continued

External advice

During the period, the Remuneration Committee and the Company retained independent external advisers to assist them on various aspects of the Company's remuneration and share schemes as set out below:

Adviser	Retained by	Services provided to the Remuneration Committee	Other services provided
Deloitte LLP	Remuneration Committee	Executive remuneration advice including in respect of LTIP design, changes to the remuneration policy and other incentive arrangements.	Separate teams engaged by the Company to advise on a range of Company tax, share schemes and accounting matters, including transaction advice.
Slaughter and May	Company	None	Employment law, share schemes and tax as well as general UK legal advice in respect of a number of the Company's remuneration matters.
Ernst & Young LLP	Company	None	Advice on Company share schemes.

Deloitte LLP were appointed by the Remuneration Committee in 2012 following a tender process led by the Remuneration Committee Chairman. 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. The Remuneration Committee is, following its annual review, satisfied that Deloitte LLP has maintained independence and objectivity.

For the period, Deloitte LLP were paid £77,900 in advisory fees for services provided to the Remuneration Committee.

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

Principal activities of the Remuneration Committee during 2013

The Remuneration Committee has been delegated responsibility for setting remuneration for all the Executive Directors, the Chairman and the Company Secretary. This is outlined on page 59.

In line with its terms of reference, the following key matters were considered by the Remuneration Committee during the period:

- approving the draft Directors' remuneration report and shareholder circular for the proposed Chairman's Share Matching Award and new LTIP;
- reviewing the performance of Deloitte LLP and retaining them as external remuneration consultants;
- adopting a new senior executive remuneration policy;
- approving the 2013 Annual Incentive Plan setting of performance targets;
- consideration of changes to the structure of the Annual Incentive Plan for 2014 including review of performance measures and the introduction of malus, clawback and share deferral provisions;
- approving the LTIP scheme and the 2013 LTIP awards;
- consideration of changes to the performance measures for the LTIP for 2014 awards;
- reviewing the Group's share scheme strategy;
- reviewing and approving the proposed new GIP scheme;
- approving the implementation of the SIP;
- reviewing performance under the 2012 Annual Incentive Plan and consideration of any bonuses payable;
- receiving a report on Executive Director remuneration benchmarking;
- approving increases in Executive Director base salaries;
- approving the proposed remuneration package for the new Chairman;
- consulting the Chief Executive Officer and Chairman on performance and remuneration of the Executive Directors;
- approving the share discount and third invitation made under the Sharesave Scheme;
- receiving a report on Group-wide and management remuneration for 2013; and
- reviewing the Remuneration Committee's performance.

The Remuneration Committee's work included monitoring and considering the level and structure of remuneration for the Management Committee. Ultimate decision-making responsibility for the remuneration of the Management Committee lies with the Chief Executive Officer.

In addition to the activities of the Remuneration Committee, the Executive Directors and the Chairman reviewed the remuneration of the Non-Executive Directors, following the period end.

Annual review

In addition to its annual performance evaluation, discussed on page 63, the Remuneration Committee carried out a review of its terms of reference during the period. The review resulted in some changes needed to reflect the new regulatory regime, including the increased reporting responsibilities of the Remuneration Committee.

Remuneration Policy Report

Introduction

This part of the Directors' remuneration report sets out a remuneration policy containing details of the components of the remuneration packages of the Company's Directors.

The remuneration policy will be subject to a shareholder vote at the AGM. If approved by shareholders, the policy will apply immediately following the meeting. It is expected that the Company will next propose a resolution to approve the remuneration policy at the annual general meeting to be held in 2017, or sooner in the event of revisions to the policy.

Remuneration principles for senior executives

The Company's executive remuneration policy and reward strategy is underpinned by the remuneration principles. These principles relate to the core values of the Company. The main principles of senior executive remuneration are set out below:

- Support long-term success and sustainable long-term shareholder value.
- Be aligned to the business strategy and achievement of planned business goals.
- Be compatible with the Group's risk policies and systems.
- Link maximum payout to outstanding results.
- Ensure that performance related pay constitutes a significant proportion of the overall package.
- Provide a balance between attracting, retaining and motivating the right calibre of candidates, and taking into account the entrepreneurial culture of the business.
- Encourage a high performance culture.

Link with strategy

The Company's reward strategy continues to evolve in parallel with the Company's development. The key objective to be achieved through the remuneration policy is to support the Group's main strategic objectives of expansion and high growth. The Annual Incentive Plan, the LTIP and proposed GIP contain specific performance measures designed to support the objectives of accelerating core business performance in the short and medium-term (for example, EBITDA and sales growth targets) and the objectives of creating long-term success and sustainable long-term shareholder value (for example, EPS target and share price growth targets).

Directors' Remuneration Report continued

The remuneration policy, outlined on the following pages, provides the detailed structure of each element of remuneration and how each element is determined. The remuneration package of the Executive Directors is made up of elements of fixed and variable remuneration typically as set out below.

BASE SALARY	Reflects the value of the individual, their role, skills, experience and contribution to the business	FIXED
BENEFITS	Aligned with all other employee arrangements	
PENSION	Ensures remuneration is comprehensive	
ANNUAL INCENTIVE PLAN	Incentivises achievement of annual objectives	
DEFERRED BONUS UNDER AIP	Aligns Director and shareholder interests by delivering bonus payments in deferred shares	
LONG-TERM INCENTIVES	Incentivises generation of long-term shareholder value	
ONE-OFF PLANS	Motivates key individuals to achieve specific long-term targets and exceptional levels of performance	VARIABLE

The Remuneration Committee is mindful of the weighting of fixed and variable pay and balance of short and long-term awards, and sought to position a larger proportion of the remuneration package as equity based and performance related, in order to support the Company's strategic objectives of high growth and expansion and to create shareholder alignment. The balance of the remuneration of the Executive Directors is set out at 'Illustration of remuneration policy' on page 86. The Remuneration Committee introduced share deferral in the Annual Incentive Plan, minimum shareholding requirements and the Growth Incentive Plan to help ensure a longer-term focus for the business from the Executive Directors.

Remuneration Committee discretion and judgement

In formulating the Directors' remuneration policy, the Remuneration Committee has sought to allow it sufficient operational flexibility over Director remuneration for the next three years. While the policy provides the boundaries for remuneration arrangements, the policy is intended to provide some isolated discretion for the Remuneration Committee to use in various circumstances relating to particular components of remuneration. The remuneration policy does not provide for the exercise of discretion over any aspect of the policy. The Remuneration Committee may not use any discretion outside the policy without separate shareholder approval.

The Remuneration Committee operates (or will operate, in the case of the GIP), the share schemes according to their respective rules and in accordance with the Listing Rules and other rules and regulations, where relevant. The Remuneration Committee retains discretion, in a number of regards to the operation and administration of these plans. The discretions include, but are not limited to, those set out in the table below.

Area of discretion	AIP	LTIP	JSOS	GIP
The participants	Y	Y	Y	Y
The timing of grant of an award or payment	Y	Y	Y	Y
The size of an award (up to a pre-determined maximum)	Y	Y	Y	Y
The determination of vesting or payment	Y	Y	N	Y
Discretion required when dealing with a change of control or restructuring of the Group	Y	Y	Y	Y
Determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen	Y	Y	Y	Y
Adjustments required in certain circumstances (for example, rights issues, corporate restructuring events and dividends)	Y	Y	Y	Y
Adjust or change the performance conditions if anything happens which causes the Remuneration Committee reasonably to consider it appropriate (for example, Board approved strategic initiative or transaction) provided that any changed performance condition will be equally difficult to satisfy as the original condition would have been had such circumstances not arisen	Y	Y	N	Y
The annual review of performance measures and weighting, and targets from year to year	Y	Y	Y	N
Adjustment to level of payments, even when targets met (for example, to reflect individual or Company performance)	Y	N	N	N
Application of malus and clawback	Y	Y	N	Y

In addition, the terms of the Chairman's Share Matching Award provide that the Board has discretion with respect to dealing with change of control and treatment of leavers. The use of discretion in relation to the Company's ESOS, Sharesave and Share Incentive Plan will be as permitted under HMRC rules and the other relevant rules and regulations.

Any use of the above discretions would, where relevant, be explained in the Directors' remuneration report and may, as appropriate, be the subject of consultation with the Company's major shareholders.

The Remuneration Committee may also apply judgement or a qualitative assessment, for example in assessing achievement against role specific objectives under the Annual Incentive Plan.

Development of remuneration policy

Shareholder context

The Remuneration Committee has sought alignment between the remuneration policy and shareholder interests.

When proposing changes to the Executive Directors' remuneration arrangements, the Remuneration Committee has sought the views of its largest shareholders. The Remuneration Committee sought shareholder input on the remuneration policy and new incentive arrangements for 2013 and 2014. Changes have been made to incentive arrangements in response to the feedback received (for example, changes to the design and performance measures for the LTIP and changes to the GIP). The Company is committed to ongoing dialogue with shareholders on the Directors' remuneration and will continue to seek their views on any significant changes to the remuneration arrangements or exercises of discretion.

Employee context

The remuneration policy for Directors is designed in line with the remuneration principles outlined on page 75, which reflect the remuneration principles for the Group. A key remuneration principle for the Group is that share schemes be used to recognise and reward good performance and attract and retain employees, wherever possible and appropriate. This is reflected by the operation of the ESOS which allows all employees to be granted share options. This philosophy allows all of the Group's employees opportunities to share in the Group's success via share ownership. This philosophy will be maintained via awards to all employees under the Share Incentive Plan, rather than the ESOS.

The remuneration arrangements for employees below Board level reflect the seniority of the role. The components and levels of remuneration for different employees differ from the remuneration framework for the Executive Directors. The Group operates some tailored bonus and long-term incentive arrangements for certain groups of employees, but has not adopted a universal approach to these elements of remuneration for all employees.

The Remuneration Committee receives an annual report from management on Group-wide remuneration. This review covers changes to pay, benefits, pension and share schemes for all employees in the Group, including the percentage increases in base pay for monthly and hourly paid employees. The Remuneration Committee's work includes monitoring and commenting on the level and structure of remuneration for the Management Committee in relation to various changes to base pay and incentive plans. This provides some of the context for the Remuneration Committee's decisions concerning changes to base pay and other elements of remuneration for the Executive Directors. The Company did not consult with employees when drawing up the Directors' remuneration policy, nor take into account any remuneration comparison measurements.

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Directors' Remuneration Report continued

Remuneration policy table: elements of Director remuneration

The Executive Directors remuneration policy consists of the elements set out in the table below:

Purpose and link to strategy	How it operates
Fixed pay	
Base pay › Attract and retain the right calibre of senior executive required to support the long-term interests of the business.	› Paid monthly in cash. › Reviewed annually by the Remuneration Committee, with any changes normally becoming effective in April each year. › The review takes into account a number of factors including: the Group's annual review process, business performance, total remuneration, appropriate market data for comparable roles for companies of equivalent size and complexity in similar sectors and geographical locations to the Company, and an individual's contribution to the Group.
Benefits › Attract and retain the right calibre of senior executive required to support the long-term interests of the business.	› The Company provides a range of benefits which are aligned with those provided to monthly paid employees. These may include: private medical insurance, life assurance, travel insurance, critical illness cover, travel allowance, free parking, access to financial and legal advice and Company-wide employee benefits including an employee assistance programme, staff product discount and subsidised staff canteens and discounts. Any travel arrangements or travel costs required for business purposes will be provided by the Company. Additional benefits or payments in lieu of benefits may also be provided in certain circumstances, if required for business needs. › Any benefits allowances will be paid in cash monthly and will not form part of pensionable salary.
Pension › Attract and retain the right calibre of senior executive required to support the long-term interests of the business.	› Contributions, allowances and pension choices for the Executive Directors are on the same terms as for other employees. › Executive Directors can choose to participate in the defined contribution Group personal pension scheme or an occupational money purchase scheme. › Where lifetime or annual pension allowances have been met, employer contributions may be paid into a personal pension arrangement. These will not be treated as salary for the purposes of incentive awards. › The Group's contributions under the defined contribution scheme are set as a percentage of salary based on length of scheme membership. Contributions under the occupational money purchase scheme are aligned with the legislative minimum.
Variable Pay: Short-term Incentives	
Annual Incentive Plan ("AIP") › Provide a direct link between measurable and predictable annual Company and/or role specific performance and reward. › Incentivise the achievement of outstanding results aligned to the business strategy.	› Measures and targets are set annually and bonus payments are determined by the Remuneration Committee following the year-end based on performance against the targets. › Bonus payments, if made, are payable in cash after the results of the Group have been audited. › To the extent that an Executive Director does not meet the minimum shareholding requirement, up to 50% of any bonus payment will be deferred into shares, vesting after a period of three years.
Variable Pay: Longer-term Incentives	
Long Term Incentive Plan ("LTIP") › Attract, retain and incentivise senior executives. › Align the interests of the senior executives and the shareholders.	› An award over a fixed number of shares is granted annually. Awards made in the form of nil-cost options or conditional share awards will ordinarily vest three years from award, subject to continued service and the achievement of performance conditions and other conditions. › Dividend equivalents may be paid in cash or additional shares on LTIP awards that vest. › The award may be satisfied either by a new issue of shares, the transfer of treasury shares or shares held in the Company's EBT or by market purchase of shares.

Performance conditions	Maximum opportunity	Recovery or withholding
Not performance linked.	To avoid setting the expectations of Executive Directors and other employees, no maximum salary is set under the policy. However, normally, maximum salary increases for Executive Directors will be within the normal percentage range and guidelines that are applied to the monthly paid employees of the Company in that year. Where appropriate and necessary, larger increases may be awarded in exceptional circumstances; for example, if a role has increased significantly in scope or complexity. Larger awards may also be considered appropriate and necessary to bring a recently appointed executive in line with the market and the other executives in the Company where their initial salary has been positioned below the market.	No contractual provisions for clawback or malus.
Not performance linked.	Benefits for Executive Directors are set at a level which the Remuneration Committee considers to be appropriate against appropriate market data for comparable roles for companies of equivalent size and complexity in similar sectors and geographical locations to the Company.	No contractual provisions for clawback or malus.
Not performance linked.	Contributions to the defined contribution scheme for Executive Directors will normally be in line with the other scheme participants, however, the Remuneration Committee may exceed this standard maximum in order to be market competitive and attract and retain the right calibre of senior executive talent needed to support the long-term interests of the business. Pension contributions for UK Executive Directors will not exceed 30% of base salary. For Executive Directors outside the UK, provision for an executive pension will be set taking into account local market rates.	No contractual provisions for clawback or malus.
The Remuneration Committee sets annual targets that are closely aligned to the delivery of the Group's strategic objectives for that year. These will be a mix of strategic and financial targets with the majority being financial. For threshold performance, 25% of the maximum opportunity will be earned. For stretch performance, the maximum opportunity will be earned. A straight-line sliding scale applies between the threshold and the maximum. The performance conditions for the relevant financial year are described in the Annual Report on Remuneration.	The maximum bonus is 200% of base salary. For the 2014 performance year, the maximum bonus is 100% of base salary for the Executive Directors and 125% for the Chief Executive Officer.	The AIP rules provide for clawback and malus for three years from date of payment of a bonus or grant of a deferred award in certain exceptional circumstances.
The Remuneration Committee sets targets that are closely aligned to the delivery of the Group's strategic objectives for the performance period. These may be a mix of strategic and financial targets with the majority being financial. For threshold performance, 25% of the maximum opportunity will vest. For stretch performance, the maximum opportunity will vest. Vesting will be on a straight-line basis between the threshold and the maximum. The measurement period for performance conditions will ordinarily comprise at least three financial years of the Company. The performance conditions for the final year of the three year vesting period are described in the Annual Report on Remuneration.	The Remuneration Committee may grant awards, with a maximum total market value of 150% of annual base salary of a participant. In the case of the Chief Executive Officer, the maximum total market value of a LTIP Award is 200% of annual base salary. In exceptional circumstances, the Remuneration Committee may grant awards with a maximum total market value of 300% of annual base salary of a participant or, in the case of the Chief Executive Officer, 400% of annual base salary.	Clawback and malus provisions may be applied to LTIP awards in certain exceptional circumstances.

Directors' Remuneration Report continued

Purpose and link to strategy	How it operates
Growth Incentive Plan ("GIP") › Attract, retain and incentivise senior executives. › Align the interests of senior executives and shareholders, by incentivising senior executives to deliver exceptional levels of growth and return to the shareholder over the long-term.	› Awards will be granted on a one-off basis. An Executive Director will be granted options over shares in the Company with a nil exercise price. › While all Executive Directors are eligible to participate in this plan, only the Chief Executive Officer and two existing Executive Directors will receive an initial grant. New Executive Directors may be invited to participate at a level dependent on the point during the performance period at which they joined. › To participate, the Executive Directors are required to hold a level of shares throughout the performance period. For the Chief Executive Officer, this shareholding must be at least one times salary and for other Executive Directors, this shareholding must be at least half times salary.
Joint Share Ownership Scheme ("JSOS") › Attract, retain and incentivise senior executives. › Align the interests of the senior executives and the shareholders, by driving share price growth over four years.	› The JSOS was established prior to the Company's listing on the London Stock Exchange in 2010. › The participants and Appleby Trust (Jersey) Limited, the EBT Trustee, acquire separate beneficial interests in ordinary shares of the Company. The participant may lose his interest in the shares. › No future annual awards will be made under the JSOS to Executive Directors.
All Employee Share Plans	
Sharesave › Provide all employees, including Executive Directors, the opportunity to voluntarily invest in Company shares and be aligned with the interests of shareholders.	› All employees are eligible to participate in this HMRC approved employee share scheme. The Company grants options over shares in the Company to employees, including the Executive Directors. › To obtain an option an eligible individual must agree to save a fixed monthly amount for three years up to the maximum monthly amount in line with HMRC limits. The amount saved will determine the number of shares over which the option is granted. Options are granted at a discount to the market price at the time of grant. › Options may be exercised in a six month period three or five years from the date of grant, subject to continued service.
Share Incentive Plan ("SIP") › Provide all employees, including Executive Directors, the opportunity to receive and invest in Company shares and be aligned with the interests of shareholders.	› All employees are eligible to participate in this HMRC approved employee share scheme. The SIP allows for: — the Company to grant free shares to all employees allocated on an equal basis; — all employees to buy partnership shares monthly from their gross salary; and — the Company may offer matching shares to employees who purchase partnership shares. › Dividend shares are also covered by the SIP arrangements.
Executive Share Option Scheme ("ESOS") › Provide all employees, including Executive Directors, the opportunity to receive Company share options and be aligned with the interests of shareholders.	› All employees are eligible to participate in this HMRC approved employee share scheme and the unapproved part of the scheme. The Company grants options over shares in the Company to employees. There are currently no plans to make awards to the Executive Directors under this plan. › Options over shares vest on the third anniversary of grant, subject to continued service and satisfaction of any performance conditions. If vested, the options may be exercised at any time between the third and tenth anniversaries of grant at the executive's discretion.
2014 Executive Share Option Scheme ("2014 ESOS") › Provide all employees, including Executive Directors, the opportunity to receive Company share options and be aligned with the interests of shareholders.	› The 2014 ESOS will be put to shareholders for approval at the AGM. The 2014 ESOS is based on the ESOS, described above. › There are currently no plans to make awards to the current Executive Directors under this plan.

Performance Conditions	Maximum Opportunity	Recovery or Withholding
Options will be subject to a single performance condition to be satisfied over the five years from the date of grant. The share price of the Company is the sole performance measure and will be assessed relative to the growth of the FTSE 100 Share Index over that period. Performance will be assessed based on the three month average share price of the Company and of the FTSE 100 Share Index at the beginning and end of the performance period. The performance target schedule is as follows: — Growth of less than the FTSE 100 Share Index plus 5% p.a.: 0% of the award vests. — Growth in FTSE 100 Share Index plus 5% p.a.: 25% of the award vests. — Growth in FTSE 100 Share Index plus 10% p.a.: 50% of the award vests. — Growth in FTSE 100 Share Index plus 15% p.a.: 75% of the award vests. — Growth in FTSE 100 Share Index plus 20% p.a.(or more): 100% of the award vests	Four million shares will be awarded to the Chief Executive Officer. One million shares will be awarded to each of the other participating Executive Directors. Awards to new participating Executive Directors will not exceed the proposed award levels to existing participants.	Clawback and malus provisions may be applied to GIP awards in certain exceptional circumstances.
Interests in shares vest annually over a four year period subject to leaver provisions. The participant benefits from the increase in value of the shares above a predetermined market price for each tranche (the "hurdle price"). Awards under the JSOS will have no value unless the hurdle price is achieved. Interests in the Company's shares are granted in tranches, with a different hurdle rate for each tranche.	The JSOS rules contain a 7.5% issued share capital limit for the cumulative total of awards under the plan and the ABI's 5% and 10% in ten year dilution limit for total awards, which constrain the number of interests that may be issued under the JSOS.	Certain leaver provisions described on page 85 allow the Company to recover share interests in certain circumstances.
Not performance linked.	Options may be granted at a maximum discount to the market price up to a maximum amount in line with HMRC limits. Employees are limited to saving a maximum in line with these HMRC limits.	The scheme rules do not provide for malus or clawback provisions.
Not performance linked.	Maximum opportunity for awards will be in line with HMRC limits.	The scheme rules do not provide for malus or clawback provisions.
If awards are made the Remuneration Committee will set targets. Targets will be closely aligned to the delivery of the Group's strategic objectives. These may be a mix of strategic and financial targets with the majority being financial. For threshold performance, up to 25% of the maximum opportunity would be received.	Maximum opportunity for awards will be in line with HMRC limits for the HMRC approved part of the scheme. Maximum opportunity for awards under the unapproved part of the scheme are limited by the scheme rules which limit an award to 300% of annual base salary, except in exceptional circumstances.	The scheme rules do not provide for malus or clawback provisions.
Same as for ESOS described above.	Same as for ESOS described above.	Same as for ESOS described above.

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Directors' Remuneration Report continued

The Non-Executive Directors remuneration policy consists of the elements set out in the table below:

Purpose and link to strategy	How it operates
Non-Executive Director Fee › Core element of remuneration, paid for fulfilling the role in question.	› Paid monthly in cash. › Fee structure includes an annual base fee for a Non-Executive Director and a Senior Independent Director, and additional fees for being a Board Committee chair. › Reviewed annually by the Executive Directors and Chairman, with any changes normally becoming effective in April each year. › The review takes into account a number of factors including: the Group's annual review process, business performance and appropriate market data for comparable roles for companies of equivalent size and complexity to the Company. › Non-Executive Directors are not usually eligible for annual bonus, all employee share incentive schemes, pensions or other benefits with the exception of the staff product discount offered to all employees.
Chairman Fee › Core element of remuneration, paid for fulfilling the role in question.	› Paid monthly in cash. › Reviewed annually by the Remuneration Committee, with any changes normally becoming effective in April each year. › The review takes into account a number of factors including: the Group's annual review process, business performance and appropriate market data for comparable roles for companies of equivalent size and complexity to the Company.
Chairman's Share Matching Award › To attract and retain the right calibre of Chairman necessary to support the long-term interests of the business.	› The Chairman is not usually eligible for annual bonus, any incentive schemes, pensions or other benefits. › The current Chairman received a one-off initial share award upon his appointment as Chairman. Shares will not vest until the Chairman has served for three years. The Chairman will not be entitled to sell any shares awarded to him until the first anniversary of when he ceases to be a member of the Board. The award is not subject to performance conditions. Certain leaver provisions described on page 85 allow the Company to recover the award in certain circumstances.

Notes to the Policy table:

1. No other items in the nature of remuneration are provided by the Company to its Non-Executive Directors, save for the amounts paid to Robert Gorrie as described on page 62.
2. The Non-Executive Directors are entitled to be reimbursed for out of pocket expenses incurred in carrying out their responsibilities to the Company.
3. Other than as described in the policy table, there are no components of the Executive Directors' remuneration that are not subject to performance measures. In the case of the Sharesave and SIP, these HMRC approved all employee schemes are subject to rules constrained by legislation and so awards are made on the same terms (not comprising performance conditions) to all employees including Executive Directors. Prior to the Company's listing in 2010, some option awards were made to the Executive Directors under the ESOS without performance conditions. Although awards will not usually be made to existing Executive Directors, the rules of the ESOS and 2014 ESOS require the Remuneration Committee to impose performance conditions on any awards made to a Director under each plan. The Chairman's Share Matching Award was a one-off award of shares made to the Chairman on appointment. No performance conditions attached to the receipt of the award (only continued service as Chairman until the end of the three-year vesting period). In structuring the Chairman's Share Matching Award without any performance related elements, the Remuneration Committee complied with the 2012 Code and sought to ensure the Chairman's independence on appointment. The Chairman is not entitled to sell any awarded shares until a year after he leaves the Board. The award was approved by shareholders at the 2013 annual general meeting. Performance targets apply to the AIP, LTIP and GIP.

(a) **AIP** – The Remuneration Committee adjusts the design (including measures and weightings) of the Annual Incentive Plan each year to incentivise the delivery of key business objectives and individual performance for that financial year. Management proposes suitable metrics and levels of performance to form the threshold and stretch levels of performance. Any individual objectives applicable for the Annual Incentive Plan are linked to the Executive Director's role and/or his business area(s) and are in line with the Group's strategy. The measurable objectives are agreed between the Executive Director and the Chief Executive Officer (or in the case of the Chief Executive Officer, between him and the Chairman). The Remuneration Committee reviews the proposed targets to assess whether they are appropriately aligned with the strategy and shareholders' interests and whether the reward that would accrue to the Executive Director is appropriate in the circumstances. Usually, full vesting will only occur where exceptional performance levels have been achieved and significant shareholder value created. Details of the performance measures applying to the 2013 AIP and 2014 AIP are outlined in the Annual Report on Remuneration.

(b) **LTIP** – The Remuneration Committee reviews the design of the LTIP each year to ensure that the performance conditions remain relevant to the Company's key strategic objectives. The Remuneration Committee reviews the performance measures in light of the long-term strategic plan and agrees the threshold and stretch conditions that must be achieved. Full vesting will only occur where exceptional performance levels have been achieved and significant shareholder value created. In light of shareholder feedback from the shareholder consultation conducted in March 2013, the Remuneration Committee revised the targets from 2013 and decided to put in place two performance objectives for the 2014 awards. The underlying measurement period for Performance Conditions will ordinarily comprise at least three financial years of the Company. In the case of the 2013 and 2014 awards the measurement period is the last financial year.

(c) **GIP** – the GIP performance measure was designed to incentivise outstanding growth in value of the Group over the five year performance period. The performance measure requires the growth in the Company share price to be significantly more than the growth of the FTSE 100 Share Index over that period. This helps to ensure alignment with shareholders, as full vesting will only occur where outstanding shareholder value is created. GIP will be put to shareholders for approval at the Company's AGM.

4. The Directors' remuneration policy contains formal components for short and long-term incentives with performance conditions attached. While the Group has a policy of remunerating its employees through share scheme participation, it does not have formal arrangements for all employees akin to the components of Directors' remuneration. Senior management participate in an annual bonus plan and the long-term incentive schemes including the LTIP and JSOS, with award levels set at lower percentages of salary than those of the Directors. The performance conditions and other terms of these schemes are the same as for the Executive Directors. The bonus plan does not include provision for share deferral of a payment. The Group operates some tailored bonus and long-term incentive arrangements (such as the JSOS) for other small groups of employees but aside from the JSOS and the all employee share schemes (the SIP, the ESOS and the Sharesave), the variable remuneration of employees is not closely aligned with that of Directors.

Director shareholding obligation

It is the policy of the Company that the Directors are expected to build up over a period of time, and hold, a minimum level of shareholding in the Company. This is considered an effective way to align the interests of the Executive Directors and shareholders in the long-term. These shareholding requirements are outlined in the table below.

Director	Shareholding requirement
Executive Directors	› Executive Directors are required to hold 100% base salary (150% for the Chief Executive Officer) in shares. This can be built up over three years from appointment. › Share awards may count if vesting is not subject to any further performance conditions or other conditions such as continued employment. Share interests and share awards which are vested, but remain subject to a holding period and/or clawback, may count towards the holding requirement. › Until the minimum shareholding is met, an Executive Director must defer up to 50% of any cash bonus payable under the AIP as an award of shares.
Non-Executive Directors	› Non-Executive Directors are required to hold the equivalent of one year's annual fee in shares. This can be built up over three years.
Chairman	› The Chairman is required to hold the equivalent of one year's annual fee in shares. This can be built up over three years from appointment.

Should the requirement be achieved but the market value of the Company's shares subsequently fall below the required level, compliance with this requirement will be based on the higher of the original share purchase price or current market price.

Approach to remuneration of Directors on recruitment

Recruitment of Executive Directors

When determining the remuneration of a newly appointed Executive Director, the Remuneration Committee will apply a number of principles.

The Remuneration Committee will seek to align the remuneration package of a newly appointed Executive Director with the remuneration policy outlined above. However, the Remuneration Committee retains the discretion to include any other remuneration component or award in the remuneration package which it considers to be appropriate.

In determining the remuneration arrangements for a new Executive Director, the Remuneration Committee will take into account all relevant factors including (but not limited to) the specific circumstances, the calibre of the individual, the market practice for the candidate's location, the nature of the role they are being recruited to fulfil and any relevant market factors, including any competing offers the candidate may be considering. The Remuneration Committee is at all times conscious of the need to pay no more than is necessary. The Remuneration Committee's considerations would be subject to the overall limit on variable remuneration outlined below.

Where promotion to an Executive Director role is from within the Company, any performance related pay element arising from their previous role, will continue on its original terms, provided such element was not made in contemplation of such person becoming an Executive Director.

To facilitate recruitment, the Remuneration Committee may, to the extent permitted by relevant plan rules or Listing Rules, make a one-off award to "buy out" incentives or any other compensation arrangements forfeited by the appointee on leaving a previous employer. In doing so the Remuneration Committee will ensure that any such awards offered should be on a comparable basis, taking into account all relevant factors including any performance conditions, the likelihood of those conditions being met, the proportion of the vesting or performance period remaining and the form of the award. In determining whether it is appropriate to use such judgement, the Remuneration Committee will ensure that any awards made are in the best interests of both the Company and its shareholders.

In addition, one-off payments in respect of relocation or ongoing relocation allowances may be made to a newly appointed Executive Director. However, these payments must reflect actual financial loss or cost of moving the Executive Director, their family or assets, and the market practice in the geographical location to which the Executive Director is moving to or from. The Company may provide relocation costs by funding services or cash payment or a combination of both.

The maximum level of variable pay which may be awarded upon recruitment (excluding any "buy out" awards or costs and allowances on relocation and awards made to appointees under the GIP) is 600% of base salary. GIP awards will be subject to the award limits set out in the remuneration policy table.

Recruitment of Non-Executive Directors

The remuneration package for newly appointed Non-Executive Directors will be in line with the structure set out in the remuneration policy table for Non-Executive Directors.

Directors' Remuneration Report continued

Loss of Service or Termination Policy

Service contracts for Executive Directors

Each of the Executive Directors is employed pursuant to a service contract with Ocado Limited.

The Company's remuneration policy provides that an Executive Director's employment may be terminated by the Company giving to the Executive Director not less than 12 months' notice or by the Executive Director giving to the Company not less than six months' notice.

The Company's remuneration policy provides that if an Executive Director's service contract is terminated without cause, Ocado Limited can request that the Executive Director work their notice period, take a period of garden leave or pay an amount in lieu of notice equal to one times their basic salary, benefits and pension for the remainder of their notice period. While the service contracts do not specify this, the Company's remuneration principles provide that any payments should be reduced in certain circumstances where the Executive Director's loss has been mitigated, for example, where he moves to other employment.

The service contracts do not contain any specific provisions relating to a change of control of the business.

If employment is terminated by the Company, the Remuneration Committee retains a discretion to settle any other amounts reasonably payable to the Executive Director including legal fees incurred by the Executive Director in connection with the termination of employment and obtaining independent legal advice on a settlement or compromise agreement, and the relocation costs for returning the departing Executive Director and his family to their original country of origin. The Company may provide relocation costs by funding services, or cash payment or a combination of both.

Other than described above, there are no relevant contractual provisions that are, or are proposed to be, contained in any Executive Director service contract that could give rise to remuneration payments or payments for loss of office, but which are not disclosed elsewhere in the remuneration policy.

Letters of appointment for Non-Executive Directors

Each of the Non-Executive Directors has a letter of appointment with the Company. The Company's remuneration policy provides that a Non-Executive Director's appointment may be terminated by either party giving to the other not less than one month notice, or in the case of the Chairman, not less than six months' notice.

Other than described above, there are no relevant contractual provisions that are, or are proposed to be, contained in any Non Executive Director letter of appointment that could give rise to remuneration payments or payments for loss of office, but which are not disclosed elsewhere in the remuneration policy.

Payments on cessation of employment for Executive Directors

The Executive Director service contracts do not oblige the Company to pay a bonus if the Executive Director is under notice of termination. But under the rules of the Annual Incentive Plan, the Executive Director may receive a proportion of the bonus or deferred award that the Remuneration Committee determines would otherwise have been payable or granted to him under the rules for the financial year.

The treatment of outstanding share awards is governed by the relevant scheme rules, all of which have been approved by shareholders. The table on page 85 provides a summary of these leaver provisions. The Remuneration Committee generally has discretion to determine the treatment of a leaver, but will be conscious of the remuneration principle that it should not reward poor performance or behaviour.

Payments on cessation of service for Non-Executive Directors

The table on page 85 provides a summary of the leaver provisions applicable to the Chairman's Share Matching Award. The Remuneration Committee has discretion in defining the type of leaver category applicable to the departing Chairman.

Share scheme leaver provisions

Remuneration Element	Bad Leavers	Good Leavers
JSOS	If a participant is a "bad leaver" (i.e. he is neither a "good leaver" nor a "very bad leaver"), he would retain his vested interests but unvested interests may be acquired by the EBT Trustee for the lower of the market value and the initial subscription price. In the case of a "very bad leaver" (i.e. has or could have been dismissed for cause or is in material breach of an obligation binding after termination), both vested and unvested interests may be acquired by the EBT Trustee for the lower of the market value and the initial subscription price.	The participant's interest shall continue to vest on the same dates as if that participant had remained in employment so long as the participant remains a good leaver. Should the participant die before a tranche vests, the participant's interest will vest entirely on the date of death.
LTIP	Generally, unvested LTIP awards (and vested LTIP options) will lapse on the date the participant ceases to be an employee.	If a participant ceases to be an employee of the Group for a good leaver reason (e.g. ill-health, injury or permanent disability), then his awards which have not vested will vest on the vesting date (or earlier as the Remuneration Committee shall determine) but only to the extent that the performance conditions have been satisfied subject to operation of malus and clawback provisions. Unless the Remuneration Committee decides otherwise, the award will be reduced pro rata to reflect the proportion of the performance period that has elapsed to the date of cessation of employment. If a participant dies, his LTIP awards will vest on the date of his death and the performance conditions will not apply but (unless the Remuneration Committee decides otherwise) the LTIP award will be reduced pro rata to reflect the proportion of the performance period that has elapsed at the date of death. To the extent that LTIP options vest in accordance with the above provisions, they may usually be exercised for a period of 12 months following vesting and will otherwise lapse at the end of that period. To the extent that a participant who leaves in circumstances other than dismissal for cause or who dies holding vested LTIP options, they may be exercised at any time during the usual exercise period and will otherwise lapse at the end of that period.
GIP	See LTIP above, as the same leaver rules apply.	See LTIP above, as the same leaver rules apply.
Deferred shares under the Annual Incentive Plan	Deferred share awards will lapse on the date the Executive Director ceases to be an employee.	An Executive Director will retain his deferred share award on ceasing employment with the Group and will receive the award at the usual vesting date in accordance with the plan rules, subject to the operation of clawback and malus provisions.
All Employee Share Plans	Leavers will be treated within the HMRC approved scheme rules.	Leavers will be treated within the HMRC approved scheme rules.
Chairman's Share Matching Award	If the Chairman ceases to be a Director of the Company prior to vesting for any reason other than a good leaver reason, the share award will be forfeited.	If the Chairman ceases to be a Director of the Company prior to vesting for a "good leaver reason" (death, illness, injury or disability or any other reason determined by the Board) then a pro rata proportion of the share award will vest and the remainder shall lapse.

Change of control

The incentive schemes contain change of control provisions, as set out in the relevant scheme rules.

Under the LTIP, in the event of a takeover of the Company, LTIP awards will vest early subject to: (i) the extent that the performance and other conditions have been satisfied at that time, (ii) the operation of malus or clawback, and (iii) (unless the Remuneration Committee decides that pro rating would be inappropriate in the particular circumstances) pro rating to reflect the proportion of the normal performance period that has elapsed at the date of that event.

Under the GIP, if there is a change of control of the Company, options may be exercised early subject to the performance target being satisfied, and in proportion to the amount of the performance period that has elapsed.

Under the Annual Incentive Plan, deferred share awards vest early on a change of control, though the Remuneration Committee has discretion to not release the award early and instead roll the award into an equivalent award in the acquiring company.

Directors' Remuneration Report continued

Under the terms of the Chairman's Share Matching Award, in the event of a change of control a pro rata proportion of the share award will vest, subject to the Board's discretion to determine that a greater number of shares should vest.

Under the terms of the JSOS rules, in the event of an offer a participant may request the EBT Trustee to accept the offer with respect to shares that have vested under the JSOS.

For further information on agreements impacted by a change of control see the Directors' report on pages 111 and 112.

Other remuneration

External appointments for Executive Directors

It is the Company's policy and a requirement of the contract of employment that the Executive Director may not take up non-executive directorships or other appointments without the approval of the Board. Any outside appointments are considered by the Nomination Committee or the Board to ensure they would not cause a conflict of interest and are then approved by the Board. The Board would not usually agree to an Executive Director taking on more than one non-executive directorship of a listed or public company or the chairmanship of such a company. It is the Company's policy that remuneration earned from such appointments may be kept by the individual Executive Director.

Remuneration arrangements prior to policy

The Remuneration Committee has the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the policy, where the terms of the payment were agreed either before the policy came into effect or at a time when the relevant individual was not a Director of the Company, did in the opinion of the Committee, the payment was not consideration for the individual becoming a Director of the Company for these purposes, "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time award is granted.

Illustration of remuneration policy

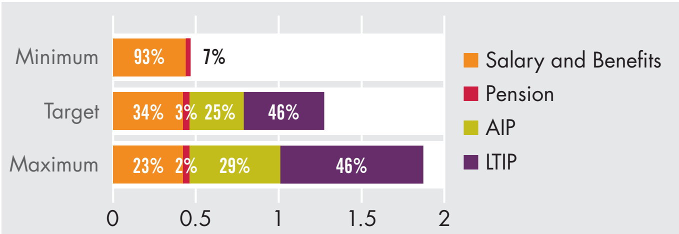
The bar charts on page 87 provide estimates of the potential future reward opportunity for each of the Executive Directors based on the remuneration policy outlined on pages 78 to 81.

	Annual Incentive Plan	LTIP	Base salary, benefits and pension
Minimum	Performance is below threshold on each metric.	Performance is below threshold on each metric.	Fixed.
Target or at expectation	Threshold performance is reached on each metric.	Threshold performance is reached on each metric.	Fixed.
Maximum	Maximum performance is achieved on each metric.	Maximum performance is achieved on each metric.	Fixed.

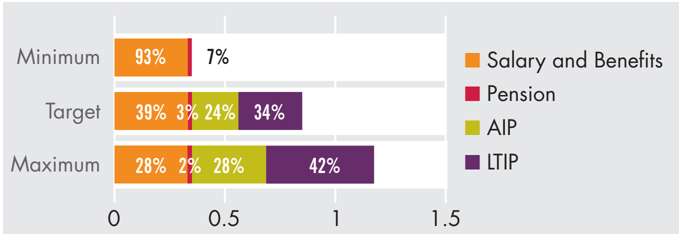
The figures use current base salary and pension (see Annual Report on Remuneration on pages 88 to 89) and value of benefits received for 2013 (see page 89). The performance related pay figures are based on the potential awards for 2014 (see pages 102 to 103), but it should be noted that LTIP awards granted in a year do not normally vest until the third anniversary of the date of grant. For the purposes of illustrating the remuneration policy, it is assumed that the LTIP awards granted in 2014 will also be vesting in 2014. The impact of the GIP has not been included. The estimated remuneration for each Executive Director is based on three different levels of performance, set out below.

In all scenarios, the impact of share price movements on the value of LTIP awards has been excluded.

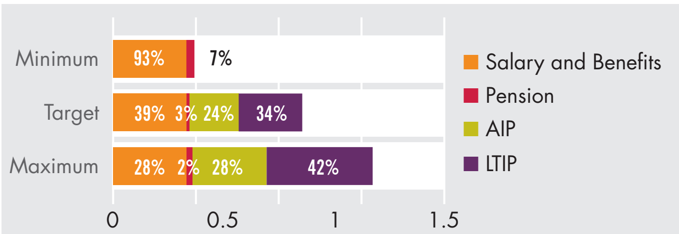
TIM STEINER, CHIEF EXECUTIVE OFFICER (£ million)



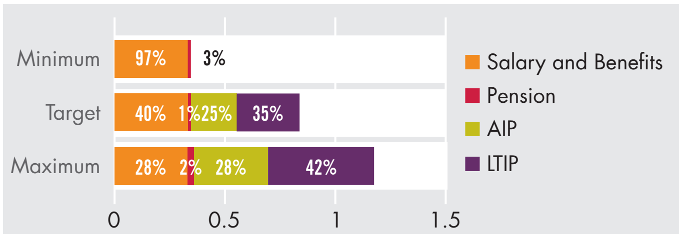
MARK RICHARDSON, OPERATIONS DIRECTOR (£ million)



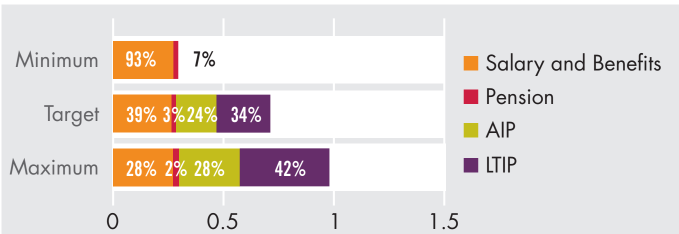
JASON GISSING, COMMERCIAL DIRECTOR (£ million)



DUNCAN TATTON-BROWN, CHIEF FINANCIAL OFFICER (£ million)



NEILL ABRAMS,
LEGAL AND BUSINESS AFFAIRS DIRECTOR (£ million)



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Directors' Remuneration Report continued

Annual Report on Remuneration 2013

Introduction

This part of the Directors' remuneration report sets out the Directors' remuneration paid in 2013. It sets out actual payments to Directors and details on the link between Company performance and remuneration of the Chief Executive Officer. This part, together with the Description of the Remuneration Committee section on pages 73 to 75 are the Annual Report on Remuneration, which will be subject to a shareholder vote at the Company's AGM.

Director remuneration

The total remuneration paid to all of the Directors during the period was £3,831,000. The detailed remuneration breakdown for the Executive Directors and the Non-Executive Directors is set out separately below.

Executive Directors

Total Remuneration (audited)

The total remuneration for the period for each of the current Executive Directors is set out in the table below:

	Tim Steiner		Jason Gissing		Neill Abrams		Duncan Tatton-Brown		Mark Richardson	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000
Salary	**417**	350	**278**	250	**226**	200	**310**	75	**258**	184
Taxable Benefits	**1**	1	**1**	1	**1**	1	**1**	—	**1**	—
Pensions	**33**	28	**22**	20	**18**	16	**9**	—	**21**	15
Total Fixed Pay	**451**	379	**301**	271	**245**	217	**320**	75	**280**	199
Annual Incentive Plan[2]	**528**	104	**307**	59	**257**	48	**307**	38	**307**	77
Share Plans: ESOS	—	—	—	—	—	—	—	—	—	—
JSOS[1]	—	—	—	—	—	—	—	—	—	—
LTIP	—	—	—	—	—	—	—	—	—	—
Sharesave	**32**	—	—	—	**32**	—	—	—	—	—
SIP	—	—	—	—	—	—	—	—	—	—
Total Variable Pay	**560**	104	**307**	59	**289**	48	**307**	38	**307**	77
Recovery of sums paid	—	—	—	—	—	—	—	—	—	—
Total Remuneration	**1,011**	483	**608**	330	**534**	265	**627**	113	**587**	276

[1] JSOS shares vesting in the current year have been calculated using the Company's share price on the date of vesting, 1 January 2013. This price was below the hurdle for the JSOS share interests. Consequently no amount is shown. Notwithstanding, under the JSOS rules a participant may still benefit from an increase (if any) in the price of the Company's shares above the hurdle at a date subsequent to the vesting date.

[2] Duncan Tatton-Brown was appointed effective 1 September 2012. Mark Richardson was appointed effective 23 January 2012. Both Directors received discretionary bonus payments pursuant to their contractual arrangements and not the AIP in respect of 2012.

An explanation of each element of remuneration paid outlined in the table is set out in the following section.

The Company has obtained a written confirmation from each Executive Director that they have not received any other items in the nature of remuneration from the Group, other than those already disclosed in the total remuneration table.

(i) Base Salary (audited)

As reported in the 2012 annual report and accounts, the Chief Executive Officer's salary was reviewed in January 2013 and increased effective in April 2013. During the period, the Remuneration Committee reviewed the salaries of the other Executive Directors. After taking into account a number of relevant factors which are discussed in more detail below the Remuneration Committee recommended that all basic salaries be increased. The following table shows the change in each Executive Director's salary.

Name	Salary 2013 (£)	Salary 2012 (£)	Effective from
Neill Abrams	275,000	200,000	25/07/2013
Jason Gissing	330,000	250,000	25/07/2013
Mark Richardson	330,000	220,000	25/07/2013
Tim Steiner	450,000	350,000	01/04/2013
Duncan Tatton-Brown	330,000	300,000	25/07/2013

In reaching its decisions, the Remuneration Committee took into account the following:

- The fact that the Executive Directors' salaries had not been increased since 2009.
- The increased size of the business following the completion of the Morrisons transaction and the growth in the size and the complexity of the roles of the Executive Directors and the resulting increased work commitments for them.
- The general improved performance of the business, which included:
  - the improved financial position of the Company following the successful refinancing in November 2012, the Group's continued strong sales growth and the successful launch of CFC2; and
  - the transformational impact of the Morrisons transaction on the Group's financial position, performance and future prospects.
- The appropriate benchmark data presented by the Director of Human Resources which factored in the increase in the Company's size.
- The Company's remuneration principle that senior executive base salaries should be at a broad market rate compared with similar senior executive roles and levels of responsibility in companies of a similar size and complexity to the Company.

The increases, which positioned the salaries broadly around the market median for a company of the Company's size and complexity, also aim to help retain our Executive Directors as the Company enters a critical stage of its development.

(ii) Taxable benefits (audited)

The Executive Directors received taxable benefits during the period, notably private medical insurance. The Executive Directors also received other benefits, which are not taxable, including life assurance, travel insurance and Group-wide employee benefits, such as an employee product discount.

(iii) Pensions (audited)

The Company made pension contributions on behalf of Directors to the defined contribution Group personal pension scheme (which is administered by Standard Life). The employer contribution to the pension scheme in respect of each Director was 8% of base salary, except in the case of Duncan Tatton-Brown, who joined the Group in September 2012, which was 6% of base salary.

(iv) Annual Incentive Plan (audited)

The Remuneration Committee adjusts the design of the Annual Incentive Plan each year to incentivise the delivery of key business objectives and individual performance for that financial year. The 2013 Annual Incentive Plan was based on the performance targets set out below (being percentages of base salary).

	Tim Steiner	Duncan Tatton-Brown	Jason Gissing	Mark Richardson	Neill Abrams
Financial objectives					
EBITDA (%)	40	40	40	40	40
Gross sales (%)	40	40	40	40	40
Individual objectives					
(%)	20	20	20	20	20
Examples of business area objectives		Completion and delivery of transaction to monetise Group's IP.			
		Set longer-term financing strategy in light of new strategic objectives	Improve Webshop functionality	Increase CFC2 order volumes to agreed level	Review of Group structure
		Review of internal and external reporting and communication	Increase product range to agreed levels	Improve CFC1 productivity to agreed level	Review and re-tender insurance arrangements

Financial performance measures, namely gross sales and EBITDA, were the primary targets, with 80% of the annual bonus being determined by performance against targets set by the Remuneration Committee at the start of the financial year, by reference to the Company's budget for the period. Of the balance, 20% related to individual objectives for each of the Directors, largely independent of the financial objectives. Each target was discrete and could be earned separately.

Directors' Remuneration Report continued

Financial targets

The Group's gross sales for the period was £852.4 million which was above the "maximum" set under the 2013 Annual Incentive Plan. Accordingly, achievement against this objective was 40% of salary. The Group's EBITDA for the period was £45.8 million which was close to the "maximum" set under the 2013 Annual Incentive Plan. Accordingly, achievement against this objective was 34.8% of a possible 40% of salary.

Individual targets

Each Executive Director had between five and seven individual objectives, with different weightings, under the plan. They related to specific programmes relevant to each Executive Director's business area for which they have primary responsibility. Common to all of the Executive Directors was an individual objective relating to agreeing, completing and delivering the Morrisons transaction. The Remuneration Committee reviewed the performance of each Executive Director against the measurable performance metrics. Based a report by the Chief Executive Officer and Chairman and on the Remuneration Committee's judgement of the performance against these individual objectives, achievement was in the range of 90% to 100% of maximum bonus opportunity for this element of the bonus, equating to 18% to 20% of salary.

Pre-condition

In addition to the above performance targets, the Remuneration Committee set a pre-condition which had to be satisfied before a payment under the Annual Incentive Plan could be made (regardless of the performance against the targets). The pre-condition was that the Group does not breach any of its financial covenants under the Group's £100 million credit facility during the period and in the period from the end of the period to the date of bonus payment. The pre-condition was complied with during the relevant part of the period. In July 2013, the Group's £100 million credit facility was repaid in full and accordingly the pre-condition did not subsequently apply.

Disclosure of targets

The achievement against the AIP targets has been disclosed. However, the Remuneration Committee considers that the targets are commercially sensitive to the Company and if disclosed could damage the Company's commercial interests. The actual AIP targets, therefore, have not been disclosed in reliance on the exemption under the regulations. The Remuneration Committee does not expect to disclose this information at a later date.

Summary of bonus earned

The Remuneration Committee has recommended an aggregate bonus payment of £1,705,505 under the 2013 Annual Incentive Plan for the period. This recommendation is based on the achievement of targets set out below. The Remuneration Committee believes that the level of bonus payment appropriately reflects the significant progress made during the period, which saw some transformational changes for the Group. The table below summarises the bonus payments for each Executive Director for the 2013 Annual Incentive Plan. The cash payment will be made in about April 2014.

	Gross sales	EBITDA	Individual objectives	Total Bonus Earned	
	% of salary			% of salary	£'000
Maximum bonus potential	40	40	20	100/125	–
Actual bonus earned					
Tim Steiner	40	34.8	19.0	117.25	527.6
Duncan Tatton-Brown	40	34.8	18.3	93.1	307.2
Jason Gissing	40	34.8	18.2	93.0	306.9
Mark Richardson	40	34.8	18.2	93.0	306.9
Neill Abrams	40	34.8	18.6	93.4	256.8

[1] The applicable salary used for calculating the bonus payment under the rules of the 2013 Annual Incentive Plan is the current base salary, described on page 89.

(v) Share plans (audited)

Awards granted under long-term incentive plans only count towards the total remuneration figure for the period in which they vest. Awards under the Company's share plans are normally subject to three year vesting periods and therefore awards made during the period will not be reflected in the total remuneration figure for this period.

ESOS

Awards vesting:

No award under the ESOS vested during the period.

Awards exercised:

During the period the following options held by Executive Directors under the ESOS were exercised:

Name	Number of options exercised	Exercise price (pence)
Neill Abrams	100,000	90.00
Mark Richardson	96,850	115.00

No other Directors exercised options during the period. The aggregate amount of gains made by Executive Directors on the exercise of share options was £333,829.64. Neill Abrams retained 36,850 ordinary shares subsequent to the exercise of his ESOS options.

Awards granted:

Duncan Tatton-Brown was granted options over 9,923 ordinary shares of 2 pence each under the ESOS on 8 July 2013. The exercise price was fixed at £3.02 per share. The options will vest in July 2016. This was a one-off award of options made to Duncan after joining the Group. The Group had, until mid-2013, a policy of issuing options to all new employees shortly after joining the Group. Any such options are not subject to performance conditions other than the usual three year vesting period.

The Remuneration Committee does not, as at the date of this Annual Report, have any intention of making a further award of options under the ESOS scheme to the Executive Directors. Existing options held by the Executive Directors under the ESOS were granted prior to the Company's listing in 2010 (except those granted to Duncan Tatton-Brown, noted above). Further details on all the existing options held by the Executive Directors under the ESOS can be found in the statement of Directors' shareholdings on page 97.

SIP

No awards have been granted under the SIP. The SIP will be implemented by the Company in mid-2014.

JSOS

All of the Executive Directors have invested in share interests under the JSOS scheme and so have placed actual personal wealth at risk through this scheme. These arrangements help to ensure that all of the Directors' interests are aligned with those of shareholders of the Company.

Awards vesting:

The third tranche of the JSOS vested during the period. Those JSOS interests were calculated using the share price on the date of vesting, 1 January 2013. This price of 84.75 pence per share, was below the hurdle price of 208 pence per share for the third tranche of JSOS share interests. Consequently, no amount is shown in the total remuneration table.

Awards sold:

No JSOS share interests have been sold by an Executive Director during the period or since inception of the scheme.

Awards granted:

No awards of JSOS share interests were made during the period. The Remuneration Committee does not, as at the date of this Annual Report, have any intention of making a further award of share interests under the JSOS scheme to the Executive Directors. Most share interests held by the Executive Directors under the JSOS were granted prior to the Company's listing in 2010. Further details on all the existing JSOS share interests held by the Executive Directors under the JSOS can be found in the statement of Directors' shareholdings on page 97.

LTIP

Awards vesting:

This was the first year of operation for the LTIP, as such no awards vested during the period.

Awards granted:

The LTIP was approved by shareholders at the 2013 annual general meeting. The LTIP was introduced to help maintain the alignment of the Executive Directors' and shareholders' interests, and to help attract and retain executive candidates of the right calibre. As explained in 2013, in its first year of operation, LTIP awards were made in respect of both 2012 and 2013. As a result in 2013 only, an LTIP award of up to 300% of annual base salary was made, representing twice the size of a typical annual LTIP award. In the case of the Chief Executive Officer, an LTIP award with a total market value of 400% of annual base salary was made. The number of shares subject of an LTIP award was determined based on a price of 131.2 pence per share, being the volume weighted average price of the Company's ordinary shares on the three trading days prior to 11 March 2013 (the date that the Remuneration Committee determined the number of shares the subject of the LTIP awards). The LTIP awards are conditional awards under the rules of the LTIP, which is a right to receive free shares in the Company, subject to the achievement of performance conditions over a three year performance period.

Directors' Remuneration Report continued

Director	% Salary	Double Award (£'000)	Number of Shares
Tim Steiner	400	1,800	1,371,951
Jason Gissing	280	700	533,536
Mark Richardson	280	616	469,512
Neill Abrams	200	400	304,878
Duncan Tatton-Brown	300	900	685,975

The LTIP awards for 2013 have one performance condition which is the Company's earnings before interest and tax ("EBIT") pre-exceptional items for the financial year ending November 2015. The Remuneration Committee has agreed "threshold" and "maximum" conditions that must be achieved. No LTIP award will vest unless a "threshold" level of performance condition has been achieved. At "threshold" performance, 25% of an LTIP award will vest and at "maximum" performance, 100% of an LTIP award will vest. Vesting will be on a straight-line basis between the "threshold" and the "maximum". Full vesting will only occur where exceptional performance levels have been achieved and significant shareholder value created. "Threshold" vesting has been set above the Company's budgeted performance for the financial period. The actual performance condition is not disclosed due to its commercial sensitivity, but the Company will disclose the extent to which it was met after the end of the performance period.

The performance condition for the LTIP awards will be tested in relation to the financial year ending in 2015 to determine what percentage of the LTIP awards has been achieved, and will vest during 2016 to the extent that the performance condition has been achieved.

The LTIP targets have not been disclosed because the Remuneration Committee considers that the targets are commercially sensitive to the Company and if disclosed could damage the Company's commercial interests. The LTIP targets therefore have not been disclosed in reliance on the exemption under the regulations. The Remuneration Committee will consider at a later date whether it remains appropriate not to disclose such targets in future.

Further details on the shares granted to the Executive Directors under the LTIP can be found in the statement of Directors' shareholdings on page 98.

Sharesave

Awards vesting:

The first savings contract under the Sharesave Scheme matured on 1 December 2013. Tim Steiner and Neill Abrams held the vested interests in the Sharesave Scheme set out in the table below:

	Number of options	Exercise price (£)	Share price on 1 December 2013 (pence)	Value at 1 December 2013 (£)
Tim Steiner	7,745	1.16	4.09	31,677
Neill Abrams	7,745	1.16	4.09	31,677

Awards exercised:

None of the Executive Directors that were participants in the Sharesave Scheme had exercised their options during the period or up to the date of this Annual Report.

Awards granted:

A third invitation to all employees was made under the Sharesave Scheme in September 2013. Tim Steiner, Neill Abrams and Duncan Tatton-Brown entered a savings contract and were each granted 2,987 options over ordinary shares on 1 October 2013 at an exercise price of 301.2 pence per share.

Participants were issued options at an option price which was discounted by 10% from the applicable market value of the Company's shares at the date of grant. Like all HMRC approved Save As You Earn schemes, options are not issued subject to performance conditions as they are not provided for under the scheme rules.

Further details on all the existing options held by the Executive Directors under the Sharesave Scheme can be found in the statement of Directors' shareholdings on page 98.

Non-Executive Directors

Total fees (audited)

The fees paid to the Non-Executive Directors and the Chairman during the period are set out in the remuneration table below. With the exception of the Chairman, the Non-Executive Directors received no remuneration other than their annual fee.

The remuneration arrangements for the Non-Executive Directors (except the Chairman) did not change during the period and have not changed since early 2010. The Board reviewed these arrangements following period end and recommended some changes for 2014, which are outlined on page 104.

The fees for the Non-Executive Directors are determined by the Chairman and the Executive Directors. The Executive Directors and the Chairman consider that the remuneration for the Non-Executive Directors reflected the time commitment and responsibilities of the role.

	Fees		Taxable Benefits		Annual Bonus		Long-term Incentives		Pension Entitlements		Total Remuneration	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Current Directors												
Sir Stuart Rose	118	—	—	—	—	—	—	—	—	—	118	—
David Grigson	62	62	—	—	—	—	—	—	—	—	62	62
Ruth Anderson	50	50	—	—	—	—	—	—	—	—	50	50
Robert Gorrie	40	40	—	—	—	—	—	—	—	—	40	40
Jörn Rausing	40	40	—	—	—	—	—	—	—	—	40	40
Douglas McCallum	47	40	—	—	—	—	—	—	—	—	47	40
Alex Mahon	40	20	—	—	—	—	—	—	—	—	40	20
Past Directors												
Lord Grade[1]	45	100	13	—	—	—	—	—	—	—	58	100
Wendy Becker	9	32	—	—	—	—	—	—	—	—	9	32

[1] The taxable benefit represents the retirement gift presented to Lord Grade prior to his retirement from the Board.

A breakdown of the fees paid to the Senior Independent Director and Board committee chairs during the period are set out in the table below.

Non-Executive Director	Base element £'000	Committee chair element £'000	Senior Independent Director element £'000
David Grigson	40	7	15
Ruth Anderson	40	10	—
Douglas McCallum	40	7[1]	—

[1] Douglas McCallum was appointed as Remuneration Committee Chairman effective on 22 January 2013. The contractual annual committee chair element for Douglas McCallum is £8,000.

Other Remuneration

In addition to the fees, the Non-Executive Directors are entitled to the staff product discount in line with the employees.

The Company has obtained a written confirmation from each Non-Executive Director that they have not received any other items in the nature of remuneration from the Group, other than those already disclosed in the total remuneration table or noted below.

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.

Chairman Remuneration (audited)

The remuneration arrangements for the Chairman were changed on the appointment of Sir Stuart Rose in March 2013, who became Chairman from the Company's annual general meeting on 10 May 2013. The following sets out the remuneration arrangements for Sir Stuart Rose. The Remuneration Committee considers that the remuneration for the Chairman reflects the time commitment and responsibilities of the role.

Base fee

The Remuneration Committee approved the following base fee structure: £40,000 per annum for the period from appointment as an independent Non-Executive Director on 11 March 2013 to the date of becoming Chairman; and £200,000 per annum thereafter. Such fee will not be reviewed by the Board for a minimum of three years from the annual general meeting in May 2013.

Chairman's Share Matching Award

In addition Sir Stuart Rose received a one-off award of £400,000 of ordinary shares in the Company (based on market value prior to the date of announcement of the appointment) to match Sir Stuart's acquisition of shares in the Company. The share award was approved by shareholders at the annual general meeting in May 2013.

The Company issued 452,284 ordinary shares in the Company to Sir Stuart ("Matching Shares") in return for payment for their nominal value of £9,046.

Sir Stuart had, prior to joining the Board, already acquired 750,000 of the Company's ordinary shares on his own account.

Directors' Remuneration Report continued

The Matching Shares will not vest until three years after the date of commencement as Chairman (that is 10 May 2016), and will only vest subject to Sir Stuart's continued membership of the Board. Sir Stuart will be restricted from selling any shares while on the Board and he shall not sell any of the Matching Shares until the first anniversary of his ceasing to be a member of the Board. There are no performance criteria to which vesting is subject.

If Sir Stuart leaves the Board prior to 10 May 2016 as a result of his death, illness, injury or disability, or in other circumstances which the Board decides appropriate, a number of Matching Shares will be transferred to Sir Stuart or his estate pro rata to the time he has spent as Chairman. Similarly, a pro rata number of Matching Shares (or such greater number as the Board may determine) will vest should the Company be taken over during the three year period.

In all other circumstances, should Sir Stuart cease to be a Director of the Company prior to 16 May 2016 he will forfeit his right to the Matching Shares.

Directors' terms of appointment

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. The terms of these contracts are consistent with the policy outlined (see pages 78 to 81), though payment in lieu of notice is one times basic salary only. The terms of these contracts are set out in the table 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	43
Tim Steiner	13/04/2000	09/03/2010	Continuous employment until terminated by either party	12	6	44
Neill Abrams	08/09/2000	10/12/2009	Continuous employment until terminated by either party	12	6	49
Mark Richardson	03/02/2012	23/01/2012	Continuous employment until terminated by either party	12	6	49
Duncan Tatton-Brown	01/09/2012	01/09/2012	Continuous employment until terminated by either party	12	6	48

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 are set out in the table below. There are no provisions in the letters of appointment for payment for early termination.

Director	Date of appointment by Ocado Limited	Date of appointment by Ocado Group plc	Current term	Notice period (months)	Current age
Robert Gorrie	01/04/2000	09/03/2010	3 years	1	54
Jörn Rausing	13/03/2003	09/03/2010	3 years	1	54
David Grigson	03/02/2010	09/03/2010	3 years	1	59
Ruth Anderson	—	09/03/2010	3 years	1	60
Douglas McCallum	—	03/10/2011	3 years	1	47
Alex Mahon	—	01/06/2012	3 years	1	40
Sir Stuart Rose	—	11/03/2013	3 years	6	64
Former Director					
Lord Grade	15/09/2006	09/03/2010	3 years	6	71
Wendy Becker	—	30/03/2012	3 years	1	48

Other remuneration disclosures

Payments to past Directors (audited)

The Company does not have any arrangements for payments to any former Directors of the Company, including Lord Grade and Wendy Becker, who both resigned during the period.

Payments for loss of office (audited)

Wendy Becker resigned from the Board effective on 21 January 2013. Lord Grade retired from the Board on 10 May 2013. Both were Non-Executive Directors and under the remuneration policy, their remuneration package comprised only an annual fee and did not include benefits, pension or incentive arrangements. Both Directors were paid their director fees in accordance with the terms of their letters of appointment. Consequently no amounts were paid to or receivable by them in the period as a consequence of their loss of office. Lord Grade was given a gift to the value of £12,577, prior to his retirement from the Board as a gesture of the Company's gratitude for his long-standing service to the Company. The payment was not a termination payment and was not made in consideration of Lord Grade's departure from the Board and was not contained in his letter of appointment or otherwise an obligation imposed on the Company.

External remuneration for Executive Directors

As at the date of this Annual Report:

- 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.
- In addition to his role as Executive Director of the Company, Duncan Tatton-Brown is an independent non-executive director of Rentokil Initial plc, listed on the London Stock Exchange (registration number 5393279, incorporated in England and Wales). For his services to Rentokil Initial plc Duncan is paid a fee of £70,000 per annum.

Director shareholdings (audited)

The beneficial interests in the Company's shares of Directors, serving at the end of the period, were:

Director	Ordinary shares of 2 pence each 1 December 2013	Ordinary shares of 2 pence each 2 December 2012
Tim Steiner	14,396,400	14,396,400
Jason Gissing	9,657,600	9,657,600
Sir Stuart Rose	750,000	750,000
Robert Gorrie	690,660	690,660
Neill Abrams	557,054	520,204
Douglas McCallum	68,000	68,000
Duncan Tatton-Brown	60,000	60,000
Ruth Anderson	55,000	55,000
David Grigson	15,000	15,000
Alex Mahon	2,000	—
Jörn Rausing	—	—

1 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:

A decrease in Robert Gorrie's shareholding due to the sale of 275,000 shares on 5 February 2014. This has resulted in Robert Gorrie holding 415,660 shares.

A decrease in Douglas McCallum's shareholding due to the sale of 58,000 shares on 25 February 2014. This has resulted in Douglas McCallum holding 10,000 shares.

An increase in Alex Mahon's shareholding due to the purchase of 5,087 shares on 6 March 2014. This has resulted in Alex Mahon holding 7,087 shares.

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

3 Neill Abrams' holding increased by 36,850 shares due to the retention of shares after the exercise of ESOS options on 3 July 2013.

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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 1 December 2013	Ordinary shares of 2 pence each 2 December 2012
Neill Abrams	1,100,800	1,100,800
Jörn Rausing	69,015,602	69,015,602
Jason Gissing[1, 2]	8,326,200	9,391,442
Tim Steiner	14,291,200	14,291,200

There have been no changes in the Directors' beneficial interests in trusts holding ordinary shares of the Company except:

1 During the period, Trident Trust Co (BVI) Limited as trustee of the Jason Gissing Life Settlement II, (of which Jason Gissing is a discretionary beneficiary) sold 1,065,242 ordinary shares at an average price of 310.6p per share. This was the first time the trust had sold shares in the Company since the IPO in July 2010.

2 On 4 February 2014, Trident Trust Co (BVI) Limited as trustee of the Jason Gissing Life Settlement II (of which Jason Gissing is a discretionary beneficiary) sold 3,050,000 shares at 498.75 pence per share.

In addition to the above holdings, there are the following shareholdings in connection with Directors:

Shareholder	Connection to Director	Ordinary shares of 2 pence each 1 December 2013	Ordinary shares of 2 pence each 2 December 2012
Caryn Abrams	Spouse of Neill Abrams	75,000	75,000
Caryn Abrams as discretionary beneficiary of a trust	Spouse of Neill Abrams	133,100	133,100
Kate Tatton-Brown	Spouse of Duncan Tatton-Brown	50,000	50,000

Director shareholding requirement (audited)

The table below shows current compliance with the Director shareholding requirements in the remuneration policy. As at the date of this Annual Report, all of the Directors comply with the requirement.

Director	Minimum shareholding requirement (% of salary or fee)	Complied with shareholding requirement?	Basis for compliance
Tim Steiner	150	Yes	Indirect and direct shareholdings
Jason Gissing	100	Yes	Indirect and direct shareholdings
Duncan Tatton-Brown	100	Yes	Indirect and direct shareholdings
Neill Abrams	100	Yes	Indirect and direct shareholdings
Mark Richardson	100	Yes	JSOS interests
Sir Stuart Rose	100	Yes	Direct shareholdings
Robert Gorrie	100	Yes	Direct shareholdings
Douglas McCallum	100	Yes	Direct shareholdings
Ruth Anderson	100	Yes	Direct shareholdings
David Grigson	100	Yes	Direct shareholdings
Alex Mahon	100	Yes	Direct shareholdings
Jörn Rausing	100	Yes	Indirect shareholdings

The assessment for compliance is based on the annualised salary or fee (as set out in the total remuneration tables) which applied at the end of 2013 and the share price of 576.5 pence per share on 4 March 2014, being the last practicable date prior to the publication of this Annual Report. Mark Richardson satisfies the requirement through his holding of vested JSOS share interests sitting in the EBT, based on the share price on that date.

Director interests in share schemes (audited)

ESOS (audited)

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	1 December 2013	Exercise price (£)	2 December 2012	Exercise price (£)	Exercise period
Tim Steiner	May-05	200,000	1.15	200,000	1.15	16/05/08 – 15/05/15
Neill Abrams	Nov-03	—	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
Jason Gissing	May-05	200,000	1.15	200,000	1.15	16/05/08 – 15/05/15
Mark Richardson	May-05	—	1.15	96,850	1.15	31/05/08 – 30/05/15
	May-09	70,000	1.20	70,000	1.20	31/05/12 – 30/05/19
Duncan Tatton-Brown	Aug-13	9,923	3.02	—	—	08/07/16 – 07/07/23

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

	1 December 2013		2 December 2012[1]	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	766,850	1.12	1,338,146	1.21
Granted during the period	9,923	3.02	—	—
Forfeited during the period	—	—	(396,296)	1.48
Exercised during the period	(196,850)	1.02	(175,000)	1.00
Outstanding at the end of the period	579,923	1.19	766,850	1.12
Exercisable at the end of the period	570,000	1.16	766,850	1.12

Further details on all the changes in existing options held by the Executive Directors under the ESOS can be found on pages 90 to 91.

JSOS (audited)

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	1 December 2013	2 December 2012	Hurdle price (£)	Exercise period
Tim Steiner	Feb-10	2,513,100	2,513,100	1.73	01/01/11 – 01/01/19
	Feb-10	2,513,100	2,513,100	1.91	01/01/12 – 01/01/19
	Feb-10	2,513,100	2,513,100	2.08	01/01/13 – 01/01/19
	Feb-10	2,513,000	2,513,000	2.28	01/01/14 – 01/01/19
Neill Abrams	Feb-10	1,017,200	1,017,200	1.73	01/01/11 – 01/01/19
	Feb-10	1,017,200	1,017,200	1.91	01/01/12 – 01/01/19
	Feb-10	1,017,200	1,017,200	2.08	01/01/13 – 01/01/19
	Feb-10	1,017,100	1,017,100	2.28	01/01/14 – 01/01/19
Jason Gissing	Feb-10	1,675,400	1,675,400	1.73	01/01/11 – 01/01/19
	Feb-10	1,675,400	1,675,400	1.91	01/01/12 – 01/01/19
	Feb-10	1,675,400	1,675,400	2.08	01/01/13 – 01/01/19
	Feb-10	1,675,300	1,675,300	2.28	01/01/14 – 01/01/19
Duncan Tatton-Brown	Nov-12	365,000	365,000	1.70	01/01/13 – 01/01/19
	Nov-12	1,100,000	1,100,000	1.88	01/01/14 – 01/01/19
Mark Richardson	Feb-10	223,300	223,300	1.73	01/01/11 – 01/01/19
	Feb-10	223,300	223,300	1.91	01/01/12 – 01/01/19
	Feb-10	223,300	223,300	2.08	01/01/13 – 01/01/19
	Feb-10	223,200	223,200	2.28	01/01/14 – 01/01/19
	Nov-12	711,975	711,975	1.70	01/01/13 – 01/01/19
	Nov-12	776,700	776,700	1.80	01/01/14 – 01/01/19

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Directors' Remuneration Report continued

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

	1 December 2013		2 December 2012	
	Number of interests in ordinary shares	Weighted average price (£)	Number of interests in ordinary shares	Weighted average price (£)
Outstanding at the beginning of the period	28,020,075	1.97	28,417,100	2.00
Granted during the period	—	—	2,953,675	1.76
Forfeited during the period	—	—	(3,350,700)	2.18
Exercised during the period	—	—	—	—
Outstanding at the end of the period	28,020,075	1.97	28,020,075	1.97
Exercisable at the end of the period	17,363,975	1.89	10,858,000	1.82

The prior period was restated to remove 3,350,800 interests held by Andrew Bracey, a former Director. He retains these interests, which had vested in 2011 and 2012 while he was still a Director. These had not been exercised as at the time of publication of these accounts. He does not hold any other interests in the JSOS.

LTIP (audited)

At the end of the period the Executive Directors' LTIP awards were as follows:

Director	Type of interest	Date of grant	Basis on which award is made (% of salary)	Number of shares	Face value (£)[1]	End of performance period[2]
Tim Steiner	Conditional shares	23/07/13	400	1,371,951	1,800,000	29/11/15
Jason Gissing	Conditional shares	23/07/13	280	533,536	700,000	29/11/15
Mark Richardson	Conditional shares	23/07/13	280	469,512	616,000	29/11/15
Neill Abrams	Conditional shares	23/07/13	200	304,878	400,000	29/11/15
Duncan Tatton-Brown	Conditional shares	23/07/13	300	685,975	900,000	29/11/15

1 For the 2013 LTIP awards the face value of the award has been calculated using a price of 131.2 pence per share, being the volume weighted average price of the Company's ordinary shares on the three trading days prior to 11 March 2013 (the date that the Remuneration Committee determined the number of shares subject to the LTIP awards). As explained on page 91, the 2013 LTIP awards were made in respect of both 2012 and 2013.

2 The performance target for the 2013 LTIP awards is described on page 92.

Chairman's Share Matching Award (audited)

At the end of the period, the Chairman's Share Matching Award was as follows:

Director	Type of interest	Date of grant	Number of shares	Face value (£)[1]	End of vesting period
Stuart Rose	Restricted shares	17 May 2013	452,284	400,000	10/05/2016

1 The face value of the award has been calculated using a price of 88.44 pence per share, being the volume weighted average share price of the Company's ordinary shares on the three trading days prior to 22 January 2013 (the date of the announcement of the Chairman's appointment). The basis for the award was to match up to £400,000 of Company shares where such shares were acquired by the Chairman.

2 The award is not subject to any performance conditions other than continued service. The award is described on page 93.

Sharesave Scheme (audited)

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

Director	Date of issue	1 December 2013	Exercise price (£)	2 December 2012	Exercise price (£)	Exercise period
Tim Steiner	Oct-10	7,745	1.16	7,745	1.16	01/12/13 – 01/06/14
Tim Steiner	Oct-13	2,987	3.01	—	—	01/12/16 – 31/05/17
Neill Abrams	Oct-10	7,745	1.16	7,745	1.16	01/12/13 – 01/06/14
Neill Abrams	Oct-13	2,987	3.01	—	—	01/12/16 – 31/05/17
Jason Gissing	Mar-12	9,846	0.91	9,846	0.91	01/05/15 – 01/11/15
Duncan Tatton-Brown	Oct-13	2,987	3.01	—	—	01/12/16 – 31/05/17

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

	1 December 2013		2 December 2012	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	25,336	1.06	30,980	1.16
Granted during the period	8,961	3.01	9,846	0.91
Forfeited during the period	—	—	(15,490)	1.16
Exercised during the period	—	—	—	—
Outstanding at the end of the period	34,297	1.57	25,336	1.06
Exercisable at the end of the period	—	—	—	—

Share price and other option information

The closing market price of the Company's shares as at 29 November 2013, being the last trading day in the period ending on 1 December 2013, was 409.00 pence per ordinary share (2012: 73.90 pence) and the share price range applicable during the period was 70.25 pence to 454.80 pence per ordinary share.

No other Directors have options over shares of the Company outside one of the Company's recognised share schemes.

Dilution

Dilution limits

Awards granted under the Company's Sharesave Scheme and ESOS are met by the issue of new shares when the options are exercised. The allocation of awards under the JSOS were met by the subscription for new shares by the participant and the EBT. Awards granted under the LTIP and GIP may be met by the issue of new shares, the transfer of shares from treasury, or the purchase of existing shares by the EBT. The share deferral provisions in the Annual Incentive Plan have not been approved by shareholders and accordingly awards will be satisfied only by the purchase of existing shares by the EBT until such shareholder approval is obtained.

There are limits on the number of shares that may be allocated under the Company's share plans. These dilution limits were recommended by the Remuneration Committee and incorporated into the rules of the various share schemes, which have been approved by the Company's shareholders.

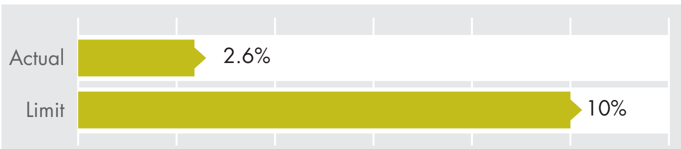
The dilution limits restrict the commitment to issue new ordinary shares under all share schemes of the Group to 10% of the nominal amount of the Company's issued share capital and under the JSOS, the LTIP and the GIP (and any other selective share scheme) to 5% of the nominal amount of the issued share capital of the Company. These limits are consistent with the guidelines of institutional shareholders.

The JSOS rules have additional overriding limits on the number of shares that may be allocated under the JSOS. Up to 7.5% of the Company's ordinary issued share capital may be held under the JSOS.

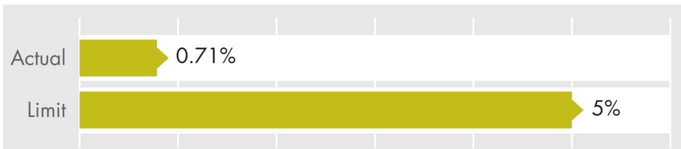
Impact on dilution

The Company monitors the number of shares issued under these schemes and their impact on dilution. The charts below show the Company's commitment, as at the last practical date prior to the publication date of this Annual Report, to issue new shares in respect of its share schemes assuming all performance conditions are met, all award holders remain in employment to the vesting date and all awards are settled in newly issued shares.

All share plans



Executive share plans



For these purposes, no account is taken of ordinary shares allocated prior to the Company's Admission. This summary does not include any possible commitments under any proposed new scheme, notably the SIP and GIP.

Directors' Remuneration Report continued

Review of changes in remuneration and Company performance

This part of the report provides some context for Directors' remuneration including Company performance, shareholder returns and spend on employee pay.

CEO historical remuneration

The table below summarises in respect of the Chief Executive Officer, the single figure of total remuneration, the Annual Incentive Plan or bonus plan payment as a percentage of maximum opportunity, and long-term incentives as a percentage of maximum opportunity for the current period and the previous four financial years.

Year	CEO Total Remuneration (£'000)	Annual Incentive Plan or bonus as a percentage of Maximum Opportunity (%)	Annual Incentive Plan or bonus payment (£'000)	Long-term Incentives as a percentage of Maximum Opportunity (%)
2013	1,011	93.8	528	0
2012	483	29.7	104	0
2011	379	0	0	0
2010	599	n/a	220	0
2009	564	n/a	262	0

1 In respect of the 2009 financial year, the Company did not produce an annual report containing disclosure comparable with the disclosure requirements for quoted companies as it was a private company at the time.

2 The CEO total remuneration figures prior to the current period represent the previously presented audited information with necessary adjustments for amounts required to be included in the single total figure of remuneration (such as pension amounts).

3 Prior to the 2010 financial year, the Company did not have a long-term incentive plan. From 2010, the Company had the JSOS as the main form of long-term incentive plan. For the 2010, 2011, 2012 and 2013 financial years, the JSOS interests did not have any value at the vesting date. The LTIP was implemented in 2013 but the first award has a performance period ending in 2015 and a vesting date in 2016.

CEO percentage change versus representative employee group

To put the Directors' remuneration into context, the table below sets out the change in salary, benefits, and bonus of the Chief Executive Officer and of all of our UK employees from the preceeding period to the current period.

	Tim Steiner	All UK employees
Percentage change in Salary from 2012 to 2013	28.6%	2.4%
Percentage change in Taxable Benefits from 2012 to 2013	0%	0%
Percentage change in Annual Incentive Plan earned from 2012 to 2013	407.7%	0%

1 Most of the Group's employees are not entitled to earn an annual bonus payment as part of their remuneration.

2 The change in salary data for all UK employees is on a per capita basis.

Relative importance of spend on pay

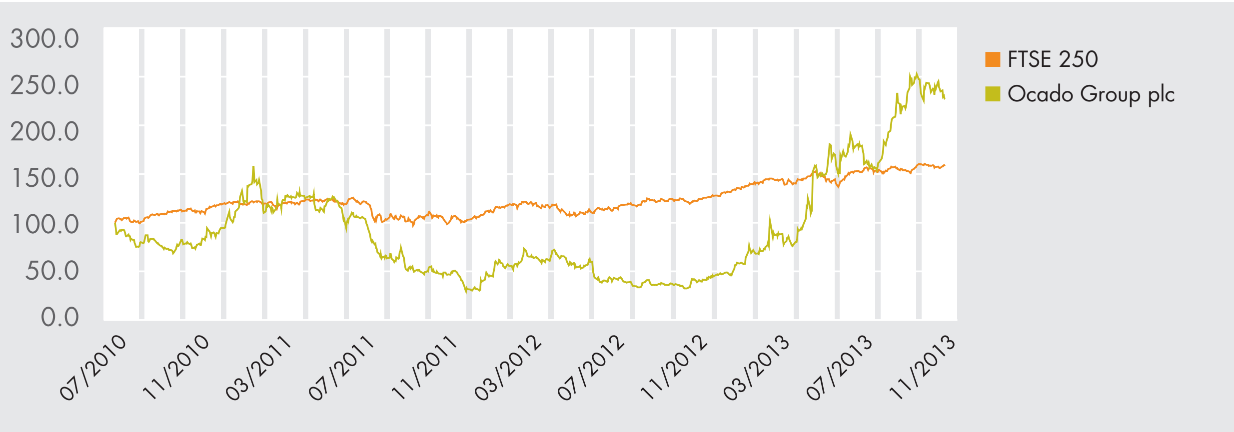
The following table shows the Company's loss, and total Group-wide expenditure on pay for all employees for the period and last financial year. The Company did not record a profit or pay any dividends in the last two years. The information shown in this chart is based on the following:

- Loss – loss before tax taken from the table on page 119.
- Total employee pay – total gross employment costs for the Group (including pension, variable pay, share-based payments and social security) as stated on page 128.

	1 December 2013 (£m)	2 December 2012 (£m)
Loss before tax	(12.5)	(0.6)
Total gross employmee pay	156.7	138.0

Total Shareholder Return

The following graph shows the total shareholder return ("TSR") performance of an investment of £100 in the Company's shares from its Admission 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 since its Admission so the Company's TSR does not include a dividend amount.



Annual Report on Remuneration — policy for 2014

Introduction

This part of the Directors' remuneration report sets out implementation of the remuneration policy for 2014. The Annual Report on Remuneration will be subject to a shareholder vote at the AGM.

Summary of changes for Executive Directors

This table briefly summarises the proposed significant changes to the Directors' remuneration arrangements for 2014 when compared to the arrangements for the period.

Base pay and benefits	Pension	Annual Incentive Plan	Long-term incentives	All employee schemes
› Base pay will be subject to annual review.	› No change intended.	› No change to the maximum opportunity or measures. › Introduction of share deferral, clawback and malus concepts.	› Introduction of GIP. › LTIP – lower awards than 2013, introduction of second performance measure, and change of measures to EBIT and gross sales.	› Introduction of SIP scheme. › Proposed new legislative limits adopted. › Introduction of 2014 ESOS.

The GIP and 2014 ESOS have been proposed to shareholders for approval at the AGM.

Base salary and benefits

The Remuneration Committee expects to conclude its annual review of the Executive Directors' base salaries in due course.

The benefits in kind offered to the Executive Directors are expected to remain unchanged.

Pensions

Pension contributions, as described in the remuneration policy, remain unchanged from the previous period.

Directors' Remuneration Report continued

2014 Annual Incentive Plan

The Remuneration Committee approved the implementation of an Annual Incentive Plan for the Executive Directors applicable to the 2013/2014 financial year. This plan broadly reflects the framework of the 2013 Annual Incentive Plan, but with the introduction of key additional provisions.

The bonus potential for the Executive Directors is 100% and for the Chief Executive Officer is 125% of base salary for "maximum" performance, which is the same as the 2013 plan.

Following a review of the structure of the Annual Incentive Plan the Remuneration Committee recommended a number of changes to the plan. The Annual Incentive Plan for 2014 makes provision for a proportion of a bonus payment to be deferred into shares. Up to 50% of a bonus payment will be compulsorily deferred into shares to the extent that the relevant participant has not met the applicable minimum shareholding requirement set out in the remuneration policy. The Remuneration Committee introduced this change to ensure that the Annual Incentive Plan is aligned with the Company's longer-term objectives. Given the Executive Directors, and their respective trusts, collectively hold a very large shareholding in the Company's issued share capital it was considered appropriate that deferral not be mandatory per se, as the existing shareholdings already reinforce the alignment between the Executive Directors' interests and shareholders' interests that is sought to be achieved with share deferral. If deferred, shares vest after three years, subject to bad leaver, malus and clawback provisions. Until the Annual Incentive Plan is approved by shareholders, the share deferral will be made by an award which will be satisfied, to the extent required, by purchase of existing shares by the EBT (rather than newly issued shares).

In line with best practice and the Company's existing LTIP, clawback and malus provisions have been introduced into the 2014 Annual Incentive Plan. These provisions allow the Remuneration Committee to reduce or cancel a payment under the 2014 Annual Incentive Plan in certain circumstances, for a three year period. Such exceptional circumstances may include a material misstatement in the published results of the Company's group, misconduct on the part of the participant or where the Remuneration Committee determines that the participant has caused wholly or in part a material loss for the Company as a result of reckless, negligent or wilful actions or inappropriate values or behaviour.

Annual Incentive Plan 2014 Performance Targets

The Annual Incentive Plan performance measures are unchanged for the 2013/2014 financial year namely 40% for Group gross sales, 40% for Group EBITDA and 20% for performance measured against role specific objectives.

The Remuneration Committee considers that the balance of targets provides an appropriate focus on annual financial performance objectives of driving sales growth and improved EBITDA while ensuring that the senior executives deliver other business objectives in connection with growing the business. The role-specific objectives are intended to ensure that the 2014 Annual Incentive Plan reflects the remuneration principles for Executive Directors which is that the plan provides a direct link between Company and role-specific performance and reward.

The financial performance targets have again been set on the basis of the Company's budget for the 2013/2014 financial year. For the maximum payment level to be achieved the Company must significantly outperform its budgeted sales growth and EBITDA for the 2013/2014 financial year. A threshold payment level has been set at an acceptable point of Company financial performance. Below such point no bonus will be earned. The rationale for, and basis of measurement of, the performance metrics was as follows:

Performance target	Commercial rationale	Basis of measurement
Gross sales	Rewards top line sales growth in line with the Group's strategy; is the primary management measure.	Gross sales for the Group (including VAT and before voucher discounts) for the 2013/2014 financial year.
EBITDA	Rewards earnings growth in line with the Group's strategy; currently is the most relevant profit measure for the Group.	Earnings before interest, taxation, depreciation, amortisation, impairment and exceptional items for the Group for the financial year non-GAAP measure).
Individual objectives	Allows flexibility to target rewards against achievement of specific objectives which will contribute to the Company achieving its strategy in the short and medium-term.	Discussed below.

The individual objectives applicable for the Annual Incentive Plan are linked to the Executive Director's role and/or his business area(s) and are in line with the Group's strategy. The measurable objectives are agreed between the Executive Director and the Chief Executive Officer (or in the case of the Chief Executive Officer, between him and the Chairman). Achievement of the objectives will be determined by the Chief Executive Officer (or in the case of the Chief Executive Officer, by the Chairman). The Chief Executive Officer's and the Chairman's recommendations will be reported to the Remuneration Committee. The Remuneration Committee, taking into account the recommendations received, has discretion to determine the percentage payable, up to 20%, in respect of the individual objectives.

The actual performance conditions are not disclosed due to their commercial sensitivity on the basis that if disclosed it would likely damage the Company's commercial interests. The Company will disclose the extent to which they were met after the end of the performance period.

LTIP 2014 awards

The Remuneration Committee approved the making of awards under the Long Term Incentive Plan for the Executive Directors for the 2013/2014 financial year. These awards are outlined in the table below.

Director	Type of interest	Date of grant	Basis on which award is made (% of salary)	Number of shares	Face value (£)[1]	End of performance period[2]
Tim Steiner	Conditional shares	05/02/14	200	174,588	900,000	03/12/16
Jason Gissing	—	—	—	—	—	—
Mark Richardson	Conditional shares	05/02/14	150	96,023	495,000	03/12/16
Neill Abrams	Conditional shares	05/02/14	120	64,016	330,000	03/12/16
Duncan Tatton-Brown	Conditional shares	05/02/14	150	96,023	495,000	03/12/16

For the 2014 LTIP, the face value of the award has been calculated using a price of 515.5 pence per share, being the volume weighted average price of the Company's ordinary shares on the three trading days prior to 5 February 2014 (being the LTIP grant date).

The Remuneration Committee reviewed the LTIP and approved a number of changes to its terms.

In light of shareholder feedback from the shareholder consultation conducted in March 2013, the Remuneration Committee has revised the targets from 2013 and decided to put in place two performance objectives for the 2014 awards. Grants will be subject to reaching threshold levels of earnings per share and gross sales (rather than the performance condition applicable to the 2013 awards which is the Company's earnings before interest and tax). The Remuneration Committee believe that these two measures provide a more balanced basis for judging performance and earnings per share in particular, and better reflects shareholder interests.

The rationale for, and basis of measurement of, the performance metrics was as follows:

Performance target	Commercial rationale	Basis of measurement
Gross sales (50%)	Rewards top line sales growth in line with the Group's strategy; is the primary management measure.	Gross sales for the Group (including VAT and before voucher discounts) for the 2015/2016 financial year.
Earnings per share (50%)	Rewards the creation of financial returns to shareholders.	Diluted and adjusted earnings per share for 2015/2016 financial year.

The performance conditions will be appropriately stretching and will be set taking into account the Company's budget for the 2015/2016 financial year. No LTIP award will vest unless a "threshold" level of performance condition has been achieved. At "threshold" performance, 25% of an LTIP award will vest and at "maximum" performance, 100% of an LTIP award will vest. Vesting will be on a straight-line basis between the "threshold" and the "maximum". Full vesting will occur where exceptional performance levels have been achieved and significant shareholder value created.

The actual performance conditions are not disclosed due to their commercial sensitivity on the basis that if disclosed it would likely damage the Company's commercial interests. The Company will disclose the extent to which they were met after the end of the performance period.

The maximum awards for 2014 have been reduced from the inaugural awards made under the LTIP in 2013. The maximum total market value is 150% of annual base salary of a participant. In the case of the Chief Executive Officer, the maximum total market value of a LTIP Award is 200% of annual base salary.

The Remuneration Committee may decide, within two years from the acquisition of shares under the LTIP award, that the award will be subject to clawback where, in its opinion, there are exceptional circumstances. Such exceptional circumstances may include a material misstatement in the published results of the Company's group, an error in assessing any applicable performance condition, misconduct on the part of the participant or where, as a result of an appropriate review of accountability, the Remuneration Committee determines that the participant has caused wholly or in part of a material loss for the Company's Group as a result of (i) reckless, negligent or wilful actions or (ii) inappropriate values or behaviour. The Remuneration Committee may also decide, at any time prior to the acquisition of the shares under the LTIP award, that the number of shares subject to that LTIP award shall be reduced (including to nil) such basis that the Remuneration Committee in its discretion considers to be fair, reasonable and proportionate where, in its opinion, there are exceptional circumstances (as described previously).

Growth Incentive Plan

The Board is seeking shareholders' approval for the Growth Incentive Plan at the AGM.

The Remuneration Committee has reviewed its approach to remuneration for the Chief Executive Officer and other Executive Directors. The Remuneration Committee has concluded that it would be appropriate to introduce the GIP as a one-off award, with the aim of incentivising and rewarding truly exceptional levels of performance and growth.

The GIP will provide the potential for greater rewards for Executive Directors if shareholders benefit from significant outperformance of the FTSE 100 Share Index. It will also require the Executive Directors to hold and retain a shareholding.

Directors' Remuneration Report continued

In developing the GIP, the Remuneration Committee has sought to take into account views expressed by the Company's shareholders in the shareholder consultation.

If approved, the Remuneration Committee intends to make GIP awards in May 2014.

A summary of the principal terms of the proposed GIP are set out in the Notice of Meeting. A summary of the performance conditions is described in the remuneration policy on page 81.

2014 Executive Share Option Scheme

The Board is seeking shareholders' approval for the Ocado 2014 Executive Share Option Scheme.

The 2014 ESOS is based on the Company's existing 2001 Executive Share Option Scheme. For technical reasons, the existing scheme cannot be used for employees of some members of the Ocado Group. Introduction of this additional scheme will allow employees of all Group companies to participate in a scheme of this kind.

The same limits on individual and overall participation will apply to the 2014 ESOS as apply to the existing scheme.

If approved, the Remuneration Committee intends to make the first awards under the 2014 ESOS in line with its usual policies for awarding all employees. It does not intend to make any awards to the existing Executive Directors under the 2014 ESOS.

A summary of the principal terms of the proposed 2014 ESOS are set out in the Notice of Meeting.

SIP

The Share Incentive Plan was previously approved by shareholders at the 2011 annual general meeting. The Executive Directors are expected to participate when the scheme is expected to launch in 2014 for all employees. This HMRC scheme will comprise a number of elements, including partnership shares, matching shares and free shares.

In 2014 the Company will:

- Free Shares – grant up to £3,600 in free shares to the Executive Directors.
- Partnership Shares – invite the Executive Directors to buy £1,800 worth of partnership shares from their gross salary.
- Matching Shares – offer the Executive Directors matching shares at a ratio of 2 matching shares for every partnership share bought.

The above amounts align with the proposed new HMRC limits that are proposed to apply to share incentive plans, which are to be amended by the new legislation expected to be effective in 2014.

Changes for Non-Executive Directors and Chairman

Since the end of the period, the Company has conducted its first review since early 2010, of the Non-Executive Directors' fees and has decided to recommend an increase for 2014.The following table shows the change in each Non-Executive Director's salary effective from April 2014.

	2013				2014				
Non-Executive Director	Base (£'000)	Committee chair (£'000)	SID (£'000)	Total (£'000)	Base (£'000)	Committee chair (£'000)	SID (£'000)	Total (£'000)	% Change
David Grigson	40	7	15	62	48	7	15	70	12.90
Ruth Anderson	40	10	—	50	48	12	—	60	20.00
Robert Gorrie	40	—	—	40	48	—	—	48	20.00
Jörn Rausing	40	—	—	40	48	—	—	48	20.00
Douglas McCallum	40	8	—	48	48	12	—	60	25.00
Alex Mahon	40	—	—	40	48	—	—	48	20.00

The review was carried out in accordance with the remuneration policy and took into account the fact that the Non-Executive Directors' salaries had not been reviewed since early 2010; the increased responsibility of the roles of the Non-Executive Directors and Board Committee Chairmen; the improved performance of the business; and the appropriate benchmark data.

The remuneration of the Non-Executive Directors will otherwise remain unchanged. There has been no change to the remuneration arrangements for the Chairman.

Payments for loss of office

Jason Gissing, co-founder and Commercial Director, will retire from the Board with effect from the AGM. The remuneration arrangements for Jason Gissing in connection with his departure will be finalised in due course and will be reported on the Company's website, as required by the Companies Act, as soon as reasonably practicable thereafter, and will also be reported in the Company's 2014 annual report published in about March 2015. The Company does not expect to make any payments to Jason Gissing for loss of office.

Shareholder approval and votes at AGM

The Company will lay before shareholders at the Company's AGM, the Directors' remuneration report for 2013. The remuneration policy for Directors contained in this annual report is subject to approval by the shareholders. The Company intends to move a resolution to approve the remuneration policy at the AGM. If approved, the remuneration policy will apply from the AGM and will be unchanged for three years, unless the Company subsequently decides to change the remuneration policy. In addition, the Annual report on remuneration will be subject to a shareholder vote at the Company's AGM. Entitlement of a Director to remuneration is not made conditional on this resolution being passed. Finally, resolutions will be put to shareholders to approve the GIP and the 2014 ESOS, outlined above.

The Company is committed to ongoing shareholder dialogue on Directors' remuneration and takes an active interest in voting outcomes. In the event of a substantial vote against a resolution in relation to Directors' remuneration, the Company would seek to understand the reasons for any such vote and would detail any actions in response in the annual report. The Remuneration Committee considers that a vote against that exceeds 20% should be considered significant and requires explanation. In this regard, the 2012 Directors' remuneration report received a significant 23.46% shareholder vote against it at the annual general meeting in May 2013. In response to this, the Remuneration Committee carried out a more comprehensive shareholder consultation (with shareholders constituting over 50% of the vesting rights attached to the Company's issued share capital accepting the invitation to meet with the Company), in early 2014 covering proposed changes to Director remuneration, as laid out in this Directors' remuneration report. This was intended to provide the Company an opportunity to better explain the rationale and context for the proposals and to take into account shareholder feedback on the proposed remuneration changes as noted on page 77.

The following table sets out actual voting in respect of resolutions regarding remuneration at the previous annual general meetings.

Resolution text	Votes for	% For	Votes Against	% Against	Total votes	Votes withheld
2013 AGM						
Approve the 2012 Directors' Remuneration Report	349,776,432	76.54	107,184,194	23.46	461,418,179	4,457,553
Approve the Ocado Long-Term Incentive Plan	360,235,983	86.40	56,698,838	13.60	461,418,179	44,483,358
Approve the Chairman's Share Matching Award	384,380,959	83.30	77,037,220	16.70	461,418,179	0
2012 AGM						
Approve the 2011 Directors' Remuneration Report	338,085,907	97.60	8,316,258	2.40	346,402,165	8,767,398
2011 AGM						
Approve the 2010 Directors' Remuneration Report	317,979,609	98.80	3,862,454	1.20	321,842,063	7,481,892
Approve the expansion of the Ocado Joint Share Ownership Scheme	326,445,526	99.13	2,878,429	0.87	329,323,955	0
Approve the establishment of the Ocado Share Incentive Plan	329,323,955	100.00	0	0	329,323,955	0

Basis of preparation and audit review

This report is a Directors' remuneration report for the 52 weeks ended 1 December 2013, prepared for the purposes of satisfying section 420(1) and sections 421(2A) of the Companies Act 2006. It has been drawn up in accordance with the Companies Act and the 2012 Code, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the Listing Rules and the Disclosure and Transparency Rules.

In accordance with section 497 of the Companies Act 2006 and the regulations, certain parts of this Directors' remuneration report (where indicated) have been audited by the Company's auditors, PricewaterhouseCoopers LLP.

A copy of this Directors' remuneration report will be available on the Company's website (www.ocadogroup.com).

Approved by the Board and signed on its behalf by

Douglas McCallum
Chairman of the Remuneration Committee
Ocado Group plc
12 March 2014

DIRECTORS' REPORT

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Directors' Report

Introduction

This section of this Annual Report is a Directors' Report required by the Companies Act to be prepared by the Directors for the Company and the Group.

Index of Directors' report disclosures

This Directors' report should be read in conjunction with the Strategic report (pages 2 to 51) (which includes the Corporate social responsibility report ("CSR Report") (pages 48 to 51) and the Statement of corporate governance ("CG Statement") (pages 57 to 65), which are incorporated by reference into this Directors' report.

The information required to be disclosed in the Directors' report can be found on the following pages:

The Strategic Report

The Strategic report contains the Directors' explanation of the basis on which the Group preserves value over the longer term and the strategy for delivering the objectives of the Group.

The Company has chosen to include some of the information required to be disclosed in the Directors' report within the Strategic report (pages 2 to 51), as noted above. Certain matters, including those of sufficient importance, that would otherwise be required to be disclosed in the Directors' report, have been set out in the Strategic report and Statement of corporate governance, as noted in the index on this page.

The Directors are required under the Companies Act to prepare a Strategic report for the Company and the Group. The Companies Act requires that the Strategic report must: (1) contain a fair review of the company's business and contain a description of the principal risks and uncertainties facing the company; and (2) be a balanced and comprehensive analysis of the development and performance of the company's business during the financial year and the position of the company's business at the end of that year, consistent with the size and complexity of the business. The information that fulfils the strategic report requirements is set out in the Strategic report on pages 2 to 51.

The Strategic report and the Directors' report (or parts thereof), (together with this Annual Report incorporated by reference) are the "management report" for the purposes of the Disclosure and Transparency Rule 4.1.8.

The Strategic report and the Directors' report (together with the sections of this Annual Report incorporated by reference) have 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.

For an explanation of how the Board satisfies itself that this Annual Report meets the disclosure requirements refer to the Statement of corporate governance on pages 57 to 65 and the Directors' responsibility statement on page 113.

Amendment of the Articles

The Company's Articles, which govern a number of constitutional aspects of the Company's management, may be amended by a special resolution of its shareholders.

Appointment and replacement of Directors

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

Appointment of Directors: A Director may be appointed by the Company by ordinary resolution of the shareholders or by the Board. 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/herself 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; (ii) his resignation is requested by all of the other Directors (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; (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.

For a description of the Company's Director appointments, resignations and reappointments see the Statement of corporate governance on page 60.

Share capital

The Company's authorised and issued ordinary share capital as at 1 December 2013 comprised a single class of ordinary shares. The shares have a nominal value of 2 pence each. The ISIN of the shares is GB00B3MBS747.

As at the latest practicable date prior to publication of this report, the Company's issued share capital consisted of 619,019,232 issued ordinary shares, compared with 614,660,938 issued ordinary shares per the Annual Report for 2012. 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.

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 share 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).

Voting rights

Each ordinary share carries one right to vote at a general meeting of the Company. At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded. On a show of hands, every member who is present in person or by proxy at a general meeting of the Company shall have one vote. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are a holder. The Articles provide a deadline for submission of proxy forms of not than less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting. No shareholder shall be entitled to vote in respect of a share held by him if any call or sum then payable by him in respect of such share remains unpaid or if a member has been served a restriction notice, described below.

Directors' Report continued

JSOS voting rights: Of the issued ordinary shares, 35,249,176 are held by Greenwood Nominees Limited on behalf of Appleby Trust (Jersey) Limited, the independent company which is the trustee of Ocado's employee benefit trust (the "EBT Trustee"). The EBT Trustee has waived its right to exercise its voting rights in respect of these 35,249,176 ordinary shares, although it may at the request of a participant vote in respect of 23,934,156 ordinary shares which have vested under the JSOS and remain in the trust at period end. The total of 35,249,176 ordinary shares held by the EBT Trustee are treated as treasury shares in the Group's consolidated balance sheet in accordance with IAS 32 ''Financial Instruments: Presentation". As such, calculations of earnings per share for Ocado exclude the 35,249,176 ordinary shares held by the EBT Trustee. The Company does not hold any shares in treasury. Note 4.6.1(2) to the consolidated financial statements provides more information on the Group's accounting treatment of treasury 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.

Powers for the Company to issue or buy back its shares

The Company was authorised by shareholders on 10 May 2013, at the annual general meeting, to purchase in the market up to 10% of its issued ordinary shares (excluding any treasury shares), subject to certain conditions laid out in the authorising resolution. This standard authority is renewable annually; the Directors will seek to renew this authority at the AGM.

The Directors were granted authority at the previous annual general meeting to allot shares in the Company. That authority will apply until the conclusion of the AGM. At the AGM, shareholders will be asked to grant an authority to allot shares in the Company: (A) up to one-third of the issued share capital; and (B) comprising equity securities up to two-thirds of the issued share capital but after deducting any allotments or grants made under (A) above in connection with an offer by way of a rights issue, such authorities to apply until the end of the next annual general meeting or, if earlier, until the close of business on 7 August 2015.

A special resolution will also be proposed to renew the Directors' powers to disapply pre-emption rights. It would give the Directors the authority to allot ordinary shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings. This authority would be, similar to last year, limited to allotments in connection with pre-emptive offers up to an aggregate nominal amount of approximately 5% of the issued ordinary share capital of the Company.

Share changes: During the period, the Directors used their power to issue shares under the authorities provided by the shareholder resolution passed on 10 May 2013, to satisfy options and awards under the Company's option and incentive schemes and one-off incentive arrangements. The Directors did not exercise their authority to buy-back any shares during the period.

Significant shareholders

During the period (up to 1 December 2013), the Company has received notifications, in accordance with Disclosure and Transparency Rule 5.1.2R, of interests in 3% or more of the voting rights attaching to the Company's issued share capital, as set out in the table below:

	Number of ordinary shares	Percentage of issued share capital	Nature of Holding
Odey Asset Management LLP	29,146,308	5.01	Direct & CFD
Generation Investment Management LLP	30,669,317	4.97	Indirect
FIL Limited	30,380, 004	4.93	Indirect
The Capital Group Companies, Inc.	27,279,396	4.42	Indirect
Manning & Napier Advisors, LLC	–	Below 5	Direct
Trident Trust Co (BVI) Limited as trustee of the Jason Gissing Life Settlement II	–	Below 3	Direct & Indirect
Credit Suisse Group AG	–	Below 3	Indirect

These figures represent the number of shares and percentage held as at the date of notification to the Company.

No changes have been disclosed in accordance with Disclosure and Transparency Rule 5.1.2R in the period between 2 December 2013 and 4 March 2014 (being not more than one month prior to the date of the Notice of Meeting), except as set out in the table below:

	Number of ordinary shares	Percentage of issued share capital	Nature of Holding
The Capital Group Companies, Inc.	37,337,244	6.04	Indirect
The Nomad Investment Partnership L.P.	36,993,366	5.98	Direct

These figures represent the number of shares and percentage held as at the date of notification to the Company.

Significant related party agreements

There were no contracts of significance during the period between the Company or any Group company and either (1) a Director of the Company or (2) a controlling shareholder of the Company.

Change of control

Agreements with employees and Directors

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 bid 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) who were employed prior to 2010 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. For further information on the change of control provisions in the Company's share schemes refer to the Directors' remuneration report on pages 85 to 86 .

Significant agreements

Agreements with employees and Directors

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 are summarised below.

Morrisons Operating Agreement: If certain competitors of Morrisons acquire 50% or more of the voting rights in the Company's shares or take control of the composition of the Company's Board, or acquire all or substantially all of the Group's business and undertaking, then Morrisons will be entitled to give notice to terminate the Operating Agreement (a "Termination Event").

If such a Termination Event occurs prior to the date notified to Morrisons on which the Company intends to expend capital on an agreed new CFC, then:

- Morrisons will be entitled to give not less than four (but not more than four and a half) years' notice to terminate and the Company's right to be the exclusive supplier of the services would fall away.
- Further, on termination the Company shall purchase Morrisons' shares in MHE JV Co Limited (the joint venture company) and may require the Company to repurchase Last Mile Developments Limited (the freehold owner of CFC2).

If such a Termination Event occurs after the date notified to Morrisons on which the Company intends to expend capital on an agreed new CFC, then:

- The Company would continue to be obliged to provide the services under the Operating Agreement, but the Company's right to be the exclusive supplier of the services would fall away and Morrisons would be released from its annual sales target.
- Further, certain of the fees payable by Morrisons would scale back to reflect Morrisons.com's actual use of the services, but would not (except if the Company had procured a third party to acquire Morrisons' capacity of all relevant CFCs) afford either party a termination right prior to the end of the term.

Directors' Report continued

Sourcing Agreement with Waitrose: The Company's primary operating subsidary, Ocado Limited ("Ocado"), is party to several sourcing agreements with Waitrose Limited and its parent company, John Lewis. If certain competitors of Waitrose or John Lewis acquire 50% or more of the shares or control of the Company's Board, then each of Ocado, Waitrose and John Lewis may terminate the Sourcing Agreement. In these circumstances, Ocado is obliged to pay Waitrose the lower of £40 million and 4% 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.

HSBC Equipment Finance Limited: On 22 July 2004 Ocado (as lessee) and HSBC Equipment Finance (UK) Limited (as lessor) entered into a master sale and leaseback agreement. At period end, 12 sale and leaseback agreements remained (with total amounts outstanding of £9.4 million) which cover a significant amount of the conveyor systems and associated capital goods that have been added to CFC1 since August 2004. Pursuant to side letters between Ocado and HSBC varying the original agreement, HSBC is able to terminate the master agreement if there is a change of control of the Company or if the Sourcing Agreement is terminated for any reason.

Research and development activities

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 automation equipment used in them. Costs relating to the development of computer software are capitalised if it is probable that the future economic benefits that are attributable to the asset will accrue to the entity and the costs can be measured reliably. The Company is carrying out a number of IT and engineering design and build projects with the intention of developing new and improved automation equipment and processes for its warehouses.

Future developments of the business

The Group's likely future developments including its strategy are described in the Strategic report on pages 2 to 51.

Loss and dividends

The Group's results for the period are set out in the consolidated income statement on page 119. The Group's loss before tax, for the period amounted to £12.5 million (2012: £0.6 million).

The Directors do not propose to pay a dividend for the period (2012: nil).

Post-balance sheet events

There have been no material events after the balance sheet date of 1 December 2013 to the date of this report.

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 68 and set out in the Group's financial statements on page 125 and the Group's principal risks and uncertainties as set out on pages 46 to 47 and the financial risks described in the notes to the consolidated financial statements on pages 145 to 147.

Based on the Group's 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.

Further information on going concern is set out on page 125.

The Company's going concern statement has been reviewed by the Company's auditors, PwC.

Independent auditors

The Company's auditors, PwC, have indicated their willingness to continue their role as the Company's auditors. Resolutions concerning the reappointment of PwC 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. For further information on the reappointment of the auditors, refer to page 68 of the Statement of corporate governance.

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 (whose names and functions are listed on pages 54 to 55 of this Annual 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 he or she 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.

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 Group's corporate website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the Directors, who held office at the date of the approval of this Annual Report (whose names and functions are listed on pages 54 to 55 of this Annual Report), confirms, to the best of his or her 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 or loss of the Group; and
- the "management report" (as defined above) 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.

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 and signed on its behalf by

Neill Abrams
Legal and Business Affairs Director and Company Secretary
12 March 2014
Ocado Group plc
Registered in England and Wales no. 07098618

OUR FINANCIALS

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Independent Auditor's Report

to the members of Ocado Group plc

Report on the Group financial statements

Our opinion

In our opinion the Group financial statements defined below:

- give a true and fair view of the state of the Group's affairs as at 1 December 2013 and of the Group's loss and cash flows for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements, which are prepared by Ocado Group plc, comprise:

- the consolidated balance sheet as at 1 December 2013;
- the consolidated income statement and statement of comprehensive income for the period then ended;
- the consolidated statement of changes in equity and statement of cash flows for the period then ended; and
- the notes to the Group financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 Group financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £3.85 million. This represents approximately 0.5% of revenue. In arriving at this judgement we have had regard to Group revenue because, in our view, this is the most relevant measure of underlying performance given the nature of the Group's operations and its results.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £190,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group's main trading activities are grocery retailing and the development of monetisation of intellectual property and technology for the online retailing, logistics and distribution of grocery and consumer goods, which is primarily undertaken in the UK and is predominantly carried out through one trading subsidiary, Ocado Limited. More recently the Group made the first step in commercialising intellectual property and technology, and during the period announced that it had entered into an arrangement with Wm Morrisons Supermarkets Plc ("Morrisons") to enable Morrisons to launch its online grocery business.

In establishing the overall approach to the Group audit, we determined that we needed to perform an audit of the complete financial information of Ocado Limited together with audit procedures on material balances of other entities in the Group, in particular cash balances and finance costs. This enabled us to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current period. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 67.

Area of focus	How the scope of our audit addressed the area of focus
Accounting for arrangements with Morrisons During the period Ocado entered into an arrangement with Morrisons to enable them to launch and develop their own online grocery business. This arrangement included the sale to, and lease back, from Morrisons of a distribution centre and warehouse equipment, and the provision of certain technology, logistics and distribution services to them. We focused on this transaction as it was a material new contract in the period with judgemental accounting, in particular regarding the classification of the property lease arrangements in the financial statements as either operating or finance leases, and the appropriateness of the recognition of fees received for the services provided to Morrison in the Group Income Statement.	In relation to the classification of the leases, we determined whether the transactions have been accounted for in accordance with IAS 17 (Leases) in particular whether the assets were being used for a significant portion of their economic life and whether the present value of the minimum lease payments amounted to substantially all of the fair value of the asset and therefore whether the properties should be recognised on the consolidated balance sheet. In relation to the service fees we have agreed these to the related contracts and assessed whether the income recognised was correctly calculated and recorded in the correct period.
Commercial income Commercial income received by the Group includes advertising receipts from suppliers for product placement on the customer website, income from suppliers in relation to the funding of certain promotional activities by them and volume based supplier rebates. The amounts recognised during the period are material to the consolidated income statement and amounts accrued at the period end are judgemental.	We independently confirmed, with a sample of suppliers, arrangements made in support of a sample of the commercial income transactions recorded in the period, and tested amounts payable to the Group, including determining whether these were recognised in the correct period. We tested a sample of the supplier rebate closing balances by obtaining supplier agreements to confirm that the basis on which rebates were recognised was consistent with the agreement, and where appropriate, with the supporting transaction volume information.
Capitalisation of internal development costs We focused on this area as the amount of employment costs capitalised in the consolidated balance sheet is material and, involved management judgement in relation to whether the development of systems and operational software met the criteria for capital recognition.	We obtained managements analysis of the projects capitalised and tested a sample of the development projects that took place during the period where development costs had been capitalised to assess whether each of the criteria set out in IAS 38 (Intangible Assets) had been met and therefore evaluated whether the recognition of the associated asset was permissible. We also tested the capitalised rate applied to determine whether it represented the true actual to the business.
Fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. We focused on whether the revenue recognised corresponded to a supporting sales transaction that took place in the period.	The key elements of our work over this risk involved testing a reconciliation of total sales recorded for the period to cash received in the period and a testing of a sample of manual journal entries posted to revenue accounts, obtaining supporting evidence to determine that rationale for the adjustment.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud. We also tested a sample of journal entries made during the period obtaining supporting evidence to determine the rationale for the adjustment and tested key account reconciliations.

Going Concern

Under the Listing Rules we are required to review the directors' statement, set out on page 112, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the Group's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

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

Opinions on other prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial period for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 56 to 65 in the Annual Report with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Independent Auditor's Report continued

to the members of Ocado Group plc

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if to you, in our opinion, certain disclosures of directors' remuneration specified by law have not been made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on directors' remuneration. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

Under the Companies Act 2006, we are required to report to you if, in our opinion a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ("the Code"). We have nothing to report having performed our review.

On page 65 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provide the information necessary for members to assess the Group's performance, business model and strategy. On pages 67 and 68, as required by C3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit;
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

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

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 113, the directors are responsible for the preparation of the Group 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 Group financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Other matter

We have reported separately on the company financial statements of Ocado Group plc for the period ended 1 December 2013 and on the information in the Directors' remuneration report that is described as having been audited.

Andrew Latham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
12 March 2014

Consolidated income statement

for the 52 weeks ended 1 December 2013

	Notes	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Revenue	2.1.2	**792.1**	678.6
Cost of sales		**(544.6)**	(471.3)
Gross profit		**247.5**	207.3
Other income		**23.1**	16.7
Distribution costs		**(200.0)**	(169.8)
Administrative expenses		**(69.6)**	(48.8)
Operating profit before share of result from joint venture and exceptional items		**1.0**	5.4
Share of result from joint venture	3.4.1	**0.9**	—
Exceptional items	2.1.5	**(4.6)**	(2.4)
Operating (loss)/profit		**(2.7)**	3.0
Finance income	4.3.1	**0.4**	0.4
Finance costs	4.3.1	**(7.4)**	(4.0)
Exceptional finance costs	2.1.5	**(2.8)**	—
Loss before tax		**(12.5)**	(0.6)
Taxation		**—**	(1.8)
Loss for the period		**(12.5)**	(2.4)
Loss per share		**pence**	pence
Basic and diluted loss per share	2.3	**(2.16)**	(0.46)

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

	Notes	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Operating (loss)/profit		**(2.7)**	3.0
Adjustments for:			
Depreciation of property, plant and equipment	3.2.1	**33.1**	22.8
Amortisation expense	3.1.1	**9.5**	6.2
Impairment of property, plant and equipment	3.2.1	**0.5**	0.1
Impairment of intangible assets	3.1.1, 2.1.5	**0.8**	—
Exceptional items[1]	2.1.5	**4.6**	2.4
EBITDA		**45.8**	34.5

[1] Included within Exceptional items is a £0.2 million impairment reversal (see Note 2.1.5).

Consolidated statement of comprehensive income

for the 52 weeks ended 1 December 2013

	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Loss for the period	(12.5)	(2.4)
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Cash flow hedges		
— Gains/(losses) arising on interest rate swaps	0.4	(0.4)
	0.4	(0.4)
Items that may be subsequently reclassified to profit or loss		
Cash flow hedges		
— Gains/(losses) arising on forward foreign exchange contracts	0.5	(1.8)
— (Gains)/losses transferred to property, plant and equipment	(0.3)	1.5
	0.2	(0.3)
Other comprehensive income for the period, net of tax	0.6	(0.7)
Total comprehensive income for the period	(11.9)	(3.1)

Consolidated balance sheet

as at 1 December 2013

	Notes	1 December 2013 £m	2 December 2012 £m
Non-current assets			
Intangible assets	3.1.1	27.0	21.6
Property, plant and equipment	3.2.1	224.3	280.3
Deferred tax asset	2.2.2	7.9	7.9
Available-for-sale financial assets	3.3.1	0.4	0.4
Investment in joint ventures	3.4.1	58.9	—
		318.5	310.2
Current assets			
Inventories	3.5.1	23.9	17.5
Trade and other receivables	3.5.2	45.2	30.8
Derivative financial instruments	4.4.1	—	0.2
Cash and cash equivalents	3.5.3	110.5	89.6
		179.6	138.1
Total assets		498.1	448.3
Current liabilities			
Trade and other payables	3.5.4	(130.0)	(94.1)
Borrowings	4.1.1	(3.3)	(2.6)
Obligations under finance leases	4.1.1	(25.0)	(19.8)
Derivative financial instruments	4.4.1	(0.2)	(0.7)
Provisions	3.6.1	(0.5)	(0.4)
		(159.0)	(117.6)
Net current assets		20.6	20.5
Non-current liabilities			
Borrowings	4.1.1	(6.2)	(91.3)
Obligations under finance leases	4.1.1	(126.9)	(31.1)
Provisions	3.6.1	(3.2)	(2.2)
Deferred tax liability	2.2.2	(0.4)	(0.4)
		(136.7)	(125.0)
Net assets		202.4	205.7
Equity			
Share capital	4.6.1	12.4	12.3
Share premium	4.6.1	251.5	247.8
Treasury shares reserve	4.6.1	(52.4)	(53.9)
Reverse acquisition reserve	4.6.1	(116.2)	(116.2)
Other reserves	4.6.1	(0.1)	(0.7)
Retained earnings		107.2	116.4
Total equity		202.4	205.7

The consolidated financial statements on pages 119 to 158 were authorised for issue by the Board of Directors and signed on its behalf by:

Tim Steiner
Chief Executive Officer

Duncan Tatton-Brown
Chief Financial Officer

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

12 March 2014

Consolidated statement of cash flows

for the 52 weeks ended 1 December 2013

	Notes	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Cash flows from operating activities			
Loss before tax		(12.5)	(0.6)
Adjustments for:			
— Depreciation, amortisation and impairment losses	3.1.1, 3.2.1	43.7	30.0
— Movement in provisions		0.6	—
— Share of profit from joint venture	3.4.1	(0.9)	—
— Share-based payments charge	2.1.4	3.3	0.9
— Foreign exchange movements		—	(0.4)
— Net finance costs[1]	2.1.5, 4.3.1	9.8	3.6
Changes in working capital:			
— Movement in inventories		(6.4)	(3.2)
— Movement in trade and other receivables		(13.7)	6.8
— Movement in trade and other payables		43.6	3.6
Cash generated from operations		67.5	40.7
Interest paid[2]		(7.1)	(4.6)
Net cash flows from operating activities		60.4	36.1
Cash flows from investing activities			
Purchase of property, plant and equipment		(60.7)	(82.6)
Borrowing costs capitalised in property, plant and equipment[2]		(1.1)	(4.1)
Purchase of intangible assets		(15.7)	(14.2)
Interest received		0.3	0.4
Net cash flows from investing activities		(77.2)	(100.5)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital net of transaction costs	4.6.1	3.8	35.1
Proceeds from the sale and leaseback of property, plant and equipment		53.5	—
Proceeds from the sale and leaseback of intangible assets		4.4	—
Proceeds from borrowings		—	50.1
Repayment of borrowings		(2.5)	(2.8)
Proceeds from asset based financing arrangements		—	2.1
Repayments of obligations under finance leases		(21.6)	(20.9)
Settlement of forward foreign exchange contracts		0.1	(1.8)
Net cash flows from financing activities		37.7	61.8
Net increase/(decrease) in cash and cash equivalents		20.9	(2.6)
Cash and cash equivalents at the beginning of the period		89.6	92.1
Exchange adjustments		—	0.1
Cash and cash equivalents at the end of the period	3.5.3	110.5	89.6

1 This comprises finance income, finance costs and exceptional finance costs.

2 This has been presented separately in the current period to provide further information relating to interest paid and capitalised borrowing costs.

Consolidated statement of changes in equity

for the 52 weeks ended 1 December 2013

	Notes	Share capital £m	Share premium £m	Treasury shares reserve £m	Reverse acquisition reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 28 November 2011		11.2	213.8	(53.8)	(116.2)	—	117.9	172.9
Loss for the period		—	—	—	—	—	(2.4)	(2.4)
Other comprehensive income:								
Cash flow hedges								
— Losses arising on forward foreign exchange contracts		—	—	—	—	(1.8)	—	(1.8)
— Losses arising on interest rate swaps		—	—	—	—	(0.4)	—	(0.4)
— Losses transferred to property, plant and equipment		—	—	—	—	1.5	—	1.5
Total comprehensive expense for the period ended 2 December 2012		—	—	—	—	(0.7)	(2.4)	(3.1)
Transactions with owners:								
— Issue of ordinary shares		1.1	35.0	—	—	—	—	36.1
— Disposal of treasury shares		—	(1.0)	—	—	—	—	(1.0)
— Share-based payments charge		—	—	—	—	—	0.9	0.9
— Reacquisition of interest in treasury shares		—	—	(0.1)	—	—	—	(0.1)
Total transactions with owners		1.1	34.0	(0.1)	—	—	0.9	35.9
Balance at 2 December 2012		12.3	247.8	(53.9)	(116.2)	(0.7)	116.4	205.7
Loss for the period		—	—	—	—	—	(12.5)	(12.5)
Other comprehensive income:								
Cash flow hedges								
— Gains arising on forward foreign exchange contracts	4.6.1(b)	—	—	—	—	0.5	—	0.5
— Gains arising on interest rate swaps	4.6.1(b)	—	—	—	—	0.4	—	0.4
— Gains transferred to property, plant and equipment	4.6.1(b)	—	—	—	—	(0.3)	—	(0.3)
Total comprehensive expense for the period ended 1 December 2013		—	—	—	—	0.6	(12.5)	(11.9)
Transactions with owners:								
— Issue of ordinary shares	4.6.1	0.1	3.7	—	—	—	—	3.8
— Share-based payments charge		—	—	—	—	—	3.3	3.3
— Disposal of treasury shares		—	—	1.5	—	—	—	1.5
Total transactions with owners		0.1	3.7	1.5	—	—	3.3	8.6
Balance at 1 December 2013		**12.4**	**251.5**	**(52.4)**	**(116.2)**	**(0.1)**	**107.2**	**202.4**

Notes to the consolidated financial statements

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Section 1 — 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 1 December 2013. The prior financial period represents the 53 weeks ended 2 December 2012.

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) and International Financial Reporting Standards Interpretation Committee (IFRS IC) interpretations as endorsed by the European Union ("IFRS-EU"), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Other than the accounting policies associated with the transactions outlined in Note 3.4 "Investment in joint ventures" and Note 5.5 "Disposal of a subsidiary", the accounting policies applied are consistent with those described in the annual report and financial statements for the 53 weeks ended 2 December 2012 of Ocado Group plc.

The financial statements are presented in sterling, rounded to the nearest hundred thousand unless otherwise stated. The financial information has been prepared under the historical cost convention, as modified by the revaluation of financial asset investments and certain financial assets and liabilities, which are held at fair value.

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. Thus, they continue to adopt the going concern basis of accounting in preparing the financial information.

Standards, amendments and interpretations adopted by the Group in 2012/13 or issued but are not yet effective, and which have been early adopted by the Group:

The Group has considered the following new standards, interpretations and amendments to published standards that are not yet effective for the Group for the financial year beginning 3 December 2012 and concluded that they would be early adopted and would not have a significant impact on the Group's financial statements:

- IFRS 10, "Consolidated Financial Statements"
- IFRS 11, "Joint Arrangements" [1]
- IFRS 12, "Disclosures of Interests in Other Entities"
- IAS 27 (revised 2011) "Separate Financial Statements"
- IAS 28 (revised 2011) "Investments in Associates and Joint Ventures"

[1] The Group is accounting for an interest in joint ventures under the equity method of accounting and do not deem IFRS 11 "Joint Arrangements" to have had a material impact on the Group's financial statements.

Standards, amendments and interpretations adopted by the Group in 2012/13 or issued that are effective, and are not material to 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 3 December 2012 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:

- IFRS 1 (amendments), "First-time adoption of International Financial Reporting Standards"
- IFRS 7 (amendment), "Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments"
- IFRS 13, "Fair Value Measurement"
- IAS 1 (amendment), "Presentation of Financial Statements"
- IAS 16 (amendment), "Property, Plant and Equipment"
- IAS 19 (amendment), "Employee Benefits"
- IAS 32 (amendment), "Financial Instruments: Presentation"
- IAS 34 (amendment), "Interim Financial Reporting"
- IAS 39 (amendment), "Financial Instruments: Recognition and Measurement"

The following further 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 3 December 2012 and have not been adopted early:

- IFRS 2 (amendment), "Share-based Payment"
- IFRS 3 (amendment), "Business Combinations"
- IFRS 8 (amendment), "Operating Segments"
- IFRS 13, "Fair Value Measurement"
- IAS 16 (amendment), "Property, Plant and Equipment"
- IAS 19 (amendment), "Employee Benefits"
- IAS 24 (amendment), "Related Party Disclosures"
- IAS 36 (amendment), "Impairment of Assets"
- IAS 38 (amendment), "Intangible Assets"
- IAS 40 (amendment), "Investment Property"

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.

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.

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.

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 the Group financial statements requires the use of certain judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. 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. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information or more experience. Such changes are recognised in the year in which the estimate is revised.

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. Sensitivities to the estimates and assumptions are provided, where relevant, in the related notes:

- Revenue recognition (Note 2.1);
- Recognition of deferred tax assets (Note 2.2);
- Intangible assets (Note 3.1);
- Property, plant and equipment (Note 3.2);
- Trade and other receivables (Note 3.5);
- Leases (Note 4.1);
- Provisions (Note 3.6); 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.

After making appropriate enquiries and having considered the business activities and the Group's principal risks and uncertainties as set on pages 46 and 47, 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. 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 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 when the significant risks and rewards of ownership of the goods have been transferred to the customer, which is usually upon delivery of the goods, or over the period in which services are rendered. Revenue is recorded when the collection of the amount due is reasonably assured. Income from "Ocado Smart Pass", the Group's discounted pre-pay membership scheme, is recognised in the period to which it relates on an accruals basis.

Initial licence contract revenues are recognised over a term which is specific to individual customer contracts. For services, the term is usually the period over which services are rendered. For the licence of technology assets, the revenue is usually recognised over a period consistent with the expected life of the related technology assets. Annual licence contract revenues, including associated service and operational fees, are recognised as income in the relevant period.

Amounts received in advance for services are deferred and recognised as revenue over a term which is specific to individual customers.

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 a CFC.

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, rental income, sublease payments receivable and amounts receivable not in the ordinary course of business.

At the period end the Group is required to estimate supplier income due from annual agreements which span across the year end date. 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 a review of major contracts with suppliers.

Employee benefits

The Group contributes to the personal pension plans of its staff through two pension plans: a defined contribution Group personal pension administered by Standard Life and a defined contribution Money Purchase Scheme, administered by Peoples Pensions. 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, which is usually the customer's home. This includes the payroll-related expenses for the picking, dispatch and delivery of products 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 (excluding vouchers), employment costs of all central 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 IT equipment, software, fixtures and fittings.

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. It is determined by management that each of these items relate to events or circumstances that are non-recurring in nature.

2.1.1 Segmental reporting

The Group's principal activities are grocery retailing and the development and monetisation of IP and technology used for the online retailing, logistics and distribution of grocery and consumer goods, currently 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 activities of the Group are managed as one segment. The Group does not currently 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 segment.
The chief operating decision-maker's main indicator of performance of the segment is EBITDA, which is reconciled to operating profit below the income statement.

2.1.2 Gross sales

A reconciliation of revenue to gross sales is as follows:

	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Revenue	792.1	678.6
VAT	50.4	41.9
Marketing vouchers	9.9	11.4
Gross sales	**852.4**	731.9

2.1.3 Operating profit

	Notes	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Operating profit is stated after charging/(crediting) the following:			
Cost of inventories recognised as an expense		530.4	458.0
Employment costs		137.3	122.2
Amortisation expense	3.1.1	9.5	6.2
Depreciation of property, plant and equipment	3.2.1	33.1	22.8
Impairment of property, plant and equipment, included in:	3.2.1	0.3	1.0
— Distribution costs		0.3	0.1
— Administrative expenses		0.2	—
— Exceptional items		(0.2)	0.9
Impairment of intangible assets, included in:			
— Administrative expenses		0.8	—
(Profit)/loss on disposal of property, plant and equipment		0.1	—
Operating lease rentals			
— Land and buildings		5.2	3.7
— Other leases		0.4	0.4
Net foreign exchange movements		0.1	(0.7)

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

	52 weeks ended 1 December 2013 £000	53 weeks ended 2 December 2012 £000
Fees payable to the Company auditor for the audit of the Parent Company and consolidation		
— Statutory Group and Company audit	48	45
Fees payable to the Company auditor for other services		
— Statutory audit of subsidiaries	135	127
— Advisory support	40	49
— Audit related services	27	26
	250	247

Advisory support consisted of professional advice in relation to the strategic operating agreement and a compliance report relating to the new Corporate Social Responsibility disclosure requirements.

Notes to the consolidated financial statements continued

2.1.4 Employee information

Employment costs during the financial period were as follows:

	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Staff costs during the period		
Wages and salaries	138.4	124.0
Social security costs	12.1	11.4
Pension costs — defined contribution plans	2.9	1.7
Share-based payment expense	3.3	0.9
Total gross employment costs	156.7	138.0
Staff costs capitalised to intangible assets	(15.1)	(11.5)
Staff costs capitalised to property, plant and equipment	(4.3)	(4.3)
Total employment cost expense	137.3	122.2
Average monthly number of employees (including Executive Directors) by function		
Operational staff	4,967	4,595
Support staff	775	661
	5,742	5,256

2.1.5 Exceptional items

	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Set up costs		
— CFC2	1.3	1.2
— Non-food	0.2	0.3
Impairment (reversal)/charge	(0.2)	0.9
Strategic operating agreement		
— Legal and professional fees	3.3	—
— Exceptional finance costs	2.8	—
	7.4	2.4

Set up costs

During the year, the Group incurred further costs relating to the set-up of CFC2 of £1.3 million (2012: £1.2 million), which first delivered customer orders in February 2013, and officially went live in March 2013, and the set-up of the non-food distribution centre of £0.2 million (2012: £0.3 million) which went live in January 2013.

Impairment of assets

As part of the review of the land, building and plant and machinery related to the Coventry spoke site, an impairment reversal of £0.2 million was identified.

In the prior year, land, buildings and plant and machinery with a net book value of £0.9 million were impaired due to the Coventry spoke site being superseded by CFC2.

Strategic operating agreement

In the current year, we announced our first strategic client for our Intellectual Property (“IP”) and operating services with the signing of a 25 year agreement with Morrisons. To facilitate the finalisation of the agreement, a number of one-off costs were incurred by the Group which reflects services from professional advisers. The agreement also allowed us to repay our £100 million loan facility which resulted in the full amortisation of the prepaid arrangement fees from 2012.

These one-off costs incurred amounted to £6.1 million.

2.2 Taxation

Accounting policies

The tax charge 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 which 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, calculated 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 income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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. 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.

2.2.1 Taxation — Income statement

	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Recognised in the income statement		
Current tax:		
UK corporation tax on profits of the period	—	—
Overseas corporation tax on profits of the period	—	0.1
Total current tax	—	0.1
Deferred tax:	—	—
Origination and reversal of temporary differences	—	1.7
Total deferred tax	—	1.7
Income tax expense	—	1.8

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 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Loss before tax	(12.5)	(0.6)
Effective tax credit at the UK tax rate of 23.3% (2012: 24.7%)	(2.9)	(0.1)
Effect of:		
Change in UK corporation tax rate	1.3	0.7
Adjustments in respect of prior periods	—	—
Permanent differences	1.2	0.4
Difference in overseas tax rates	0.6	0.5
Tax losses for which no deferred tax asset recognised	—	0.8
Temporary differences on which no deferred tax recognised	(0.2)	(0.5)
Income tax charge for the period	—	1.8

Notes to the consolidated financial statements continued

2.2.1 Taxation — Income statement continued

As enacted in Finance Act 2013, the standard rate of corporation tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, the effective rate for the period is 23.3%.

2.2.2 Taxation — Balance sheet

Movement in the deferred tax asset is as follows:

	Tax losses carry-forwards £m
As at 27 November 2011	9.6
Effect of change in UK corporation tax rate	(0.7)
Tax losses recognised through the income statement	(1.0)
As at 2 December 2012	7.9
Effect of change in UK corporation tax rate	**(1.1)**
Tax losses recognised through the income statement	**1.1**
As at 1 December 2013	**7.9**

As enacted in Finance Act 2013, the standard rate of corporation tax in the UK will change to 21% from 1 April 2014 and to 20% from 1 April 2015. Deferred tax has been provided at the rate enacted at the balance sheet date.

Movement in the unrecognised deferred tax asset is analysed below:

	Tax losses carry-forwards £m	Accelerated capital allowances £m	Derivative financial instruments £m	Other short-term timing differences £m	Total £m
As at 27 November 2011	60.1	17.8	0.1	—	78.0
Adjustment in respect of prior periods	0.7	1.3	—	—	2.0
Effect of change in UK corporation tax rate	(5.0)	(1.4)	—	—	(6.4)
Potential movement in the period unrecognised through:					
— Income statement	0.9	(0.6)	—	0.1	0.4
— Equity	—	—	—	—	—
As at 2 December 2012	56.7	17.1	0.1	0.1	74.0
Adjustment in respect of prior periods	**—**	**0.7**	**—**	**—**	**0.7**
Effect of change in UK corporation tax rate	**(7.4)**	**(2.3)**	**—**	**—**	**(9.7)**
Potential movement in the period unrecognised through:					
— Income statement	**(1.0)**	**1.5**	**—**	**(0.1)**	**0.4**
— Equity	**—**	**—**	**(0.1)**	**—**	**(0.1)**
As at 1 December 2013	**48.3**	**17.0**	**—**	**—**	**65.3**

As at 1 December 2013 the Group had approximately £279.5 million of unutilised tax losses (2012: approximately £279.5 million) available for offset against future profits. A deferred tax asset of £7.9 million (2012: £7.9 million) has been recognised in respect of £39.6 million (2012: £34.4 million) of such losses, the recovery of which is supported by the expected level of future profits of the Group. The recognition of the deferred tax asset is based on forecasted operating results calculated in approved business plans and a review of tax planning opportunities. Management have concluded that there is sufficient evidence for the recognition of the deferred tax asset of £7.9 million.

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.

2.2.2 Taxation — Balance sheet continued

Movement in the recognised deferred tax liability is analysed below:

	£m
As at 27 November 2011	(0.4)
Recognised through the income statement	—
As at 2 December 2012	(0.4)
Recognised through the income statement	**—**
As at 1 December 2013	**(0.4)**

In a prior period, 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.

2.3 Loss per share

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

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.

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 1 December 2013 Number of shares (million)	53 weeks ended 2 December 2012 Number of shares (million)
Issued shares at the beginning of the period, excluding treasury shares	**578.3**	522.1
Effect of share options exercised in the period	**1.4**	0.3
Effect of treasury shares disposed of in the period	**0.3**	—
Effect of shares issued in the period	**—**	0.9
Weighted average number of shares at the end of the period	**580.0**	523.3
	£m	£m
Loss attributable to the owners of the Company	**(12.5)**	(2.4)
	pence	pence
Basic and diluted loss per share	**(2.16)**	(0.46)

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 383,645 share options under the company ESOS scheme and 819,358 share options under the SAYE1 scheme.

Notes to the consolidated financial statements continued

Section 3 — Assets and liabilities

3.1 Intangible assets

Accounting policies

Intangible assets

Intangible assets comprise internally generated assets relating mainly to computer software and other intangible assets relating mainly to externally acquired computer software and assets. These are carried at cost less accumulated amortisation and any recognised impairment loss. Other intangible assets such as 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.

Amortisation on other non-current assets is calculated on a straight line basis from the date on which they are brought into use, charged to administrative expenses and is calculated based on the useful lives indicated below:

Internally generated assets	3-5 years, or the lease term if shorter
Other intangible assets	3-7 years, or the lease term if shorter

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

3.1.1 Intangible assets

Cost capitalisation

Internally generated assets, where it is clear that the ability to develop the assets is technically feasible and will be completed and that the asset will generate economic benefit, are capitalised as an intangible asset. 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. This includes reviewing expectations of future events that are believed to be reasonable under the circumstances.

Other development costs that do not meet the above criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

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.

3.1.1 Intangible assets continued

	Internally generated assets £m	Other intangible assets £m	Total intangible assets £m
Cost			
At 27 November 2011	30.2	14.8	45.0
Additions	—	0.9	0.9
Internal development costs capitalised	13.6	—	13.6
Disposals	—	(2.1)	(2.1)
At 2 December 2012	43.8	13.6	57.4
Additions	**8.3**	**0.9**	**9.2**
Internal development costs capitalised	**15.1**	**—**	**15.1**
Disposals	**(9.2)**	**(1.1)**	**(10.3)**
At 1 December 2013	**58.0**	**13.4**	**71.4**
Accumulated amortisation			
At 27 November 2011	(19.4)	(12.3)	(31.7)
Charge for the period	(5.3)	(0.9)	(6.2)
Disposals	—	2.1	2.1
At 2 December 2012	(24.7)	(11.1)	(35.8)
Charge for the period	**(8.6)**	**(0.9)**	**(9.5)**
Impairment	**(0.8)**	**—**	**(0.8)**
Disposals	**0.8**	**0.9**	**1.7**
At 1 December 2013	**(33.3)**	**(11.1)**	**(44.4)**
Net book value			
At 2 December 2012	19.1	2.5	21.6
At 1 December 2013	**24.7**	**2.3**	**27.0**

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

	1 December 2013 £m	2 December 2012 £m
Cost	**12.8**	4.3
Accumulated amortisation	**(4.8)**	(2.9)
Net book value	**8.0**	1.4

During the year, the Group entered into a sale and 25 year leaseback transaction with a newly created joint venture, MHE JV Co. Of the current period disposals of £10.3 million, £8.5 million relates to the sale of assets to MHE JV Co, of which £8.5 million were leased back and are included in total additions of £9.2 million.

For the 52 weeks ended 1 December 2013, internal development costs capitalised represented approximately 94% (2012: 94%) of expenditure on intangible assets and 8% (2012: 11%) of total capital spend including property, plant and equipment.

Notes to the consolidated financial statements continued

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, any costs attributable to bringing the asset to its working condition for its intended use and major spares.

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 administrative expenses and is calculated based on the useful lives 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	2-7 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.

Property, plant and equipment represents 45% of the total asset base of the Group in 2013 (2012: 63%). 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. When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

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 £m	Fixtures, fittings, plant and machinery £m	Motor vehicles £m	Total £m
Cost				
At 27 November 2011	97.4	175.0	31.6	304.0
Additions	20.4	82.8	6.8	110.0
Disposals	—	(0.4)	(4.3)	(4.7)
At 2 December 2012†	117.8	257.4	34.1	409.3
Additions [1]	**5.1**	**149.8**	**9.1**	**164.0**
Disposals [1]	**(80.6)**	**(110.4)**	**(4.3)**	**(195.3)**
At 1 December 2013†	**42.3**	**296.8**	**38.9**	**378.0**
Accumulated depreciation and impairment				
At 27 November 2011	(12.7)	(83.3)	(13.9)	(109.9)
Charge for the period	(1.7)	(15.3)	(5.8)	(22.8)
Impairment	(0.8)	(0.2)	—	(1.0)
Disposals	—	0.4	4.3	4.7
At 2 December 2012	(15.2)	(98.4)	(15.4)	(129.0)
Charge for the period	**(2.0)**	**(24.2)**	**(6.9)**	**(33.1)**
Impairment	**0.2**	**(0.5)**	**—**	**(0.3)**
Disposals	**0.3**	**4.1**	**4.3**	**8.7**
At 1 December 2013	**(16.7)**	**(119.0)**	**(18.0)**	**(153.7)**
Net book value				
At 2 December 2012	102.6	159.0	18.7	280.3
At 1 December 2013	**25.6**	**177.8**	**20.9**	**224.3**

† Cost includes capitalised borrowing costs of £1.9 million (2012: £4.8 million). The reduction was due to the sale of CFC2 land and building which included £4.0 million of capitalised borrowing costs. The capitalisation rate for both periods was the same as that incurred on the underlying borrowings, being LIBOR plus 3%. Borrowing costs were capitalised on specific borrowings which were wholly attributable to qualifying assets.

1 During the year, the Group entered into a sale and 25 year leaseback transaction of its MHE relating to CFC2 to a newly created joint venture, MHE JV Co. Of the current period disposals of £195.3 million, £115.2 million relates to the sale of assets to MHE JV Co, £112.1 million of which were leased back and are included in total additions of £164.0 million.

Of the current period impairment charge, a reversal of £0.2 million has been included within exceptional costs (see Note 2.1.5).

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

	Land and buildings £m	Fixtures, fittings, plant and machinery £m	Motor vehicles £m	Total £m
At 2 December 2012				
Cost	26.9	69.6	33.4	129.9
Accumulated depreciation and impairment	(13.3)	(43.9)	(14.9)	(72.1)
Net book value	13.6	25.7	18.5	57.8
At 1 December 2013				
Cost	**29.3**	**171.9**	**38.1**	**239.3**
Accumulated depreciation and impairment	**(14.8)**	**(56.6)**	**(17.5)**	**(88.9)**
Net book value	**14.5**	**115.3**	**20.6**	**150.4**

Notes to the consolidated financial statements continued

3.2.1 Property, plant and equipment continued

The movement in cost includes assets of £1.7 million (2012: £2.1 million) reclassified from owned assets to assets held under finance leases following asset based financing arrangements.

Included within property, plant and equipment is capital work-in-progress for land and buildings of £0.1 million (2012: £77.7 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £5.2 million (2012: £80.0 million).

Property, plant and equipment with a net book value of £14.0 million (2012: £135.1 million) has been pledged as security for the secured loans (Note 4.1).

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

	1 December 2013 £m	2 December 2012 £m
Unlisted equity investment — cost and net book value	0.4	0.4

The unlisted equity investment comprises a 25% interest in Paneltex Limited ("Paneltex"), which 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 Investment in joint ventures

Accounting policies

The Group's share of the results of joint ventures is included in the consolidated income statement and is accounted for using the equity method of accounting. Investments in joint ventures are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. The carrying values of investments in joint ventures include acquired goodwill.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate.

Unrealised gains arising from transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the entity.

3.4.1 Investment in joint ventures

In the period, the Group acquired a 50% equity interest valued at £58.0 million in MHE JV Co, a joint venture company.

The Group's share of profit after tax for the year is detailed as follows:

	52 weeks ended 1 December 2013 £m
Group share of revenue	1.0
Group share of expenses, inclusive of tax	(0.1)
Group share of profit after tax	**0.9**

At period end, the net assets of MHE JV Co were valued at £58.9 million reflecting the £0.9 million Group share of profit after tax.

3.5 Working capital

Accounting policies

Inventories

Inventories comprise goods held for resale, fuel and other consumable goods. Inventories are valued at the lower of cost and net realisable value. Goods held for resale and consumables are valued using the weighted average cost basis. Net realisable value takes into account slow moving, obsolete and defective inventory. 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, which are classified as non-current assets. The Group's loans and receivables comprise "Trade and other receivables" and "Cash and cash equivalents" in the balance sheet.

3.5 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 considered 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.

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 date of acquisition. 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.

3.5.1 Inventories

	1 December 2013 £m	2 December 2012 £m
Goods for resale	23.5	15.3
Consumables	0.4	2.2
	23.9	17.5

Write-downs of inventories recognised as an expense amounted to £0.5 million (2012: £nil) in the consolidated income statement. No security has been granted over inventories.

3.5.2 Trade and other receivables

	Notes	1 December 2013 £m	2 December 2012 £m
Trade receivables		23.6	8.4
Less: provision for impairment of trade receivables		(0.5)	(0.3)
Net trade receivables		23.1	8.1
Other receivables		15.6	16.0
Prepayments		5.1	6.2
Accrued income		1.4	0.5
		45.2	30.8

Included within trade receivables is a balance of £12.3 million owed by MHE JV Co.

No security has been granted over trade and other receivables.

Included in other receivables is £7.1 million (2012: £5.8 million) due from suppliers in relation to supplier funded promotional activity and £6.2 million (2012: £5.4 million) due from suppliers in relation to volume based trigger amounts.

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

	1 December 2013		2 December 2012	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	34.7	—	18.9	—
Past due 0–3 months	5.7	(0.3)	5.7	(0.1)
Past due 3–6 months	0.1	(0.1)	0.1	(0.1)
Past due over 6 months	0.2	(0.1)	0.2	(0.1)
	40.7	(0.5)	24.9	(0.3)

Notes to the consolidated financial statements continued

3.5.2 Trade and other receivables continued

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 are past due but not impaired amount to £5.4 million (2012: £5.8 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:

	1 December 2013 £m	2 December 2012 £m
Past due 0–3 months	5.4	5.7
Past due 3–6 months	—	0.1
Past due over 6 months	—	—
	5.4	5.8

3.5.3 Cash and cash equivalents

	1 December 2013 £m	2 December 2012 £m
Cash at bank and in hand	110.5	89.6

£1.7 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.

3.5.4 Trade and other payables

	1 December 2013 £m	2 December 2012 £m
Trade payables	53.0	60.0
Taxation and social security	4.1	4.9
Accruals	42.0	26.0
Deferred income	30.9	3.2
	130.0	94.1

Deferred income represents the value of delivery income received under the Ocado Smart Pass scheme allocated to future periods, upfront licence fees from the Morrisons strategic operating agreement, lease incentives, and media income from suppliers which relate to future periods.

3.6 Provisions

Accounting policies

Provisions can be distinguished from other types of liability by considering the events that give rise to the obligation and the degree of uncertainty as to the amount of timing of the liability. These are recognised in the consolidated balance sheet 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.

The amounts recognised as a provision are management's best estimates of the expenditure to settle present obligations as at balance sheet date. The outcome depends on future events, which are by their nature uncertain. In assessing the likely outcome, management base its assessment on historical experience and other factors, that are believed to be reasonable in the circumstances.

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 made in respect of properties where there are obligations for onerous contracts. These are recognised on a lease by lease basis and are based on the Group's best estimate of the likely committed cash outflow. Where relevant, these estimated outflows are discounted to net present value.

3.6.1 Provisions

	Insurance claims £m	Dilapidations £m	Total £m
As at 27 November 2011	0.6	0.6	1.2
Charged/(credited) to the income statement			
— additional provision	0.4	1.6	2.0
— unused amounts reversed	(0.3)	—	(0.3)
Used during the period	(0.2)	(0.1)	(0.3)
Unwind of discount	—	—	—
As at 2 December 2012	0.5	2.1	2.6
Charged/(credited) to the income statement			
— additional provision	**0.4**	**0.7**	**1.1**
Used during the period	**(0.1)**	**—**	**(0.1)**
Unwind of discount	**—**	**0.1**	**0.1**
As at 1 December 2013	**0.8**	**2.9**	**3.7**

Analysis of total provisions as at 2 December 2012

	Insurance claims £m	Dilapidations £m	Total £m
Current	0.3	0.1	0.4
Non-current	0.2	2.0	2.2
	0.5	2.1	2.6

Analysis of total provisions as at 1 December 2013

	Insurance claims £m	Dilapidations £m	Total £m
Current	0.4	0.1	0.5
Non-current	0.4	2.8	3.2
	0.8	**2.9**	**3.7**

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 CFC1 lease expires in 2032, with leases for the spokes expiring between 2014 and 2068. 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 obligation per van payable 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.

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Notes to the consolidated financial statements continued

Section 4 — Capital structure and financing costs

4.1 Leases and borrowings

Accounting policies

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.

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 accounted for separately after determining 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 attributable transaction costs. 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.

Sale and leaseback

A sale and leaseback transaction is one where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer.

The leaseback transaction is classified as a finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leasebacks are classified as operating leases.

For sale and finance leasebacks, any profit from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the consolidated income statement.

Lease incentives

Lease incentives primarily include upfront cash payments or rent-free periods. Lease incentives are capitalised and released against the relevant rental expense over 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.

4.1.1 Borrowings and finance leases

	Notes	1 December 2013 £m	2 December 2012 £m
Current liabilities			
Borrowings	4.1.2	**3.3**	2.6
Obligations under finance leases	4.1.3	**25.0**	19.8
		28.3	22.4
Non-current liabilities			
Borrowings	4.1.2	**6.2**	91.3
Obligations under finance leases	4.1.3	**126.9**	31.1
		133.1	122.4
Total borrowings and finance leases		**161.4**	144.8

4.1.2 Borrowings

	Less than one year £m	Between one year and two years £m	Between two years and five years £m	Total £m
As at 2 December 2012				
Secured loans	2.6	10.1	81.2	93.9
Total borrowings	2.6	10.1	81.2	93.9
As at 1 December 2013				
Secured loans	3.3	4.0	2.2	9.5
Total borrowings	**3.3**	**4.0**	**2.2**	**9.5**

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

Principal amount £m	Inception	Secured over	Current interest rate	Instalment frequency	Final payment due	Carrying amount as at 1 December 2013 £m	Carrying amount as at 2 December 2012 £m
8.0	May-07	Property, plant and equipment	Clearing bank base rate + 3.0%	Quarterly	Feb-15	**2.4**	3.6
1.5	Dec-06	Freehold property	LIBOR + 2.75%	Quarterly	Feb-15	**0.5**	0.7
1.5	Feb-09	Freehold property	LIBOR + 2.75%	Quarterly	Feb-15	**0.8**	0.9
2.8	Dec-09	Freehold property	LIBOR + 3.5%	Quarterly	Jan-13	**1.7**	2.1
2.6	Jul-12	Freehold property	LIBOR + 2.75%	Quarterly	Jul-15	**2.2**	2.5
85.3	Jul-10	Property, plant and equipment	LIBOR + 3.5%	Note†	n/a	**—**	81.8
2.5	Jul-12	Property, plant and equipment	9.12%‡	Monthly	Jul-17	**1.9**	2.3
						9.5	93.9
Disclosed as:							
Current						**3.3**	2.6
Non-current						**6.2**	91.3
						9.5	93.9

† During the period, £85.3 million, being the full amount outstanding under the £100 million credit facility of the Group, was repaid and the facility was cancelled. Of this amount, £81.1 million was paid by Morrisons on the disposal of Last Mile Developments Limited ("LMD") which is detailed further in Note 5.5 and the balance was repaid as part of the sale and leaseback transaction for the MHE in CFC2.

‡ Calculated as the effective interest rate, the calculation of which includes an optional balloon payment at the end of the term.

4.1.3 Obligations under finance leases

	1 December 2013 £m	2 December 2012 £m
Obligations under finance leases due:		
Within one year	**25.0**	19.8
Between one and two years	**20.7**	11.5
Between two and five years	**46.3**	13.8
After five years	**59.9**	5.8
Total obligations under finance leases	**151.9**	50.9

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Notes to the consolidated financial statements continued

4.1.3 Obligations under finance leases continued

External obligations under finance leases are £39.2 million excluding £112.7 million payable to MHE JV Co, a joint venture company.

	1 December 2013 £m	2 December 2012 £m
Minimum lease payments due:		
Within one year	31.9	22.2
Between one and two years	26.8	13.1
Between two and five years	59.4	16.0
After five years	67.6	6.4
	185.7	57.7
Less: future finance charges	(33.8)	(6.8)
Present value of finance lease liabilities	151.9	50.9
Disclosed as:		
Current	25.0	19.8
Non-current	126.9	31.1
	151.9	50.9

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

4.2.1 Net debt

	Notes	1 December 2013 £m	2 December 2012 £m
Current assets			
Cash and cash equivalents	3.5.3	110.5	89.6
Current liabilities			
Borrowings	4.1.2	(3.3)	(2.6)
Obligations under finance leases	4.1.3	(25.0)	(19.8)
		(28.3)	(22.4)
Non-current liabilities			
Borrowings	4.1.2	(6.2)	(91.3)
Obligations under finance leases	4.1.3	(126.9)	(31.1)
		(133.1)	(122.4)
Total net debt		(50.9)	(55.2)

Net cash, excluding obligations of £112.7 million payable to MHE JV Co, a joint venture company, is £61.8 million. £1.7 million of the Group's cash and cash equivalents are considered to be restricted and are not available to circulate within the Group on demand. For more information see Note 3.5.3.

4.2.2 Reconciliation of net cash flow to movement in net debt

	1 December 2013 £m	2 December 2012 £m
Net increase/(decrease) in cash and cash equivalents	20.9	(2.6)
Exchange adjustments	—	0.1
Net decrease/(increase) in debt and lease financing	24.1	(28.5)
Non-cash movements:		
— Assets acquired under finance lease	(122.4)	(7.5)
— Debt settled by third party	85.3	—
— Net movement in arrangement fees charged against loans	(3.6)	2.5
Movement in net debt in the period	4.3	(36.0)
Opening net debt	(55.2)	(19.2)
Closing net debt	(50.9)	(55.2)

Debt settled by third party relates to the disposal of LMD to Morrisons and the sale and leaseback transaction for MHE in CFC2. See Note 4.1.2 for further information.

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.

Finance income and costs

Interest income is accounted for on an accruals basis using the effective interest method.

Finance costs comprise obligations on finance leases and borrowings and are recognised in the period in which they fall due.

4.3.1 Finance income and costs

	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Interest on cash balances	0.4	0.4
Finance income	**0.4**	0.4
Borrowing costs		
— Obligations under finance leases	(4.7)	(3.1)
— Borrowings	(3.6)	(4.9)
Capitalised borrowing costs	1.1	4.1
Fair value movement in derivative financial instruments	(0.2)	(0.1)
Finance costs	**(7.4)**	(4.0)
Net finance costs	**(7.0)**	(3.6)

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

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 1 December 2013 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 income statement. The full fair value of hedging derivatives is 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

	1 December 2013 £m	2 December 2012 £m
Derivative asset		
Forward foreign exchange contracts (cash flow hedges)	—	0.2
Derivative liability		
Forward foreign exchange contracts (cash flow hedges)	(0.2)	(0.3)
Interest rate swaps (cash flow hedges)	—	(0.4)
	(0.2)	(0.7)

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 1 December 2013 were €21.8 million (2012: €22.8 million). The corresponding amounts in sterling at 1 December 2013 were £18.3 million (2012: £18.6 million).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next fourteen months. Cumulative gains and losses recognised in the hedging reserve within other comprehensive income are £0.4 million of gains (2012: £0.4 million of losses). 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 (3 to 10 years).

Interest rate swaps

During the year, the Group terminated all interest rate swaps upon repayment and cancellation of the £100 million credit facility. As a result, there were no notional amounts of interest rate swaps as at 1 December 2013. As at 2 December 2012, the total notional amount of interest rate swaps was £53.2 million representing 54.0% of gross Group borrowings.

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

Notes to the consolidated financial statements continued

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 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 all classified as level 2.

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	1 December 2013 Carrying value £'000	1 December 2013 Fair value £'000	2 December 2012 Carrying value £'000	2 December 2012 Fair value £'000
Financial assets					
Cash and cash equivalents	3.5.3	110.5	110.5	89.6	89.6
Trade receivables	3.5.2	23.1	23.1	8.1	8.1
Other receivables (incl. accrued income, excl. prepayments)	3.5.2	17.1	17.1	16.5	16.5
Derivative assets	4.4.1	—	—	0.2	0.2
Available-for-sale financial asset	3.3.1	0.4	0.4	0.4	0.4
Total financial assets		151.1	151.1	114.8	114.8
Financial liabilities					
Trade payables	3.5.4	(53.0)	(53.0)	(60.0)	(60.0)
Accruals	3.5.4	(42.0)	(42.0)	(26.0)	(26.0)
Borrowings	4.1.2	(9.5)	(9.6)	(93.9)	(100.2)
Finance lease obligations	4.1.3	(151.9)	(152.0)	(50.9)	(51.1)
Derivative liabilities	4.4.1	(0.2)	(0.2)	(0.7)	(0.7)
Total financial liabilities		(256.6)	(256.8)	(231.5)	(238.0)

4.5.1 Fair value of financial instruments continued

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 liabilities relate to forward foreign exchange contracts and interest rate swaps. 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, receivables, payables and accruals 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 3.0% (2012: 3.5%).

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, 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

The Group's exposure to credit risk on cash and cash equivalents is managed by investing in banks and financial institutions with strong credit ratings and by regular review of counterparty risk.

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, as well as VAT receivable and prepayments. 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. The Group has effective controls over this area. The Group has allowed 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 allowance for the impairment of trade and other receivables are as follows:

	Notes	**1 December 2013 £m**	2 December 2012 £m
At the beginning of the period		**(0.3)**	(0.3)
Provision for impairment of receivables		**(0.2)**	(0.3)
Uncollectible amounts written off		**—**	0.2
Recovery of amounts previously provided for		**—**	0.1
At the end of the period	3.5.2	**(0.5)**	(0.3)

4.5.3 Liquidity risk

The Group has adequate cash resources to manage the short term working capital needs of the business. The Group may need to negotiate sufficient financing arrangements.

The Group monitors its liquidity requirements to ensure it has sufficient cash to meet operational needs. For further details see Note 4.8.

Notes to the consolidated financial statements continued

4.5.3 Liquidity risk continued

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

	Notes	Carrying value £m	Contractual cash flows £m	1 year or less £m	1-2 years £m	2-5 years £m	More than 5 years £m
Financial liabilities							
Trade payables	3.5.4	(60.0)	(60.0)	(60.0)	—	—	—
Accruals	3.5.4	(26.0)	(26.0)	(26.0)	—	—	—
Borrowings	4.1.2	(93.9)	(108.8)	(9.0)	(15.0)	(84.8)	—
Obligations under finance leases	4.1.3	(50.9)	(57.7)	(22.2)	(13.1)	(16.0)	(6.4)
Derivative liabilities	4.4.1	(0.7)	(0.7)	(0.7)	—	—	—
2 December 2012		(231.5)	(253.2)	(117.9)	(28.1)	(100.8)	(6.4)

	Notes	**Carrying value £m**	**Contractual cash flows £m**	**1 year or less £m**	**1-2 years £m**	**2-5 years £m**	**More than 5 years £m**
Financial liabilities							
Trade payables	3.5.4	**(53.0)**	**(53.0)**	**(53.0)**	**—**	**—**	**—**
Accruals	3.5.4	**(42.0)**	**(42.0)**	**(42.0)**	**—**	**—**	**—**
Borrowings	4.1.2	**(9.5)**	**(10.3)**	**(3.7)**	**(4.3)**	**(2.3)**	**—**
Obligations under finance leases	4.1.3	**(151.9)**	**(185.7)**	**(31.9)**	**(26.8)**	**(59.4)**	**(67.6)**
Derivative liabilities	4.4.1	**(0.2)**	**(0.2)**	**(0.2)**	**—**	**—**	**—**
1 December 2013		**(256.6)**	**(291.2)**	**(130.8)**	**(31.1)**	**(61.7)**	**(67.6)**

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:

	1 December 2013 £m	2 December 2012 £m
Cash and cash equivalents — EUR	**0.6**	7.8
Cash and cash equivalents — PLN	**0.1**	—
Trade payables at period end — EUR	**(3.4)**	(10.6)
Derivative (liability)/asset (forward foreign exchange contracts) — EUR	**(0.2)**	(0.1)
	(2.9)	(2.9)

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

	1 December 2013		2 December 2012	
	Increase / (decrease) in income £m	**Increase / (decrease) in equity £m**	Increase / (decrease) in income £m	Increase / (decrease) in equity £m
10% appreciation of the euro	**(0.4)**	**1.8**	(0.3)	1.8
10% depreciation of the euro	**0.4**	**(1.8)**	0.3	(1.8)

A movement of the euro, as indicated, against sterling at 1 December 2013 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:

	1 December 2013 £m	2 December 2012 £m
Fixed rate instruments		
Financial assets	76.4	65.8
Financial liabilities	(41.1)	(53.3)
Variable rate instruments		
Financial assets	34.0	23.8
Financial liabilities	(120.2)	(91.5)

Sensitivity analysis

An increase of 100 basis points (1.0%) in interest rates would 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. The calculation applies the increase to average floating rate interest bearing borrowings and cash and cash equivalents existing during the period. This analysis assumes that all other variables remain constant and considers the effect on financial instruments with variable interest rates.

	1 December 2013 £m	2 December 2012 £m
Equity		
Gain	—	0.7
Income		
Gain	0.1	0.1

4.5.5 Financial instruments by category

The Group has categorised its financial instruments as follows:

	Notes	Available-for sale £m	Loans and receivables £m	Financial liabilities at amortised cost £m	Financial liabilities at fair value through profit and loss £m	Total £m
As at 2 December 2012						
Financial assets as per the balance sheet						
Cash and cash equivalents	3.5.3	—	89.6	—	—	89.6
Trade and other receivables (excluding prepayments)	3.5.2	—	24.6	—	—	24.6
Available-for-sale financial asset	3.3.1	0.4	—	—	—	0.4
Derivative assets	4.4.1	—	—	—	0.2	0.2
Total		0.4	114.2	—	0.2	114.8
Financial liabilities as per the balance sheet						
Trade payables	3.5.4	—	—	60.0	—	60.0
Accruals	3.5.4	—	—	26.0	—	26.0
Borrowings	4.1.2	—	—	93.9	—	93.9
Obligations under finance leases	4.1.3	—	—	50.9	—	50.9
Derivative liabilities	4.4.1	—	—	—	0.7	0.7
Total		—	—	230.8	0.7	231.5

Notes to the consolidated financial statements continued

4.5.5 Financial instruments by category continued

	Notes	Available-for sale £m	Loans and receivables £m	Financial liabilities at amortised cost £m	Financial liabilities at fair value through profit and loss £m	Total £m
As at 1 December 2013						
Financial assets as per the balance sheet						
Cash and cash equivalents	3.5.3	—	110.5	—	—	110.5
Trade and other receivables (excluding prepayments)	3.5.2	—	40.1	—	—	40.1
Available-for-sale financial asset	3.3.1	0.4	—	—	—	0.4
Derivative assets	4.4.1	—	—	—	—	—
Total		0.4	150.6	—	—	151.0
Financial liabilities as per the balance sheet						
Trade payables	3.5.4	—	—	53.0	—	53.0
Accruals	3.5.4	—	—	42.0	—	42.0
Borrowings	4.1.2	—	—	9.5	—	9.5
Obligations under finance leases	4.1.3	—	—	151.9	—	151.9
Derivative liabilities	4.4.1	—	—	—	0.2	0.2
Total		—	—	256.4	0.2	256.6

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

As at 1 December 2013, the number of ordinary shares available for issue under the Block Listing Facility was 6,221,636 (2012: 3,939,837). These ordinary shares will only become allotted when share options under the Group's ESOS, Sharesave 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 called up share capital and share premium accounts are set out below:

	Notes	Ordinary shares Number of shares (million)	Ordinary shares £m	Share premium £m
At 27 November 2011		558.3	11.2	213.8
Issues of ordinary shares		55.9	—	34.6
Allotted in respect of joint share ownership scheme		—	1.1	(1.0)
Allotted in respect of share option schemes		0.4	—	0.4
At 2 December 2012		614.6	12.3	247.8
Issues of ordinary shares		3.1	0.1	3.7
Ordinary shares issue cost		—	—	—
At 1 December 2013		617.7	12.4	251.5

Included in the total number of ordinary shares outstanding above are 35,249,176 (2012: 36,305,099) ordinary shares held by the Group's employee benefit trust (see Note 4.6.1(a)). 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 consolidated balance sheet in accordance with IAS 32 "Financial instruments: Presentation". These ordinary shares have voting rights but these have been waived by the trustee. The number of allotted, called up and fully paid shares, excluding treasury shares, at the end of each period differs from that used in the loss per share calculation in Note 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

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

	Notes	Treasury shares reserve £m	Reverse acquisition reserve £m	Fair value reserve £m
At 27 November 2011		(53.8)	(116.2)	—
Fair value movement on derivative financial instrument	4.6.1(b)	—	—	(0.7)
Reacquisition of interests in treasury shares	4.6.1(a)	(0.1)	—	—
At 2 December 2012		(53.9)	(116.2)	(0.7)
Movement on derivative financial instrument	4.6.1(b)	**—**	**—**	**0.6**
Disposal of treasury shares	4.6.1(a)	**1.5**	**—**	**—**
At 1 December 2013		**(52.4)**	**(116.2)**	**(0.1)**

(a) Treasury shares reserve

This reserve arose when the Group issued equity share capital under its JSOS, which is held in trust by the trustee of the Group's employee benefit trust. Treasury shares cease to be accounted for as such when they are sold outside the Group or the interest is transferred in full to the participant pursuant to the terms of the JSOS. Participant interests in unexercised shares held by participants are not included in the calculation of treasury shares; unvested interests of leavers which have been reacquired by the Group's employee benefit trust during the period are now accounted for as treasury shares. See Note 4.7.1 (b) for more information on the JSOS.

(b) Other reserves

The fair value reserve comprises gains and losses on movements in the Group's cash flow hedges, which consist of foreign currency and interest rate hedges.

The acquisition by the Company of the entire issued share capital in 2010 of Ocado Limited was accounted for as a reverse acquisition under IFRS 3 (revised). Consequently the previously recognised book values and assets and liabilities have been retained and the consolidated financial information for the period to 1 December 2013 has been presented as if the Company had always been the parent company of the Group.

4.7 Share-based payments

Accounting policies

Employee benefits

Employees (including Directors) of the Group receive part of their 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 where appropriate, 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 £3.3 million (2012: £0.9 million), all of which related to equity-settled share-based payment transactions.

(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 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 consolidated financial statements continued

4.7.1 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).

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

	Year of issue	1 December 2013	Exercise price (£)	2 December 2012	Exercise price (£)	Exercise period
Approved	2003	—	—	96,374	0.90	31/05/06–29/11/13
	2004	28,923	0.90	116,205	0.90	31/05/07–29/11/14
	2005	115,109	1.00	253,229	1.00	31/05/08–29/11/15
	2005	13,752	1.15	66,866	1.15	31/05/08–30/05/15
	2006	9,145	1.40	85,826	1.40	31/05/09–30/05/16
	2006	9,205	1.50	78,473	1.50	30/11/09–29/11/16
	2007	128,129	1.50	361,689	1.50	31/05/10–29/11/17
	2008	38,545	1.35	160,799	1.35	31/05/11–30/05/18
	2008	86,927	1.20	360,642	1.20	30/11/11–29/11/18
	2009	51,772	1.20	197,456	1.20	31/05/12–30/05/19
	2009	279,714	1.35	1,096,351	1.35	02/11/12–29/11/19
	2010	333,623	1.65	868,908	1.65	30/06/13–29/06/20
	2011	181,271	1.89	284,423	1.89	19/07/14–18/07/21
	2011	584,993	2.55	720,720	2.55	14/02/14–13/02/21
	2012	417,070	0.85	549,382	0.85	27/06/15–26/06/22
	2012	786,556	1.03	1,234,650	1.03	21/02/15–13/02/22
	2012	850,732	1.05	895,621	1.05	09/03/15–08/03/22
	2013	856,442	1.28	—	—	05/03/16–04/03/23
	2013	291,669	3.02	—	—	08/07/16–07/07/23
Total approved options		5,063,577		7,427,614		

	Year of issue	1 December 2013	Exercise price (£)	2 December 2012	Exercise price (£)	Exercise period
Non-Approved	2003	—	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	582,950	1.15	770,136	1.15	16/05/08–29/11/15
	2007	50,833	1.50	50,833	1.50	31/05/10–30/05/17
	2009	122,600	1.20	267,500	1.20	31/05/12–30/05/19
	2011	—	1.89	37,038	1.89	19/07/14–18/02/21
	2012	112,076	1.05	181,703	1.05	09/03/15–08/03/22
Total unapproved options subject to performance criteria		869,213		1,407,964		
Total		5,932,790		8,835,578		

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:

		1 December 2013		2 December 2012		
	Year of Issue	Number of share options	Exercise price (£)	Number of share options	Exercise Price (£)	Exercise Period
	2005	53,001	1.15	162,020	1.15	31/05/08–30/05/15
	2009	139,600	1.20	254,000	1.20	31/05/12–30/05/19
Total options subject to performance criteria		192,601		416,020		

4.7.1 Share options and other equity instruments continued

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

	1 December 2013		2 December 2012	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	8,835,578	1.33	7,403,476	1.46
Granted during the period	1,479,220	1.71	3,097,196	1.00
Forfeited during the period	(1,722,506)	1.56	(1,271,657)	1.36
Exercised during the period	(2,659,502)	1.31	(393,437)	0.91
Outstanding at the end of the period	5,932,790	1.42	8,835,578	1.33
Exercisable at the end of the period	1,895,710	1.31	4,091,498	1.25

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 that the market value of the Company's shares at each option grant date.

For exercises during the period, the weighted average share price at the date of exercise was £2.92 (2012: £0.98).

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:

	1 December 2013	2 December 2012
Weighted average share price	£1.71	£1.00
Weighted average exercise price	£1.71	£1.00
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%

Given the immaturity of the Company's share history, the expected volatility was determined by considering the historic performance of the shares of a bucket of companies similar to and including the Company. 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.

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

	1 December 2013			2 December 2012		
	Exercise price (£)	Number of share options	Weighted average remaining contractual life (years)	Exercise price (£)	Number of share options	Weighted average remaining contractual life (years)
	0.85	417,070	8.6	0.85	549,382	9.6
	0.90	28,923	0.8	0.90	312,579	1.3
	1.00	115,863	1.9	1.00	253,983	2.8
	1.03	786,556	8.2	1.03	1,234,650	9.2
	1.05	962,808	8.3	1.05	1,077,324	9.3
	1.15	596,702	1.5	1.15	837,002	2.5
	1.20	261,299	5.4	1.20	825,598	6.4
	1.28	856,442	9.3	—	—	—
	1.35	318,259	5.8	1.35	1,257,150	6.9
	1.40	9,145	2.5	1.40	85,826	3.5
	1.50	188,167	3.6	1.50	490,995	4.6
	1.65	333,623	6.6	1.65	868,908	7.6
	1.89	181,271	7.6	1.89	321,461	8.6
	2.55	584,993	7.2	2.55	720,720	8.2
	3.02	291,669	9.6	—	—	—
Outstanding at the end of the period		5,932,790			8,835,578	

Notes to the consolidated financial statements continued

4.7.1 Share options and other equity instruments continued

(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 Employee Benefit Trust Trustee, held at the balance sheet date separate beneficial interests in 35,249,176 (2012: 36,305,099) ordinary shares which represents 5.7% (2012: 5.9%) of the issued share capital of the Company. Of these ordinary shares, 1,453,254 are held by the Employee Benefit Trust on an unallocated basis.

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 Employee Benefit Trust Trustee, under which the Participant and the Employee Benefit Trust 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.

Participants

In prior periods interests were acquired by the Participants under the first JSOS scheme ("JSOS1") in 32,476,700 shares at an issue price of £1.50 per share, and the second group of Participants JSOS scheme ("JSOS2") in 3,990,799 Shares at an issue price of £1.70 per share. In the prior period, 2,953,675 Shares in which interests of Participants have lapsed were reallocated to the third group of Participants under the JSOS scheme ("JSOS3"). For JSOS1 and JSOS2 there are four tranches, each with their own hurdle price. For JSOS3 there are two tranches, each with their own hurdle price.

JSOS1				JSOS2				JSOS3			
Tranche	Vesting date	Hurdle value	% of issue price	Tranche	Vesting date	Hurdle value	% of issue price	Tranche	Vesting date	Hurdle value	% of market price
1 (2011)	Jan-11	£1.73	115%	1 (2012)	Jun-12	£1.96	115%	1 (2013)	Jan-13	£1.70	230%–265%
2 (2012)	Jan-12	£1.91	127%	2 (2013)	Jun-13	£2.15	127%	2 (2014)	Jan-14	£1.80	244%–280%
3 (2013)	Jan-13	£2.08	139%	3 (2014)	Jun-14	£2.36	139%	—	—	—	—
4 (2014)	Jan-14	£2.28	152%	4 (2015)	Jun-15	£2.59	152%	—	—	—	—

For JSOS1, Participants were required to purchase their Interest for 2.0% of the issue price. For JSOS2, the price was in a range of 7.1% to 10.8%, and for JSOS3, the price was in a range of 1.47% to 1.70% of the share price at date of issue. 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.

Vesting conditions

The vesting of the Interests granted to Participants is subject to a time vesting condition, as detailed above.

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%

4.7.1 Share options and other equity instruments continued

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.

As the Interests in JSOS3 were reallocated from lapsed Interests in JSOS1 and JSOS2, the fair value of those Interests had been calculated in prior periods using the inputs disclosed in the tables above.

Details of the movement in the number of Interests in Shares during each period are as follows:

	1 December 2013		2 December 2012	
	Number of Interests in Shares	Weighted average price (£)	Number of Interests in Shares	Weighted average price (£)
Outstanding at the beginning of the period	34,851,845	1.99	35,741,060	2.03
Granted during the period	—	—	2,953,675	1.76
Forfeited during the period	—	—	(3,842,890)	2.19
Exercised during the period	(1,055,923)	1.82	—	—
Outstanding at the end of the period	**33,795,922**	**1.99**	34,851,845	1.99
Exercisable at the end of the period	**23,934,156**	**1.90**	16,779,416	1.83

(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, these options are now held over ordinary shares in Ocado Group plc.

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

	1 December 2013		2 December 2012		
Date of Issue	Number of share options	Exercise Price (£)	Number of share options	Exercise Price (£)	Exercise Period
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**		1,322,000		

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

	1 December 2013		2 December 2012	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	1,322,000	0.95	1,322,000	0.95
Granted during the period	—	—	—	—
Forfeited during the period	—	—	—	—
Exercised during the period	—	—	—	—
Outstanding at the end of the period	**1,322,000**	**0.95**	1,322,000	0.95
Exercisable at the end of the period	**1,322,000**	**0.95**	1,322,000	0.95

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 non-employee share options are as follows:

	1 December 2013			2 December 2012		
	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**	**3.2**	0.90	886,700	4.2
	1.03	**435,300**	**4.1**	1.03	435,300	5.1
Outstanding at the end of the period		**1,322,000**			1,322,000	

(d) Sharesave Scheme

In 2010 the Group launched the Ocado Group Sharesave Scheme ("SAYE"). This is a 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 which is determined at launch date; 85% of the market value in the case of the Group's first Sharesave Scheme ("SAYE1") and 90% of the market value in the case of the Group's second Sharesave Scheme ("SAYE2") and third Sharesave Scheme ("SAYE3").

At 1 December 2013 employees of the Company's subsidiaries held 2,049 (2012: 1,032) contracts in respect of options over 5,031,578 (2012: 4,075,994) shares. Details of the movement in the number of Sharesave options outstanding during each period are as follows:

	1 December 2013		2 December 2012	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	**4,075,994**	**0.98**	2,314,294	1.16
Granted during the period	**1,577,602**	**3.01**	3,505,035	0.91
Forfeited during in the period	**(597,671)**	**1.02**	(1,743,335)	1.10
Exercised during the period	**(24,347)**	**1.02**	—	—
Outstanding at the end of the period	**5,031,578**	**1.61**	4,075,994	0.98
Exercisable at the end of the period	**—**	**—**	—	—

In determining the fair value of the share options granted during the current period and during 2012, the Black–Scholes Option Pricing Model was used with the following inputs:

	1 December 2013	2 December 2012
Weighted average share price	**£3.35**	£1.02
Weighted average exercise price	**£3.01**	£0.91
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.

(e) Long term incentive plan

During the period, the Group introduced an equity-settled long term incentive plan (LTIP) as approved by the Remuneration Committee and shareholders, under which shares are conditionally awarded to senior management. The number of awards issued are calculated based on a percentage of the participants' salaries and will vest at the end of a period of three years from the grant date. The final number and proportion of awards expected to vest will depend on achievement of a performance condition, being the Group's earnings before interest, tax and exceptional items ("EBIT") for the financial year ending November 2015.

The number of awards issued, adjusted to reflect the achievement of the performance conditions, will then vest during 2016. Full vesting will only therefore occur where exceptional performance levels have been achieved and significant shareholder value created. An award will lapse if a participant ceases to be employed within the Group before the vesting date.

A summary of the status of this LTIP as at 1 December 2013 and changes during the year is presented below:

	Number of share awards 1 December 2013
Outstanding at the beginning of the period	—
Granted during the period	3,365,852
Outstanding at the end of the period	**3,365,852**

There were no awards exercisable as at 1 December 2013.

The Group recognised an expense of £2.3 million related to these awards in the consolidated income statement during the year. The expectation of meeting the performance criteria was taken into account when calculating this expense.

(f) Chairman's Share Matching Award

During the period, the Group introduced an equity-settled Chairman's Share Matching Award, under which restricted shares are awarded to the Chairman, Sir Stuart Rose, assuming the role of Chairman. The award includes a one-off award of restricted shares on the assumption of the role of Chairman of the Group.

The award condition is based on a personal investment of a minimum of 400,000 shares and continued membership of the Board. This will vest three years from when the award was approved by the Remuneration Committee. There is no performance criteria to which vesting is subject.

These shares are restricted from being sold while he is on the Board and the shares are not allowed to be sold until the first anniversary of his ceasing to be a member of the Board.

A summary of the status of this Chairman's Share Matching Award as at 1 December 2013 and changes during the year is presented below:

	Number of share awards 1 December 2013
Outstanding at the beginning of the period	—
Granted during the period	452,284
Outstanding at the end of the period	**452,284**

The Group recognised an expense of £0.2 million related to this award in the consolidated income statement during the year.

Notes to the consolidated financial statements continued

4.8 Capital management

The Board's 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 cash and cash equivalents. The Group's net assets at the end of the period were £202.4 million (2012: £205.7 million) and it had net debt of £50.9 million (2012: £55.2 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. All financial covenants under the £100 million credit facility were removed upon repayment of the facility. In addition, a key aspect of Capital Management was the strategic operating agreement with Morrisons discussed below and in note 5.4 and 5.5.

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 and cash and cash equivalents are as follows:

	Notes	1 December 2013 £m	2 December 2012 £m
Total facilities available		173.4	193.0
Facilities drawn down†	4.1.1	(161.5)	(148.5)
Undrawn facilities at end of period		11.9	44.5
Cash and cash equivalents gross of drawn overdraft facility	3.5.3	110.5	89.6
		122.4	134.1

† During the period, the Group repaid and cancelled its £100 million credit facility. Facilities drawn down also include leaseback of MHE relating to CFC2 to MHE JV Co. In the current period, excluded from the amount of facilities drawn down is £0.1 million (2012: £3.7 million) relating to capitalised transaction costs.

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	Proportion of share capital held	Country of incorporation
Ocado Holdings Limited	Holding company	100%	England and Wales
Ocado Limited	Retail and distribution	100%	England and Wales
Ocado Information Technology Limited	Intellectual property	100%	Republic of Ireland
Ocado Polska Sp. Z.o.o	Technology	100%	Poland
Jalapeno Partners Limited	Non-trading company	100%	England and Wales
Last Mile Technology Limited	Non-trading company	100%	England and Wales
Ocado Technology Limited	Non-trading company	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 investments in other subsidiary undertakings, 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 2012 annual return and submitted to Companies House. A full list of subsidiaries will be submitted to Companies House with the 2013 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:

	1 December 2013 £m	2 December 2012 £m
Land and buildings	1.0	11.7
Property, plant and equipment	27.8	31.7
Total capital expenditure committed at the end of the period	**28.8**	43.4

Of the total capital expenditure committed at the current period end, £22.2 million relates to phase 2 of CFC2. The remainder relates to CFC1 upgrades and fleet expansion.

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 1 December 2013 the ageing profile of future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	1 December 2013 £m	2 December 2012 £m
Due within one year	10.0	4.1
Due after one year but less than five	32.1	12.0
Due after five years	115.8	37.6
Total commitment	**157.9**	53.7

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 will be either covered by its insurances or will not be material in the context of the Group's financial position.

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. The key management compensation is as follows:

	1 December 2013 £m	2 December 2012 £m
Salaries and other short-term employee benefits	3.8	1.4
Share based payments	1.9	0.1
	5.7	1.5

Further information on remuneration of Directors and Directors' interests in ordinary shares of the Company are disclosed in the Directors' remuneration report on pages 72 to 105.

Other related party transactions with key management personnel made during the period related to the purchase of professional services and amounted to £11,000 (2012: £8,000). All transactions were on an arm's length basis and no period end balances arose as a result of these transactions.

At the end of the period, key management personnel owed the Group £27,000 (2012: £27,000). The current and prior period amounts arose in periods before relevant directorships were obtained.

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

Investment

The following transactions were carried out with Paneltex Limited, a company in which the Group holds a 25% interest. Further information on the Group's relationship with Paneltex Limited is provided in Note 3.3.1.

	1 December 2013 £m	2 December 2012 £m
Purchase of goods		
— Plant and machinery	0.1	0.1
— Consumables	0.9	0.2
	1.0	0.3

Indirect transactions, consisting of the purchase of plant and machinery through some of the Group's finance lease counterparties, were carried out with Paneltex Limited to the value of £4.0 million (2012: £3.0 million).

At period end, the Group owed Paneltex £33,000 (2012: £23,000).

Joint Venture

The following transactions were carried out with MHE JV Co, a joint venture company in which the Group holds a 50% interest:

	1 December 2013 £m
Sale and leaseback transaction	
Sale of assets to MHE JV Co Limited	116.0
Leaseback of assets from MHE JV Co Limited	112.1
Finance lease payment	0.3

Included within trade and other receivables is a balance of £12.3 million owed by MHE JV Co.

Included within trade and other payables is a balance of £8.4 million owed to MHE JV Co.

Included within obligations under finance leases is a balance of £112.7 million owed to MHE JV Co.

No other transactions that require disclosure under IAS 24 have occurred during the current financial period.

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Notes to the consolidated financial statements continued

5.5 Disposal of a subsidiary

The Group entered into the sale of LMD, the Group company which owned the land and buildings of CFC2, with Morrisons. The Group disposed of its equity interest in LMD to Morrisons on 25 July 2013 and the net assets of LMD at the date of disposal were as follows:

	As at 25 July 2013 £m
Non-current assets	
Property, plant and equipment	80.3
Current assets	
Cash and cash equivalents	1.0
Trade and other payables	(34.7)
Non-current liabilities	
Borrowings	(45.6)
Net assets	1.0
Total Consideration	1.0
Satisfied by:	
Cash and cash equivalents	1.0

Amounts due on outstanding debt were settled by Morrisons in lieu of trade and other payables due to the Group from LMD at the time of disposal.

The impact of LMD on the Group's results in the current period up to the date of disposal, and the prior period was as follows:

	As at 25 July 2013 £m	53 weeks ended 2 December 2012 £m
Revenue	—	—
Administrative expenses	(0.3)	—
Operating loss	(0.3)	—
Finance costs	(1.5)	—
Loss before tax	(1.8)	—

Immediately following the disposal of LMD, the Group entered into a 25 year lease with LMD for the use of the land and buildings of CFC2. This lease has been classified as an operating lease in accordance with the provisions of IAS 17 'Leases'.

LMD subsequently has been renamed Firsdell Limited.

5.6 Post balance sheet events

There have been no significant events, outside the ordinary course of business, affecting the Group since 1 December 2013.

Independent Auditor's Report

to the members of Ocado Group plc

Report on the Company financial statements

Our opinion

In our opinion the Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 1 December 2013 and of its cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say below.

What we have audited

The Company financial statements, which are prepared by Ocado Group plc, comprise:

- the Company balance sheet as at 1 December 2013;
- the Company statement of changes in equity and statement of cash flows for the year then ended; and
- the notes to the Company financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK & Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Parent Company financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinions on matters prescribed by the Companies Act 2006

In our opinion:

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Independent Auditor's Report continued

to the members of Ocado Group plc

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Company financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 113, the directors are responsible for the preparation of the 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Other Matter

We have reported separately on the group financial statements of Ocado Group plc for the period ended 1 December 2013.

Andrew Latham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
12 March 2014

Company balance sheet
as at 1 December 2013

	Notes	1 December 2013 £m	2 December 2012 £m
Non-current assets			
Investments	3.1.1	482.6	479.3
		482.6	479.3
Current assets			
Other receivables	3.2.1	155.5	187.6
Cash and cash equivalents	3.2.2	97.6	70.9
		253.1	258.5
Total assets		735.7	737.8
Current liabilities			
Trade and other payables	3.2.3	(0.5)	(9.5)
		(0.5)	(9.5)
Net current assets		252.6	249.0
Net assets		735.2	728.3
Equity			
Share capital	4.1.1	12.4	12.3
Share premium	4.1.1	251.5	247.8
Retained earnings		471.3	468.2
Total equity		735.2	728.3

The Company financial statements on pages 161 to 169 were authorised for issue by the Board of Directors and signed on its behalf by:

Tim Steiner
Chief Executive Officer

Duncan Tatton-Brown
Chief Financial Officer

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

12 March 2014

Company statement of cash flows

for the 52 weeks ended 1 December 2013

	Notes	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Cash flow from operating activities			
(Loss)/profit before tax		(0.2)	0.1
Adjustments for:			
— Finance income		(0.4)	(0.4)
Changes in working capital:			
— Movement in other receivables		32.3	(49.6)
— Movement in trade and other payables		(9.0)	(0.1)
Net cash inflow/(outflow) from operations		22.7	(50.0)
Interest paid on behalf of Group undertakings		(0.1)	(0.1)
Net cash inflow/(outflow) from operating activities		22.6	(50.1)
Cash flow from investing activities			
Interest received		0.3	0.6
Net cash from investing activities		0.3	0.6
Cash flow from financing activities			
Proceeds from issue of ordinary share capital net of transaction costs		3.8	35.1
Net cash from financing activities		3.8	35.1
Net increase/(decrease) in cash and cash equivalents		26.7	(14.4)
Cash and cash equivalents at beginning of period		70.9	85.3
Cash and cash equivalents at end of period	3.2.2	97.6	70.9

Company statement of changes in equity

for the 52 weeks ended 1 December 2013

	Notes	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 27 November 2011		11.2	213.8	467.2	692.2
Profit for the period		—	—	0.1	0.1
Total comprehensive income for the period ended 27 November 2011		—	—	0.1	0.1
Transactions with owners:					
— Issue of ordinary shares	4.1.1	1.1	35.0	—	36.1
— Ordinary shares issue costs		—	(1.0)	—	(1.0)
— Share-based payments charge		—	—	0.9	0.9
Total transactions with owners		1.1	34.0	0.9	36.0
Balance at 2 December 2012		12.3	247.8	468.2	728.3
Loss for the period		—	—	(0.2)	(0.2)
Total comprehensive income for the period ended 2 December 2012		—	—	(0.2)	(0.2)
Transactions with owners:					
— Allotted in respect of share option schemes	4.1.1	0.1	3.7	—	3.8
— Share-based payments charge		—	—	3.3	3.3
Total transactions with owners		0.1	3.7	3.3	7.1
Balance at 1 December 2013		**12.4**	**251.5**	**471.3**	**735.2**

Notes to the Company financial statements

Section 1 — 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 1 December 2013 (prior period 53 weeks ended 2 December 2012).

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Standards 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 hundred thousand unless otherwise stated. The prior period financial statements have accordingly also been restated to the nearest hundred thousand unless otherwise stated. They have been prepared under the historical cost convention, except for financial instruments that have been measured at fair value.

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

Exemptions

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act and not presented an income statement or a statement of comprehensive income for the Company alone. The loss for the period is £0.2 million (2012: profit £0.1 million).

Standards, amendments and interpretations adopted by the Company in 2012/13 or issued, are effective and do not have a material impact on 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 2 December 2013 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:

- IFRS 1 (amendments), "First-time adoption of International Financial Reporting Standards"
- IFRS 7 (amendment), "Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments"
- IFRS 13, "Fair Value Measurement"
- IAS 1 (amendment), "Presentation of Financial Statements"
- IAS 16 (amendment), "Property, Plant and Equipment"
- IAS 19 (amendment), "Employee Benefits"
- IAS 32 (amendment), "Financial Instruments: Presentation"
- IAS 34 (amendment), "Interim Financial Reporting"
- IAS 39 (amendment), "Financial Instruments: Recognition and Measurement"

The following further new standards, interpretations and amendments to published standards and interpretations which are relevant to the Company have been issued but are not effective for the financial year beginning 2 December 2013 and have not been adopted early:

- IFRS 2 (amendment), "Share-based Payment"
- IFRS 3 (amendment), "Business Combinations"
- IFRS 8 (amendment), "Operating Segments"
- IFRS 13, "Fair Value Measurement"
- IAS 16 (amendment), "Property, Plant and Equipment"
- IAS 19 (amendment), "Employee Benefits"
- IAS 24 (amendment), "Related Party Disclosures"
- IAS 36 (amendment), "Impairment of Assets"
- IAS 38 (amendment), "Intangible Assets"
- IAS 40 (amendment), "Investment Property"

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

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 the Company financial statements requires the use of certain judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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 audit services from its auditors, PricewaterhouseCoopers LLP, to the amount of £0.05 million (2012: £0.05 million).

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 – Assets and liabilities

3.1 Investments

Accounting policies

Investments

Investments in Group companies are valued at cost less accumulated impairment.

3.1.1 Investments

	1 December 2013 £m	2 December 2012 £m
Cost	476.5	476.5
Contributions to subsidiaries:		
— Novation of derivative liability in respect of warrants issued by Ocado Limited	1.1	1.1
— Group equity settled share-based payments	5.0	1.7
Carrying value at end of period	482.6	479.3

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.

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

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 which are classified as non-current assets. The Company's loans and receivables comprise "Other receivables" 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and demand deposits with banks.

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

	1 December 2013 £m	2 December 2012 £m
Other receivables	—	—
Accrued income	0.1	—
Amounts due from subsidiary undertakings	155.4	187.6
	155.5	187.6

No security has been granted over other receivables.

3.2.2 Cash and cash equivalents

	1 December 2013 £m	2 December 2012 £m
Cash at bank and in hand	97.6	70.9

3.2.3 Trade and other payables

	1 December 2013 £m	2 December 2012 £m
Trade payables	—	—
Other payables	0.5	0.1
Accruals	—	0.2
Amounts due to subsidiary undertakings	—	9.2
	0.5	9.5

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Notes to the Company financial statements continued

Section 4 — Capital structure and financing costs

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

Included in the total number of ordinary shares outstanding above is 35,249,176 (2012: 36,305,099) ordinary shares held by the Group's employee benefit trust (see Note 4.6.1(a) in the consolidated financial statements). 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, excluding treasury shares, at the end of each period differs from that used in the loss per share calculation in Note 2.3 of the consolidated financial statements, as loss per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

At 1 December 2013, the number of ordinary shares available for issue under the Block Listing Facility was 6,221,636 (2012: 3,939,837). These ordinary shares will only become allotted when share options under the Group's executive share ownership scheme 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 called up share capital and share premium are set out below:

	Notes	Ordinary shares number (m)	Ordinary shares £m	Share premium £m
At 27 November 2011		558.3	11.2	213.8
Issues of ordinary shares		55.9	1.1	34.6
Ordinary shares issue cost		—	—	(1.0)
Allotted in respect of share option schemes		0.4	—	0.4
At 2 December 2012		614.6	12.3	247.8
Issues of ordinary shares		—	—	—
Allotted in respect of share option schemes		**3.1**	**0.1**	**3.7**
At 1 December 2013		**617.7**	**12.4**	**251.5**

4.2 Share-based payments

For more information on the Group's share schemes, see Note 4.7 to the consolidated financial statements.

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 included 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, receivables and payables are assumed to approximate to their carrying values but for completeness are included in the analysis below.

		1 December 2013		2 December 2012	
	Notes	**Carrying value £m**	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets					
Investments	3.1.1	**482.6**	**482.6**	476.5	476.5
Cash and cash equivalents	3.2.2	**97.6**	**97.6**	70.9	70.9
Other Receivables	3.2.1	**155.5**	**155.5**	187.6	187.6
Total financial assets		**735.7**	**735.7**	735.0	735.0
Financial liabilities					
Trade and other payables	3.2.3	**(0.5)**	**(0.5)**	(9.5)	(9.5)
Total financial liabilities		**(0.5)**	**(0.5)**	(9.5)	(9.5)

4.3.2 Credit risk

The Company's exposures to credit risk arise from holdings of cash and cash equivalents and other receivables.

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

The Company's exposure to credit risk on cash and cash equivalents is managed by investing in banks and financial institutions with strong credit ratings and by regular review of counterparty risk.

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 at the balance sheet date is set out below:

		1 December 2013		2 December 2012	
	Notes	**Gross £m**	**Impairment £m**	Gross £m	Impairment £m
Not past due		**155.5**	**—**	187.6	—
Past due 0–3 months		**—**	**—**	—	—
Past due 3–6 months		**—**	**—**	—	—
Past due over 6 months		**—**	**—**	—	—
	3.2.1	**155.5**	**—**	187.6	—

There were no unimpaired balances at the period end where the Company had renegotiated the terms. 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 may need 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 4.5.3 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 £m	Contractual cash flows £m	1 year or less £m	1-2 years £m	2-5 years £m	More than 5 years £m
Financial liabilities							
Trade payables and other payables	3.2.3	(9.5)	(9.5)	(9.5)	—	—	—
2 December 2012		(9.5)	(9.5)	(9.5)	—	—	—
Financial liabilities							
Trade payables and other payables	3.2.3	(0.5)	(0.5)	(0.5)	—	—	—
1 December 2013		**(0.5)**	**(0.5)**	**(0.5)**	**—**	**—**	**—**

Notes to the Company financial statements continued

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 consist of only cash and cash equivalents and certain amounts due from subsidiary undertakings. 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:

	1 December 2013 £m	2 December 2012 £m
Fixed rate instruments		
Financial assets	67.5	49.7
Variable rate instruments		
Financial assets	30.1	21.4

Sensitivity analysis

An increase of 100 basis points (1.0%) in interest rates would 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. The calculation applies the increase to average floating rate interest bearing borrowings and cash and cash equivalents existing during the period. This analysis assumes that all other variables remain constant and considers the effect on financial instruments with variable interest rates.

	1 December 2013 £m	2 December 2012 £m
Equity		
Gain	—	—
Income		
Gain	0.2	0.2

4.3.5 Financial instruments by category

The Company has categorised its financial instruments as follows:

	Notes	Available-for-sale £m	Loans and receivables £m	Other financial liabilities at amortised cost £m	Total £m
As at 2 December 2012					
Financial assets					
Investments	3.1.1	476.5	—	—	476.5
Cash and cash equivalents	3.2.2	—	70.9	—	70.9
Other receivables		—	187.6	—	187.6
Total		476.5	258.5	—	735.0
Trade and other payables	3.2.3	—	—	9.5	9.5
Total		—	—	9.5	9.5

	Notes	Available-for-sale £m	Loans and receivables £m	Other financial liabilities at amortised cost £m	Total £m
As at 1 December 2013					
Financial assets					
Investments	3.1.1	482.6	—	—	482.6
Cash and cash equivalents	3.2.2	—	97.6	—	97.6
Other receivables	3.2.1	—	155.5	—	155.5
Total		482.6	253.1	—	735.7
Trade and other payables	3.2.3	—	—	0.5	0.5
Total		—	—	0.5	0.5

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	Proportion of share capital held	Country of incorporation
Ocado Holdings Limited	Holding company	100%	England and Wales
Ocado Limited	Retail and distribution	100%	England and Wales
Ocado Information Technology Limited	Intellectual property	100%	Republic of Ireland
Ocado Polska Sp. Z.o.o	Technology	100%	Poland
Jalapeno Partners Limited	Non-trading company	100%	England and Wales
Last Mile Technology Limited	Non-trading company	100%	England and Wales
Ocado Technology Limited	Non-trading company	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 two other subsidiary undertakings, 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 2012 annual return and submitted to Companies House. A full list of subsidiaries will be submitted to Companies House in the 2013 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 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.

Directors' interests in ordinary shares of the Company are disclosed in the Directors' remuneration report in the consolidated financial statements on pages 72 to 105.

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 £6,000 was earned on these loans at market related interest rates during the period (2012: £7,000).

Transactions with subsidiaries	**52 weeks ended 1 December 2013 £m**	53 weeks ended 2 December 2012 £m
Equity settled share-based payments	**3.3**	0.9
Increase in loans made to subsidiary undertakings	**(32.5)**	49.9
Increase in amounts due to subsidiary undertakings	**9.2**	—

Year-end balances arising from transactions with subsidiaries	**1 December 2013 £m**	2 December 2012 £m
Receivables:		
Loans and receivables due from subsidiaries	**155.4**	187.6
Payables:		
Loans and receivables due to subsidiaries	**—**	(9.2)

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.

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Glossary

2012 Code — means the UK Corporate Governance Code published by the FRC September 2012, as in force from time to time.

2014 ESOS — means the proposed Ocado 2014 Executive Share Ownership Scheme.

Active customers — means customers who have shopped with Ocado 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 Group's share schemes.

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 7 May 2014 at 3pm at One Bunhill Row, London EC1Y 8YY.

Annual Incentive Plan or AIP — means the Executive Director incentive plan for the Group applicable to a particular Financial year.

Articles — means the articles of association of the Company.

Board — means the board of directors of the Company or of Ocado Limited from time to time as the context may require.

Block Listing Facility — means the facility whereby a number of shares have been block listed but will only be allotted when options under ESOS, Sharesave or non-employee share schemes have been exercised.

Chairman's Share Matching Award — means a one-off award of shares to Sir Stuart Rose, made in May 2013.

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.

CSR — means Corporate Social Responsibility.

CSTM — means Customer Service Team Member; the title given to our customer facing delivery driver.

Customer Fulfilment Centre or CFC — means a dedicated highly automated warehouse used for the operation of the business. There are two CFCs: CFC1 in Hatfield and CFC2 in Dordon.

Delivery Pass — see Smart Pass.

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 54 and 55, 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 under Part VI of the Financial Services and Markets Act 2000 (as amended).

DPV — means deliveries per van per week.

Each — means a measure of an individual retail product.

EBITDA — means the non-GAAP measure which Ocado has defined as earnings before net finance costs, taxation, depreciation, amortisation, impairment and exceptional items.

EBT — as relating to the Income statement means earnings before tax. As relating to share schemes means employee benefit trust.

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, Duncan Tatton-Brown and Mark Richardson.

Financial period — means the 52 week period, or 53 week period where relevant, ending the closest to Sunday to 30 November.

Financial year or FY — see Financial period.

FRC — means the Financial Reporting Council.

GHG — means greenhouse gas(es).

GIP — means the proposed Growth Incentive Plan.

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.

IAS — means International Accounting Standard(s).

IFRS IC — means International Financial Reporting Standards Interpretations Committee.

IFRS — means International Financial Reporting Standard(s).

IGD — means the Institute of Grocery Distribution.

IP — means Intellectual Property.

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.

JSOS — means the Group's Joint Share Ownership Scheme. It comprises three issues called JSOS1, JSOS2 and JSOS3.

KPI — means key performance indicators.

LIBOR — means London Interbank Offered Rate.

Life Guarantee — means the minimum product life guaranteed by Ocado.

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).

LMD — means Last Mile Developments Limited, a company incorporated in England and Wales with registered number 7551306. The company has now been renamed as Firsdell Limited.

LPP — means Low Price Promise, the Ocado vouchering scheme which entitles customers to receive discount vouchers where their shopping basket has cost more than it would have at selected competitors.

LTIP — means the Company's Long Term Incentive Plan for Executive Directors and selected senior managers.

Management Committee — means senior management responsible for managing the day-to day affairs of the business.

MHE — means mechanical handling equipment.

MHE JV Co — means MHE JV Co Limited, a company incorporated in England and Wales with registered number 8576462. MHE JV Co is jointly owned by the Company and Morrisons.

Morrisons — means Wm Morrison Supermarkets plc, a company incorporated in England and Wales with registered number 353949.

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.

NFDC — means the Non-Food Distribution Centre in Welwyn Garden City, a dedicated highly automated warehouse used for the operation of the business.

Non-Executive Directors — means the non-executive directors of the Company designated as such on pages 54 and 55.

Notice of Meeting — means the notice of the Company's AGM.

Ocado Council — means the Ocado forum used to consult with our employees.

Ocado on the Go — means the Ocado application for smartphone and tablet devices. It is currently available for the iPhone, iPad, Android, Blackberry, Kindle and Windows devices.

OPW — means orders per week.

Other income — means primarily advertising revenue for advertising services provided by Ocado to suppliers and other third parties on the Website, commission income received and sublease payments received. Other income is recognised in the period to which it relates on an accruals basis.

Participants — means eligible staff who participate in one of the Company's staff share schemes.

Prospectus — means the Company's prospectus dated 6 July 2010 prepared in connection with the Company's Admission.

PwC — means PricewaterhouseCoopers LLP, the Group's statutory auditors.

R&D — means Research and Development.

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.

Smart Pass (previously Saving Pass) — means the Ocado pre pay membership scheme which includes the delivery pricing scheme previously known as Delivery Pass and the discount membership scheme formerly known as Saving Pass.

Sharesave Scheme or SAYE Scheme — means the Ocado employee savings-related share option plan approved by HMRC and SAYE1 means the first invitations made under the scheme in 2010, SAYE2 means the second invitations made under the scheme in 2012 and SAYE3 means the third invitations made under the scheme in 2013.

Shareholder — means a holder for the time being of ordinary shares.

SIP — means the Share Incentive Plan.

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.

UPH — means units (or Eaches) per hour.

USDAW — means the Union of Shop, Distributive and Allied Workers.

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 via the website www.ocado.com.

Five year summary

The following table sets out a summary of selected unaudited operating information for the business:

	29 November 2009 £m	28 November 2010 £m	27 November 2011 £m	2 December 2012 £m	**1 December 2013 £m**
Trading weeks	52	52	52	53	**52**
Gross sales	427.3	551.1	642.8	731.9	**852.4**
Revenue	402.0	515.7	598.3	678.6	**792.1**
Gross profit	122.8	161.6	184.7	207.3	**247.5**
EBITDA	9.2	22.0	27.9	34.5	**45.8**
Adjusted operating (loss)/profit[1]	(14.4)	(1.8)	1.1	5.4	**1.0**
Net (liabilities)/assets	(32.2)	171.8	172.9	205.7	**202.4**
Net (debt)/cash	(107.0)	80.5	(19.2)	(55.2)	**(50.9)**

[1] Adjusted to exclude exceptional items.

The following table sets out a summary of selected unaudited key performance indicators for the business:

	29 November 2009 £m	28 November 2010 £m	27 November 2011 £m	2 December 2012 £m	**1 December 2013 £m**
Average orders per week	71,000	93,000	110,000	123,000	**143,000**
Average order size (£)	115.94	114.06	112.15	112.17	**113.13**
CFC1 efficiency (UPH)	124	121	111	120	**135**
Average DPV/week	121	133	145	151	**160**
Average product wastage (% of revenue)	0.6	0.6	0.7	0.7	**1.0**
Items delivered exactly as ordered (%)	99.4	99.0	98.3	98.3	**99.0**
Deliveries on time or early (%)	93.0	94.9	92.3	92.7	**95.2**

Financial Calendar

Date	Events
12 March 2014	Q1 Interim Management Statement
7 May 2014	Annual General Meeting
1 July 2014	Half Year Results Announcement
11 September 2014	Q3 Interim Management Statement
3 February 2015	Final Results Announcement

Company information

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