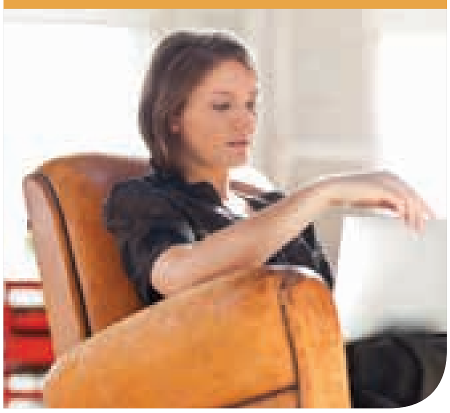
“MORE THAN A SUPERMARKET”

ocado

ANNUAL REPORT and ACCOUNTS
for the 53 weeks ended 2 DECEMBER 2012

Stock code: OCDO

FEEL GOOD SHOPPING



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We give our customers their time back by making shopping for life's essentials – and luxuries – uncomplicated.

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Overview

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We continually extend the range of quality products we sell. We seek to cover all our customers' daily needs, as well as introducing new specialist products such as our French, Spanish or Swedish international lines, and the widest "free from" range available in the UK today. Our centralised model enables us to introduce new ranges quickly and efficiently, and has supported our continued move into non-food lines. Now our customers can buy other products – for the home, their pets, their children, or some health and beauty treats – and have them conveniently delivered with their weekly grocery order.

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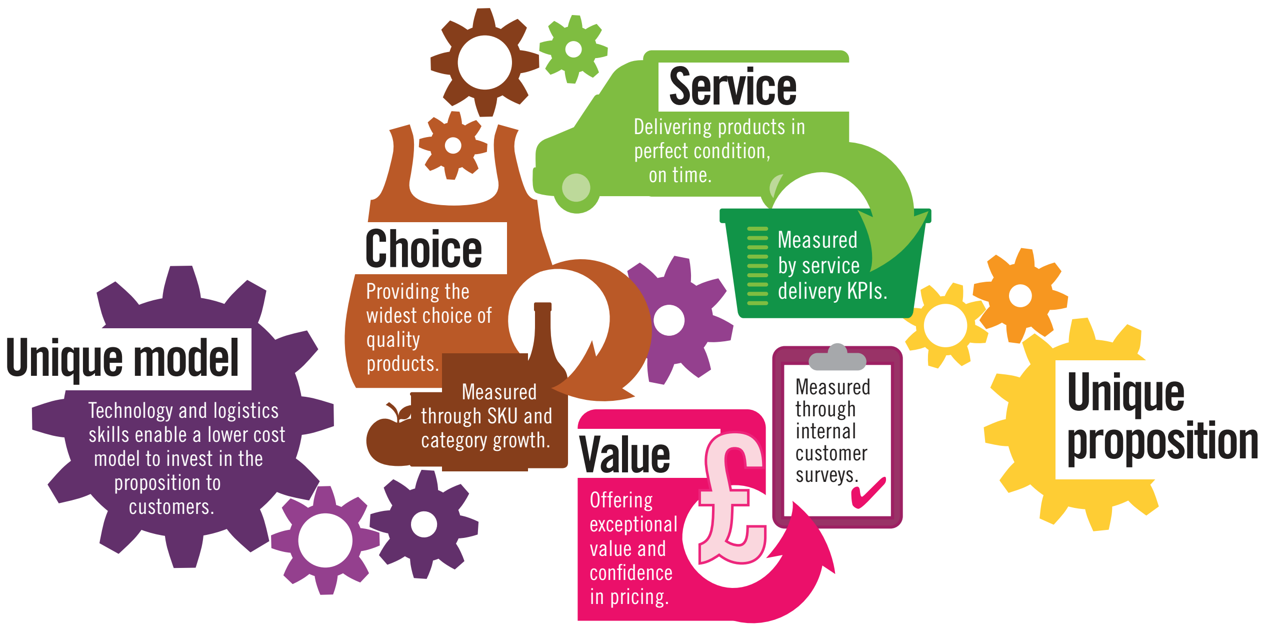
FILIPPO BERIO
OLIVE OIL
Johnson's
baby
skincare wipes
innocent
mangoes & passion fruits
little dish
TATE LYLE
ICING SUGAR
Onken
Raspberry
Belvoir
Lemon
Cordial

Ocado at a glance

Established in 2000 and listed on the London Stock Exchange in July 2010, Ocado is the UK's, and the world's, largest dedicated online grocery retailer providing and delivering quality groceries and other products directly to customers' homes. Our objective is to be more than a supermarket, improving the experience for our customers allowing them to "feel good shopping", while building a business that will deliver attractive financial returns.

WE ARE	The world's leading online only grocery retailer	Challenging the traditional retail business model
	Cash generative	Cashflow covers interest and replacement capex
	Investing for future growth	Carefully investing to secure our future growth and investor returns
WE HAVE	A significant market opportunity	Huge grocery market and rapidly growing shift into online grocery shopping
	A unique business model with specific structural advantages	Centralised stock picking model driven by technology
	A superior offer to customers which drives online adoption	Wider range, competitive prices and superior service
	Proprietary intellectual property ("IP") creating a "best in class" operation	Our own software and know-how powers our operation and sets us apart from our competition
	A completely scalable business with considerable inherent operational leverage	Operational leverage converts into margin as we scale the business
WE PLAN TO	Create a virtuous cycle of sustainable growth and profitability	Increasing scale drives growth and returns, which can be reinvested to continue fuelling growth and improving profits
	Further enhance our offer to customers to drive growth	Drive the "feel good shopping" experience for customers
	Leverage our technological know-how	Utilise technology to improve the customer experience, growth, profitability and develop the business
	Deliver additional value from our IP	Monetise our proprietary IP platform to enhance investor returns



MARKETPLACE AND BUSINESS MODEL

Ocado operates in a very large, but competitive, UK marketplace. According to IGD over £163 billion was spent in the UK grocery market in 2012, with food and grocery representing 54p in every £1 of retail spending. The financial pressures on consumers has increased the importance of creating a differentiated offer which is understood and is attractive to customers.

We are an online only grocery retailer. While customers have been slower to adopt online for their grocery requirements than in other general merchandise categories, online is increasingly important to grocery shoppers. Various market estimates suggest 4-5% of food and grocery sales are now made online. Faster broadband speeds, improved customer interfaces and better service provision has supported this growth.

Grocery retail is dominated by the large store formats (hypermarkets, supermarkets and superstores) which account for over 65% of sales. Common to all formats across the sector is physical store space, with increasing space driving growth historically.

We utilise a different business model, built on technology and logistics skills rather than real estate, to fulfil orders. We invest in this platform to deliver an ever more compelling proposition to a wider set of customers, and to drive growth through the creation of a virtuous cycle of investment, customer demand and financial return. We take significant costs out of the traditional grocery retail business model. This allows us to invest in a market leading fulfilment and delivery service for our customers, and build a sustainable, profitable business for our investors.

WHERE WE OPERATE

Ocado marketplace

Our reach and delivery area now covers over 70% of the UK population. We fulfil orders from our centralised Customer Fulfilment Centres in Hatfield ("CFC1") and Dordon, Warwickshire ("CFC2"). From these CFCs we directly deliver orders to local catchment customers, with the remainder of orders being "shipped" to spoke sites, from where local delivery takes place.

Key
- CFC
- Spoke

Ocado delivery area covers over 70% of UK population.

Highlights[1]

Operating highlights — Driving growth

Customers

- Product range now exceeding 28,000 SKUs
- Launch of new price initiatives, including Low Price Promise
- Stable basket size
- Enhanced usability and service, including growing mobile significantly with 28% of checkouts across apps and mobile checkouts across website growing rapidly
- Service on-time and in-full delivery metrics 92.7% and 98.3%
- Active customer base[2] grown to 355,000

Efficiency

- CFC efficiency improved to 120 UPH
- Service delivery efficiency improved to 151 DPV

Capacity

- CFC1 capacity now running consistently at over 140,000 orders per week
- CFC2 open with first orders delivered in February 2013
- Dedicated non-food warehouse operations commenced January 2013

Financial highlights — Delivering profitability

- Gross sales up 11.4% to £716.2 million
- EBITDA[3] up 20.4% to £33.5 million
- Operating profit of £2.6 million
- Adjusted profit before tax[3] of £1.3 million
- Refinancing of credit facility to July 2015 completed
- Balance sheet strengthened with equity capital raising in November 2012

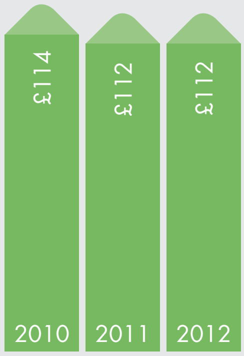
[1] References to performance in these highlights pages are stated on a 52 week basis to 25 November 2012, unless otherwise specified.
[2] For the 53 weeks ended 2 December 2012.
[3] Adjusted to exclude exceptional items.

ACTIVE CUSTOMERS[2]

355,000

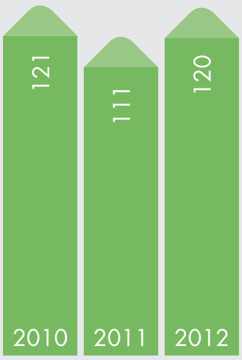
AVERAGE BASKET SIZE

£112.13



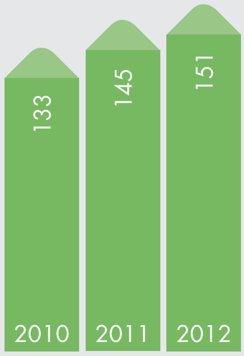
CFC EFFICIENCY

120 UPH



SERVICE DELIVERY

151 DPV



GROSS SALES

£716m

EBITDA

£33.5m

Strategy

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"Ocado has changed my life. No longer do I have to dedicate two hours of my life each week to walking the aisles and facing the queues in the supermarket. I can shop for my daily essentials, and so many more of my requirements, from the comfort of my own home. The food is very fresh and I have so much choice; they even guarantee my shopping will be cheaper than Tesco[1]! The service is so easy to use, and so reliable. Thank you Ocado."

Ocado customer

[1] Ocado's Low Price Promise.

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Chief Executive Officer's review

"We continued to achieve double digit sales growth during 2012 with increasing rates of sales and new customer momentum as we moved into 2013. This has been driven by further improvements to our core proposition to customers — better value, wider ranges and enhanced service."

Tim Steiner
Chief Executive Officer

We have continued to make significant progress in creating a virtuous cycle between growth and developing a long-term sustainable and profitable business. This has been achieved against the backdrop of the softer economic environment in the UK which looks set to continue.

Strategic objectives

Our strategic objectives centre on driving growth and delivering long-term profitability. There are a number of complementary elements to these objectives:

- Developing our proposition to customers to retain our market leading position in terms of service, range and price;
- Growing customer numbers and spend – building an ever growing base of loyal and valuable customers and encouraging them to spend more at Ocado;
- Optimising operations – to operate at the highest service levels with the lowest possible cost;
- Building capacity to satisfy increased demand and drive scale benefits; and
- Developing and leveraging our proprietary intellectual property and technology to improve our operations, and to generate significant value through monetisation.

Developing the proposition to customers

What attracts customers to shop with us is our quality of service, the range we sell and confidence in our prices.

We continued to deliver to customers with, what we believe to be, market leading accuracy and on time performance. Orders delivered on time or early improved to 92.7% and order accuracy was maintained at 98.3% during the period.

We continue to improve our customers' shopping experience to make it quicker, easier and more convenient. We launched latest generations of our range of mobile apps to remain at the forefront of the mobile shopping trend, with 28% of checkouts now across apps, and mobile checkouts across our website continuing to grow strongly. Further examples of service enhancements added in the past year include text messages to customers indicating the expected 25 minute delivery windows within the one hour slots, real time order tracking, and new services allowing customers to login to Ocado using their Facebook accounts, and to start shopping with Ocado through the BBC Good Food recipe website.

We extended our range by more than 40% to over 28,000 products, now wider than any supermarket. We continued to add more branded lines, together with additional specialty lines such as Swedish and Spanish food categories and the largest "free from" range in a supermarket, now with almost 800 lines.

The Ocado own-label brand continues to gain popularity amongst our customers who recognise the quality and value for money that it represents. Sales of the Ocado own-label range continued to grow strongly, up over 70% year-on-year, with over 77% of our customers' baskets now containing at least one Ocado own-label product.

Product freshness remains very important for customers in their choice of shopping destination. We continue to provide Life Guarantees on our fresh produce, guaranteeing a minimum product life. We believe that our business model allows us to run with lower levels of waste than our competitors, less than 0.7% of revenue.

We also significantly increased our non-food range, now numbering over 8,000 SKUs, particularly in Home, Health & Beauty, Baby, and Pet. With increased demand for non-food products to be delivered in convenient one hour time slots at the same time as their groceries, we plan to expand this range to 15,000 SKUs by the end of 2013.

We continue to work hard on our price competitiveness to give better value and price confidence to our customers. Working with the support of many of our suppliers, we believe that we now offer a level of promotional activity similar to the largest players in our industry. During the year we also launched Low Price Promise ("LPP"), our new basket matching initiative which covers both branded and standard tier priced own-label products. The early results of LPP are encouraging, with improved customer confidence in our value and stronger sales growth since launch.

Customer and sales growth

Our Active Customers at the end of the period stood at 355,000, up from 298,000 at the start of the year. We saw some softness in new customer acquisition during the summer months but Autumn initiatives such as new customer acquisition partnerships and a stronger price message increased the rate of customer acquisition in the final quarter compared to the previous year. We have observed that an increasing proportion of new customers have shopped online before with our competitors.

During the second half of the year we continued to retain a similar proportion of new customers while reducing retention voucher spend, helped in part by the introduction of the LPP, our basket matching scheme.

Our customers' average baskets stabilised during the course of the year standing at £112.17 by the period end, broadly the same as the previous year. The combined effects of a natural slowing of Delivery Pass adoption, range expansion and other initiatives has offset the effect of challenging economic conditions on customer spend.

Optimising operations

We have made good progress in expanding capacity and efficiency in the Hatfield Customer Fulfilment Centre ("CFC1"), with several new enhancements going live, notably a new large storage and fast picking machine, our ambient automated storage facility, and crane improvements. During the period we removed all remaining ambient and chilled trolley picking from our fulfilment system and introduced the first automated bagging machine.

The highest number of orders delivered in a week exceeded 140,000 during the period, and peak day volumes ran consistently at new record levels.

Efficiency levels have improved through the year. Using the units per hour efficiency measure ("UPH"), the average productivity in CFC1 for 2012 was 120 UPH, up from 111 UPH in 2011. Significantly, H2 showed steady improvement over H1 (126 v 114).

We expanded our service delivery network with the opening of our Oxford spoke in January 2012, allowing stronger growth in this region. The increasing scale of our business, combined with improved running efficiency of the CFC, has contributed to continuing improvement of our delivery performance, with deliveries per van per week ("DPV/week") of 151 peaking at 170. We expect delivery efficiency to increase further as our business continues to grow with the opening of CFC2.

Building capacity

Progress has continued according to plan at our second fulfilment centre, CFC2, in Dordon, Warwickshire, and the project remains on budget. Equipment testing started in early summer, and systems testing commenced according to schedule later in the summer. We started receiving stock from suppliers at the end of January 2013 and went live with the first customer orders picked on 24 February.

We also commenced the fit out of a non-food distribution centre in Welwyn Garden City, Hertfordshire, which we opened in January 2013, one month ahead of schedule. This will support the longer-term growth in non-food.

IP and Technology leadership

Since inception we have utilised proprietary IP and technology as the foundation for our business. Maintaining and growing technology leadership in systems, processes and equipment supports our market leading proposition to customers and drives operational excellence. In 2012 we continued to develop our suite of IP with many technology improvements across the business from improved user interfaces on our website and mobile apps, to real time simulations of our CFCs to improve operations and flow analysis. This technology leadership gives us opportunities to generate significant value for Ocado through monetising our IP knowledge in the future.

People and recognition

Central to our success is the energy and commitment of nearly 6,000 employees across the business. I want to acknowledge their tremendous efforts made throughout the year. We continued to work with and listen to the views of our employees through the Ocado Council, with USDAW representatives participating for the first time during the year.

Once again, our customers regularly commented on the outstanding service provided by our delivery team of over 2,000 Customer Service Team Members.

We were delighted that we were recognised in the PayPal Awards as Best Pure-play Etailer and for the way we have embraced mobile with the Award for the Best Use of M-Commerce. We also received recognition with a number of other awards during the year, notably Best Online Retailer and Best Family Brand in the Loved By Parents Awards.

Current trading and outlook

Ocado achieved gross sales growth of 11.4% in 2012, with a run rate of growth of 14.2% for the six trading weeks to 6 January 2013. Our ability to grow significantly faster remains limited in the very short-term due to the current capacity limitations of CFC1. However, we opened our second fulfilment centre in Dordon on 24 February 2013, which will give us significant additional capacity to grow into as CFC2 ramps up.

Against a tough economic environment, we continue to see that shopping online for groceries is of increasing importance for consumers evidenced by the online growth figures reported across the grocery industry. As more and more shoppers leave physical stores to shop for their weekly groceries from the comfort of their own homes, we have seen our competitors investing more into the online channel.

We believe we are well positioned to benefit from this continuing growth in online demand with our market leading offer to customers, and unconstrained by the concerns of cannibalisation of existing stores. It is our mission to continue providing a shopping proposition that offers far more than a traditional supermarket, in terms of convenience, usability, service, range and price. Our focus and business model position us strongly to drive growth and profitability in the future.

Tim Steiner
Chief Executive Officer

The market opportunity

The underlying grocery market in the UK is substantial, while shopping online for weekly groceries is becoming increasingly important for consumers, evidenced by the online growth figures reported across the industry. With our clear focus as the UK's sole online only operator in this market, we are well placed to benefit from this growing market trend.

Grocery is the largest by far of all retail segments, estimated by IGD to be £163 billion in the UK alone in 2012, and representing over half of all retail spending. Over 65% came through so called "big box" format stores – supermarkets, superstores and hypermarkets, with the remainder from discounters, convenience stores and other smaller traditional retailers (grocers, newsagents, forecourts), and online.

Various market estimates suggest that c4-5% of grocery spending was ordered online in 2012, with online widely recognised as the industry's fastest growing segment. All leading grocery retailers are developing their online strategies, and IGD estimates that the five year CAGR in online grocery will be nearly 15% through to 2017.

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

There is no single strategy for online retailing. In the grocery sector, different approaches are being adopted, with traditional operators largely using existing store-based fulfilment with some starting to adopt so called dark stores (small manual warehouses with a turnover similar to a typical supermarket store dedicated only to servicing online orders with no direct physical customers). By contrast, Ocado uses only a centralised picking model in a warehouse, over 20 times larger than a store, which enables us to remove significant costs from the traditional grocery supply chain.

Segmentation in UK grocery market showing growing online trend

Our operating model

As customer behaviour shifts towards shopping for groceries online, incumbent retailers are trying to adapt their existing businesses to 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.

The ultimate mission for the retailer is to move a product from the supplier to a customer's home. However, traditional retail models have only delivered half of this mission, by moving the product only as far as the shop shelf and then conditioning the consumer to perform the other half of the retail mission in coming to the store and taking the product home. Notwithstanding this, grocery retail remains a relatively slim margin business today.

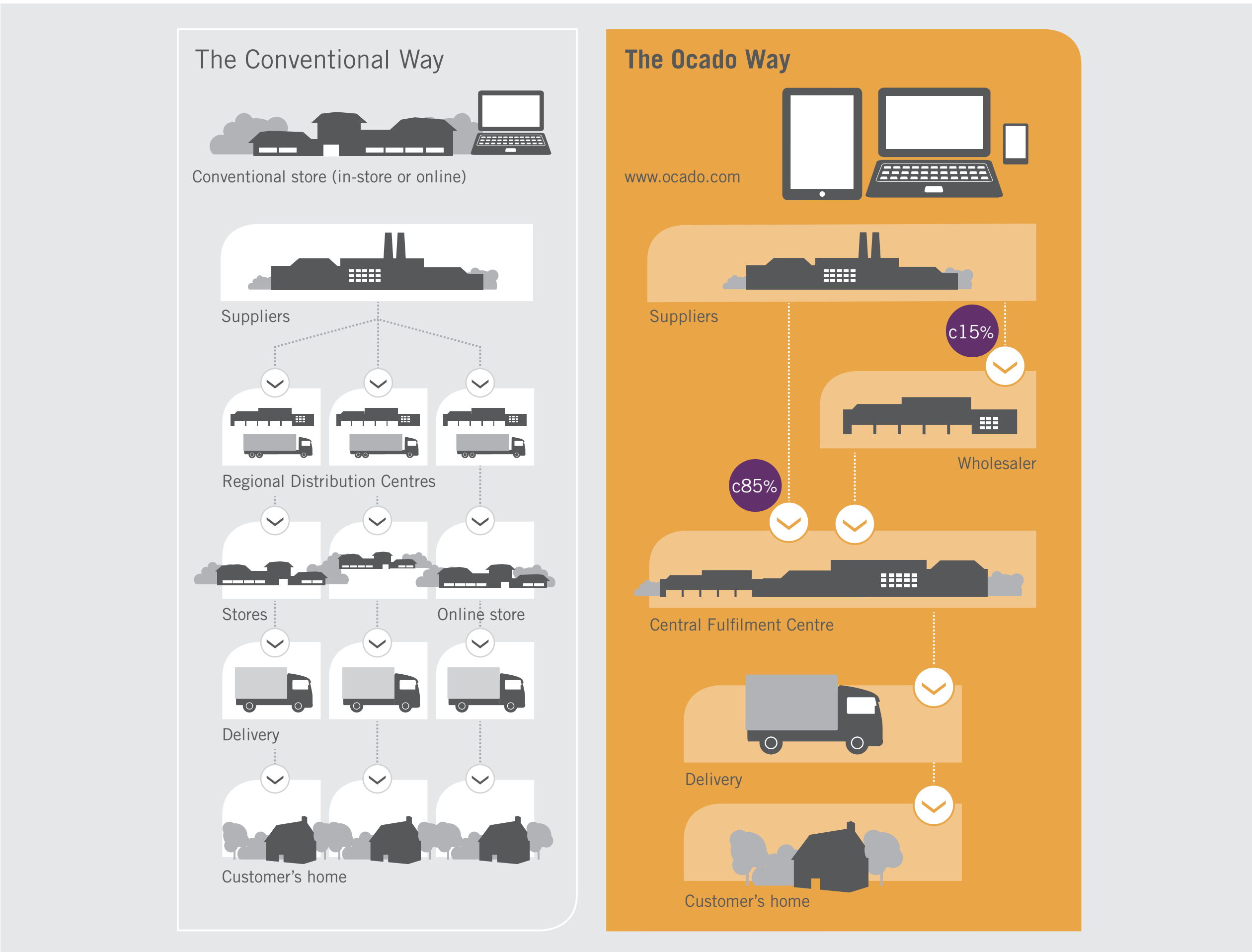
Our proposition is that in order to improve the shopping experience for customers we will perform the entire mission delivering the product from the supplier to the customers' homes. However, in order to do this in a sustainable and profitable way, a whole new approach needs to be adopted which removes cost from the traditional model.

We do this through the centralisation of our picking operations which aggregates activities to give each function scale, and through the use of automation and technology. We distribute orders directly from our picking facility 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-based model, such as 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 store network itself. As we grow and scale our operation further, we will gain the benefit of the operating leverage inherent in this business model.

Our model also gives natural benefits to the customer. Our food should be fresher as it takes less time to reach the shelves and spends less time on those shelves. We have higher predictability of stock available for fulfilment than a store. We are able to make new range extensions available to all of our customers very quickly from one central location. This enables us to add niche products to our range quickly and effectively without risk of stock obsolescence. The significant know-how we have developed has resulted in consistent industry leading service delivery metrics which underpin our customer service proposition.

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



Strategy

Our strategic objective is to build a business which is more than a supermarket — simpler, quicker, more personal and convenient for the customer; more productive and informative for suppliers; and ultimately more valuable for investors. In order to achieve this we seek to create a virtuous cycle of growth and long-term profitability.

Growth results from increasing the active pool of valuable customers — attracting new shoppers, retaining more of these customers on a long-term basis, and encouraging customers to spend more with us.

Consumers are strongly influenced by the attractiveness of the proposition we present to them. Therefore, we continually seek to improve the attractiveness of our retail offer — taking our service and usability to ever higher industry levels, offering a wide and relevant range of fresh, quality products which are keenly priced and offer good value for money.

Our strategy for driving long-term profitability is to operate with industry leading service at the lowest possible cost. We seek to achieve this through the business model that we adopt, and by optimising operational efficiency in each part of our business. We use automation and technology where there is an efficiency or cost benefit from doing so.

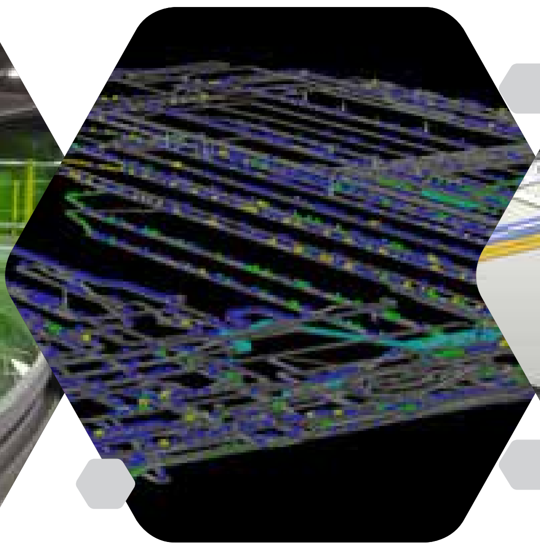
As demand grows, we ensure we have the right assets and sufficient capacity in order to service our increasing numbers of customers and their requirements.

Technology is at the core of our business. We develop and utilise proprietary intellectual property and technology throughout our business to improve efficiency and operations, and to provide market leading user interfaces and applications for our customers. We will continue to leverage our technology expertise to add value to our business, both in direct operations and through monetising this proprietary IP knowledge.

Proprietary technology forms the foundation of our business…

DRIVING GROWTH	Developing the proposition to customers	› **Service** — Deliver highest standards of on-time delivery, accuracy and improved ease of use › **Price** — Improve customer confidence in pricing, with relevant promotions and price matching guarantees › **Range** — Extensive choice in both food and non-food, with products our customers want and with superior freshness
	. . . to grow customer numbers and spend	› **New customers** — Attract more loyal customers › **Existing customers** — Improve customer retention levels
DELIVERING PROFITABILITY	Optimising operations	› Deploy cost efficient fulfilment automation › Continually improve operating systems and optimisations
	Building capacity and leveraging scale	› Open new Customer Fulfilment Centre (CFC2) to more than double capacity › Strengthen non-food infrastructure › Leverage scale to improve margin, delivery efficiency, administration and fixed cost allocation
MONETISING KNOWLEDGE	Developing market leading intellectual property and technology	› Monetising value from this proprietary technology platform

…operating our end-to-end solution for grocery retail



Driving growth

We seek to make shopping for those everyday items, and life's little luxuries, easy. We continually focus on improving the retail proposition we offer to our customers. Consumers are influenced by the attractiveness of the shopping experience offered, which constitute a number of complementary drivers.

Drivers	Key Initiatives
SERVICE Our customers expect, and deserve, the highest level of service. We seek to push customer service to ever higher levels.	**Reliability** Consistent order reliability — on time and as ordered. The combination of our centralised model and our proprietary software leads to high levels of reliability. Our systems have evolved following much iteration, to integrate and optimise all aspects of our customer 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. Proprietary integrated systems give control over the product logistics. This, combined with the scale of our CFCs, leads to structurally higher product availability. This reduces the chances of products being out of stock and minimises substitutions. **Ease of use** Convenience is a major driver to shopping online. The service needs to be quick, convenient 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 (we were the first grocer to launch a fully transactional app), or feedback mechanisms. Our customers are 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 widest range of slots within the narrowest delivery time window in the market.
PRICE 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 compelling 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. 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 resonated well with customers.
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.	**Range** Our current range of over 28,000 SKUs gives us the largest offer of any UK supermarket. We are increasing the number of product lines that we sell. Our business model and the facilities that we use allow us to expand our range with limited stockholding exposure. The expansion of some of our non-food categories — for the home, pets, 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 allows little luxuries to be bought at the same time. **Freshness** As well as convenience, customers want the freshest produce. The product life of all our fresh food is guaranteed. Our model effectively removes one stage of the grocery supply chain which, when combined with rapid stock turn means we often get product to customers the same or next day following receipt into our CFC. This can be quicker than other supermarkets get some of their product into their own stores. We offer a product guarantee giving confidence to customers that their groceries when delivered will have at least the life displayed on the website when they were bought.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HALF PRICE
Shop now
low price £ promise
Buy 1 add 1 FREE
Shop now

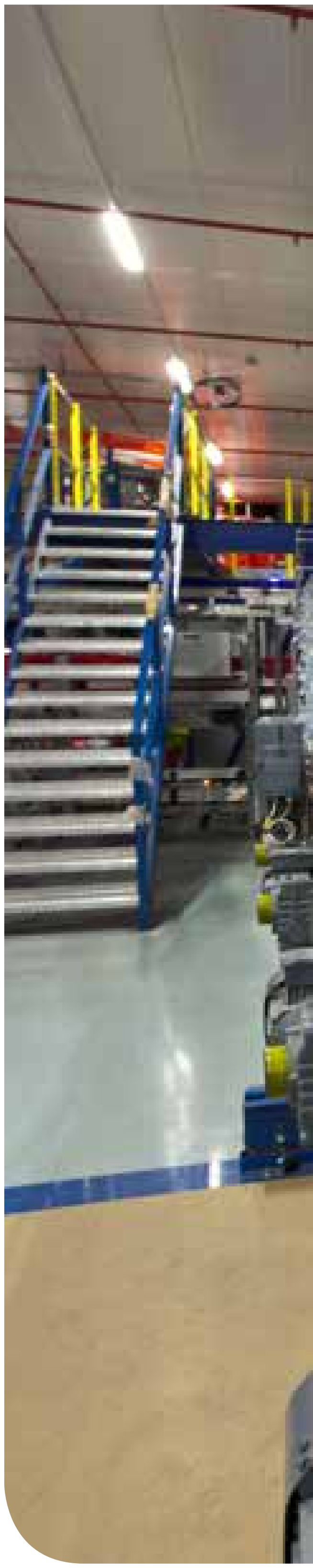

evenmore from ocado
Home Garden Health Beauty Baby Toys Newsagent Pets

Delivering profitability

As well as stimulating growth through improvements to the proposition to customers, we invest in our infrastructure to service this growth, and continually seek to drive efficiency throughout the delivery cycle.

Drivers	Key Initiatives
OPTIMISING OPERATIONS	Inside our CFCs we invest in, and deploy, technology and automation to drive the overall efficiency of our business. We have been developing CFC1 over its lifetime, and deploying the "best of breed" equipment and systems in CFC2. We work in partnership with hardware equipment manufacturers to develop to our designs the equipment suitable for application in our fulfilment operations. 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. Naturally this proprietary technology protects our business model and makes it difficult to replicate.
BUILDING CAPACITY AND LEVERAGING SCALE	**CFC1** This is our original CFC, and during the period our single fulfilment centre in which all customer orders were processed. A series of improvements were implemented during 2012 which have enhanced both capacity and efficiency in CFC1. Notably some additional material handling equipment started operations and all remaining manual trolley picking operations were removed from the chilled and ambient areas. Current peak capacity is running at nearly 150,000 orders per week. **CFC2** This is our new fulfilment centre in Dordon, Warwickshire. We have utilised the many years of learning from CFC1 to create a state-of-the-art facility. At full capacity CFC2 will be the largest single grocery store in the world (replacing CFC1 for that title). We delivered our first order from CFC2 on 24 February 2013, and CFC2 will gradually ramp up to an initial capacity of at least 120,000 orders per week. Further investment in CFC2 would increase capacity to over 180,000 orders per week. **Non-food and spokes** We constantly plan for growth and invest in appropriate fulfilment assets, such as for our fast growing non-food business, and delivery spokes. **Leveraging scale** Expanding the scale of our business will enable us to improve our gross margins and work more closely with suppliers, as well as improve the efficiency of our delivery operations and allocate administration and fixed costs more efficiently.

Performance



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Our operating model is centred on the advantages gained through aggregation, scale and technology to drive a lower cost business. We have developed pioneering technology and solutions over many years which we use to improve our operating performance. The proprietary nature of our software and other technological developments helps us set new operating standards, and is both a valuable asset and a powerful protection against replication by our competitors.

Read more @ results12.ocadogroup.com

Chief Financial Officer's review

"We have worked hard at improving overall efficiency in our operations and margins are improving. The introduction of a significant increase in fulfilment capacity this year to meet growing demand, and our continued efforts to drive efficiency, will enable us to demonstrate the longer-term benefits of our business model."

Duncan Tatton-Brown
Chief Financial Officer

Ocado's financial performance for the period to 2 December 2012 was underpinned by continued sales growth; improving profitability and a strengthening of the balance sheet.

The current period results comprise 53 weeks, and for comparison purposes, 52 week data which excludes the final trading week of the 2012 financial year, is disclosed where relevant. To provide a meaningful comparison, a summary of the financial performance on a 52 week basis is provided below and all year-on-year growth data referred to below is on a 52 week basis unless stated otherwise.

	53 Weeks 2012 £m	52 Weeks 2012 £m	52 Weeks 2011 £m	% 52 week Variance
Gross sales	731.9	716.2	642.8	11.4%
Revenue	678.6	664.0	598.3	11.0%
Gross profit	207.3	202.8	184.7	9.8%
EBITDA	34.5	33.5	27.9	20.4%
Adjusted operating profit[1]	5.4	4.9	1.1	354.3%
Adjusted profit/(loss) before tax[1]	1.8	1.3	(2.4)	n/a
Exceptional items	(2.4)	(2.3)	—	n/a
Loss before tax	(0.6)	(1.0)	(2.4)	57.1%

[1] Adjusted to exclude exceptional items.

Revenue

Gross sales increased 11.4% to £716.2 million for the period (53 week: 13.9%). Sales growth continued to be driven by rising demand with average orders per week of 123,000 up from 110,000 in 2011, an increase of 11.4%, and average order size in line with last year. At the period end the number of Active Customers was 355,000 (2011: 298,000).

Revenue grew by 11.0% to £664.0 million, (53 week: 13.4%). The rate of increase was below that of gross sales due to increased use of vouchers which are excluded from the definition of revenue but included in gross sales.

Gross profit

Gross profit rose 9.8% to £202.8 million. Gross margin was 30.5% of revenue (2011: 30.9%), lower than 2011 predominantly due to the increased voucher activity. Spend on marketing vouchers, at £11.2 million equated to 1.7% of revenue, up from 1.3% in 2011. The cost of vouchers is charged to gross profit, whereas other types of marketing spend, which declined in 2012, are administrative expenses.

Other income increased to £16.3 million (53 week: £16.7 million), reflecting a 30.2% uplift on 2011 driven by an increase in media income of £3.4 million which now stands at 2.3% of revenue versus 2.0% in 2011 as supplier demand increases for website related activities.

Operating profit

Operating profit for the period was £4.9 million before exceptional costs (53 week: £5.4 million), compared with an operating profit of £1.1 million in 2011. This improvement reflects both growth in revenues and greater operating efficiencies as outlined below.

At £166.2 million (53 week: £169.8 million), distribution costs have increased by 9.6% compared to 2011. This represents a year-on-year improvement as a percentage of revenue from 25.4% in 2011 to 25.0% in the current period, with efficiencies in both the CFC and delivery operations. The improved performance within CFC1 is a result of the investments made in the latter part of 2011 and early 2012 to increase both capacity and overall operational performance; as a result CFC1 costs are now 8.8% of revenue, down from 8.9% in 2011.

Administrative expenses, including marketing costs, were £48.0 million (53 week: £48.8 million), an increase of 7.9% but a reduction as a proportion of revenue to 7.2% (2011: 7.4%). This reflects the switch in marketing activity, offsetting the increased voucher activity reported within gross profit. Payroll costs were higher due to additional support for the set-up of CFC2 and non-food businesses.

Exceptional items

Exceptional items of £2.3 million (53 week: £2.4 million) include staff and other operational costs associated with the opening of CFC2 and a non-food distribution centre in Welwyn Garden City. In addition there is a £0.9 million impairment charge for the Coventry spoke which will be closed shortly after the opening of CFC2.

Net finance costs

Net finance costs of £3.6 million (53 week: £3.6 million) in the period are in line with 2011, despite higher borrowings and lower average cash balances. This is a result of a reduction of £11.2 million in finance lease obligations coupled with lower interest rates being charged on both new and existing loans and finance leases.

Profit/loss before tax

Adjusted profit before tax for the period was £1.3 million (53 week: £1.8 million), an improvement of £3.7 million against 2011. Loss before tax for the period was £1.0 million (53 week: £0.6 million), an improvement of £1.4 million against 2011.

Taxation

Due to the availability of capital allowances and loss relief, the Group did not pay corporation tax during the year. A deferred tax charge of £1.7 million was recognised in the period to reflect lower corporation tax rates and the adoption of a more conservative forecasting approach. 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 0.10p to 0.46p, with sales growth and underlying conversion improvements being offset by the impact of the deferred tax charge.

Capital expenditure and cash flow

Capital investment for the period of £124.5 million included capitalised borrowing costs of £4.1 million and is summarised below.

	53 Weeks 2012 £m	52 Weeks 2011 £m	Variance £m
CFC1	15.6	27.7	12.1
CFC2	80.4	72.6	(7.8)
Delivery	8.9	11.8	2.9
Technology	14.4	12.7	(1.7)
Other	5.2	1.3	(3.9)
Total	124.5	126.1	1.6

Expenditure of £15.6 million has increased capacity and improved resiliency within CFC1 enabling Ocado to deliver over 140,000 orders in its peak week during 2012.

The work programme and project costs for CFC2 are in line with expectations. The first deliveries to customers from CFC2 were made on 24 February 2013. Total expenditure on CFC2 incurred to date is £155.0 million inclusive of £4.5 million capitalised borrowing costs. Phase 1 capital in CFC2 is in line at £190 million pre-capitalised interest.

Investment in new vehicles in 2012 was £7.4 million (2011: £7.1 million). Investment in Ocado's spoke network was £1.5 million (2011: £4.7 million) with one new site, near Oxford, opening in January 2012 bringing the total spoke network to ten.

As the Group continues to develop the majority of its own software, £11.5 million (2011: £7.9 million) of internal IT staff costs were capitalised as intangible assets, with a further £2.9 million (2011: £4.9 million) spent on computer hardware and external software.

In total, £13.6 million of internal development costs have been capitalised in the period (2011: £8.2 million) as intangible assets.

This year has seen the further development of the non-food strategy with £3.9 million being spent primarily on a dedicated distribution centre (included in Other above).

Net operating cash flow after finance costs increased to £32.0 million, up 59% on a 53 week basis from £20.1 million in 2011 as detailed below:

	53 Weeks 2012 £m	52 Weeks 2011 £m	Increase/ (Decrease) £m
Adjusted operating profit[1]	5.4	1.1	4.3
Depreciation and amortisation	29.0	26.7	2.3
Impairment and other non-cash items	0.1	0.1	—
EBITDA	34.5	27.9	6.6
Working capital movement	6.7	(1.6)	8.3
Exceptional items (excl. exceptional impairment)	(1.5)	—	(1.5)
Finance costs	(7.7)	(6.2)	(1.5)
Operating cash inflow	32.0	20.1	11.9
Capital investment	(96.8)	(114.2)	17.4
Increase in net debt/finance obligations	27.1	60.0	(32.9)
Proceeds from share issues net of transaction costs	35.1	1.3	33.8
Movement in cash and cash equivalents	(2.6)	(32.8)	30.2

[1] Adjusted to exclude exceptional items.

The overall improvement in operating cash flow is primarily driven by an increase in EBITDA and an improvement in working capital of £6.6 million and £8.3 million respectively. The net movement in working capital is due to an increase in trade and other payables in line with business growth and capital projects in progress; and to a reduction in trade and other receivables outstanding as a result of process improvements in both billing and collection of monies. Some of this improvement

Chief Financial Officer's review continued

has been offset by increased stockholding at the period end in line with business growth and by an increase in VAT receivables due to the volume of invoices relating to capital projects in progress.

During the year the Group extended the maturity of its £100 million credit facility by 18 months to 6 July 2015. The extended facility now comprises a capital facility of £90 million and a working capital revolving credit facility of £10 million.

At the same time as the facility extension, Ocado raised gross proceeds of £35.8 million through a placing of new equity at a premium to the most recent closing market price of the Company's shares. The placing comprised 55,875,557 new ordinary shares at a price of 64 pence per share, representing approximately 9.99% of existing issued share capital. The proceeds from the placing have strengthened the Group's balance sheet which, combined with the extension of the credit facility, will ensure that the Group has the resources available to continue the expansion of its business as planned.

Balance sheet

The Group had cash and cash equivalents of £89.6 million at the period end, a reduction of £2.6 million on the 2011 position. The underlying reduction relates to the continued capital investment of £96.8 million, offset by proceeds received from the equity placing, the increase in debt and improvements in operating cash flows.

Gross debt at the period end was £144.8 million (2011: £111.3 million). During the year a further £45.0 million was drawn down on the Group's £100 million credit facility to fund the investment in CFC2. Debt repayments during the year were £23.7 million. Total undrawn facilities at 2 December 2012, including this facility, were £24.1 million (2011: £78.8 million).

Key performance indicators

The following table sets out a summary of selected unaudited operating information for FY12 and FY11:

	FY12 53 Week (unaudited)	FY12 52 Week (unaudited)	FY11 52 Week (unaudited)	% Change 52 Weeks[5]
Average orders per week	123,000	123,000	110,000	11.4%
Average order size (£)[1]	112.17	112.13	112.15	—
CFC efficiency (units per hour)[2]	120	120	111	7.9%
Average deliveries per van per week (DPV/week)	151	151	145	4.2%
Average product wastage (% of revenue)[3]	0.7	0.7	0.7	n/a
Items delivered exactly as ordered (%)[4]	98.3	98.3	98.3	n/a
Deliveries on time or early (%)	92.7	92.7	92.3	n/a

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

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

Duncan Tatton-Brown
Chief Financial Officer


ocado
ocado
ocado.com

Measuring performance against our strategy

We measure the achievement of our strategic objectives through the use of qualitative assessments and the monitoring of quantitative key performance indicators ("KPIs"). In so doing we examine our business carefully, including seeking the opinions of our customers and of 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 key KPI focus areas, strategic objectives, the relevant measure and its performance over the last two financial years.

KPI Focus		Strategic Objectives	Measured By
Driving Growth	**Service**	To provide market leading levels of service, and ease of use for our customers	Better interfaces Growth on mobile Orders delivered in full (low substitutions) Orders delivered on time or early
Driving Growth	**Range**	To provide a wider range than available in traditional store-based channels, with superior freshness and product life guarantees	Ocado own-label growth New ranges
Driving Growth	**Price**	To improve consumer confidence in our pricing to reassure customers they are receiving a good value shopping proposition	Ocado own-label growth Promotional strategies
Delivering Profitability	**Optimising operations**	To drive efficiency and the lowest operating cost model through investment in technology and automation	CFC efficiency measured by units per hour ("UPH") Service delivery efficiency measured by deliveries per van per week ("DPV") Product waste (as % of revenue)
Delivering Profitability	**Building capacity and leveraging scale**	To invest carefully in our capacity in CFC1 and to bring CFC2 to the point of opening To fit out and open new non-food fulfilment centre To ensure capacity in our distribution spoke network Leverage of administrative expenses	CFC1 capacity measured by orders per week ("OPW") CFC2 progress Non-food fit out progress and opening Spoke development Administrative expenses as a % of revenue

Key Achievements

2012	2011
Webshop enhancements New generation apps App check out 28% Website on mobile checkout strongly growing Delivered as ordered 98.3% Deliveries on time or early 92.7%	Webshop enhancements Apps on additional platforms App check out 18% Delivered as ordered 98.3% Deliveries on time or early 92.3%
Total SKU count over 28,000 Non-food over 8,000 SKUs Several speciality lines launched Biggest "free from" range of nearly 800 SKUs	Total SKUs 20,000 Non-food 3,500 SKUs Guarantee of life on all fresh produce
Launched Low Price Promise basket match Own-label sales up over 70% Promotional activity similar to industry leaders	Tesco Price Match on c.7,000 SKUs Saving Pass launched
CFC 120 UPH DPV 151 Product waste 0.7%	CFC 111 UPH DPV 145 Product waste 0.7%
Average OPW over 123,000, peaking at over 140,000 CFC2 build completed, first orders delivered in February 2013 Non-food fulfilment centre opened in January 2013 Oxford spoke opened Administrative expenses increased as a % of revenue due to investments in non-food and other resources	Average OPW of 110,000, peaking at 131,000 CFC2 build commenced Bristol and Wimbledon spokes opened Administrative expenses being supported by single "shop"

Corporate social responsibility report

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. This corporate social responsibility report explains how we carry out our responsibilities with respect to the environment, our employees and the community.

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. Some elements of our operations have been developed with the aim of reducing the business' 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.
- *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 (0.7% of the revenue for the period) is significantly less than any of our competitors. 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 at the staff shop.
- *Anaerobic digestion:* Some of our food waste is sent to Biogen, who use the waste to produce electricity and fertiliser.

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 is 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.

People

We deliver superior customer service and business success through our people, which is why it is important for us to reward appropriately, engage, listen to and develop our employees.

We aim to be an exceptional employer; one that recognises talent and develops people to the best of their abilities. One way in which we try to achieve this aim is by offering a range of employee benefits, including granting share options in the Company to each new employee as part of their employee benefits package, so that all of our employees have the opportunity to own a part of the business. The employee benefits package also includes a pension, life assurance, healthcare, an employee assistance programme, a staff discount on grocery orders, free delivery on certain days and a discounted staff shop.

The charity committee with Macmillan

We conduct an annual employee survey across the whole business to measure levels of employee engagement and identify the areas where we can become a better employer. Our employees are given a voice through the Ocado Council, which is our employee representative body, that 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.

Our employees are kept well informed of the performance of the Group and key events concerning the business through briefing meetings and communications via the internet, email, video and audio recordings (which are particularly helpful for communicating with our large number of CSTMs). These are intended to help our employees become aware of the various factors that affect the Company's performance.

Every employee plays a part in our success and we are focused on developing our people. Our in-house training team deliver customer focused training that prioritises the health and safety of our people and meets individual needs. Each year we hold a "Driver of the Year" event, to promote driver safety and provide some of our CSTMs with the opportunity to receive training through various driving events. We have created and rolled-out a management development programme, which gives our employees the opportunity to progress their careers. We also run a graduate programme which plays an important part in developing talented people for our future. We have also implemented appraisal processes and succession plans for the business.

During the period, the average number of employees employed by the Group increased to 5,256 employees, excluding agency workers (2011: 5,180).

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.

Charitable donations

The Ocado 2012 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 £50,711 for Macmillan.

In addition to the money raised by the charity committee, Ocado made charitable donations during the period of £11,100 (2011: £29,250) which included a donation of £10,000 to 10:10 UK (a private sector initiative committed to reducing carbon emissions) as well as a donation to Cancer Research UK.

Social and community issues

We support the community through a number of initiatives.

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 September, we worked with Peace One Day and Tamarind's Alfred Prasad to create the Sri Lankan 'Love Cake' recipe to encourage families across the UK to unite for peace in the kitchen. This was included in the Peace One Day Primary Education Resource sponsored by Ocado and was rolled out to schools across the UK as part of the national curriculum.

Root Camp: In July we partnered with Root Camp, an organisation providing unique and engaging camping cookery courses for teenagers. The hands-on rural residential course allows teenagers to source and prepare their food, both in the kitchen and in the field. Root Camp's aim is for students to make more thoughtful decisions about how they feed themselves and others, leaving them better equipped for independent life.

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.

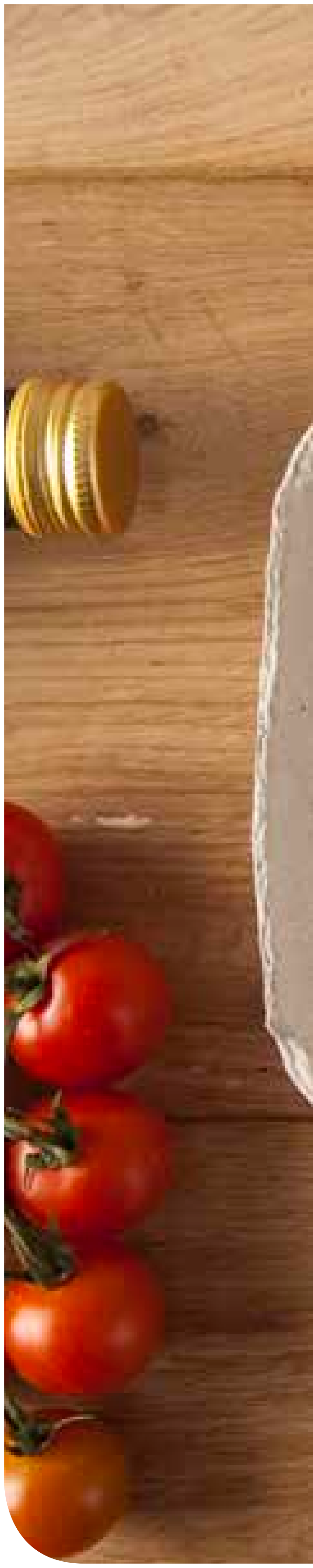
Prince's Charities Foundation: During the period, we made a donation of over £212,000 to the Prince's Charities Foundation, a group of 20 non-profit organisations, through our sales of Duchy branded products.

Political donations

No political donations were made by the Group to any political party, organisation or candidate during the period (2011: nil).

CSTM training at a "Driver of the Year" event at Rockingham Raceway

Governance



Contents

We have seen rapid progress in our own-label range, with sales growing dramatically, and at least one Ocado own-label product in over 77% of customers' baskets. This endorsement of our own-label range reflects the trust our customers have in the quality of the products, and their growing enthusiasm for the choice of products and lower prices being offered.

Read more @ results12.ocadogroup.com


EXTRA
MATURE CHEDDAR

The Board

Lord Grade of Yarmouth ‡

Chairman

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

Tim Steiner

Chief Executive Officer

Tim is a founding Director. He has responsibility for keeping a general oversight of the business and strategy. Prior to Ocado, Tim spent eight years as a banker at Goldman Sachs. During his time there, he was based in London, Hong Kong and New York in the Fixed Income division. Tim graduated from Manchester University with an honours degree in economics, finance and accountancy in 1992.

Duncan Tatton-Brown

Chief Financial Officer

Duncan joined the Board in September 2012. Prior to Ocado, Duncan was Chief Financial Officer of Fitness First plc and previously was 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 previously held various senior finance positions at Burton Group plc. He is currently a Non-Executive Director and Audit Committee chairman of Rentokil Initial plc. He has a masters degree in engineering from King's College, Cambridge and is a member of the Chartered Institute of Management Accountants.

David Grigson * † ‡

Non-Executive Director and Senior Independent Director

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

Ruth Anderson * † ‡

Non-Executive Director

Ruth joined the Board in March 2010. Until April 2009 she was a Vice-Chairman of KPMG in the UK. She joined KPMG in 1976 and became a partner in 1989. She has worked extensively as an adviser with UK and international businesses. Ruth is a Non-Executive Director of Travis Perkins plc and The Royal Parks, an executive agency of the Department of Culture, Media and Sport. Ruth is a fellow of the Institute of Chartered Accountants of England and Wales and a member of the Chartered Institute of Taxation. Ruth graduated from Bradford University with an honours degree in French and Spanish.

Douglas McCallum † ‡

Non-Executive Director

Douglas McCallum joined the Board in October 2011. Doug has been a pioneer of the internet industry for 18 years; for the last eleven years at eBay where he led the UK business and then turned around the pan-European business. Prior to eBay he was founder and general manager of a number of businesses in the internet, broadcasting, software and hardware industries. Douglas read politics, philosophy and economics at the University of Oxford, and has an MBA from Harvard Business School.

* Audit Committee † Remuneration Committee ‡ Nomination Committee

Jason Gissing

Commercial Director

Jason is a founding Director. He has Board responsibility for Ocado's retail activities, including buyer, supplier and customer relationships, marketing and brand development. In addition, Jason leads Ocado's green initiatives. Prior to Ocado, Jason spent eight years as a banker at Goldman Sachs. He graduated from Worcester College, Oxford with an honours degree in jurisprudence.

Mark Richardson

Operations Director

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

Neill Abrams

Legal and Business Affairs Director

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

Alex Mahon * ‡

Non-Executive Director

Alex joined the Board in June 2012. She is the Chief Executive Officer of Shine Group and a Non-Executive Director of the Edinburgh TV Festival. Alex has previously held the positions of Chief Operating Officer at talkbackTHAMES and Director of Commercial Development and Strategy at FremantleMedia. Alex has a physics PhD and was a Medical Physicist before becoming a management consultant and then launching internet based retail businesses.

Jörn Rausing ‡

Non-Executive Director

Jörn joined the Board in 2003. He is Tetra Laval Group's Head of Mergers and Acquisitions. He has been a Non-Executive Member of the Tetra Laval Group board since 1991 and is also a Member of the boards of Alfa Laval AB and DeLaval Holdings AB. He holds a degree in business administration from Lund University, Sweden.

Robert Gorrie ‡

Non-Executive Director

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

Sir Stuart Rose

Non-Executive Chairman Designate

Sir Stuart Rose joined the Board as Chairman Designate on 11 March 2013. 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. Stuart is currently a non-executive director at Land Securities Group and Woolworths Holdings Limited (a South Africa listed international retail group). He also currently chairs Blue Inc and Dressipi, and became Chairman Designate at Fat Face Group Limited in March 2013. Sir Stuart was knighted in 2008 for services to the retail industry and corporate social responsibility.

Chairman's letter

"After six and a half exhilarating and eventful years, I am leaving the Company in the best possible hands. Ocado is one of the most innovative and exciting growth companies in the UK and it has been a privilege to be a part of their story."

Lord Grade of Yarmouth
Chairman

Dear Shareholder,

On behalf of the Board, I am pleased to present the Company's statement of corporate governance. The Board fully supports the principles of good corporate governance and is committed to the improvement and development of appropriate structures, processes and procedures for the Group in support of these principles. In particular, we endorse the description of governance published by the FRC in October 2010 that "governance should support, not constrain, the entrepreneurial leadership of the company, while ensuring that risk is properly managed . . . Boards must see good governance as a means to improve their performance, not just a compliance exercise". As Chairman, I recognise that my leadership of the Board is critical to encouraging open and transparent debate, discussion, constructive challenge and support.

Board balance and effectiveness

Securing the right balance of skills, experience and perspectives on the Board is a key responsibility to ensure that the Board works effectively.

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

Management of risk

Monitoring the level of risk, and ensuring appropriate governance to support this is a key objective of the Board. It is important that we continue to improve our understanding and monitoring of the risks associated with our business strategy, and that our risk appetite and tolerance is communicated through the management structures as our business evolves. Details of our risk management systems are described in greater detail on pages 42 to 44.

Communications with shareholders

We are committed to maintaining constructive communications with our shareholders. Our Chief Executive Officer and Chief Financial Officer are responsible for maintaining a regular dialogue with major shareholders. I and David Grigson, the Senior Independent Director, are also available to the Company's shareholders and during the year, we met with several of our largest shareholders to discuss governance matters.

Changes to the Board composition

We welcomed a number of new Directors to the Board during the period. Duncan Tatton-Brown joined the Board as Chief Financial Officer in September 2012 and Mark Richardson was appointed as Operations Director in January 2012. We also appointed Alex Mahon as an Independent Non-Executive Director of the Board.

A number of Directors also left the Board. Andrew Bracey resigned as Chief Financial Officer in March 2012 and David Young retired after almost 12 years of service as Non-Executive Director at the annual general meeting in May 2012. Non-Executive Director, Wendy Becker, left the Company on 21 January 2013. The Board would like to thank Andrew, David and Wendy for their valued contributions to Ocado.

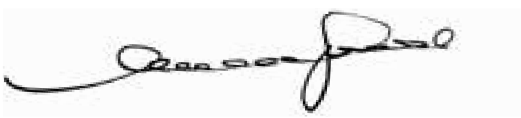
Chairman succession

On 22 January 2013, I announced my retirement as Chairman. A recruitment process has taken place as described in the Nomination Committee report, and as a result Sir Stuart Rose will be succeeding me as Chairman from the 2013 AGM.

After a smooth succession process and having secured a new Chairman my job at Ocado is almost complete. After six and a half exhilarating and eventful years, I am leaving the Company in the best possible hands. Sir Stuart's substantial retail experience and commercial acumen will add significant value. Ocado is one of the most innovative and exciting growth companies in the UK and it has been a privilege to be a part of their story.

Annual General Meeting

The Annual General Meeting will be held at 11am on 10 May 2013 at One Bunhill Row, London, EC1Y 8YY and I look forward to seeing you at my final Ocado AGM.



Lord Grade of Yarmouth
Chairman
Ocado Group plc

Statement of corporate governance

Introduction

The Board fully endorses the FRC's view that the key aspects of corporate governance in the UK, the purpose of which is to improve corporate performance, are:

- a single board collectively responsible for the sustainable success of the company;
- a system of checks and balances;
- transparency on appointments and remuneration; and
- effective rights for shareholders.

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

This statement of corporate governance covers the following areas:

- the structure and role of the Board and its committees;
- the Board's effectiveness;
- relations with the Company's shareholders and the AGM;
- the Group's risk management and internal control framework;
- the Group's principal risks and uncertainties; 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 50.

Compliance with the Code

The 2010 Code sets out principles which companies must apply, and the Listing Rules oblige companies to report to shareholders on how they have done so. The inherent flexibility of the 2010 Code is that it does not prescribe the way in which companies should apply the principles, but sets out provisions – identified good governance practices — by which the principles can be achieved. The 2010 Code recognises that good governance can also be achieved, in particular circumstances, by other means.

The Board acknowledges its responsibility to explain carefully and clearly to shareholders, where we do not follow a particular provision, our reasons for doing so. These reasons should not just identify the provision but also clarify "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" (FRC, September 2012).

The Company has complied with the principles and provisions of the 2010 Code save as described in the remainder of this statement.

The Board places on record its willingness to discuss with shareholders the manner in which it has applied, or otherwise, the principles set out in the 2010 Code.

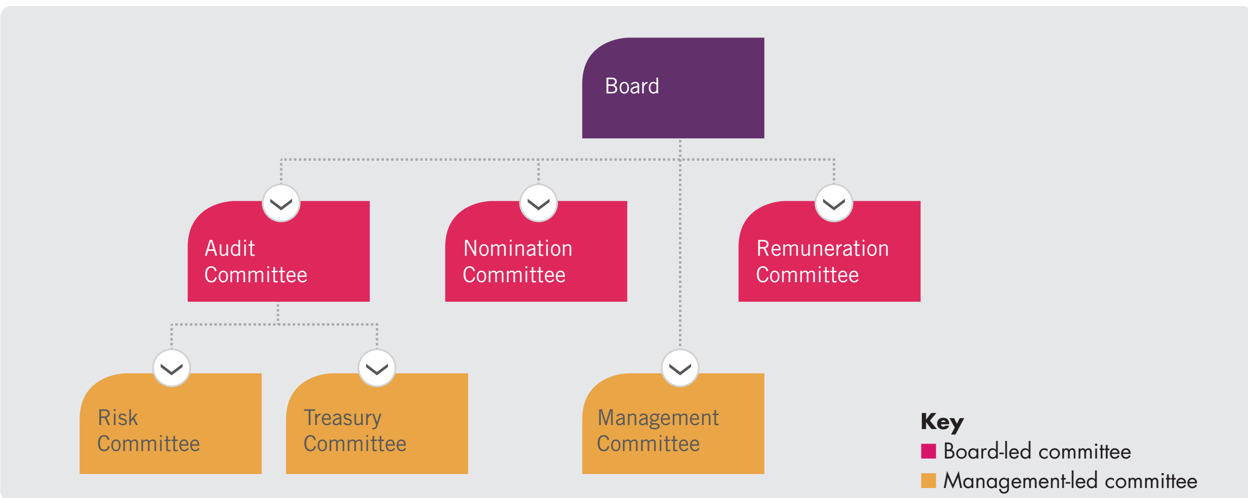
This separate statement of corporate governance forms part of the Directors' report and accordingly is approved by the Board and signed on behalf of the Board by a Director. Certain parts of this statement of corporate governance have been reviewed by the Company's auditors, PricewaterhouseCoopers LLP, for compliance with the 2010 Code to the extent required.

The new edition of the UK Corporate Governance Code was published in September 2012 and applies to reporting periods beginning on or after 1 October 2012 (the "2012 Code"). The 2012 Code does not apply to the Company's reporting period ending 2 December 2012. However, the Board has, where appropriate and feasible, adopted some of the new provisions in the 2012 Code earlier than required and provides disclosure against these requirements in this annual report.

Further information on the 2010 Code and 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.



STATEMENT OF CORPORATE GOVERNANCE
OVERVIEW
STRATEGY
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Statement of corporate governance continued

The Board's role

The Board is collectively responsible for the long-term success of the Company. Subject to the Articles, the Companies Act and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all of the powers of the Company.

The Board has a number of key responsibilities and formally reserved powers, as set out in the schedule of matters reserved for the Board. The Board has responsibility for the overall management of the Group and for setting and reviewing the Group's long-term objectives and commercial strategy, including determination of the nature and extent of the significant risks that the Board is willing to take to implement its commercial strategy. The Board has oversight of the Group's operations, including management and planning, sound risk management and internal control systems, adequate accounting and other records and compliance with statutory and regulatory obligations. Other reserved matters include approval of: the annual report and half-yearly report; the Group's budgets; the authority levels for capital expenditure; the treasury policy; and any governance policies. The Board's role also includes oversight of the Group's capital structure including any share issues and share buy backs. The Directors' report on pages 68 to 71 includes a description of the powers of the Directors to issue and buy back the Company's shares.

During the period, the Board's activities included:

- receiving reports from senior management on trading, business performance, financing and operational projects;
- receiving progress reports from senior management on particularly significant projects such as the development of CFC2 and the expansion of the non-food business and its dedicated fulfilment centre;
- approving individual capital expenditure projects in CFC1;
- overseeing and approving the Group's refinancing including the share placing;
- approving the annual budget and the business plan for the Group;
- discussing various business development and strategic opportunities;
- annual strategy conference devoted to reviewing and agreeing the Group's strategic direction;
- reviewing and approving the Group's results announcements and the annual report;
- receiving reports on and discussing the Group's marketing and commercial strategy;
- receiving update reports at each Board meeting on health and safety, investor relations and legal and company secretarial matters;
- discussing risk management and internal control;
- approving the new Chairman Designate, the Chief Financial Officer and other Director appointments, discussing management succession plans and Board composition;
- approving new governance policies including the Board diversity policy; and
- visits to the CFCs and the non-food distribution centre to assist in understanding the operational issues the business faces.

The Board delegates the detailed implementation of matters approved by the Board and the day-to-day operational aspects of the business to the Executive Directors and the Management Committee, who meet formally twice weekly to review operational performance and to execute the strategic decisions made by the Board. The Management Committee will also monitor implementation of certain significant or cross-divisional projects. Management has authority to undertake capital expenditure without Board approval up to certain pre-approved expenditure thresholds and above which the expenditure must be referred to the Board for approval.

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 2010 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.

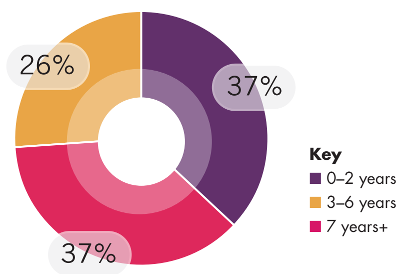
A summary of the terms of reference of each Board committee is set out in the table below. The full terms of reference are available on the Company's corporate website (www.ocadogroup.com) and reports by each committee are given on pages specified in the below table.

Committee	Role and terms of reference	Membership required under the terms of reference	Minimum number of meetings per year	Committee report on pages
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.	2	48 – 49
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, except for a period following the Company's listing.	3	45 – 47
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, except for a period following the Company's listing.	2	50 – 51

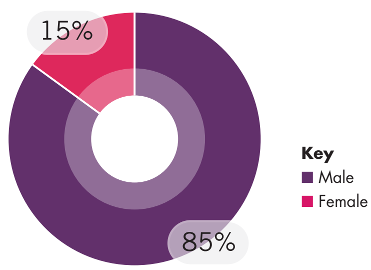
Current Board composition

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 32 to 33. As at the date of this annual report, the Board comprises 13 members, including the Chairman, five Executive Directors and seven Non-Executive Directors.

Length of Tenure of Chairman/Non-Executive Directors



Diversity of the Board



Statement of corporate governance continued

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
Mark Richardson	Operations Director	23/01/2012	—
Andrew Bracey	Chief Financial Officer	—	23/03/2012
Wendy Becker	Non-Executive Director	30/03/2012	21/01/2013
David Young	Non-Executive Director	—	23/05/2012
Alex Mahon	Non-Executive Director	01/06/2012	—
Duncan Tatton-Brown	Chief Financial Officer	01/09/2012	—
Sir Stuart Rose	Chairman Designate	11/03/2013	—

The Company announced on 22 January 2013 the retirement of the Chairman, Lord Grade, from the Board, such retirement to take effect at the Company's Annual General Meeting on 10 May 2013. The Company also announced the appointment of Sir Stuart Rose as an independent Non-Executive Director and Chairman Designate with effect from 11 March 2013. Sir Stuart will become Chairman immediately following Lord Grade's retirement.

Additionally, in January 2012, Jason Gissing, one of the co-founders of the business and current Executive Director, assumed the new Board position of Commercial Director, responsible for Ocado's retail activities, including buying, supplier and customer relationships, marketing and brand development. Neill Abrams, Legal and Business Affairs Director and the Company Secretary, assumed responsibility for HR, which was previously part of Jason's former role.

Key Board roles

The primary responsibilities of the Chief Executive Officer, the Chairman, the Senior Independent Director 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

Lord Grade joined the Board as an independent Non-Executive Director and Chairman in 2006. Sir Stuart Rose will succeed Lord Grade as Chairman with effect from the Annual General Meeting on 10 May 2013. Their biographical details are set out on pages 32 and 33 and indicate their significant time commitments outside of the Company.

Chief Executive Officer

The Company's Chief Executive Officer is Tim Steiner. His biographical details are set out on page 32.

Division of responsibilities between Chairman and Chief Executive Officer

There is a clearly established and long-standing division of responsibilities between the Chairman and the Chief Executive Officer which is set out in writing and has been approved by the Board. The Chairman is responsible for leadership of the Board, and ensuring its effectiveness and for influencing the direction of the Board's agenda. The Chief Executive Officer is responsible for the day-to-day management, operations and results of the Group, executing the strategy once agreed by the Board and making proposals to the Board for the strategic development of the Group.

Senior Independent Director

David Grigson, who joined the Board as an independent Non-Executive Director in February 2010, is the Board's Senior Independent Director. His biographical details are set out on page 32. The Senior Independent Director's role is to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary. The Senior Independent Director is available to shareholders of the Company to assist in resolving any concerns of such shareholders.

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. The Board is satisfied that each of the Non-Executive Directors has sufficient time available to devote to the Company.
- The terms and conditions of appointment of the Non-Executive Directors are available for inspection at the Company's registered office (during normal business hours) and at the Company's AGM.

Company Secretary

The Board is assisted by the Company Secretary (who is also the Legal and Business Affairs Director), Neill Abrams. His biographical details are set out on page 33. The Company Secretary reports to the Chairman in respect of his core secretarial duties to the Board. All Directors have access to the advice and services of the Company Secretary. He has responsibility for ensuring that the Board procedures are followed and for governance matters. The Company Secretary, under the direction of the Chairman, was responsible for ensuring good information flows within the Board and its committees. The appointment and removal of the Company Secretary is one of the matters reserved for the Board.

Independence

The 2010 Code provides that the Company should identify in the annual report each Non-Executive Director that it considers to be independent. That is, 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.

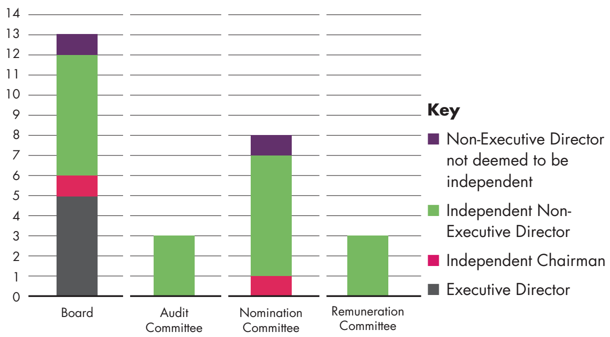
The Board considers the Chairman, Sir Stuart Rose, David Grigson, Ruth Anderson, Douglas McCallum, Robert Gorrie and Alex Mahon to be independent. By way of further explanation:

- Jörn Rausing, who has been on the Board over ten years, is considered to be independent in character and judgement. However, the test for independence under the 2010 Code is more extensive, as it also requires the absence of any relationships that appear to affect a director's judgement. Although the Board considers Jörn to be independent in substance, it does not consider him to be free of relationships which may appear to affect his judgement as he is a beneficiary of the Apple II Trust, a major shareholder of the Company. His continued membership of the Board is considered to be beneficial to the Company in that his significant business experience at Tetra Laval enhances the balance of skills and experience on the Board. Jörn Rausing's influence on the manner with which Tetra Laval has built up its commanding market position in a world class technology-intensive industry also assists in setting the Company's strategic direction and reinforces its measured risk appetite. In addition, Jörn provides valuable insight to the Board on the views of shareholders whose objective is the sustainable long-term success of the Company.
- Robert Gorrie is considered to be independent notwithstanding the fact that he has been a Director for over 12 years and receives additional remuneration from the Group for consulting services that he provides to the Ocado Council (the Company's employee representative body). He received a total of £8,000 in the period for these services (2011: £9,000). The Board does not consider these services to constitute a material business relationship with the Company, nor these sums to be material in the context of impacting Robert Gorrie's judgement. Furthermore, his involvement with the Ocado Council promotes good governance in that it provides the Non-Executive Directors with a direct earpiece to the views and concerns of the Group's hourly-paid employees, which enhances the system of checks and balances and provides a flow of information that is independent of senior management. Robert Gorrie was employed by the Company as Logistics Director from 2000 to 2006, more than five years ago. The Board views his resultant knowledge of the Group's complex IT and logistics infrastructure to be helpful to the Non-Executive Directors in their involvement with determining the Company's strategy.
- Sir Stuart Rose will become Chairman at the Company's AGM on 10 May 2013. At the same meeting shareholders will vote on his remuneration package, as described in detail in the Directors' remuneration report on page 63. This package includes an initial one-off award in the form of Ocado shares. This share award will not vest until after three years of service as Chairman, and all of the shares must be held until at least one year after he ceases to be a member of 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.

The 2010 Code recommends that at least half of the board of directors of a UK listed company, excluding the chairman, should comprise non-executive directors determined by the board to be independent. The Board currently complies with this provision, although it will cease to do so after the AGM when Lord Grade retires as Chairman and Sir Stuart Rose assumes that role, as that will reduce by one the number of independent Non-Executive Directors on the Board.

The composition of the Audit Committee and the Remuneration Committee do comply with the independence provisions of the 2010 Code, and will not be affected by the change in Chairman. Since the end of the period the composition of the Audit Committee and the Remuneration Committee were changed to bring each into line with the independence requirements of the 2010 Code.

The following chart illustrates the current composition of the Board and each of the Board committees in respect of the independence of its members under the 2010 Code:



The Board and the Nomination Committee reviewed and discussed Board and Board committee size and composition a number of times during the period. As set out above, a significant number of Board changes have taken place during the period. The Company expects that as existing members of the Board step down and new directors are appointed, those new directors will comply with the 2010 Code with regard to independence. The Board believes that it is very important to provide some continuity of leadership by retaining some long-standing Directors and therefore has taken a measured approach to transforming the Board to one that is compliant with the independence requirements of the 2010 Code. The Board has kept, and will continue to keep, the Board size and composition under regular review.

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. 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	13	14	—	—	—	—	—	—
Duncan Tatton-Brown[1]	4	4	—	—	—	—	—	—
Neill Abrams	14	14	—	—	—	—	—	—
Jason Gissing	14	14	—	—	—	—	—	—
Mark Richardson[2]	12	12	—	—	—	—	—	—
Non-Executive Directors								
Lord Grade (Chairman)	13	14	—	—	—	—	3	3
David Grigson	13	14	5	5	—	—	3	3
Jörn Rausing	13	14	—	—	4	4	3	3
Ruth Anderson	14	14	5	5	4	4	3	3
Robert Gorrie	13	14	4	5	3	4	3	3
Douglas McCallum	11	14	—	—	4	4	3	3
Alex Mahon[3]	6	6	3	3	—	—	1	1
Former Directors								
Andrew Bracey[4]	6	6	—	—				
David Young[5]	6	7	2	2	2	2	1	1
Wendy Becker[6]	6	8	—	—	2	3	2	2

Notes:

1 Duncan Tatton-Brown joined the Board of the Company on 1 September 2012.

2 Mark Richardson joined the Board of the Company on 23 January 2012.

3 Alex Mahon joined the Board of the Company on 1 June 2012.

4 Andrew Bracey resigned from the Board of the Company effective on 23 March 2012.

5 David Young retired from the Board of the Company effective on 23 May 2012.

6 Wendy Becker joined the Board of the Company on 30 March 2012 and resigned from the Board effective on 21 January 2013.

Effectiveness

Board performance evaluation

The effectiveness of the Board is important to the success of the Group and accordingly the Board considers that reviewing its own performance is helpful.

A performance evaluation of the Board, its committees and the individual Directors was carried out during the period, and was based upon self assessment questionnaires. The online questionnaires were prepared by the Company Secretary with support from an external consultant, Independent Audit Limited. The main themes of the Board questionnaire were as follows:

- Strategy;
- Leadership and accountability;
- How the Board works;
- Board culture;
- Line of sight; and
- Risk governance.

The findings of the evaluations were reviewed by the Company Secretary and the Chairman and a summary report was provided to the Board. The report included comparative data to show changes in evaluations from the previous annual assessment. The Board discussed the Board evaluation report noting areas where assessed performance had developed from the previous review and areas for improving effectiveness in the future. Each of the committees carried out a similar process in respect of each of the Board committee evaluations as overseen by the relevant committee chairman. The Chairman separately reviewed the results of individual Director performance evaluations.

Following this performance evaluation process, the Board has recommended to the shareholders the election and re-election of those Directors standing at the forthcoming AGM, all of whom it considered continued to demonstrate commitment to their role and whose performance continues to be effective.

The Board recognises that a continuous and constructive evaluation of its performance is an important factor in helping the Board realise its maximum potential. During the period, the Board agreed to conduct a Board performance evaluation process facilitated by an independent third party in 2013, as required by the 2010 Code.

As part of the Board's review of its effectiveness, the Chairman and the Non-Executive Directors met without the Executive Directors being present, as required by the 2010 Code, to discuss the performance of the Board and the Executive Directors. The Senior Independent Director and the Non-Executive Directors also met without the Executive Directors or the Chairman being present and subsequently met with the Chairman to provide feedback.

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 23 May 2012 all the then-current

Directors other than David Young stood for reappointment, and were duly elected. Each current Director, except retiring Chairman, Lord Grade, will seek re-election by shareholders at the Company's AGM on 10 May 2013.

The rules that the Company has about the appointment and replacement of Directors are described in the Directors' report on page 68.

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

One Director did not participate in the 2012 Board evaluation process but is standing for re-election at the AGM. Sir Stuart Rose joined the Board on 11 March 2013, after the period end. Consequently the Board based its recommendation to re-elect Sir Stuart on the same principles and judgements it applied in appointing him to the Board.

Board induction and professional development

The Chairman and the Company Secretary are responsible for preparing and coordinating an induction programme for newly appointed Directors, including a CFC1 visit, accompanying a CSTM on a delivery route, doing a personal shopper shift and meeting members of senior management. The Director also receives an induction pack comprising the Group's key Board and governance documents and policies, and training 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 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 a non-executive director network group which provides access to know-how on current issues relevant to the role of company director. Members of the Audit Committee receive written know-how and technical updates from the Company's auditors, PricewaterhouseCoopers LLP, to keep them abreast of the latest accounting, auditing and tax developments.

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. In the period, a Board meeting was held at CFC2 and at the separate non-food warehouse which gave the Non-Executive Directors the opportunity to see the development of the CFC2 and non-food projects.

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, as required by the 2010 Code. During the period, independent remuneration consultants have advised the Remuneration Committee on executive remuneration and the Company retained the services of consultants for the recruitment of new Directors.

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 duties to the Company and his private interests and/or other duties, except in the case of an Executive Director who holds the position of Director of the Company and director of a number of Group subsidiary companies or except a Director who is also a director of, or connected to, a company which supplies goods or services to the Group.

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

Director insurance and indemnities

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

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 each Board meeting on the main changes to the composition of the Company's share register. Jörn Rausing, who is a Director on the Board, is also a beneficiary of the Apple II Trust, one of the Company's largest shareholders.

Since the previous period, the Chairman and the Senior Independent Director have met with the Company's shareholders with regards to governance issues and other Company matters. Discussions were also held with them on a number of specific issues, such as Director remuneration and Chairman succession plans.

Statement of corporate governance continued

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.

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 68 to 71.

The Company's AGM

Shareholders will have the opportunity to meet and question all of the Directors at the AGM, which will be held at 11am on 10 May 2013 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 AGM, all resolutions were passed with votes in support of a resolution ranging from 97.12% to 100%.

Accountability

Risk management and internal control

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in seeking to achieve its strategic objectives and for the Group's system of internal control and risk management. The Audit Committee, on behalf of the Board, monitors the effectiveness of the risk management and internal control systems.

Implementation and maintenance of the internal control and risk management systems are the responsibility of the Executive Directors. The risk committee, a management-led committee, regularly reports to the Audit Committee on such matters. The actions of the risk committee in the past year have included reviewing the risk heat maps for each business area. Risks are reviewed from time-to-time by each business area and measured against a defined set of likelihood and impact criteria. This information is recorded in the Group's risk register.

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 and business planning and re-forecasting processes;
- a capital approval policy that controls the Group's capital expenditure that can be undertaken without Executive Director or Board approval and a capital expenditure post-completion review process for selected projects;
- monitoring the progress of major projects, including the CFC2 project by management and the Executive Directors and by the Board;
- monitoring by the Audit Committee of the financial statements and consideration of reports on the work undertaken by the auditors, PricewaterhouseCoopers LLP, in reviewing and auditing the Group's control environment and reviewing its financial reporting procedures;
- a risk committee, which reports to the Audit Committee, that seeks to implement risk control processes and embed risk analysis as part of normal business decision-making and an IT security committee that monitors the Group's IT security measures;
- a treasury policy overseen by the treasury committee (which regularly reports to the Audit Committee) that manages financial risk including liquidity and controls the Group's cash and deposits, investments, foreign exchange and interest rates;
- a food and product technology department, responsible for designing and monitoring compliance with the Group's processes governing procurement of goods for resale and handling of products;
- other control measures outlined elsewhere in this annual report, including legal and regulatory compliance and health and safety.

The on-going processes and procedures described for identifying, evaluating and managing the principal risks faced by the Group were in place throughout the period and under review up to the date of approval of this annual report. 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.

Following the financial year end, the Audit Committee undertook an annual 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's deliberations did not include a detailed consideration of the 'Turnbull Guidance' (Internal Control: Revised Guidance for Directors on the Combined Code (October 2005). The Audit Committee is satisfied, following such review that no significant weaknesses or failings were drawn to its attention.

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 also 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 98 to 100.

Strategy	Risk Factors	Mitigating factors
Developing our offer to customers to retain our market leading position in terms of service, range and price	Reputation of the Ocado brand is a key reason why customers chose to purchase their groceries from us.	Clearly stated brand values with an emphasis on quality and service to the customer supported by a well-trained and motivated workforce.
	Waitrose relationship is important to overall brand perception and a significant part of the product range consists of Waitrose own brand products.	We have worked successfully with Waitrose for thirteen years. The current Sourcing Agreement will continue this relationship until at least 2017.
	Strong relationships with our suppliers ensure competitively priced and high quality products.	Buying team continues to grow, now working with over 800 suppliers. Ocado own-label range is competitively priced, growing at 70% per annum and now accounting for over 17% of own-label sales.
	Continuous monitoring of the quality of our products.	Food technology team monitors our products and operations to ensure high quality standards.
	Online retail is impacted by changes in regulations relating to both the internet and retail sectors.	Monitor regulatory developments and to ensure that all existing regulations are complied with. Monitoring of operational performance to minimise its environmental impact.
Growing customer numbers and spend	Continuing trend in UK food retailing of moving from the traditional grocery market to the online grocery market.	Continue to improve the online shopping experience compared to the traditional grocery market by enhancing service, increasing range and competitive pricing.
	Entrance of new competitors in the online grocery market or heavy investment in existing online operations by traditional grocery retailers.	Develop new functionality and improved usability to differentiate the Ocado proposition from competitors. Monitor developing technologies to identify potential new trends.
Developing market leading intellectual property and technology	International development of the online grocery market is in its infancy	Maintain contact with a number of food retailers across the world, monitoring the adoption of online grocery models
	Pace and direction of technological advances is difficult to predict	Specialised team tasked with improving current processes and monitoring latest technological developments

Statement of corporate governance continued

Strategy	Risk Factors	Mitigating factors
Optimising operations — to operate at the highest service levels with the lowest possible cost	Reliance on employees and key management for the operation of its business and further expansion.	Remuneration and incentives are monitored to ensure they remain competitive. There is a management succession plan for all key roles. The business has had good relations with its workforce to date, further strengthened by the Ocado Council.
	Until CFC2 reaches a material level of operation, the Group is dependent on the continued operation of CFC1 in order to satisfy most customer orders.	In early 2012, the Group achieved the insurance industry recognised "Highly Protected" status for CFC1. Documented disaster recovery procedures in key areas which are aimed at minimising certain possible disruptions to the business. The Group also has insurance policies in place which cover business interruption.
	Equipment and information technology failures in CFC1 in particular impact on efficiency and service levels.	Dedicated engineering teams onsite with daily maintenance programs support the continued operation of equipment and IT protocols for deploying software upgrades or changes to systems.
	Efficient and uninterrupted operation of the internet and its own IT and communications systems.	IT systems are structured to provide reliability and security. The Webshop is regularly tested by third parties for potential vulnerabilities. Disaster recovery plans are in place to maintain the integrity of the Group's IT infrastructure and IT systems.
	Breach of health and safety laws in the Group's operations could lead to injury to employees, negative publicity and reputational damage.	Specialist team sets the standards for health and safety and works with the rest of the business to implement, maintain and monitor these standards.
Building capacity to satisfy increased demand and drive scale benefits	Achieve ramp-up plan for operations at CFC2.	Detailed plans for the management and operation of CFC2 which have are subjected to regular review. CFC2 includes redesigned processes which are planned to deliver significant efficiency improvements.
	Achieve plan for further expansion of scale of CFC1 and the Non-Food Distribution Centre.	CFC1 upgrade plans developed by dedicated logistics and engineering team and execution monitored by senior management.
	Our expansion plans are reliant on being able to arrange and maintain sufficient financing.	Mixture of debt and lease finance to ensure sufficient available funds in place to finance its operations. Board monitors rolling forecasts of liquidity requirements for a range of growth scenarios to ensure it has sufficient cash to meet operational needs. In November 2012, the Group amended and extended by 18 months until 6 July 2015 its £100 million credit facility. At that time, it issued new equity of £35.8 million through a share placing to help strengthen the Company's balance sheet and support the continued growth of the Group.
	Scale benefits will also be achieved from overhead efficiency.	Plans in place for tight cost controls and slower rate of cost growth in central teams.

A number of risks have been removed from the list of principal risk and uncertainties since the half yearly report for the 24 weeks ended 13 May 2012, including the expansion of CFC1, intellectual property protection and risks relating to treasury (such as foreign exchange fluctuations). The Group's circumstances and priorities have since changed and as such the Directors no longer view these as principal risks or uncertainties for the Group.

Audit Committee

Dear Shareholder,

Set out below is the Audit Committee's report for 2012. The report comprises three sections:

- How the Audit Committee works;
- What we focused on in 2012; and
- Our external auditors.

Our main aims have been to ensure the integrity of the financial statements and any formal announcements relating to the Company's financial performance and to assist the Board in monitoring risk management and internal controls. Strong risk management is vital to implementing our strategy effectively; given the strategic importance of the opening of CFC2, a key focus for the Audit Committee, this year, was on assessing the Company's approach to the management of risk in developing CFC2 and preparing it for operation in early 2013. Another area of focus was reviewing the controls and processes for managing risks in IT, a crucial part of the Company's operations.

We have also reviewed and evaluated the independence and the effectiveness of our external auditors, PricewaterhouseCoopers LLP, and are satisfied that we can recommend them for reappointment for the forthcoming year.

The Audit Committee's work continues to focus on the most important issues for the year, which during 2013 will include the integration of the financial systems for CFC2 and review of risk management systems in other key areas.

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

Ruth Anderson
Audit Committee Chairman

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: (i) the appointment of Alex Mahon in June 2012; (ii) the resignation of David Young at the AGM in May 2012; and (iii) Robert Gorrie standing down from the Audit Committee in February 2013.

The 2010 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. The biography of each member of the Audit Committee is set out on pages 32 and 33.

Other attendees at the Audit Committee meetings include:

Attendees	Regular attendee	Attend as required
Chief Financial Officer	✓	
Deputy Company Secretary	✓	
Director of Finance and Risk	✓	
Senior members of the finance department		✓
External auditors	✓	
Legal and Business Affairs Director and Company Secretary	✓	

Attendance at the meetings is shown on page 40.

Role of the Audit Committee

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

1. monitoring the integrity of the financial statements of the Company and the financial reporting process;
2. monitoring the effectiveness of the Company's internal financial controls and its internal control and risk management systems;
3. reviewing the audit plans of the external auditors and for monitoring the conduct of the audit;
4. 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;
5. monitoring the need for an internal audit function; and
6. making recommendations to the Board for a resolution to be put to shareholders of the Company in relation to the appointment and the remuneration of the external auditors.

Statement of corporate governance continued

What the Audit Committee focused on during 2012

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, which sets out the areas on which the Audit Committee intends to focus, in addition to any matters that arise during the year. The key issues that the Audit Committee considered during the year are described below.

Financial statements and reporting: The Audit Committee reviewed the Group's financial statements. The Board and the Audit Committee have reviewed the narrative reporting for this annual report and accounts, as well as the half year report and accounts including the operating and financial review. In addition, the Board reviewed prior to publication the various interim management statements and trading statements made by the Company. The Audit Committee and the full Board reviewed the going concern basis for preparing the Group consolidated financial statements including in particular the assumptions underlying the going concern statement and the associated risk factor disclosures. A key element of the going concern review was the extension of the £100 million debt facility from January 2014 to July 2015. 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, PricewaterhouseCoopers LLP.

Accounting judgements and issues: The Audit Committee reviewed a report from management on significant accounting issues and treatments that were subject to judgement by management in relation to the financial report of the Group. These included the capitalisation of refinancing fees for the extended £100 million debt facility, the categorisation of CFC2 and non-food warehouse set-up costs as exceptional items, the manner of disclosing the Group's financial results for the 53 week financial year, review of the deferred tax asset recognised in the accounts, the timing of recognition of media and related income and the necessary adjustments for vouchering. The accounting treatment of all significant issues and judgements was subject to review by the external auditors. The Audit Committee received reports from management in areas material to the accounts such as supplier bonus and overrider payments. The Audit Committee also considered the Company's existing tax strategy.

Post completion capital project reviews: Management reported to the Audit Committee on two significant capital projects undertaken by the business, one in relation to CFC1 and one relating to a Spoke. The reports identified the business benefits delivered by the projects, whether the projects had been delivered within budget and some of the lessons learned from the process. The Audit Committee also reviewed the capital expenditure approval process used by the Group.

Internal audit: The Group does not have a dedicated internal audit function. The Audit Committee considered the need for an internal audit function, as required by the 2010 Code 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 was sufficiently assured that other monitoring processes were being applied to help ensure that the Group's system of internal control was functioning as intended. The Audit Committee gained its assurance from reports from management and from reports provided by the auditors with regard to internal control and risk management. The Board accepted the Audit Committee's recommendation to not establish an internal audit function. The need for an internal audit function will be monitored by the Audit Committee and subject to an annual review in 2013.

Internal controls and risk management: The Company's internal control and risk management systems are described in more detail on page 42, where the Audit Committee's work in this area is highlighted. The Audit Committee focused its reviews of risk during the period on areas of particular strategic importance to the business. Management presented to the Audit Committee on risks and controls for the information technology department including outlining some of the control measures used such as the IT security forum, the technical testing of the Webshop and the networks, the PCI compliance programme and the IT operational controls. Given the strategic importance for the Group of opening CFC2 on time and within budget, management presented to the Audit Committee on the risk management and control processes used to manage the development of CFC2, and the Audit Committee discussed this in detail.

Compliance: The Audit Committee receives an update at each of its meetings on any matters (including fraud and improprieties) which have been raised through the Company's whistle blowing procedures as set out in the employee handbook. No instances brought to the attention of the Audit Committee during the period were viewed as material in the context of the Group. In addition, the Audit Committee receives a report at each of its meetings concerning the gift register and any issues of non-compliance with the Company's anti-bribery policy. The Audit Committee's reviews did not reveal any concerns. Based on the information and reports presented by management the Audit Committee is satisfied that where a concern or issue is raised it is investigated and appropriate follow-up action is taken.

Annual review: In addition to its annual performance evaluation, discussed on page 40, the Audit Committee carried out a review of its terms of reference; this did not result in any changes.

External auditors

The Audit Committee's work during the period included oversight of the engagement of the external auditors, PricewaterhouseCoopers LLP. The 2010 Code requires that the Board establish formal arrangements for maintaining an appropriate relationship with its auditors and explain how the auditors' objectivity and independence is maintained.

The Audit Committee's oversight of the external auditors included reviewing and approving the annual audit plan to ensure that it is consistent with the scope of the audit engagement. The Audit Committee met with PricewaterhouseCoopers LLP at various stages during the audit process. The Audit Committee also met with PricewaterhouseCoopers LLP during the period, without management or the finance department being present, to discuss their remit and any issues arising from the audit, as did the chairman of the Audit Committee. The Audit Committee also met with the Group's finance department without the auditors being present. As part of its monitoring of the Company's financial reporting, the Audit Committee reviewed the findings of the audit and half year review with the external auditors. The important accounting and reporting issues arising during the audit were discussed and also areas of adjusted and unadjusted differences identified during the audit and their impact on the financial statements.

The Audit Committee considered the reappointment of PricewaterhouseCoopers LLP in line with the Company's policy on reappointment of auditors. This review took into account the proposed terms of engagement, the level of audit fees, the effectiveness of the audit team on the previous audit and the independence of the auditors.

The Company's policy in respect of non-audit services requires prior approval by the chairman of the Audit Committee for non-audit work above a threshold level of £30,000 per engagement, and requires prior approval by the Chief Financial Officer for non-audit work above a threshold of £10,000 up to £30,000 per engagement. The majority of the non-audit work undertaken by PricewaterhouseCoopers LLP during the period was tax and accounting advice provided in relation to the Company's establishment of a subsidiary entity in Poland, representing 25% of the audit and audit-related fees. The total of non-audit fees and audit fees paid to PricewaterhouseCoopers LLP during the period is set out in the Note 2.1.3 to the consolidated financial statements. The Audit Committee receives a regular report from management regarding the extent of non-audit services performed by PricewaterhouseCoopers LLP. 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. It was in the interests of the Company to engage PricewaterhouseCoopers LLP in the period, for: (i) the review of the Group's half-year accounts given their knowledge and understanding of the Group; and (ii) the Poland work given PricewaterhouseCoopers LLP's Poland office had considerable experience in this area.

PricewaterhouseCoopers LLP also follows its own ethical guidelines and the Auditing Practices Board's standards, and continually reviews its procedures to safeguard independence and the audit team to ensure its independence is not compromised. PricewaterhouseCoopers LLP reported to the Audit Committee that it had considered its independence in relation to the audit, including considerations relating to threats and safeguards where they perform non-audit services for the Group. PricewaterhouseCoopers LLP provided a report to the Audit Committee of the specific safeguards put in place for each piece of non-audit work. PricewaterhouseCoopers LLP was satisfied that neither the extent of the non-audit services provided nor the size of the respective fees charged had any impact on its independence as statutory auditors and confirmed to the Audit Committee that they comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board and that its objectivity is not compromised.

The Audit Committee is 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 mean that the auditors' independence from the Group was not compromised in the circumstances.

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. 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 2012. At the 2012 annual general meeting, 100% of votes cast by shareholders were in favour of granting the Company this authority.

The Audit Committee reviewed the performance of PricewaterhouseCoopers LLP based on a survey that contained various criteria for judging their effectiveness and on feedback from management. The questionnaire was facilitated by the Company Secretary and considered by the members of the Audit Committee and the finance department. 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 considered the various criteria and concluded that the performance of PricewaterhouseCoopers LLP remained effective.

Consequently, the Audit Committee recommended to the Board the reappointment of PricewaterhouseCoopers LLP. The Board has accepted this recommendation and a resolution for their reappointment for a further year will be put to the shareholders at the Annual General Meeting. At the annual general meeting in 2012, 99.87% of votes cast by shareholders were in favour of reappointing PricewaterhouseCoopers LLP as auditors.

Rotation

It is a requirement that the audit partner responsible for the Group and subsidiary audits is rotated every five years, in line with the Auditing Practices Board's standards. In compliance with this requirement, the PricewaterhouseCoopers LLP audit engagement partner changed in 2012.

The 2012 Code requires that companies should put the external audit contract out to tender at least every ten years. PricewaterhouseCoopers LLP has audited the Group's accounts since 2001 and has not re-tendered for the role since then. During the year, the Audit Committee did consider whether the audit work should be put out for tender. However, given the change of Chief Financial Officer during the period, and the fresh perspectives of a new audit engagement partner, the Audit Committee considered that there were benefits to be gained from retaining the continuity and knowledge of some of the other members of the audit team. The Audit Committee remains satisfied with the independence and effectiveness of PricewaterhouseCoopers LLP and, accordingly, did not consider it the right time to require the firm to retender for the audit work.

Statement of corporate governance continued

Nomination Committee

Dear Shareholder,

We have had a busy year with a number of changes to the Board.

On the executive side, the Nomination Committee recommended the appointment of Mark Richardson as Operations Director and the appointment of Duncan Tatton-Brown as Chief Financial Officer. We also secured the appointment of two Non-Executive Directors, Wendy Becker and Alex Mahon. It is with regret that in January 2013, Wendy Becker had informed the Board of her decision to stand down as a Non-Executive Director of the Company with immediate effect. We are very sorry to lose Wendy but fully understand that she has new extensive responsibilities as Chief Operating Officer at Jack Wills.

A significant event following year end was the announcement of Lord Grade's retirement as Chairman of the Company and the appointment of Sir Stuart Rose as Chairman Designate. Sir Stuart will take over as Chairman at the Company's AGM on 10 May 2013, when Lord Grade's retirement becomes effective.

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. As a result I am pleased to say that all of the members of both the Audit Committee and the Remuneration Committee are independent Non-Executive Directors, in compliance with the 2010 Code.

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

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
Michael Grade	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 David Young at the AGM in May 2012; (ii) the appointment in March 2012 and then subsequent resignation in January 2013 of Wendy Becker; (iii) the appointments of Alex Mahon in June 2012 and Sir Stuart Rose in March 2013. The biography of each member of the Nomination Committee is set out on pages 32 and 33.

Other attendees at the Nomination Committee meetings include:

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

The Nomination Committee held three meetings during the period. Attendance at the meetings is shown on page 40.

Principal activities of the Nomination Committee during 2012

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

Non-Executive Director Appointments: The Nomination Committee's work had resulted in the recruitment of two new independent Non-Executive Directors, namely, Alex Mahon and Wendy Becker. In the case of each Non-Executive Director appointment, the Nomination Committee reviewed the existing skill-set on the Board and the knowledge, background and time commitment required for the roles. Professional services consultants, Lygon Group and The Zygos Partnership were instructed by the chairman of the Nomination Committee in connection with separate recruitment processes for Wendy Becker and Alex Mahon. Numerous candidates were interviewed and, following extensive searches, the Nomination Committee made separate recommendations to the Board to appoint Wendy Becker and Alex Mahon as independent Non-Executive Directors. The Nomination Committee is satisfied that there is no connection between the Company and either the Lygon Group or The Zygos Partnership. In January 2013, the Company announced that Wendy Becker had stood down as a Non-Executive Director of the Company.

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 will become Chairman immediately following Lord Grade's retirement.

Executive Director Appointments: In view of the resignation of Andrew Bracey in March 2012, the Nomination Committee carried out a formal process and appointed professional services consultants, Korn/Ferry Whitehead Mann, to undertake a formal search for a replacement Chief Financial Officer. The search was based on a formal role description. Candidates were shortlisted by Korn/Ferry Whitehead Mann and interviewed. The Nomination Committee considered and recommended to the Board to appoint Duncan Tatton-Brown as Chief Financial Officer. The Nomination Committee is satisfied that there is no connection between the Company and Korn/Ferry Whitehead Mann. Duncan has brought to the Board a wealth of experience from his previous roles including Fitness First plc, Kingfisher plc and B&Q plc as well as his current non-executive role at Rentokil Initial plc, which the Board viewed as important for the Company given its recent listing.

The Nomination Committee's and Board's deliberations during the period also included a discussion about the size and composition of the Executive Director team. The Board felt that additional executive support for the Chief Executive Officer would be needed in overseeing the Group's operations, particularly in view of the development and opening of CFC2. Consequently, in January 2012, the Board approved the appointment of Mark Richardson to the newly created Executive Director position of Operations Director. This appointment was significant in that it was the Group's first internal promotion to Executive Director level.

Succession plans: The Nomination Committee is responsible for overseeing the process of succession and management development for the Executive Directors. As part of this ongoing review, the Nomination Committee has again 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 with 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. In particular, it was noted that the succession plans had been utilised in relation to the promotion of Mark Richardson from the Management Committee to the position of Operations Director. A number of the succession objectives set in 2011 had been met or exceeded during 2012. The Nomination Committee were assured that appropriate plans are in place for the orderly succession of appointments to these roles.

Reviewing Board composition: The Nomination Committee had met regularly during the period to discuss Board composition in relation to the various Board appointments noted above. The Nomination Committee will continue to meet regularly to consider the Board size and composition. The Chairman Designate, Sir Stuart Rose will review Board composition in due course. Further information concerning Board independence is set out on page 39.

Reviewing committee composition: The Nomination Committee made a number of decisions about changing the composition of the Board committees in light of the various Non-Executive Director appointments to the Board. Following the period end, it recommended to the Board that the composition of both the Audit Committee and the Remuneration Committee be changed to bring the membership of each into line with the independence requirements of the 2010 Code. The Board accepted the recommendations that Non-Executive Director, Robert Gorrie stand down from both the Audit Committee and the Remuneration Committee, that Non-Executive Director, Jörn Rausing stand down from the Remuneration Committee and that independent Non-Executive Director, David Grigson be appointed to the Remuneration Committee. So with effect from February 2012 both the Audit Committee and the Remuneration Committee compositions are compliant with independence requirements of the 2010 Code.

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 had taken account of various factors including skills, experience and diversity of the existing Board.

The Nomination Committee considered the Davies Report on diversity and the newly introduced changes in the 2012 Code during the period, and consequently recommended to the Board the approval of a Board diversity policy. A key objective of the Board is that the Board composition is sufficiently diverse and reflects a broad range of skills, knowledge and experience to enable it to meets its responsibilities. The policy contains a number of measurable objectives, including a commitment to have a solid 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 will monitor the progress made by the Company in achieving these objectives.

The Board believes in the value and importance of diversity, including gender diversity, in the Boardroom and throughout the Group but it does not consider that it is appropriate or in the interests of the Company and its shareholders to set prescriptive targets for gender on the Board. Consequently the diversity policy does not contain any numerical targets. Diversity will remain an active consideration when changes to the Board's composition are contemplated.

Annual review: In addition to its annual performance evaluation, discussed on page 40, 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 2010 Code, by making specific reference to diversity, and the relevant revised guidance.

Directors' remuneration report

Dear Shareholder,

On behalf of the Board, I am pleased to present our Directors' remuneration report for 2012, for which we will be seeking your approval at our AGM on 10 May 2013.

Since the Company's listing in July 2010, the Remuneration Committee has been focused on introducing a number of changes that help to bring the overall structure of our executives' remuneration into line with the market for listed company executives. One such change was the introduction of the first executive Annual Incentive Plan for the Company in 2011. The Remuneration Committee wishes to further this alignment in 2013, by proposing the adoption of a new long-term incentive plan. The plan is intended to take the place of the existing Joint Share Ownership Scheme as the link between executive reward and the longer-term performance and objectives of the Company. These changes are intended to help the Remuneration Committee find a position of appropriate balance between remuneration elements that attract, retain and motivate the right calibre of senior executive talent and take into account the entrepreneurial culture of the business.

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 meet the Company's objectives for 2013 and to move the maximum payout under the plan into line with the appropriate market comparators.

Retaining and recruiting our executive team is an important responsibility of the Board and accordingly the Remuneration Committee undertook processes and shareholder consultation to set the remuneration for the appointment of the new Chief Financial Officer and the Operations Director. During 2012, there were no increases in base salaries of Executive Directors apart from on their promotion or appointment to the Board and an increase for the Chief Executive Officer.

An important function performed by the Remuneration Committee was to compile an attractive remuneration package for a successor Chairman of the Board. Following advice from our external advisers and a shareholder consultation process, we agreed remuneration for the newly appointed Chairman Designate, Sir Stuart Rose.

We are focused on providing clear reporting on past remuneration and future policy. We welcome shareholder feedback on this report.

Douglas McCallum
Remuneration Committee Chairman

Part A

Remuneration Committee

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

Since the prior period, the composition of the Remuneration Committee has changed with: (i) the resignation of David Young at the AGM in May 2012; (ii) the appointment in March 2012 and then subsequent resignation in January 2013 of Wendy Becker; (iii) the appointment of David Grigson in February 2013; and (iv) both Jörn Rausing and Robert Gorrie standing down from the Remuneration Committee in February 2013. The Chairman of the Remuneration Committee changed first with the appointment of Wendy Becker to the position in May 2012 in place of David Young and then with the appointment of Douglas McCallum to the position in January 2013. The biography of each member of the Remuneration Committee is set out on pages 32 and 33.

Other attendees at the Remuneration Committee meetings include:

Attendees	Regular attendee	Attend as required
Chief Executive Officer		✓
Director of Human Resources	✓	
Deputy Company Secretary	✓	
External advisers – Deloitte LLP		✓
Chairman of Board		✓
Director of Legal and Business Affairs and Company Secretary		✓

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 40.

External advice

During the period, the Remuneration Committee appointed external remuneration advisers, Deloitte LLP, to advise the Remuneration Committee. The mandate includes the review of the Company's existing remuneration policies and the development of the proposed long-term incentive arrangements.

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. Deloitte LLP have been separately engaged by the Company to provide advice on a range of Company tax matters. Apart from this engagement, the Remuneration Committee is satisfied that there is no connection between the Company and Deloitte LLP.

Separately the Company engaged Slaughter and May to provide advice on employment law, share schemes and tax as well as general UK legal advice in respect of a number of the Company's remuneration matters. This included providing advice and documentation necessary to implement the Chairman Designate share award and the proposed long-term incentive arrangements.

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

Principal activities of the Remuneration Committee during 2012

The role of the Remuneration Committee is outlined on page 37. In line with its terms of reference, the following key matters were considered by the Remuneration Committee since the start of the period:

- approval of the draft Directors' remuneration report;
- undertaking a tender process for the appointment of a new remuneration consultant;
- appointing Deloitte LLP as external remuneration consultants;
- formulating senior executive remuneration principles;
- implementation of the 2012 Annual Incentive Plan including consideration of the structure and selection of performance targets;
- design of the proposed long-term incentive plan for Executive Directors and senior management;
- review of performance under the 2011 Annual Incentive Plan and consideration of any bonuses payable;
- approval of the remuneration for the new Chief Financial Officer, the Chairman Designate and new Operations Director;
- consulting shareholders with respect to remuneration of the Chairman Designate;
- review of the terms of a share reallocation under the JSOS scheme to newly appointed Executive Directors;
- receiving a report from management on Executive Director remuneration benchmarking;
- consulting the Chief Executive Officer on performance and remuneration of the Executive Directors;
- receiving a report on Group-wide and management remuneration for 2012; and
- review of the Remuneration Committee's performance.

Annual review

In addition to its annual performance evaluation, discussed on page 40, 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 relevant revised external guidance.

Directors' remuneration report continued

Remuneration policy

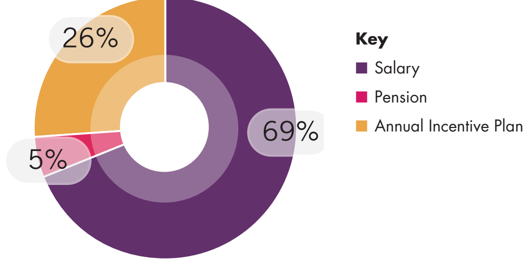
Remuneration principles for Executive Directors

The Company's current senior executive remuneration principles apply to the Executive Directors and the Company Secretary. The main principles of senior executive remuneration are set out below.

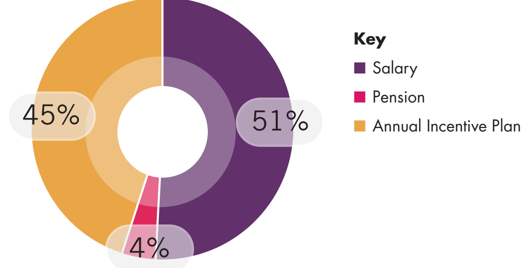
The Remuneration Committee seeks to ensure that total executive remuneration for its senior executives meets these principles including providing an appropriate balance between remuneration elements that attract, retain and motivate the right calibre of senior executive talent and take into account the entrepreneurial culture of the business. This is important to ensure that the Company has the necessary senior executives to deliver business growth and implement its strategy. When reviewing the appropriateness of the remuneration framework this year, we considered the incentive arrangements used in the previous period not only in the context of the business strategy but also against current and proposed external guidelines for executive remuneration. The Remuneration Committee is very aware of the sensitive environment surrounding executive pay.

The Remuneration Committee will continue to seek to maintain a balance between fixed and variable remuneration to best encourage achievement of such objectives. The existing balance of the remuneration of the Executive Directors is set out in the following charts which show the total Executive Director remuneration package split between fixed pay (both salary and pension, but not benefits) and variable pay (that is, the Annual Incentive Plan) for "threshold" and "maximum" performance. These charts do not include JSOS awards, ESOS awards or the Sharesave Scheme (and do not reflect the proposed new LTIP schemes).

Threshold performance



Maximum performance



The current remuneration of the Executive Directors consists of the following fixed and variable elements:

Fixed Pay

Base Pay and benefits
see pages 53 and 57

Pension
see pages 53 and 57

Performance-related pay

Annual

Annual Incentive Plan
see pages 53, 56 and 57

Long-term (over 3 years)

JSOS
see pages 54 and 58

All employee share plans - Sharesave and ESOS
see pages 54 and 58

Shareholding targets

(a) Base pay and benefits

Policy	How it operates
Attract and retain the right calibre of senior executive required to support the long-term interests of the business. Base salary: be broadly at market rate compared with similar senior executive roles and levels of responsibility in companies of a similar size and complexity to the Group. Base salary: periodically reviewed taking into account the Group's annual review process, business performance, total remuneration, appropriate market data and an individual's contribution to the Group. Benefits are aligned with those of all employees.	Base pay is paid monthly in cash. Reviewed annually by the Chief Executive Officer and the Remuneration Committee, with any changes becoming effective in April each year. Base pay is supplemented with private medical insurance, life assurance, travel insurance and Company-wide employee benefits.

(b) Pension

Policy	How it operates
Provide a market competitive level of pension provision. Group's contributions for the Executive Directors are on the same terms as for other employees.	Defined contribution Group personal pension scheme administered by Standard Life. The Group's contributions are a percentage of salary based on length of scheme membership.

(c) Annual Incentive Plan

Policy	How it operates
Provide a direct link between measurable and predictable Company and/or role specific performance and reward. Incentivise the achievement of outstanding results aligned to the business strategy and the achievement of planned business goals.	Requires the Group to achieve stretching targets in order for Executives Directors to be paid the maximum bonus. Each target has a percentage of base pay allocated to it. In 2012, there were four levels of performance for each target: - below threshold: 0% of the target amount payable; - threshold: 25% of the target amount payable; - target: 50% of the target amount payable; and - stretch: 100% of the target amount payable. The maximum bonus is a percentage of salary. For 2012, this percentage was 80% of base salary for the Executive Directors and 100% for the Chief Executive Officer. Bonus payments, if made, are payable in cash after the results of the Group have been audited. There is no deferred payment or payment in shares.

Directors' remuneration report continued

(d) Share incentive schemes

The Group currently operates three employee share incentive schemes, two of which are all employee HMRC approved schemes. The Executive Directors generally participate in all of these share schemes (with few exceptions). The JSOS is the most material of these share incentive schemes for the Executive Directors.

The Group's long-term incentives for senior executives are intended to:

- use equity to reward the creation of long-term shareholder value through the long-term growth of Ocado and the successful implementation of the Company strategy;
- ensure focus on increasing delivery of absolute long-term revenue growth, the efficient use of capital over the long-term and ensuring that Ocado maintains a strong liquidity position; and
- retain the senior executives over the performance period of the awards.

Policy	How it operates
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 before the Company's listing on the London Stock Exchange. There is no arrangement for the regular annual issue of shares to the Executive Directors under the JSOS. It was used for one-off recruitment and promotion of new Executive Directors during the period. 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 investment in the shares. Shares vest annually over a four year period. The participant benefits from the increase in value of the shares above a predetermined market price for each tranche.
ESOS Attract, retain and incentivise senior executives. Align the interests of the senior executives and the shareholders.	All employees, including the Executive Directors, are issued options under the ESOS shortly after commencing employment with the Group. There is no arrangement for the annual issue of options to the Executive Directors under the ESOS. A grant may not exceed £30,000 under the HMRC approved part of the scheme and three times annual salary under the unapproved part of the scheme. Options 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. Performance conditions are normally applicable for a minimum period of three years for discretionary grants.
Sharesave Attract, retain and incentivise senior executives. Align the interests of the senior executives and the shareholders.	All employees are eligible. 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 of £250. 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 years from the date of grant, subject to continued service.

Director shareholding obligation

It is the policy of the Company that the senior executives 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. The Remuneration Committee has not set any target shareholding levels for the senior executives.

Contracts

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

The Company's policy is that contractual terms on termination and any payments made are fair to the senior executive and the Group. Any severance payments should reflect real earnings loss only of the senior executive. Payments will be reduced where senior executives move to other employment. The Company should avoid rewarding failure or poor performance of a senior executive.

External appointments

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 Nominations 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 FTSE100 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.

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.

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 (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.

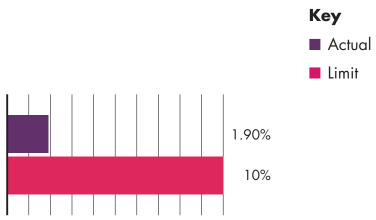
The JSOS rules have additional overriding limits on the number of shares that may be allocated under the JSOS. These dilution limits, were also recommended by the Remuneration Committee and approved by the Company's shareholders. Up to 7.5% of the Company's ordinary issued share capital may be held under the JSOS.

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

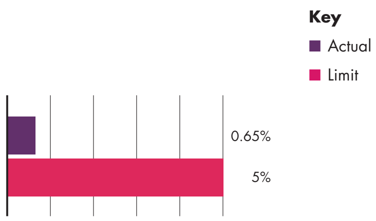
For these purposes, no account is taken of ordinary shares allocated prior to the Admission of the Company's ordinary shares to the Official List of the UK Listing Authority on 26 July 2010.

The Company monitors the number of shares issued under these schemes and their impact on dilution. The graphs below shows 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



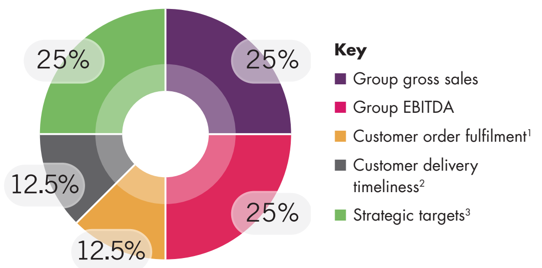
This summary does not include any possible commitments under proposed new schemes, including the Chairman Designate share award and the new LTIP awards, both of which are subject to shareholder approval.

Directors' remuneration report continued

Performance conditions

Annual Incentive Plan

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



1 The percentage of all items delivered exactly as ordered (that is, the percentage of items neither missing nor substituted), as reported on page 24.
2 The percentage of all deliveries that are on time or early (reported on page 24).
3 Budget and timing milestones relating to CFC2.

Financial performance measures, namely gross sales and EBITDA, were the primary targets, with 50% of the annual bonus being determined by performance against targets set by the Remuneration Committee at the start of the financial year. The performance measures were set by reference to the Company's budget for the period. Of the balance, 25% related to a key strategic objective of the Group, the completion of the CFC2 project on time and within budget. Each target was discrete and could be earned separately.

In addition to the above performance targets, the Remuneration Committee set two pre-conditions which had to be satisfied before a payment under the Annual Incentive Plan could be made (regardless of the performance against the targets). These pre-conditions were that: (i) the Group achieves positive EBT for the period; and (ii) 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 Annual Incentive Plan was subject to continued service at the Company. However if the Remuneration Committee determines that an Executive Director should be treated as a "good leaver" he may receive a proportion of the bonus that would otherwise have been payable, based on how much of the performance period had elapsed.

JSOS

The Company operates a long-term incentive plan called the joint share ownership scheme (the "JSOS"). It was established prior to the Company's listing on the London Stock Exchange. The JSOS was structured to provide a long-term incentive for participants, by allowing the participant to benefit from the increase (if any) in the value of the shares above a predetermined market price set by the Remuneration Committee (the "hurdle price"). Interests in the Company's shares are granted in tranches, each vesting a year apart with a higher hurdle rate for each tranche to reflect the targeted growth in the Company's share price over the vesting period. Details of this for the Executive Directors are set out in the table on page 66. No regular annual awards are made under the JSOS.

If a participant leaves during the currency of the scheme, he may lose all or part of his beneficial interest, depending on the circumstances in which he leaves (that is, whether he is a "good leaver", "bad leaver" or "very bad leaver"). Apart from these leaver provisions and the vesting period for each tranche, there are no performance conditions attaching to the shares in the JSOS. The share price hurdles are considered by the Remuneration Committee to be stretching at the time the awards were made. Given the participants invest their own money or take a Company loan to pay for their allocation of shares in the JSOS (except that no loan was offered to an Executive Director), they stand to lose money under the JSOS if the hurdles are not met which is unlike most other employee share schemes. The Remuneration Committee believes that this structure helps align the participants' interests with those of shareholders. The JSOS was overwhelmingly supported by shareholders, both when initially approved by shareholders prior to IPO and when the scheme was expanded in 2011, with 99.13% of votes cast by shareholders supporting the 2011 AGM resolution.

Remuneration policy for Chairman

The Remuneration Committee determines the remuneration of the Chairman within the limits set in the Company's Articles. The fee for the Chairman reflects the level of commitment and responsibility of the role.

The Chairman's fee is paid monthly in cash, inclusive of all committee roles and is not performance related or pensionable. The Chairman remuneration should not include bonus payments or options.

Remuneration policy for Non-Executive Directors

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

The Non-Executive Directors' remuneration consists of a Director fee including in the case of each Board committee chairman an additional fee for chairing a Board committee. Their remuneration does not include bonus payments, options or shares and is not pensionable. The fees are paid monthly in cash and there are no other benefits.

Fees are set at a level that ensures the Company can attract and retain individuals with the required skills, experience and knowledge so that the Board is able to effectively carry out its duties. The remuneration policy for Non-Executive Directors did not change during the period.

Remuneration during 2012

Director remuneration

The total remuneration paid to all of the Directors, including pension contributions, during the period was £1,961,000.

Executive Directors

Total Remuneration

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

Executive Director	Salary £'000	Benefits in kind £'000	Pension £'000	Annual Incentive Plan/ Bonus £'000	Share Plans £'000			Total remuneration £'000
					ESOS	JSOS	Sharesave	
Tim Steiner	350	1	28	104	—	—	—	483
Jason Gissing	250	1	20	59	—	—	—	330
Neill Abrams	200	1	16	48	4	—	—	268
Duncan Tatton-Brown	75	—	—	38	—	—	—	113
Mark Richardson	184	—	15	77	—	—	—	276
Former Director								
Andrew Bracey	79	1	2	0	—	—	—	82

Note the above summary table differs from the remuneration table in Part B of this Directors' remuneration report in that it shows only the Executive Directors, it shows all relevant remuneration amounts including pension and share plan vesting and it also contains amounts relating to, but not necessarily paid and received in, the 2011/2012 financial year.

(i) Base Salary

The base pay for Executive Directors except the Chief Executive Officer, did not change over the course of the period, and has not increased since December 2009.

The Remuneration Committee made this recommendation on the basis of a number of factors and following a presentation from the Chief Executive Officer and the Director of Human Resources and consultation with the Chairman. In considering this decision the Remuneration Committee also took into account benchmark data for a comparator group of listed company executives. The externally sourced data compared the Executive Director roles with similar senior executive roles in companies of a similar size and complexity to the Company. The Remuneration Committee also took into account a report from management concerning pay elsewhere in the Group. The Group had increased pay for the Group's employees in that year, as it had done in previous years in line with the Company's budgeted costs for the year. In light of the lower than forecast trading performance of the business and the operational problems faced by the business during the period, the Remuneration Committee felt that keeping base pay for the Executive Directors except the Chief Executive Officer, unchanged for the time being was commensurate with such lower than targeted performance. In the case of the Chief Executive Officer the Remuneration Committee agreed to increase his base pay from £350,000 to £450,000 per annum.

The Remuneration Committee based its decision to make an individual increase in salary for the Chief Executive Officer on his significant individual performance and external market data for the role. The market data showed a material gap between the market rate for chief executive roles at companies of a similar size and complexity to the Group. This approach is in line with the Group's policy where individuals achieve higher personal performance and make very significant contributions to the Group.

Base pay will be subject to further review in the subsequent period.

(ii) Pension

Pension contributions for Executive Directors are outlined on page 64.

(iii) Benefits

The Executive Directors received benefits during the period including private medical insurance, life assurance, travel insurance and Group-wide employee benefits, such as an employee product discount. The value of private medical insurance is outlined on page 64.

(iv) Annual Incentive Plan and bonus

The Remuneration Committee has recommended a bonus payment under the 2012 Annual Incentive Plan for the period. This recommendation is based on the following achievement of targets:

Financial performance	The Group's gross sales and EBITDA for the period did not exceed the threshold target set by the Remuneration Committee, so no bonus is payable in respect of the financial performance targets.
Customer service targets	The threshold level for the customer delivery timeliness target was not met. The threshold level for the customer order fulfilment target was exceeded, so a proportion of the bonus relating to the cutomer targets is payable, equal to 4.69%.
Strategic objective	CFC2 was delivered on time and on budget, so the maxiumum bonus of 25% in relation to the strategic objective is payable.
Preconditions	Both preconditions were met as the Group achieved positive EBT in the period (excluding exceptional items) and the Group did not breach any of its financial covenants under the £100 million debt facility.

Directors' remuneration report continued

Duncan Tatton-Brown is not a participant in the 2012 Annual Incentive Plan as he was appointed on 1 September 2012, after the plan had commenced. He will be participating in the 2013 Annual Incentive Plan. Duncan Tatton-Brown was paid a cash bonus of £37,500 representing his contractual entitlement to a bonus payment for the period of service during the 2012 financial year. This one-off payment was part of Duncan's appointment to the Board.

In addition to his participation in the 2012 Annual Incentive Plan, Mark Richardson was paid a discretionary bonus of £25,000. The Remuneration Committee approved the payment of a one-off cash bonus to Mark in recognition of his performance and contribution to the Company particularly in respect of the CFC2 project.

The Remuneration Committee considered that, although both one-off payments were made outside the 2012 Annual Incentive Plan, the amounts were moderate in size and in line with the Company's remuneration policy which allows the Remuneration Committee to exercise discretion in unique circumstances.

(v) Share plans

ESOS

No options under the ESOS were granted to Directors during the period.

The Remuneration Committee does not, as at the date of this report, have any intention of making 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.

Sharesave

The participation of the Executive Directors (except Mark Richardson) in the Sharesave Scheme commenced with options granted in October 2010 and a savings contract period that started in December 2010. A second invitation to employees was made under the Sharesave Scheme in February 2012. Jason Gissing cancelled his 2010 savings contract under the Sharesave Scheme and commenced a savings contract in May 2012 and with options granted in March 2012. Mark Richardson does not participate in the Sharesave Scheme. Employees were offered the opportunity to participate at an option price which was discounted from the applicable market value of the Company's shares at the date of grant. In the 2010 invitation the discount to market price was 15% and in the 2012 invitation the discount was 10%.

JSOS

Some JSOS shares have not yet vested, and those that have vested have not met the relevant hurdle prices, so the Executive Directors did not receive any remuneration in respect of the JSOS.

During the period, interests in 1,465,000 ordinary shares were acquired by Duncan Tatton-Brown and interests in 1,488,675 ordinary shares were acquired by Mark Richardson under the JSOS. The Remuneration Committee recommended these one-off awards to the new Executive Directors on their appointment to the Board, notwithstanding that the JSOS was used to make awards prior to the Company's listing to the then Executive Directors. Duncan's participation in the JSOS was in connection with his appointment to the Board and was a contractual entitlement. Given Duncan joined the Company in September 2012 his participation is limited to two tranches of JSOS shares. Mark had increased the size of his participation in the JSOS as a result of his promotion from the Management Committee to Executive Director. The intention was to align all Executive Directors' incentives so far as possible by ensuring that each had a comparable participation in the JSOS scheme. The share interests were acquired by the Directors from Appleby Trust (Jersey) Limited (the "EBT Trustee") in shares already held by the EBT Trustee; no rights to acquire newly issued ordinary shares had been created and accordingly this acquisition of beneficial interests did not dilute shareholders. On this basis the Remuneration Committee felt this departure from the Company's usual practice was justified.

Both Duncan Tatton-Brown and Mark Richardson invested their own money to pay for these share interests in the JSOS, so they stand to lose their investment in the JSOS if the share price hurdles are not exceeded.

The beneficial interests in ordinary shares acquired by the new Executive Directors were divided into two tranches, the first share interests which vest in 2013 and the second share interests which vest in 2014. The hurdle prices and vesting dates are set out on page 66.

Further details of each of the elements of "total remuneration" above are given on the following pages of this annual report:

Fixed Pay	Details
Base Salary	57
Pension	57

Pay for performance	Details
Annual Incentive Plan	57
Share plans	58

Non-Executive Directors

The fees paid to Non-Executive Directors and the Chairman during the period are set out in the remuneration table in Part B of this report. Neither the Chairman nor any Non-Executive Director were paid a bonus during the period. The remuneration arrangements for the Non-Executive Directors (not including the Chairman Designate) did not change during the period and have not changed since early 2010. The remuneration for the Chairman has not changed since his appointment in 2006. The Board considers that the remuneration for Non-Executive Directors reflects the time commitment and responsibilities of the role.

Executive Directors' service contracts

Ocado Limited has entered into service contracts with each of the Executive Directors for the provision of services to the Group. Each of the contracts was entered into on 22 June 2010, except in the cases of Mark Richardson and Duncan Tatton-Brown. Mark Richardson joined the Board as an Operations Director on 23 January 2012 and Duncan Tatton-Brown joined the Board as Chief Financial Officer on 1 September 2012 and their new service contracts were entered into with Ocado Limited, effective from the date of their appointments.

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

Director	Date of appointment by Ocado Limited	Date of appointment by Ocado Group plc	Unexpired term (months)	Notice period by Company (months)	Notice period by Director (months)	Current age
Jason Gissing	02/02/2000	09/03/2010	Continuous employment until terminated by either party	12	6	42
Tim Steiner	13/04/2000	09/03/2010	Continuous employment until terminated by either party	12	6	43
Neill Abrams	08/09/2000	10/12/2009	Continuous employment until terminated by either party.	12	6	48
Mark Richardson	03/02/2012	23/01/2012	Continuous employment until terminated by either party	12	6	48
Duncan Tatton-Brown	01/09/2012	01/09/2012	Continuous employment until terminated by either party	12	6	48
Former Director						
Andrew Bracey	03/11/2009	10/12/2009	Continuous employment until terminated by either party.	12	6	46

As explained in the statement of corporate governance on page 38, the Company's previous Chief Financial Officer, Andrew Bracey, resigned from the Board on 23 March 2012.

All of the current Executive Directors have been proposed for re-election at the Company's AGM.

External appointments for Executive Directors

As at the date of this Annual Report, Neill Abrams holds an alternate director position at Mr Price Group Limited, a company incorporated and operating in South Africa, and Duncan Tatton-Brown is a non-executive director at Rentokil Initial plc. Any remuneration for such roles is set out in Part B of this Directors' remuneration report.

Letters of appointment

The Chairman and the Non-Executive Directors do not have service contracts and were appointed to the Company by letter of appointment. The details of each Non-Executive Director appointment (including those that served as a Director during the period) are set out below:

Director	Date of appointment by Ocado Limited	Date of appointment by Ocado Group plc	Current term	Notice period (months)	Current age
Robert Gorrie	01/04/2000	09/03/2010	3 years	1	53
David Young	13/10/2000	09/03/2010	3 years	1	71
Jörn Rausing	13/03/2003	09/03/2010	3 years	1	53
Lord Grade	15/09/2006	09/03/2010	3 years	6	70
David Grigson	03/02/2010	09/03/2010	3 years	1	58
Ruth Anderson	—	09/03/2010	3 years	1	59
Douglas McCallum	—	03/10/2011	3 years	1	46
Wendy Becker	—	30/03/2012	3 years	1	47
Alex Mahon	—	01/06/2012	3 years	1	39
Sir Stuart Rose	—	11/03/2013	3 years	6	63

The Company appointed two Non-Executive Directors to the Board during the period. Wendy Becker was appointed to the Board as a Non-Executive Director on 30 March 2012. Alex Mahon joined the Board as a Non-Executive Director on 1 June 2012.

After the period, the Company appointed Sir Stuart Rose as a Non-Executive Director and Chairman Designate on 11 March 2013.

David Young resigned from the Board at the Company's AGM on 23 May 2012 and Wendy Becker resigned from the Board on 21 January 2013.

Director shareholdings

As outlined in the below table, all of the Executive Directors, other than Mark Richardson who was appointed to the Board in January 2012, own shares in the Company and collectively they have a very large shareholding in the Company's issued share capital, as at the date of this annual report. Almost all of the Non-Executive Directors own shares in the Company. The Directors, including their respective trusts, hold 19.49% of the Company's issued share capital.

Directors' remuneration report continued

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.

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

Director	Ordinary shares of 2 pence each 2 December 2012	Ordinary shares of 2 pence each 27 November 2011
Tim Steiner	14,396,400	14,396,400
Jason Gissing	9,657,600	9,657,600
Robert Gorrie	690,660	627,900
Neill Abrams	520,204	360,600
Lord Grade	362,021	329,110
Douglas McCallum	63,000	—
Duncan Tatton-Brown	60,000	—
Ruth Anderson	55,000	50,000
Wendy Becker	50,568	—
David Grigson	15,000	15,000

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

Sir Stuart Rose, Independent Non-Executive Director and Chairman Designate, had prior to joining the Board acquired 750,000 of the Company's ordinary shares on his own account.

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.

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

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

Director	Ordinary shares of 2 pence each 2 December 2012	Ordinary shares of 2 pence each 27 November 2011
Neill Abrams	1,100,800	1,100,800
Jörn Rausing	69,015,602	62,740,777
Jason Gissing	9,391,442	7,659,300
Tim Steiner	14,291,200	13,291,200

In addition to the above holdings, Caryn Abrams (wife of Neill Abrams) holds 75,000 ordinary shares, and is a discretionary beneficiary of a trust holding 133,100 (2011: 133,100) ordinary shares of the Company. Kate Tatton-Brown (wife of Duncan Tatton-Brown) holds 50,000 ordinary shares.

Participation in the Placing: During the period, the Company raised new equity of £35.8 million through the Placing. Further details of the Placing are in the Directors' report at page 68. The Directors' participation (either directly or via a trust of which they are a beneficiary) in the Placing is set out in the table below.

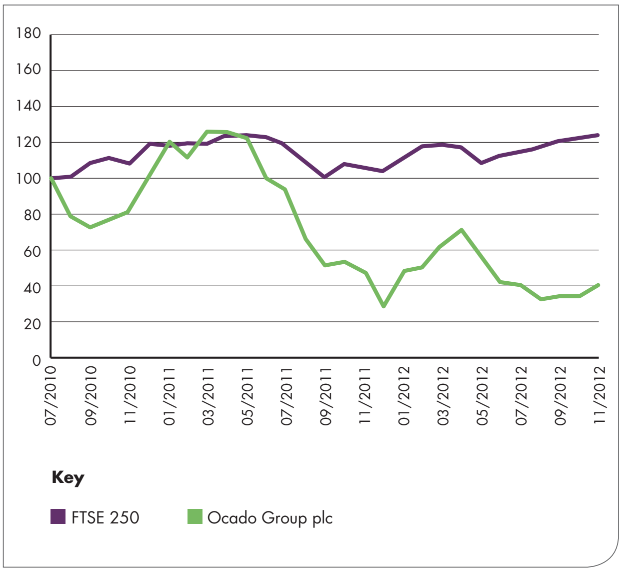
Director	Number of new ordinary shares
Jörn Rausing	6,274,825
Jason Gissing	1,732,142
Tim Steiner	1,000,000
Neill Abrams	156,250
Robert Gorrie	62,760
Michael Grade	32,911
Duncan Tatton-Brown	10,000
Ruth Anderson	5,000

Non-employee share options

In addition to the options granted under the ESOS, outlined above, Ocado had granted to certain non-employees options to subscribe for either ordinary shares or convertible preference shares in Ocado Limited (and following the reorganisation that resulted in the Company becoming the holding company of the Group, in the Company). Options over shares in Ocado Limited were granted to Andrew Bracey in 2002 and 2004 before he became a Director in 2009. Following the reorganisation that resulted in the Company becoming the holding company of the Group, such options are now options over ordinary shares in the Company.

Performance review

The following graph shows the total shareholder return ("TSR") performance of an investment of £100 in the Company's shares from its Admission on 26 July 2010 to the end of the period compared with an equivalent investment in the FTSE 250 Index (which was chosen because it represents a broad equity market index of which the Company is a constituent). The TSR was calculated by reference to the movements in share price. The Company has not paid a dividend since its Admission so the Company's TSR does not include a dividend amount.



Remuneration policy for 2013

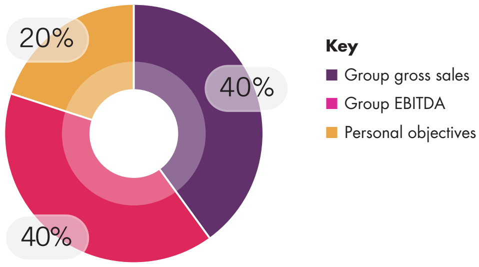
The following sets out the key proposed changes to the Company's remuneration policy and arrangements for the 2012/2013 financial year.

2013 Annual Incentive Plan

Following the period end, the Remuneration Committee approved the implementation of an Annual Incentive Plan for the Executive Directors applicable to the 2012/2013 financial year. This plan broadly reflects the framework of the 2012 Annual Incentive Plan.

The maximum bonus levels payable under the 2013 Annual Incentive Plan have been increased from 2012. This percentage is 100% of base salary (increased from 80%) for the Executive Directors and 125% (increased from 100%) for the Chief Executive Officer. The Remuneration Committee made this decision following its annual review of the Annual Incentive Plan. The decision took into account externally sourced benchmark data for a comparator group of listed company executives that compared the Executive Director roles with similar senior executive roles in companies of a similar size and complexity to the Company. The comparative data indicated that the Company's maximum percentage bonus potential was below the lower quartile of its comparator group. In light of this and unchanged base pay in 2012, the Remuneration Committee felt that increasing the maximum bonus potential for the Executive Directors was appropriate in order to maintain focus on one of the Company's strategic objectives of increasing the Group's rate of sales growth.

The mix of performance targets has been changed from 2012. The 2013 Annual Incentive Plan will be based on performance targets set out below, including 20%, which will relate to performance measured against role specific objectives. Given that CFC2 has commenced operations, the strategic performance target concerning CFC2 used in the 2012 Annual Incentive Plan no longer remained relevant to 2013. Each target is discrete and can be earned separately.



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 introduction of role specific objectives is intended to ensure that the 2013 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 2012/2013 financial year. For the maximum payment level to be achieved the Company must significantly outperform its budgeted sales growth and EBITDA for the 2012/2013 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 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 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.

Directors' remuneration report continued

Long-Term Incentive Plan

The Remuneration Committee is seeking to bring the overall structure of the Executive Directors' remuneration into line with the market for listed company executives. The Directors are proposing the adoption of new long-term incentive plans (the "LTIP"). The LTIP is intended to take the place of the existing JSOS as the primary link between executive reward and the longer-term performance and objectives of the Company. While only infrequent awards have been made under the JSOS, the LTIP will enable regular annual share awards to be made for the first time. The Remuneration Committee considered that the addition of an LTIP will help to ensure the alignment of the executives' and shareholders' interests, and will attract and retain candidates of the right calibre.

The Remuneration Committee intends to consult shareholders on the LTIP proposals. Following which, the LTIP will be put to shareholders for approval at the Company's AGM on 10 May 2013.

Further details of the principal terms of the proposed LTIP are set out in the appendix to the Notice of Annual General Meeting.

Director contracts

The Remuneration Committee does not anticipate that the Company's existing policy, as described above, with respect to Director contracts, notice periods and termination payments will change in the 2012/2013 financial year or subsequent years.

Chairman Remuneration

Sir Stuart Rose was appointed effective 11 March 2013 as an Independent Non-Executive Director and Chairman Designate. Sir Stuart will become Chairman after the Company's AGM. The following sets out the proposed remuneration arrangements for Sir Stuart Rose.

Base salary

In order to attract and retain Sir Stuart for the position, the Remuneration Committee approved the following base salary structure: £40,000 per annum for the period from appointment date 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 Company's AGM.

Share award

In addition to the base salary as described above, the Remuneration Committee considered that the remuneration package for Sir Stuart Rose should include a one-off award of up to £400,000 of ordinary shares in the Company (based on market value as at the date of announcement of the appointment) once he assumes the role of Chairman, to match Sir Stuart's acquisition of shares in the Company. The issue of Company shares to Sir Stuart will require shareholder approval at the Company's AGM on 10 May 2013.

The Company proposes to issue 452,284 ordinary shares in the Company to Sir Stuart ("Matching Shares") to match £400,000 of ordinary shares in the Company. Sir Stuart had prior to joining the Board already acquired 750,000 of the Company's ordinary shares on his own account. These shares are referred to as "Acquired Shares". Sir Stuart Rose will pay the nominal value, that is, £9,046, for the Matching Shares, and these shares will be held by Appleby Trust (Jersey) Limited. The Matching Shares will not vest until three years after the date of commencement as Chairman, 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 in accordance with paragraph D.1.3 of the 2010 Code, he shall not sell any of the Matching Shares until the first anniversary of his ceasing to be a member of the Board.

In determining the remuneration for Sir Stuart Rose once he takes over from Lord Grade as Chairman of the Company, the Remuneration Committee considered, exceptionally, that it would be appropriate for Sir Stuart to receive his remuneration in both cash and one-off award of the Company's shares. The Remuneration Committee believes that splitting Sir Stuart's remuneration in this way would best align his interests with those of the Company.

The Remuneration Committee does not believe that this would compromise his independence.

It was key to this decision that (i) no shares would be awarded to Sir Stuart unless he had acquired at least an equal number of shares at market value; (ii) that any share award would not vest until Sir Stuart had served as Chairman for three years; and (iii) even then, that Sir Stuart would not be entitled to sell any shares awarded to him until a year after he eventually leaves the Board.

Implementing the award is subject to the shareholder approval as set out in the Notice of AGM.

Vesting and forfeiture

Although Sir Stuart holds the Acquired Shares in his own name, the Matching Shares will be issued to and held by a nominee. On vesting, the nominee will transfer the Matching Shares to Sir Stuart. Ordinarily, vesting will take place on the third anniversary of Sir Stuart becoming Chairman of the Board, that is 10 May 2016, provided that, on that date, he remains a Director of the Company. 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 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.

Further details of the share award are described in the Company's Notice of AGM.

Basis of preparation

This report is a Directors' remuneration report for the 53 weeks ended 2 December 2012, prepared for the purposes of satisfying section 420 of the Companies Act 2006. It has been drawn up in accordance with the 2010 Code, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Listing Rules and the Disclosure and Transparency Rules.

The Directors' remuneration report is divided into two sections; part A (above) contains the unaudited information and part B contains the information required to be audited in accordance with the section 497 of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The Company's auditors, PricewaterhouseCoopers LLP, have audited Part B of the Directors' remuneration report.

Part B: Audited information

(a) Directors' remuneration

The following section provides details of the remuneration, pension and share interests of the Directors for the 53 weeks to 2 December 2012 and has been audited.

	Salaries and fees 2012 £'000	Benefits in kind[1] 2012 £'000	Annual bonus 2012 £'000	Total 2012 £'000	Total (restated)[2] 2011 £'000
Executive Directors					
Tim Steiner	350	1	104	455	351
Jason Gissing	250	1	59	310	251
Andrew Bracey	79	1	0	80	251
Neill Abrams[3]	200	1	48	249	201
Mark Richardson	184	—	77	261	—
Duncan Tatton-Brown[4]	75	—	38	113	—
Non-Executive Directors					
Lord Grade	100	—	—	100	100
David Grigson	62	—	—	62	62
David Young	24	—	—	24	48
Ruth Anderson	50	—	—	50	50
Robert Gorrie[5]	40	—	—	40	40
Jörn Rausing[6]	40	—	—	40	40
Douglas McCallum	40	—	—	40	7
Patrick Lewis	—	—	—	—	8
Wendy Becker	32	—	—	32	—
Alex Mahon	20	—	—	20	—
Total	1,546	4	326	1,876	1,409

1 Benefits in kind comprise private medical insurance.
2 Total remuneration for 2011 has been restated to exclude employer's life insurance cover as it is not deemed to be a benefit in kind.
3 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 and consequently there is nothing to disclose under provision D.1.2 of the 2010 Code.
4 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 the England and Wales). For his services to Rentokil Initial plc Duncan is paid a salary of £70,000 per annum.
5 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.
6 In addition to his annual salary in the prior period, Jörn Rausing received £20,000 relating to unpaid accrued amounts from the 2010 financial year.

In addition to the emoluments detailed above, £85,000 (2011: £130,000) has been charged to the income statement in respect of Directors' share-based payments.

Directors' remuneration report continued

Pension

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

Director	2012 £'000	2011 £'000
Tim Steiner	28	28
Jason Gissing	20	20
Neill Abrams	16	16
Mark Richardson	15	—
Andrew Bracey	2	4
	81	68

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

ESOS

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

Director	Date of issue	2 December 2012	Exercise price (£)	27 November 2011[1]	Exercise price (£)	Exercise period
Tim Steiner	May-05	200,000	1.15	200,000	1.15	16/05/08 – 15/05/15
Neill Abrams	May-02	—	1.00	175,000	1.00	07/02/05 – 06/02/12
	May-02	—	1.50	175,000	1.50	07/02/05 – 06/02/12
	Nov-03	100,000	0.90	100,000	0.90	30/11/06 – 29/11/13
	May-05	100,000	1.15	100,000	1.15	16/05/08 – 15/05/15
Jason Gissing	May-05	200,000	1.15	200,000	1.15	16/05/08 – 15/05/15
Robert Gorrie	May-02	—	1.50	175,000	1.50	07/02/05 – 06/02/12
Mark Richardson	May-05	96,850	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
Andrew Bracey	Nov-09	—	—	46,296	1.35	16/11/12 – 15/11/19

[1] The prior period was restated to reflect options held by Mark Richardson, who became a Director during the current period.

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

	2 December 2012		27 November 2011[1]	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	1,338,146	1.21	1,338,146	1.21
Granted during the period	—	—	—	—
Forfeited during the period	(396,296)	1.48	—	—
Exercised during the period	(175,000)	1.00	—	—
Outstanding at the end of the period	766,850	1.12	1,338,146	1.21
Exercisable at the end of the period	766,850	1.12	1,291,850	1.21

[1] The prior period was restated to reflect options held by Mark Richardson, who became a Director during the current period.

During the period Neill Abrams exercised 175,000 options at an exercise price of 100.00 pence per ordinary share. After selling 171,646 ordinary shares to fund the cost of exercise, he retained the balance of 3,354 ordinary shares and therefore no proceeds from the sale of shares were payable to him in respect of these exercised options. On this exercise he realised gains of £4,000. No other Directors exercised options during the period and consequently the aggregate of gains made by Directors on the exercise of options during the period was £4,000.

During the period end 175,000 options held by Neill Abrams and 175,000 options held by Robert Gorrie, were not exercised by them and consequently lapsed. The 46,296 options held by Andrew Bracey automatically lapsed when he left the Company in March 2012.

Non-employee share options

Andrew Bracey retained the following options over ordinary shares in the Company when he left the Company in March 2012:

	Date of issue	2 December 2012	Exercise price (£)	27 November 2011	Exercise price (£)	Exercise period
Andrew Bracey	Feb-02	886,700	0.90	886,700	0.90	04/02/02 – 04/02/17
	Jan-04	435,300	1.03	435,300	1.03	03/01/04 – 03/01/18

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

JSOS

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

Director	Date of issue	2 December 2012	Hurdle price (£)	27 November 2011[1]	Hurdle price (£)	Exercise period
Tim Steiner	Feb-10	2,513,100	1.73	2,513,100	1.73	01/01/11 – 01/01/19
	Feb-10	2,513,100	1.91	2,513,100	1.91	01/01/12 – 01/01/19
	Feb-10	2,513,100	2.08	2,513,100	2.08	01/01/13 – 01/01/19
	Feb-10	2,513,000	2.28	2,513,000	2.28	01/01/14 – 01/01/19
Neill Abrams	Feb-10	1,017,200	1.73	1,017,200	1.73	01/01/11 – 01/01/19
	Feb-10	1,017,200	1.91	1,017,200	1.91	01/01/12 – 01/01/19
	Feb-10	1,017,200	2.08	1,017,200	2.08	01/01/13 – 01/01/19
	Feb-10	1,017,100	2.28	1,017,100	2.28	01/01/14 – 01/01/19
Jason Gissing	Feb-10	1,675,400	1.73	1,675,400	1.73	01/01/11 – 01/01/19
	Feb-10	1,675,400	1.91	1,675,400	1.91	01/01/12 – 01/01/19
	Feb-10	1,675,400	2.08	1,675,400	2.08	01/01/13 – 01/01/19
	Feb-10	1,675,300	2.28	1,675,300	2.28	01/01/14 – 01/01/19
Duncan Tatton-Brown	Nov-12	365,000	1.70	—	—	01/01/13 – 01/01/19
	Nov-12	1,100,000	1.80	—	—	01/01/14 – 01/01/19
Mark Richardson	Feb-10	223,300	1.73	223,300	1.73	01/01/11 – 01/01/19
	Feb-10	223,300	1.91	223,300	1.91	01/01/12 – 01/01/19
	Feb-10	223,300	2.08	223,300	2.08	01/01/13 – 01/01/19
	Feb-10	223,200	2.28	223,200	2.28	01/01/14 – 01/01/19
	Nov-12	711,975	1.70	—	—	01/01/13 – 01/01/19
	Nov-12	776,700	1.80	—	—	01/01/14 – 01/01/19
Andrew Bracey	Feb-10	1,675,400	1.73	1,675,400	1.73	01/01/11 – 01/01/19
	Feb-10	1,675,400	1.91	1,675,400	1.91	01/01/12 – 01/01/19
	Feb-10	—	—	1,675,400	2.08	01/01/13 – 01/01/19
	Feb-10	—	—	1,675,300	2.28	01/01/14 – 01/01/19

[1] The prior period was restated to reflect options held by Mark Richardson, who became a Director during the current period.

Of the JSOS shares listed against Andrew Bracey in the table above, 3,350,700 shares which have not vested under JSOS scheme rules, lapsed when Andrew left the Company in March 2012. Andrew retained the tranches which have already vested.

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:

	2 December 2012		27 November 2011[1]	
	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	28,417,100	2.00	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	1.74	28,417,100	2.00
Exercisable at the end of the period	10,858,000	1.82	6,881,100	1.73

[1] The prior period was restated to reflect options held by Mark Richardson, who became a Director during the current period.

For further information relating to the Group's JSOS see Note 4.7.1 to the consolidated financial statements.

Sharesave Scheme

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

Director	Date of issue	2 December 2012	Exercise price (£)	27 November 2011	Exercise price (£)	Exercise period
Tim Steiner	Oct-10	7,745	1.16	7,745	1.16	01/12/13 – 01/06/14
Neill Abrams	Oct-10	7,745	1.16	7,745	1.16	01/12/13 – 01/06/14
Jason Gissing	Oct-10	—	—	7,745	1.16	01/12/13 – 01/06/14
Jason Gissing	Mar-12	9,846	0.91	—	—	01/05/15 – 01/11/15
Andrew Bracey	Oct-10	—	—	7,745	1.16	01/12/13 – 01/06/14

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:

	2 December 2012		27 November 2011	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	30,980	1.16	30,980	1.16
Granted during the period	9,846	0.91	—	—
Forfeited during the period	(15,490)	1.16	—	—
Exercised during the period	—	—	—	—
Outstanding at the end of the period	25,336	1.06	30,980	1.16
Exercisable at the end of the period	—	—	—	—

Share price and other option information

The closing market price of the Company's shares as at 30 November 2012, being the last trading day in the period ending on 2 December 2012, was 73.90 pence per ordinary share (2011: 85.00 pence) and the share price range applicable during the period was 52.85 pence to 131.80 pence per ordinary share.

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

Approved by the Board

Douglas McCallum
Chairman of the Remuneration Committee
Ocado Group plc

13 March 2013

Directors' report

Principal activities

Ocado Group plc is the holding company of the Ocado group of subsidiary companies (the "Group"). The principal activities of the Group are the retailing, logistics and distribution of grocery and consumer goods and the development and monetisation of intellectual property and technology for the online retailing, logistics and distribution of these goods.

Share capital

The Company's authorised and issued ordinary share capital as at 2 December 2012 comprised a single class of ordinary shares of 2 pence each. As at the the latest practicable date prior to publication of this report, the Company's issued share capital consisted of 614,660,938 issued ordinary shares.

Placing of shares: The Company raised additional equity capital of £35.8 million on 19 November 2012 (the "Placing") through the issue of 55,875,557 ordinary shares in the Company at a price of 64 pence per share. The Placing represented approximately 9.99% of the Company's then existing issued share capital. The Placing price represented a premium of 5.7% to the closing middle market price of 60.55 pence per ordinary share on 16 November 2012, being the latest trading date prior to the announcement of the Placing.

As part of the Placing, the Company agreed to place:

- 8,381,334 new ordinary shares with direct and indirect subsidiaries of FIL Limited, a substantial shareholder of the Company;
- 6,503,317 new ordinary shares with direct and indirect subsidiaries of The London and Amsterdam Trust Company Limited, a substantial shareholder of the Company;
- 6,274,825 new ordinary shares with Hamilton Trust Company Limited as trustee for Apple II Trust (of which Jörn Rausing, a Director of the Company, is a beneficiary), a substantial shareholder of the Company;
- 1,732,142 new ordinary shares with Trident Trust Co (BVI) Limited as trustee of The Jason Gissing Life Settlement II (of which Jason Gissing, a Director of the Company, is a beneficiary); and
- 1,000,000 new ordinary shares with Arthur Seligman as trustee of the Steiner 2008 Millennium Trust (of which Tim Steiner, a Director of the Company, is a beneficiary).

Each of the persons above is a related party of the Company for the purposes of the Listing Rules.

In addition, an aggregate of 266,921 new ordinary shares were placed with Neill Abrams, Robert Gorrie, Michael Grade, Duncan Tatton-Brown and Ruth Anderson, all of whom are Directors of the Company.

No commissions were paid by the Company to placees in respect of the Placing. Further details of the Placing are at Note 4.6.1 of the consolidated financial statements.

The issue of the Placing shares was effected by way of a cashbox placing. The Company alloted and issued the Placing shares on a non-pre-emptive basis to the placees in consideration for Goldman Sachs International transferring its holdings of ordinary shares and redeemable preference shares in Weir Developments Limited to the Company. Accordingly, instead of receiving cash as consideration for the issue of Placing shares, at the conclusion of the Placing the Company owned the entire issued share capital of Weir Developments Limited whose only asset was its cash reserves, which represented an amount approximately equal to the net proceeds of the Placing.

The Placing shares were credited as fully paid and ranked *pari passu* in all respects with the existing issued ordinary shares of 2 pence per share in the capital of the Company, including the right to receive all dividends and other distributions declared, made or paid in respect of such ordinary shares after the date of issue of the Placing shares.

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.

JSOS voting rights: Of the issued ordinary shares, 36,305,099 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 and to receive dividends in respect of these 36,305,099 ordinary shares, although it may vote in respect of 16,779,416 ordinary shares which have vested under the joint share ownership scheme and remain in the trust at period end, at the request of a participant. The total of 36,305,099 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 36,305,099 ordinary shares held by the EBT Trustee. However, the Company does not hold any shares in treasury. Note 4.6.1(a) 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 issuing or buying back its shares

The Company was authorised by shareholders on 23 May 2012, at the annual general meeting, to purchase in the market up to 10% of its issued ordinary shares (excluding any treasury shares). No shares have been bought back under this authority during the period. 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 AGM or, if earlier, until the close of business on 10 August 2014.

A special resolution will also be proposed to renew the Directors' powers to disapply pre-emption rights in connection with the allotment of equity securities for cash and otherwise up to 5% of the issued share capital.

Significant shareholders

During the period (up to 2 December 2012), 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
Lansdowne Partners	35,144,035	5.72	Indirect
The Nomad Investment Partnership L.P.	39,573,655	7.08	Not stated
FIL Limited	56,085,345	10.03	Indirect
UBS Investment Bank	Below 3%	Below 3%	Direct & Indirect
Manning and Napier Advisors LLC	Below 5%	Below 5%	Direct

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 3 December 2012 and 11 March 2013, except as set out in the table below:

	Number of ordinary shares	Percentage of issued share capital	Nature of holding
Credit Suisse Group AG	Below 3%	Below 3%	Indirect

Appointment and replacement of Directors

The appointment and replacement of Directors is governed by the Articles, the 2010 Code, the Companies Act and related legislation. A Director may be appointed by the Company by ordinary resolution of the shareholders or by the Board. Under the Articles, at every annual general meeting of the Company, each Director shall retire from office and may offer himself for reappointment by the members.

Amendment of the Articles

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

Significant related party agreements

Apart from the Placing noted above, there were no contracts of significance during the period between any Group company and either (1) a Director of the Company or (2) a controlling shareholder of the Company.

Change of control

The Company does not have any agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that it should be noted that: (i) provisions of the Company's share schemes may cause options and shares granted to employees under such schemes to vest on a takeover; and (ii) certain members of senior management (not including the Directors) who were employed prior to 2010 are entitled to a payment contingent on

Directors' report continued

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.

There are a number of important 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 these agreements are as follows:

Sourcing Agreement with Waitrose: If the Sourcing Agreement were to end or if Waitrose were unable to source products for the Group, Ocado would need to find or create replacement own-label products and find appropriate suppliers. More information on Waitrose can be found at www.johnlewispartnership.co.uk.

If certain competitors of Waitrose or John Lewis acquire 50% or more of the shares or control of the Company's Board, the parties 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.

Credit facility agreement: The Group's £100 million credit facility with Barclays Bank plc, HSBC Bank plc and Lloyds TSB Bank plc may be terminated in certain circumstances, including through an event of default or if the Group were to breach one or more of the covenants under this facility. Details concerning each of the lenders under the facility can be found on, in the case of Barclays Bank, its website (http://group.barclays.com/), in the case of HSBC Bank, its website (www.hsbc.com) and in the case of Lloyds TSB Bank, its website (www.lloydstsb.com/).

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) covering the majority 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.

Creditor payment policy

It is Group policy to agree, either directly or via an agent, terms and conditions for its business transactions with suppliers. The Company is a holding company and has an insignificant number of trade creditors. Under the Sourcing Agreement with Waitrose, Waitrose negotiates terms and conditions with suppliers of grocery products on behalf of both itself and Ocado Limited, the Group's main trading entity. Ocado Limited also negotiates payment terms for its suppliers. The Group did not follow any code or standard on payment practice in the period. The average trade payables time period for resale goods for Ocado Limited for the 53 weeks ended 2 December 2012 was 27 days (2011: 26 days), based on the ratio of its average trade payables for resale goods to the amounts invoiced during the period by those trade payables.

Research and development and future developments

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

The Group's likely future developments including its strategy are described in the Strategy section on pages 10 to 19.

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 the Group's principal risks and uncertainties as set on pages 43 to 44. Based on the Group's rolling forecasts, the Directors are satisfied that the Company, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis in accordance with Going Concern and Liquidity risk: Guidance for Directors of UK Companies 2009, published by the Financial Reporting Council in October 2009.

The principal risks and uncertainties section on pages 43 to 44 describes the principal risks and uncertainties facing the Group including those that may have an adverse impact on the Group's operations, performance or future prospects and the going concern basis noted above. The Group's cash flows, liquidity position and borrowing facilities and business activities are described on page 68 and set out in the Group's financial statements on pages 75 to 111. Further information on going concern is set out in Section 1 to the consolidated financial statements on page 80.

The Company's going concern statement has been reviewed by the Company's auditors, PricewaterhouseCoopers LLP.

Financing arrangements

Borrowings and covenants: The most material of the Group's borrowing facilities is its £100 million credit facility with Barclays Bank plc, HSBC Bank plc and Lloyds TSB Bank plc. During the period, the Group agreed with the banks to extend the maturity of the facility agreement for a further 18 months to 6 July 2015. The extended facility comprises a term facility of £90 million and a working capital revolving credit facility of £10 million.

The facility contains customary covenant provisions in respect of net debt, gross debt and interest cover. The financial covenants are as follows:

- *Net debt ratio* – the net debt financial covenant requires that the ratio of net debt to adjusted EBITDA must not exceed 3.5:1 for the test periods falling in the financial years ending in 2012 and 2013. This ratio gradually reduces to 2.25:1 during the subsequent 18 month extension period.
- *Interest cover ratio* – the interest cover financial covenant requires that the ratio of EBITDA to net interest at the end of each quarter period be not less than 4:1 for the test periods falling in the financial years ending 2012 and 2013, gradually increasing to 5:1 during the subsequent 18 month extension period.
- *Gross debt ratio* – the gross debt financial covenant requires that the ratio of gross debt to adjusted EBITDA must not exceed 5.5:1 for any test period in respect of which EBITDA is less than £35 million. EBITDA in respect of a test period refers to EBITDA for the relevant prior 12 month period.

For any financial year, in which the net debt: EBITDA ratio exceeds 2.5:1 there is a cap on capital expenditure which is set above the Company's current expectations over the extended term of the facility agreement.

All covenant tests which exist under the terms of the facility are tested quarterly.

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

	Covenant	Actual
Net debt/EBITDA	<3.5:1	1.72:1
Fixed interest cover	>4:1	5.12:1
Gross debt/EBITDA	<5.5:1	4.34:1

Disclosure of information to auditors

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

Independent auditors

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

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.

Each of the Directors, who held office at the date of the approval of this annual report, confirms, to the best of their knowledge that:

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

Forward-looking statements

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

Approved by the Board

Neill Abrams
Company Secretary and Legal and Business Affairs Director

13 March 2013

Ocado Group plc
Registered in England and Wales no. 07098618

Financial

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Our vans have become synonymous with online grocery shopping. We seek to continually enhance the service we provide to our customers with the lowest substitution levels, and best on time performance. Our customer service team members take great pride in fulfilling this part of the retail mission, providing our customers with a professional and friendly experience.

Read more @ results12.ocadogroup.com

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Independent auditors' report
to the members of Ocado Group plc

We have audited the consolidated financial statements of Ocado Group plc for the period ended 2 December 2012 which comprise the consolidated income statement, consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the statement of Directors' responsibilities as set out on page 71, 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 International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 2 December 2012 and of its loss and cash flows for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' report for the financial period for which the consolidated financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a statement of corporate governance has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- the Directors' report, set out on pages 68 to 71, in relation to going concern; and
- the part of the statement of corporate governance relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Ocado Group plc for the period ended 2 December 2012 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

13 March 2013

Consolidated income statement

for the 53 weeks ended 2 December 2012

	Notes	53 weeks ended 2 December 2012 £m	52 weeks ended 27 November 2011 £m
Revenue	2.1.2	678.6	598.3
Cost of sales		(471.3)	(413.6)
Gross profit		207.3	184.7
Other income		16.7	12.6
Distribution costs		(169.8)	(151.7)
Operating profit before administrative expenses and exceptional items		54.2	45.6
Administrative expenses		(48.8)	(44.5)
Exceptional items	2.1.5	(2.4)	—
Operating profit	2.1.3	3.0	1.1
Finance income	4.3.1	0.4	1.2
Finance costs	4.3.1	(4.0)	(4.7)
Loss before tax		(0.6)	(2.4)
Taxation	2.2.1	(1.8)	1.9
Loss for the period		(2.4)	(0.5)
Loss per share			
Basic and diluted loss per share	2.3	(0.46)	(0.10)

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

	Notes	53 weeks ended 2 December 2012 £m	52 weeks ended 27 November 2011 £m
Operating profit		3.0	1.1
Adjustments for:			
Depreciation of property, plant and equipment	3.2.1	22.8	21.3
Amortisation expense	3.1.1	6.2	5.4
Impairment of property, plant and equipment[1]	3.2.1	0.1	0.1
Exceptional items[1]	2.1.5	2.4	—
EBITDA		34.5	27.9

1 Included with Exceptional items is a £0.9 million impairment charge (see Note 2.1.5).

Consolidated statement of comprehensive income

for the 53 weeks ended 2 December 2012

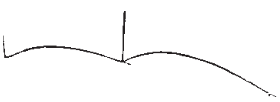
	53 weeks ended 2 December 2012 £m	52 weeks ended 27 November 2011 £m
Loss for the period	(2.4)	(0.5)
Other comprehensive (expense)/income:		
Cash flow hedges		
— (Losses)/gains arising on forward foreign exchange contracts	(1.8)	0.6
— Losses/(gains) transferred to property, plant and equipment	1.5	(1.2)
— Losses arising on interest rate swaps	(0.4)	(0.1)
Other comprehensive expense for the period, net of tax	(0.7)	(0.7)
Total comprehensive expense for the period	(3.1)	(1.2)

Consolidated balance sheet

as at 2 December 2012

	Notes	2 December 2012 £m	27 November 2011 £m
Non-current assets			
Intangible assets	3.1.1	21.6	13.3
Property, plant and equipment	3.2.1	280.3	194.1
Deferred tax asset	2.2.2	7.9	9.6
Available-for-sale financial asset	3.3.1	0.4	0.4
		310.2	217.4
Current assets			
Inventories	3.4.1	17.5	14.3
Trade and other receivables	3.4.2	30.8	37.9
Derivative financial instruments	4.4.1	0.2	—
Cash and cash equivalents	3.4.3	89.6	92.1
		138.1	144.3
Total assets		448.3	361.7
Current liabilities			
Trade and other payables	3.4.4	(94.1)	(75.6)
Borrowings	4.1.2	(2.6)	(3.3)
Obligations under finance leases	4.1.3	(19.8)	(19.6)
Derivative financial instruments	4.4.1	(0.7)	(0.3)
Provisions	3.5.1	(0.4)	(0.7)
		(117.6)	(99.5)
Net current assets		20.5	44.8
Non-current liabilities			
Borrowings	4.1.2	(91.3)	(45.8)
Obligations under finance leases	4.1.3	(31.1)	(42.6)
Provisions	3.5.1	(2.2)	(0.5)
Deferred tax liability	2.2.2	(0.4)	(0.4)
		(125.0)	(89.3)
Net assets		205.7	172.9
Equity			
Share capital	4.6.1	12.3	11.2
Share premium	4.6.1	247.8	213.8
Treasury shares reserve	4.6.1	(53.9)	(53.8)
Reverse acquisition reserve	4.6.1	(116.2)	(116.2)
Other reserves	4.6.1	(0.7)	—
Retained earnings		116.4	117.9
Total equity		205.7	172.9

The consolidated financial statements on pages 75 to 111 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)

13 March 2013

Consolidated statement of cash flows

for the 53 weeks ended 2 December 2012

	Notes	53 weeks ended 2 December 2012 £m	52 weeks ended 27 November 2011 £m
Cash flows from operating activities			
Loss before tax		(0.6)	(2.4)
Adjustments for:			
— Depreciation of property, plant and equipment	3.2.1	22.8	21.3
— Amortisation expense	3.1.1	6.2	5.4
— Impairment of property, plant and equipment	3.2.1	1.0	0.1
— Movement in provision for dilapidations expense	3.5.1	0.1	0.2
— Movement in provision for insurance claims	3.5.1	(0.1)	0.5
— Share-based payments charge	2.1.4	0.9	0.6
— Foreign exchange movements		(0.4)	(0.3)
— Finance income	4.3.1	(0.4)	(1.2)
— Finance costs	4.3.1	4.0	4.7
Changes in working capital:			
— Movement in inventories		(3.2)	(1.8)
— Movement in trade and other receivables		5.8	(17.8)
— Movement in trade and other payables		3.6	17.0
Cash generated from operations		39.7	26.3
Interest paid		(7.7)	(6.2)
Net cash flows from operating activities		32.0	20.1
Cash flows from investing activities			
Purchase of property, plant and equipment		(82.6)	(105.2)
Purchase of intangible assets		(14.2)	(9.0)
Decrease in short-term investment		—	30.0
Interest received		0.4	1.0
Net cash flows from investing activities		(96.4)	(83.2)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital net of transaction costs	4.6.1	35.1	1.3
Proceeds from borrowings		50.1	39.3
Repayment of borrowings		(2.8)	(2.3)
Proceeds from asset based financing arrangements		2.1	9.9
Repayments of obligations under finance leases		(20.9)	(19.0)
Settlement of forward foreign exchange contracts		(1.8)	1.1
Net cash flows from financing activities		61.8	30.3
Net decrease in cash and cash equivalents		(2.6)	(32.8)
Cash and cash equivalents at the beginning of the period		92.1	124.6
Exchange adjustments		0.1	0.3
Cash and cash equivalents at the end of the period	3.4.3	89.6	92.1

Consolidated statement of changes in equity

for the 53 weeks ended 2 December 2012

	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 2010		11.1	206.1	(47.7)	(116.2)	0.7	117.8	171.8
Loss for the period		—	—	—	—	—	(0.5)	(0.5)
Other comprehensive income/(expense):								
Cash flow hedges								
— Gains arising on forward foreign exchange contracts	4.6.1(b)	—	—	—	—	0.6	—	0.6
— Losses arising on interest rate swaps	4.6.1(b)	—	—	—	—	(0.1)	—	(0.1)
— Gains transferred to property, plant and equipment	4.6.1(b)	—	—	—	—	(1.2)	—	(1.2)
Total comprehensive expense for the period ended 27 November 2011		—	—	—	—	(0.7)	(0.5)	(1.2)
Transactions with owners:								
— Issue of ordinary shares	4.6.1	0.1	7.7	(6.3)	—	—	—	1.5
— Disposal of treasury shares	4.6.1	—	—	0.2	—	—	—	0.2
— Share-based payments charge	4.7.1	—	—	—	—	—	0.6	0.6
Total transactions with owners		0.1	7.7	(6.1)	—	—	0.6	2.3
Balance at 27 November 2011		11.2	213.8	(53.8)	(116.2)	—	117.9	172.9
Loss for the period		—	—	—	—	—	(2.4)	(2.4)
Other comprehensive (expense)/income:								
Cash flow hedges								
— Losses arising on forward foreign exchange contracts	4.6.1(b)	—	—	—	—	(1.8)	—	(1.8)
— Losses arising on interest rate swaps	4.6.1(b)	—	—	—	—	(0.4)	—	(0.4)
— Losses transferred to property, plant and equipment	4.6.1(b)	—	—	—	—	1.5	—	1.5
Total comprehensive expense for the period ended 2 December 2012		—	—	—	—	(0.7)	(2.4)	(3.1)
Transactions with owners:								
— Issues of ordinary shares	4.6.1	1.1	35.0	—	—	—	—	36.1
— Ordinary shares issue costs	4.6.1	—	(1.0)	—	—	—	—	(1.0)
— Share-based payments charge	4.7.1	—	—	—	—	—	0.9	0.9
— Reacquisition of interest in treasury shares	4.6.1	—	—	(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

Notes to the consolidated financial statements

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 53 weeks ended 2 December 2012. The prior financial period represents the 52 weeks ended 27 November 2011.

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 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. The accounting policies applied are consistent with those described in the annual report and financial statements for the 52 weeks ended 27 November 2011 of Ocado Group plc.

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 derivative financial instruments which have been measured at fair value.

The Directors are satisfied that the Group's existing facilities provide sufficient funding for the Group to meet its liabilities as they fall due 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 2011/12 or issued but are not yet effective, and which have not been early adopted by the Group

The Group has considered the following new standards, interpretations and amendments to published standards that are effective for the Group for the financial year beginning 28 November 2011 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:

- IAS 24 (revised), "Related Party Disclosures"
- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"
- Amendments to various IFRSs and IASs arising from the IASB's annual improvements project

The following new standards, interpretations and amendments to published standards and interpretations which are relevant to the Group have been issued but are not effective for the financial year beginning 28 November 2011 and have not been adopted early:

- IFRS 9, "Financial Instruments" (not yet endorsed by the EU)
- IFRS 10, "Consolidated Financial Statements"
- IFRS 11, "Joint Arrangements"
- IFRS 12, "Disclosures of Interests in Other Entities"
- IFRS 13, "Fair Value Measurement"
- IAS 27 (revised 2011), "Separate Financial Statements"
- IAS 28 (revised 2011), "Investments in Associates and Joint Ventures"
- Amendments to various IFRSs and IASs arising from the IASB's annual improvements project

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.

Notes to the consolidated financial statements continued

Section 1 — Basis of preparation continued

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

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 judgements, 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. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are set out below. Sensitivities to the estimates and assumptions are provided, where relevant, in the related notes:

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

Going concern basis including its effect on the impairment of assets

The Group has cash reserves and maintains a mixture of short and medium-term debt and lease finance arrangements that are designed to ensure that it has sufficient available funds to finance its operations. The Board monitors rolling forecasts of the Group's liquidity requirements based on a range of precautionary scenarios to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

In November 2012, the Group amended and extended by 18 months until 6 July 2015 its £100 million credit facility. At that time, it issued new equity of £35.8 million through a share placing to help strengthen the Company's balance sheet and support the continued growth of the Group.

After making appropriate enquiries and having considered the business activities as set out on page 68 and the Group's principal risks and uncertainties as set out on pages 43 to 44, the Directors are satisfied that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

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

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

- Increase in gross sales;
- Growth in EBITDA;
- Timing and quantum of future capital expenditure; and
- The estimation and cost of future funding.

Section 2 — Results for the year

2.1 Loss before tax

Accounting policies

Revenue

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

Sales through the Webshop are shown net of returns, relevant marketing vouchers/offers and value added taxes. Relevant vouchers/offers include money-off coupons, conditional spend vouchers and offers such as buy three for the price of two. Delivery charges are included in revenue.

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

Cost of sales

Cost of sales represents the cost of groceries and other products the Group sells, any associated licence fees which are linked to the volume of sales of specific products or product groups, including the branding and sourcing fees payable to Waitrose, adjustments to inventory, and charges for transportation of goods from a supplier to a CFC.

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

Other income

Other income comprises the fair value of consideration received or receivable for advertising services provided by Ocado to suppliers and other third parties on the Webshop, commission income, sublease payments receivable and amounts receivable not in the ordinary course of business.

Employee benefits

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

Distribution costs

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

Administrative expenses

Administrative expenses consist of all IT costs, advertising and marketing expenditure, employment costs of all 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, expenses relating to the Group's share schemes 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.

2.1.1 Segmental reporting

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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, as required by IFRS 8. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors.

The principal activity of the Group is managed as one segment. The Group does not split its activities into any further regional or product subdivisions in its internal management reporting, as any such split would not provide the Group's management with any meaningful information. Consequently, all activities relate to this one segment.

The chief operating decision-maker's main indicator of performance of the segment is EBITDA, which is reconciled to operating profit below the income statement.

2.1.2 Gross sales

	53 weeks ended 2 December 2012 £m	52 weeks ended 27 November 2011 £m
Revenue	678.6	598.3
VAT	41.9	36.5
Marketing vouchers	11.4	8.0
Gross sales	731.9	642.8

Notes to the consolidated financial statements continued

2.1.3 Operating profit

	Notes	53 weeks ended 2 December 2012 £m	52 weeks ended 27 November 2011 £m
Operating profit is stated after charging/(crediting) the following:			
Cost of inventories recognised as an expense		458.0	400.9
Employment costs	2.1.4	122.2	110.7
Amortisation expense	3.1.1	6.2	5.5
Depreciation of property, plant and equipment	3.2.1	22.8	21.3
Impairment of property, plant and equipment, included in:	3.2.1	1.0	0.1
— Distribution costs		0.1	0.1
— Exceptional items	2.1.5	0.9	—
Operating lease rentals			
— Land and buildings		3.7	2.9
— Other leases		0.4	0.5
Net foreign exchange gains		(0.7)	(0.2)

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

	53 weeks ended 2 December 2012 £'000	52 weeks ended 27 November 2011 £'000
Audit services		
— Statutory Group and Company audit	45	47
— Statutory audit of subsidiaries	153	162
Non-audit services		
— Advisory support	49	19
	247	228

2.1.4 Employee information

Employment costs during the financial period were as follows:

	Notes	53 weeks ended 2 December 2012 £m	52 weeks ended 27 November 2011 £m
Staff costs during the period:			
Wages and salaries		124.0	109.3
Social security costs		11.4	10.3
Pension costs — defined contribution plans		1.7	1.4
Share-based payment expense		0.9	0.6
Total gross employment costs		138.0	121.6
Staff costs capitalised to intangible assets	3.1.1	(11.5)	(7.9)
Staff costs capitalised to property, plant and equipment	3.2.1	(4.3)	(3.0)
Total employment cost expense		122.2	110.7
Average monthly number of employees (including Executive Directors) by function:			
Operational staff		4,595	4,567
Support staff		661	613
		5,256	5,180

Two revisions have been made to the prior period disclosure of the total employment cost expense; i) the amount of staff costs capitalised to property, plant and equipment have now been excluded from the total employment cost expense disclosed, whereas previously only internal development costs capitalised to intangible assets were excluded from this amount, and ii) disclosure of staff costs capitalised to intangible assets previously included the costs of externally bought-in software developers, which have now been excluded from the amount disclosed.

This is a change in disclosure only and has no impact on the income statement expense in the prior period.

2.1.5 Exceptional items

In the current period the Group incurred costs relating to the set-up of CFC2 and its new non-food business. As part of the set-up of CFC2, land, buildings and plant and machinery with a net book value of £0.9 million were impaired due to it being superseded by assets from CFC2. This impairment charge is included in the charge as disclosed in Note 3.2.

	2 December 2012 £m	27 November 2011 £m
Set-up costs		
— CFC2	1.2	—
— Non-food	0.3	—
Impairment charge	0.9	—
	2.4	—

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

Deferred taxation

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Recognition, therefore, involves judgement regarding the prudent forecasting of future taxable profits of the business and in applying an appropriate risk adjustment factor. The final outcome of some of these items may give rise to material profit and loss and/or cash flow variances. At the balance sheet date management has forecast that the Group would generate future taxable profits against which existing tax losses could be relieved. As a result, the Group has recognised a deferred tax asset of £7.9 million with respect to available tax losses. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

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

2.2.1 Taxation — Income statement

	53 weeks ended 2 December 2012 £m	52 weeks ended 27 November 2011 £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	(1.9)
Total deferred tax	1.7	(1.9)
Income tax charge/(credit)	1.8	(1.9)

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:

Notes to the consolidated financial statements continued

2.2.1 Taxation — Income statement continued

	53 weeks ended 2 December 2012 £m	52 weeks ended 27 November 2011 £m
Loss before tax	(0.6)	(2.4)
Effective tax credit at the UK tax rate of 24.67% (2011: 26.68%)	(0.1)	(0.6)
Effect of:		
Change in UK corporation tax rate	0.7	0.5
Permanent differences	0.4	—
Difference in overseas tax rates	0.5	—
Tax losses for which no deferred tax asset recognised	0.8	(3.8)
Temporary differences on which no deferred tax recognised	(0.5)	2.0
Income tax charge/(credit) for the period	1.8	(1.9)

As announced in the March 2012 Budget, the standard rate of corporation tax in the UK changed from 26% to 24% with effect from 1 April 2012 rather than the planned 25% which was enacted by the Finance Act 2011. Accordingly, the effective rate for the period is 24.67%.

The Budget also announced further reductions in the standard rate of corporation tax from 24% to 22% phased in over two years at 1% per annum from April 2012. The change from 24% to 23% with effect from 1 April 2013 was enacted in the Finance Act 2012 and so deferred tax has been provided at 23% as the asset is expected to be realised on or after 1 April 2013. A deferred tax charge of £0.7 million (2011: £0.5 million) has been recognised in the current period in respect of this.

Further changes have not been substantively enacted at the balance sheet date and are therefore not included in these financial statements. The proposed reduction to 22% from 1 April 2014 is not expected to be substantively enacted until a future Finance Bill is approved. The overall effect of the further changes from 23% to 22%, if applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax asset by £0.4 million in 2014 (2011: £0.8 million).

2.2.2 Taxation — Balance sheet

Movement in the deferred tax asset is as follows:

	Tax losses carry-forwards £m
As at 28 November 2010	7.3
Effect of change in UK corporation tax rate	(0.5)
Tax losses recognised through the income statement	2.8
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

Movement in the unrecognised deferred tax asset is analysed below:

	Tax losses carry-forwards £m	Accelerated capital allowances £m	Share-based payments £m	Derivative financial instruments £m	Other short-term timing differences £m	Total £m
As at 28 November 2010	70.2	19.1	0.6	—	—	89.9
Adjustment in respect of prior periods	(1.1)	(2.2)	—	—	—	(3.3)
Effect of change in UK corporation tax rate	(5.2)	(1.5)	—	—	—	(6.7)
Potential movement in the period unrecognised through:						
— Income statement	(3.8)	2.4	(0.5)	0.1	—	(1.8)
— Equity	—	—	(0.1)	—	—	(0.1)
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

2.2.2 Taxation — Balance sheet continued

As at 2 December 2012 the Group had approximately £279.5 million of unutilised tax losses (2011: approximately £278.7 million) available for offset against future profits. A deferred tax asset of £7.9 million (2011: £9.6 million) has been recognised in respect of £34.4 million (2011: £38.5 million) of such losses, the recovery of which is supported by the expected level of future profits of the Group.

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

Movement in the recognised deferred tax liability is analysed below:

	Intangible assets £m
As at 28 November 2010	—
Recognised through the income statement	(0.4)
As at 27 November 2011	(0.4)
Recognised through the income statement	—
As at 2 December 2012	(0.4)

In the 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:

	53 weeks ended 2 December 2012 million	52 weeks ended 27 November 2011 million
Issued shares at the beginning of the period	522.1	521.0
Effect of share options exercised in the period	0.3	0.6
Effect of treasury shares disposed of in the period	—	0.1
Effect of shares issued in the period	0.9	—
Weighted average number of shares at the end of the period	523.3	521.7
	£m	£m
Loss for the period	(2.4)	(0.5)
	pence	pence
Basic and diluted loss per share	(0.46)	(0.10)

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 29,805 share options.

Notes to the consolidated financial statements continued

Section 3 — Operating assets and liabilities

3.1 Intangible assets

Accounting policies

Intangible assets

Computer software is carried at cost less accumulated amortisation and any recognised impairment loss. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful lives of three to seven years. Costs relating to the development of computer software for internal use are capitalised once all the development phase recognition criteria of IAS 38 "Intangible Assets" are met. When the software is available for its intended use, these costs are amortised in equal annual amounts over the estimated useful life of the software. Amortisation and impairment of computer software or licences are charged to administrative expenses in the period in which they arise. For the Group's impairment policy on non-financial assets see Note 3.2.

3.1.1 Intangible assets — computer software

Cost capitalisation

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

Estimation of useful life

The charge in respect of periodic amortisation is derived by estimating an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced amortisation charge in the income statement. The useful life is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Group will receive benefits from the software. For unique software products developed and controlled by the Group, the life is based on historical experience with similar products as well as anticipation of future events which may impact their useful life, such as changes in technology.

	2 December 2012 £m	27 November 2011 £m
Cost		
At the beginning of the period	45.0	34.4
Additions	0.9	2.4
Disposals	(2.1)	—
Internal development costs capitalised	13.6	8.2
At the end of the period	57.4	45.0
Accumulated amortisation		
At the beginning of the period	(31.7)	(26.3)
Disposals	2.1	—
Charge for the period	(6.2)	(5.4)
At the end of the period	(35.8)	(31.7)
Net book value		
At the end of the period	21.6	13.3

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

	2 December 2012 £m	27 November 2011 £m
Cost	4.3	4.3
Accumulated amortisation	(2.9)	(2.7)
Net book value	1.4	1.6

3.1.1 Intangible assets — computer software continued

The movement in cost includes assets of £nil (2011: £0.2 million) reclassified from owned assets to assets held under finance lease following asset based financing arrangements.

For the 53 weeks ended 2 December 2012, internal development costs capitalised represented approximately 94% (2011: 78%) of expenditure on intangible assets and 11% (2011: 7%) of total capital spend including property, plant and equipment.

3.2 Property, plant and equipment

Accounting policies

Property, plant and equipment

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

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

Land is held at cost and not depreciated. Depreciation on other non-current assets is charged to distribution costs and 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 63% of the total asset base of the Group in 2012 (2011: 54%). 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 borrowing costs, see Note 4.3.

Estimation of useful life

The charge in respect of periodic depreciation is derived by estimating an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the income statement. The useful lives of the Group's assets are determined by management at the time the asset is acquired and reviewed at least annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their useful life, such as changes in technology.

Impairment of non-financial assets

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

Given the Group's current operating structure, the lowest level at which cash flows can reasonably be assessed is for the Group as a whole. The Group prepares detailed forward projections which are constantly updated and refined. Based on these projections the Board does not consider that any further impairment of assets is required, other than that recognised in the income statement.

Notes to the consolidated financial statements continued

3.2.1 Property, plant and equipment

	Land and buildings £m	Fixtures, fittings, plant and machinery £m	Motor vehicles £m	Total £m
Cost				
At 28 November 2010	38.2	126.3	27.4	191.9
Additions	59.2	49.2	7.2	115.6
Disposals	—	(0.5)	(3.0)	(3.5)
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
Accumulated depreciation and impairment				
At 28 November 2010	(11.1)	(69.6)	(11.3)	(92.0)
Charge for the period	(1.6)	(14.1)	(5.6)	(21.3)
Impairment	—	(0.1)	—	(0.1)
Disposals	—	0.5	3.0	3.5
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)
Net book value				
At 27 November 2011	84.7	91.7	17.7	194.1
At 2 December 2012	102.6	159.0	18.7	280.3

† Cost includes cumulative capitalised borrowing costs of £4.8 million (2011: £0.7 million). The capitalisation rate for both periods is the same as that incurred on the underlying borrowings, being LIBOR plus 3.5%. Borrowing costs are capitalised on specific borrowings which are wholly attributable to qualifying assets.

Of the current period impairment charge, £0.9 million has been included within exceptional costs.

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 27 November 2011				
Cost	26.6	67.8	29.7	124.1
Accumulated depreciation and impairment	(12.0)	(38.5)	(12.3)	(62.8)
Net book value	14.6	29.3	17.4	61.3
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

3.2.1 Property, plant and equipment continued

The movement in cost includes assets of £2.1 million (2011: £9.7 million) reclassified from owned assets to assets held under finance lease following asset based financing arrangements.

Included within property, plant and equipment is capital work-in-progress for land and buildings of £77.7 million (2011: £60.0 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £80.0 million (2011: £35.2 million).

Property, plant and equipment with a net book value of £135.1 million (2011: £66.7 million) has been pledged as security for the secured loans (Note 4.1.2). Included in this amount is £120.9 million (2011: £57.2 million) relating to assets pledged as security for amounts already drawn down under the £100 million credit facility.

3.3 Available-for-sale financial assets

Accounting policies

Available-for-sale financial assets

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

Investments

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

Available-for-sale investments are held at fair value if this can be reliably measured. If the equity instruments are not quoted in an active market and their fair value cannot be reliably measured, the available-for-sale investment is carried at cost, less accumulated impairment. Unless the valuation falls below its original cost, gains and losses arising from changes in fair value of available-for-sale assets are recognised directly in equity. On disposal the cumulative net gain or loss is transferred to the statement of comprehensive income. Valuations below cost are recognised as impairment losses in the income statement. Dividends are recognised in the income statement when the right to receive payment is established.

3.3.1 Available-for-sale financial assets

	2 December 2012 £m	27 November 2011 £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 Working capital

Accounting policies

Inventories

Inventories comprise goods held for resale, fuel and other consumable goods made up principally of spares. Inventories are valued at the lower of cost and net realisable value. Goods held for resale and consumables are valued using the weighted average cost basis. Fuel stocks are valued at calculated average cost. Costs include all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, 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.

Notes to the consolidated financial statements continued

3.4 Working capital continued

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is 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 balance sheet date and bank overdrafts. Bank overdrafts are repayable on demand and form an integral part of the Group's cash management. They are therefore included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

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

Trade and other payables

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

3.4.1 Inventories

	2 December 2012 £m	27 November 2011 £m
Goods for resale	15.3	12.4
Consumables	2.2	1.9
	17.5	14.3

No security has been granted over inventories.

3.4.2 Trade and other receivables

	2 December 2012 £m	27 November 2011 £m
Trade receivables	8.4	12.1
Less: provision for impairment of trade receivables	(0.3)	(0.3)
Net trade receivables	8.1	11.8
Other receivables	16.0	19.2
Prepayments	6.2	6.3
Accrued income	0.5	0.6
	30.8	37.9

No security has been granted over trade and other receivables.

Included in other receivables is £5.8 million (2011: £4.3 million) due from suppliers in relation to supplier funded promotional activity and £5.4 million (2011: £5.5 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:

	2 December 2012		27 November 2011	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	18.9	—	30.2	—
Past due 0–3 months	5.7	(0.1)	1.5	(0.1)
Past due 3–6 months	0.1	(0.1)	0.1	(0.1)
Past due over 6 months	0.2	(0.1)	0.1	(0.1)
	24.9	(0.3)	31.9	(0.3)

3.4.2 Trade and other receivables

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

Trade receivables that were past due but not impaired amounted to £5.8 million (2011: £1.4 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:

	2 December 2012 £m	27 November 2011 £m
Past due 0–3 months	5.7	1.4
Past due 3–6 months	0.1	—
Past due over 6 months	—	—
	5.8	1.4

3.4.3 Cash and cash equivalents

	2 December 2012 £m	27 November 2011 £m
Cash at bank and in hand	89.6	92.1

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

3.4.4 Trade and other payables

	2 December 2012 £m	27 November 2011 £m
Trade payables	60.0	50.8
Taxation and social security	4.9	4.4
Accruals	26.0	17.8
Deferred income	3.2	2.6
	94.1	75.6

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

3.5 Provisions

Accounting policies

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

Insurance claims

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

Dilapidations

Provisions for dilapidations are recognised on a lease by lease basis and are based on the Group's best estimate of the likely committed cash outflow.

Notes to the consolidated financial statements continued

3.5.1 Provisions

	Insurance claims £m	Dilapidations £m	Total £m
As at 28 November 2010	0.1	0.4	0.5
Charged/(credited) to the income statement			
— additional provision	0.5	0.3	0.8
— unused amounts reversed	—	—	—
Used during the period	—	(0.1)	(0.1)
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

Analysis of total provisions as at 27 November 2011

	Insurance claims £m	Dilapidations £m	Total £m
Current	0.6	0.1	0.7
Non-current	—	0.5	0.5
	0.6	0.6	1.2

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

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 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.

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.

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	2 December 2012 £m	27 November 2011 £m
Current liabilities			
Borrowings	4.1.2	2.6	3.3
Obligations under finance leases	4.1.3	19.8	19.6
		22.4	22.9
Non-current liabilities			
Borrowings	4.1.2	91.3	45.8
Obligations under finance leases	4.1.3	31.1	42.6
		122.4	88.4
Total borrowings and finance leases		144.8	111.3

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 27 November 2011				
Secured loans	3.3	3.2	42.6	49.1
Total borrowings	3.3	3.2	42.6	49.1
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

Notes to the consolidated financial statements continued

4.1.2 Borrowings continued

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 2 December 2012 £m	Carrying amount as at 27 November 2011 £m
8.0	May-07	Property, plant and equipment	Clearing bank base rate + 3.0%	Quarterly	Feb-15	3.6	5.6
1.5	Dec-06	Freehold property	LIBOR + 2.75%	Quarterly	Feb-15	0.7	0.8
1.5	Feb-09	Freehold property	LIBOR + 2.75%	Quarterly	Feb-15	0.9	1.1
2.8	Dec-09	Freehold property	LIBOR + 3.5%	Quarterly	Jan-13	2.1	2.3
2.6	July-12	Freehold property	LIBOR + 2.75%	Quarterly	July-15	2.5	—
85.3	July-10	Property, plant and equipment	LIBOR + 3.5%	Note†	July-15	81.8	39.3
2.5	July-12	Property, plant and equipment	9.12%††	Monthly	July-17	2.3	—
						93.9	49.1
Disclosed as:							
Current					4.1.1	2.6	3.3
Non-current					4.1.1	91.3	45.8
						93.9	49.1

† During the period the Group extended its £100 million credit facility for a further 18 months to 6 July 2015. The extended facility now comprises a capital facility of £90 million and a working capital revolving credit facility of £10 million. The margin on the facility has been amended to a variable rate of between 3.00% and 4.00% inclusive, depending on the Group's net debt ratio. Capital repayments on the facility commence on 2 December 2013 and are payable quarterly thereafter. The carrying amount as at 2 December 2012 is net of unamortised transaction costs.

†† Calculated as the effective interest rate, the calculations of which include an optional balloon payment at the end of the term.

4.1.3 Obligations under finance leases

	2 December 2012 £m	27 November 2011 £m
Obligations under finance leases due:		
Within one year	19.8	19.6
Between one and two years	11.5	18.2
Between two and five years	13.8	17.5
After five years	5.8	6.9
Total obligations under finance leases	50.9	62.2

	Notes	2 December 2012 £m	27 November 2011 £m
Minimum lease payments due:			
Within one year		22.2	23.1
Between one and two years		13.1	20.2
Between two and five years		16.0	20.0
After five years		6.4	7.9
		57.7	71.2
Less: future finance charges		(6.8)	(9.0)
Present value of finance lease liabilities		50.9	62.2
Disclosed as:			
Current	4.1.1	19.8	19.6
Non-current	4.1.1	31.1	42.6
		50.9	62.2

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	2 December 2012 £m	27 November 2011 £m
Current assets			
Cash and cash equivalents	3.4.3	89.6	92.1
Current liabilities			
Borrowings	4.1.2	(2.6)	(3.3)
Obligations under finance leases	4.1.3	(19.8)	(19.6)
		(22.4)	(22.9)
Non-current liabilities			
Borrowings	4.1.2	(91.3)	(45.8)
Obligations under finance leases	4.1.3	(31.1)	(42.6)
		(122.4)	(88.4)
Total net debt		(55.2)	(19.2)

£0.6 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 3.4.3.

4.2.2 Reconciliation of net cash flow to movement in net debt

	2 December 2012 £m	27 November 2011 £m
Net decrease in cash and cash equivalents	(2.6)	(32.8)
Exchange adjustments	0.1	0.3
Decrease in short-term investment	—	(30.0)
Net increase in debt and lease financing	(28.5)	(27.9)
Non-cash movements:		
— Assets acquired under finance lease	(7.5)	(9.3)
— Net movement in arrangement fees charged against loans	2.5	—
Movement in net debt in the period	(36.0)	(99.7)
Opening net (debt)/cash	(19.2)	80.5
Closing net debt	(55.2)	(19.2)

4.3 Finance income and costs

Accounting policy

Borrowing costs

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

4.3.1 Finance income and costs

	53 weeks ended 2 December 2012 £m	52 weeks ended 27 November 2011 £m
Interest on cash balances and short-term investment	0.4	1.2
Finance income	0.4	1.2
Borrowing costs		
— Obligations under finance leases	(3.1)	(4.1)
— Borrowings	(4.9)	(1.0)
Capitalised borrowing costs	4.1	0.6
Fair value movement on derivative financial instruments	(0.1)	(0.2)
Finance costs	(4.0)	(4.7)
Net finance costs	(3.6)	(3.5)

Notes to the consolidated financial statements continued

4.4 Derivative financial instruments

Accounting policies

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the contract date and are subsequently measured at their fair value at each balance sheet date. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. At 2 December 2012 the Group's derivative financial instruments consist of interest rate swaps which are designated as cash flow hedges of future interest payments, and forward foreign exchange contracts which are designated as cash flow hedges of highly probable forecast transactions.

The Group documents at the inception of the hedge the relationship between hedging instruments and hedged items, the risk management objectives and strategy and its assessment of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

This assessment is performed retrospectively at each financial reporting period. Movements on the hedging reserve within shareholders' equity are shown in the consolidated statement of comprehensive income. The full fair value of hedging derivatives 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

	2 December 2012 £m	27 November 2011 £m
Derivative assets		
Forward foreign exchange contracts (cash flow hedges)	0.2	—
Derivative liabilities		
Forward foreign exchange contracts (cash flow hedges)	(0.3)	(0.2)
Interest rate swaps (cash flow hedges)	(0.4)	(0.1)
	(0.7)	(0.3)

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 2 December 2012 were €22.8 million (2011: €31.6 million). The corresponding amounts in sterling at 2 December 2012 were £18.6 million (2011: £27.4 million).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next six months. Cumulative gains and losses recognised in the hedging reserve within other comprehensive income are £0.4 million of losses (2011: £1.4 million of gains). These losses 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 20 years).

Interest rate swaps

The Group has entered into interest rate swaps to convert interest payable on certain floating rate debt from a variable to a fixed interest rate. As at 2 December 2012 the total notional amount of interest rate swaps was £53.2 million (2011: £25.4 million), representing 54.04% (2011: 50.25%) 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.

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.

Notes to the consolidated financial statements continued

4.5.1 Fair value of financial instruments continued

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

	Notes	2 December 2012 Carrying value	2 December 2012 Fair value	27 November 2011 Carrying value	27 November 2011 Fair value
Financial assets					
Cash and cash equivalents	3.4.3	89.6	89.6	92.1	92.1
Trade receivables	3.4.2	8.1	8.1	11.8	11.8
Other receivables (incl. accrued income, excl. prepayments)	3.4.2	16.5	16.5	19.8	19.8
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		114.8	114.8	124.1	124.1
Financial liabilities					
Trade payables	3.4.4	(60.0)	(60.0)	(50.8)	(50.8)
Accruals	3.4.4	(26.0)	(26.0)	(17.8)	(17.8)
Borrowings	4.1.2	(93.9)	(100.2)	(49.1)	(44.7)
Obligations under finance leases	4.1.3	(50.9)	(51.1)	(62.2)	(62.2)
Derivative liabilities	4.4.1	(0.7)	(0.7)	(0.3)	(0.3)
Total financial liabilities		(231.5)	(238.0)	(180.2)	(175.8)

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

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

The fair values of cash and cash equivalents, 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 3.52% (2011: 5.0%).

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 in light of the current economic climate. The Group's guideline is to maintain transactional bank accounts and term deposits with financial institutions which carry a Moody's rating of Aa3/P1 for long-term and short-term deposits.

4.5.2 Credit risk continued

Trade and other receivables

Trade and other receivables at the period end comprise mainly monies due from suppliers, which are considered of a good credit quality, 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 and the Group's effective controls over this area. The Group has provided for doubtful receivables in respect of consumer sales by reviewing the ageing profile and, based on prior experience, assessing the recoverability of overdue balances.

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

	Notes	2 December 2012 £m	27 November 2011 £m
At the beginning of the period		(0.3)	(0.2)
Provision for impairment of receivables		(0.3)	(0.3)
Uncollectible amounts written off		0.2	0.2
Recovery of amounts previously provided		0.1	—
At the end of the period	3.4.2	(0.3)	(0.3)

4.5.3 Liquidity risk

To manage the working capital needs of the business, the Group is reliant on being able to negotiate sufficient financing arrangements. To achieve this, the Group maintains a mixture of short and medium-term debt and lease finance arrangements that are designed to ensure it has sufficient available funds to finance its operations.

The Group monitors its liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. For further details see Note 4.8.

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

	Notes	Carrying value £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	3.4.4	(50.8)	(50.8)	(50.8)	—	—	—
Accruals	3.4.4	(17.8)	(17.8)	(17.8)	—	—	—
Borrowings	4.1.2	(49.1)	(54.8)	(6.0)	(5.8)	(43.0)	—
Obligations under finance leases	4.1.3	(62.2)	(71.2)	(23.1)	(20.2)	(20.0)	(7.9)
Derivative liabilities	4.4.1	(0.3)	(0.3)	(0.3)	—	—	—
27 November 2011		(180.2)	(194.9)	(98.0)	(26.0)	(63.0)	(7.9)

	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	3.4.4	(60.0)	(60.0)	(60.0)	—	—	—
Accruals	3.4.4	(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 to the consolidated financial statements continued

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:

	2 December 2012 £m	27 November 2011 £m
Cash and cash equivalents — EUR	7.8	0.5
Trade payables at period end — EUR	(10.6)	(0.8)
Net derivative liability (forward foreign exchange contracts) — EUR	(0.1)	(0.2)
	(2.9)	(0.5)

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

	2 December 2012		27 November 2011	
	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	(0.3)	1.8	0.1	2.7
10% depreciation of the euro	0.3	(1.8)	(0.1)	(2.5)

A strengthening of the euro, as indicated, against sterling at 2 December 2012 would have increased/(decreased) equity and profit or loss by the amounts detailed above. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the period. The analysis assumes that all other variables remain constant.

Interest rate risk

The Group is exposed to interest rate risk on its 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:

	2 December 2012 £m	27 November 2011 £m
Fixed rate instruments		
Financial assets	65.8	41.7
Financial liabilities	(53.3)	(62.2)
Variable rate instruments		
Financial assets	23.8	50.4
Financial liabilities	(91.5)	(49.1)

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.

	2 December 2012 £m	27 November 2011 £m
Equity		
Gain	0.7	0.3
Income		
Gain	0.1	0.3

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 27 November 2011						
Financial assets as per the balance sheet						
Cash and cash equivalents	3.4.3	—	92.1	—	—	92.1
Trade and other receivables (excluding prepayments)	3.4.2	—	31.6	—	—	31.6
Available-for-sale financial asset	3.3.1	0.4	—	—	—	0.4
Derivative assets	4.4.1	—	—	—	—	—
Total		0.4	123.7	—	—	124.1
Financial liabilities as per the balance sheet						
Trade payables	3.4.4	—	—	50.8	—	50.8
Accruals	3.4.4	—	—	17.8	—	17.8
Borrowings	4.1.2	—	—	49.1	—	49.1
Obligations under finance leases	4.1.3	—	—	62.2	—	62.2
Derivative liabilities	4.4.1	—	—	—	0.3	0.3
Total		—	—	179.9	0.3	180.2

	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	3.4.3	—	89.6	—	—	89.6
Trade and other receivables (excluding prepayments)	3.4.2	—	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	3.4.4	—	—	60.0	—	60.0
Accruals	3.4.4	—	—	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

4.6 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

On 26 November 2012, a total of 55,875,557 new ordinary shares with a nominal value of 2 pence each were issued at a price of 64 pence per share, raising gross proceeds of £35.8 million. These shares were fully paid and rank *pari passu* in all respects with the existing ordinary shares of the Company, including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

Included in the total number of ordinary shares outstanding above is 36,305,099 (2011: 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 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 as loss per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

As at 2 December 2012, the number of ordinary shares available for issue under the Block Listing Facility was 3,939,837 (2011: 4,352,024). These ordinary shares will only become allotted when share options under the Group's ESOS and non-employee share options have been exercised, and are therefore not included in the total number of ordinary shares outstanding above.

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

	Ordinary shares Number (m)	Ordinary shares £m	Share premium £m
At 28 November 2010	553.4	11.1	206.1
Allotted in respect of joint share ownership scheme	4.0	0.1	6.7
Allotted in respect of share option schemes	0.9	—	1.0
At 27 November 2011	558.3	11.2	213.8
Issues of ordinary shares	55.9	1.1	34.6
Ordinary shares issue costs	—	—	(1.0)
Allotted in respect of share option schemes	0.4	—	0.4
At 2 December 2012	614.6	12.3	247.8

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

				Other Reserves	
	Notes	Treasury shares reserve £m	Reverse acquisition reserve £m	Fair value reserve £m	Foreign currency translation reserve £m
At 28 November 2010		(47.7)	(116.2)	0.7	—
Allotted in respect of joint share ownership scheme	4.6.1(a)	(6.3)	—	—	—
Disposal of treasury shares	4.6.1(a)	0.2	—	—	—
Fair value movement on derivative financial instrument	4.6.1(b)	—	—	(0.7)	—
At 27 November 2011		(53.8)	(116.2)	—	—
Fair value movement on derivative financial instrument	4.6.1(b)	—	—	(0.7)	—
Reacquisition of interest in treasury shares	4.6.1(a)	(0.1)	—	—	—
At 2 December 2012		(53.9)	(116.2)	(0.7)	—

4.6.1 Share capital and reserves continued

(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. During the current period the Group's employee benefit trust acquired participant interests in 4,329,990 ordinary shares from participants who left the scheme, of which 2,953,675 were reallocated to new participants. 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 foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of indirect foreign subsidiaries of the Company, Ocado Information Technology Limited and Ocado Polska Sp. z o.o. These companies are incorporated in the Republic of Ireland and Poland respectively with functional currency of the euro and zloty.

4.7 Share-based payments

Accounting policies

Employee benefits

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the years in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date").

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

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

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

4.7.1 Share options and other equity instruments

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

The total expense for the period relating to employee share-based payment plans was £0.9 million (2011: £0.6 million), all of which related to equity-settled share-based payment transactions.

Notes to the consolidated financial statements continued

4.7.1 Share options and other equity instruments continued

(a) ESOS

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

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

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

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

The vesting period for the ESOS is three years. If the options remain unexercised after a period of ten years from the date of grant or the employee leaves the Group, the options expire (subject to a limited number of exceptions).

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

	Year of issue	2 December 2012	27 November 2011	Exercise price (£)	Exercise period
Approved	2001	—	260,308	0.80	21/08/03 – 29/11/11
	2001	—	17,744	0.90	30/11/04 – 29/11/11
	2002	—	59,162	0.90	31/05/05 – 29/11/12
	2003	96,374	97,194	0.90	31/05/06 – 29/11/13
	2004	116,205	123,385	0.90	31/05/07 – 29/11/14
	2005	253,229	255,088	1.00	31/05/08 – 29/11/15
	2005	66,866	66,866	1.15	31/05/08 – 30/05/15
	2006	85,826	86,320	1.40	31/05/09 – 30/05/16
	2006	78,473	86,327	1.50	30/11/09 – 29/11/16
	2007	361,689	414,270	1.50	31/05/10 – 29/11/17
	2008	360,642	393,212	1.20	30/11/11 – 29/11/18
	2008	160,799	166,816	1.35	31/05/11 – 30/05/18
	2009	197,456	225,796	1.20	31/05/12 – 30/05/19
	2009	1,096,351	1,182,523	1.35	02/11/12 – 29/11/19
	2010	868,908	981,348	1.65	30/06/13 – 29/06/20
	2011	720,720	805,243	2.55	14/02/14 – 13/02/21
	2011	284,423	325,811	1.89	19/07/14 – 18/07/21
	2012	1,234,650	—	1.03	21/02/15 – 20/02/22
	2012	895,621	—	1.05	09/03/15 – 08/03/22
	2012	549,382	—	0.85	27/06/15 – 26/06/22
Total approved options		7,427,614	5,547,413		

	Year of issue	2 December 2012	27 November 2011	Exercise price (£)	Exercise period
Non-Approved	2001	—	21,563	0.80	21/08/03 – 29/11/11
	2001	—	10,856	0.90	30/11/04 – 29/11/11
	2002	—	175,000	1.00	07/02/05 – 30/05/12
	2002	—	350,000	1.50	07/02/05 – 30/05/12
	2002	—	31,009	0.90	31/05/05 – 29/11/12
	2003	100,000	100,000	0.90	30/11/06 – 29/11/13
	2005	754	754	1.00	30/11/08 – 29/11/15
	2005	770,136	787,436	1.15	16/05/08 – 29/11/15
	2007	50,833	50,833	1.50	31/05/10 – 30/05/17
	2009	267,500	267,500	1.20	31/05/12 – 30/05/19
	2009	—	24,074	1.35	16/11/12 – 15/11/19
	2011	37,038	37,038	1.89	19/07/14 – 18/02/21
	2012	181,703	—	1.05	09/03/15 – 08/03/22
Total unapproved options		1,407,964	1,856,063		
Total		8,835,578	7,403,476		

4.7.1 Share options and other equity instruments continued

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

	Year of issue	2 December 2012 Number of share options	27 November 2011 Number of share options	Exercise price (£)	Exercise period
	2005	162,020	170,670	1.15	31/05/08 – 30/05/15
	2009	254,000	254,000	1.20	31/05/12 – 30/05/19
Total options subject to performance criteria		416,020	424,670		

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

	2 December 2012		27 November 2011	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	7,403,476	1.46	7,656,145	1.27
Granted during the period	3,097,196	1.00	1,352,275	2.36
Forfeited during the period	(1,271,657)	1.36	(669,807)	1.72
Exercised during the period	(393,437)	0.91	(935,137)	1.02
Outstanding at the end of the period	8,835,578	1.33	7,403,476	1.46
Exercisable at the end of the period	4,091,498	1.25	3,092,598	1.20

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 £0.98 (2011: £2.17).

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:

	2 December 2012	27 November 2011
Weighted average share price	£1.00	£2.36
Weighted average exercise price	£1.00	£2.36
Expected volatility	0.25	0.25
Weighted expected life — years	3.00	3.00
Risk-free interest rate	3.5%	3.5%
Expected dividend yield	0.0%	0.0%

Expected volatility was determined by comparing the Company to others of a similar size or which operate in a similar industry. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. All share awards under the ESOS are equity-settled.

Notes to the consolidated financial statements continued

4.7.1 Share options and other equity instruments continued

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

	Exercise price (£)	2 December 2012 Number of share options	2 December 2012 Weighted average remaining contractual life (years)	27 November 2011 Number of share options	27 November 2011 Weighted average remaining contractual life (years)
	0.80	—	—	281,871	—
	0.85	549,382	9.6	—	—
	0.90	312,579	1.3	439,350	1.9
	1.00	253,983	2.8	430,842	2.5
	1.03	1,234,650	9.2	—	—
	1.05	1,077,324	9.3	—	—
	1.15	837,002	2.5	854,302	3.5
	1.20	825,598	6.4	886,508	7.4
	1.35	1,257,150	6.9	1,373,413	7.9
	1.40	85,826	3.5	86,320	4.5
	1.50	490,995	4.6	901,430	3.7
	1.65	868,908	7.6	981,348	8.6
	1.89	321,461	8.6	362,849	9.6
	2.55	720,720	8.2	805,243	9.2
Outstanding at the end of the period		8,835,578		7,403,476	

(b) JSOS

The JSOS is an executive incentive scheme which was introduced to incentivise and retain its Executive Directors and select members of senior management of the Group (the "Participants"). It is a share ownership scheme under which the Participants and Appleby Trust (Jersey) Limited, the EBT Trustee, held at the balance sheet date separate beneficial interests in 36,305,099 (2011: 36,305,099) ordinary shares which represents 5.9% (2011: 6.5%) of the issued share capital of the Company. Of these ordinary shares, 1,453,254 are held by the EBT 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 EBT Trustee, under which the Participant and the EBT Trustee jointly acquire the Shares and agree that when the Shares are sold the Participant has a right to receive a proportion of the sale proceeds insofar as the value of the Shares exceeds the threshold amount.

Participants

In prior periods Interests were acquired by the first group of Participants under the 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.

For JSOS1 and JSOS2 there are four tranches, each with their own hurdle price. In the current 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 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)	June-12	£1.96	115%	1 (2013)	Jan-13	£1.70	230%–265%
2 (2012)	Jan-12	£1.91	127%	2 (2013)	June-13	£2.15	127%	2 (2014)	Jan-13	£1.80	244%–280%
3 (2013)	Jan-13	£2.08	139%	3 (2014)	June-14	£2.36	139%	—	—	—	—
4 (2014)	Jan-14	£2.28	152%	4 (2015)	June-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.

4.7.1 Share options and other equity instruments continued

Vesting conditions

The vesting of the Interests granted to Participants is subject to a time vesting condition, 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%

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.

Details of the movement in the number of Interests in Shares during each period are as follows:

	2 December 2012		27 November 2011	
	Number of Interests in Shares	Weighted average price (£)	Number of Interests in Shares	Weighted average price (£)
Outstanding at the beginning of the period	35,741,060	2.03	32,476,700	2.04
Granted during the period	2,953,675	1.76	3,990,799	2.26
Forfeited during the period	(3,842,890)	2.19	(564,039)	2.11
Exercised during the period	—	—	(162,400)	1.73
Outstanding at the end of the period	34,851,845	1.99	35,741,060	2.03
Exercisable at the end of the period	16,766,088	1.83	7,957,000	1.73

(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:

Date of issue	2 December 2012 Number of share options	27 November 2011 Number of share options	Exercise price (£)	Exercise period
Feb-02	886,700	886,700	0.90	04/02/02 – 04/02/17
Jan-04	435,300	435,300	1.03	03/01/04 – 03/01/18
Outstanding at the end of the period	1,322,000	1,322,000		

Notes to the consolidated financial statements continued

4.7.1 Share options and other equity instruments continued

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

	2 December 2012		27 November 2011	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted exercise average price (£)
Outstanding at the beginning of the period	1,322,000	0.95	1,329,400	0.95
Granted during the period	—	—	—	—
Forfeited during the period	—	—	—	—
Exercised during the period	—	—	(7,400)	0.90
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

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

		2 December 2012		27 November 2011	
	Exercise price (£)	Number of share options	Weighted average remaining contractual life (years)	Number of share options	Weighted average remaining contractual life (years)
	0.90	886,700	4.2	886,700	5.2
	1.03	435,300	5.1	435,300	6.1
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 an HMRC approved scheme and is open to any person who 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").

At 2 December 2012 employees of the Company's subsidiaries held 1,032 (2011: 681) contracts in respect of options over 4,075,994 (2011: 2,314,294) shares. Details of the movement in the number of Sharesave options outstanding during each period are as follows:

	2 December 2012		27 November 2011	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	2,314,294	1.16	2,724,513	1.16
Granted during the period	3,505,035	0.91	—	—
Forfeited during in the period	(1,743,335)	1.10	(409,617)	1.16
Exercised during the period	—	—	(602)	1.16
Outstanding at the end of the period	4,075,994	0.98	2,314,294	1.16
Exercisable at the end of the period	—	—	—	—

In determining the fair value of the share options granted during the current period and during 2010, the Black–Scholes Option Pricing Model was used with the following inputs:

	2 December 2012	28 November 2010
Weighted average share price	£1.02	£1.37
Weighted average exercise price	£0.91	£1.16
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.

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 £205.7 million (2011: £172.9 million) and it had net debt of £55.2 million (2011: £19.2 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.

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	2 December 2012 £m	27 November 2011 £m
Total facilities available		193.0	191.5
Facilities drawn down†	4.1.1	(148.5)	(112.6)
Undrawn facilities at end of period		44.5	78.9
Cash and cash equivalents	3.4.3	89.6	92.1
Total undrawn facilities and cash and cash equivalents available at end of the period		134.1	171.0

† Excluded from the amount of facilities drawn down is £3.7 million (2011: £1.4 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	Share of issued ordinary share capital and voting rights	Country of incorporation
Ocado Holdings Limited	Holding company	100%	England and Wales
Ocado Limited	Retail and distribution	100%	England and Wales
Ocado Information Technology Limited	Intellectual property	100%	Republic of Ireland
Last Mile Developments Limited	Property development	100%	England and Wales
Ocado Cell in Atlas Insurance PCC Limited	Insurance company	100%	Malta

In addition to the companies shown above, the Company also holds investments in other subsidiary undertakings, which in the Directors' opinion does not significantly affect the figures in the consolidated financial statements. In accordance with Section 410(2)(a) of the Companies Act, a full list of subsidiaries was annexed to the 2011 annual return and submitted to Companies House. A full list of subsidiaries will be submitted to Companies House with the 2012 annual return.

The Group has effective control over the financial and operating activities of the Ocado Cell and therefore consolidates the Ocado Cell in its financial statements in accordance with SIC 12 "Consolidation — Special Purpose Entities". The Group uses the Ocado Cell to provide self-insurance for its vehicle fleet and public and product liability claims.

Notes to the consolidated financial statements continued

5.2 Commitments

Capital commitments

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

	2 December 2012 £m	27 November 2011 £m
Land and buildings	11.7	11.5
Property, plant and equipment	31.7	88.9
Total capital expenditure committed at the end of the period	43.4	100.4

Of the total capital expenditure committed at the current period end, £40.5 million relates to the construction of CFC2. The remainder relates to CFC1 upgrades, IT development 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 2 December 2012, the ageing profile of future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2 December 2012 £m	27 November 2011 £m
Due within one year	4.1	3.4
Due after one year but less than five	12.0	9.9
Due after five years	37.6	36.9
Total future minimum lease payments	53.7	50.2

5.3 Contingent liabilities

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

5.4 Related party transactions

Key management personnel

Only the Executive and Non-Executive Directors are deemed to be key management personnel. It is the Board which has responsibility for planning, directing and controlling the activities of the Group. Remuneration of Directors and Directors' interests in ordinary shares of the Company are disclosed in the Directors' remuneration report on pages 50 to 67.

Other related party transactions with key management personnel made during the period related to the purchase of professional services and amounted to £8,000 (2011: £9,000). All transactions are on an arm's length basis and no period end balances have arisen as a result of these transactions.

At the end of the period, key management personnel owed the Group £27,000 (2011: £nil). The current period amount 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.

5.4 Related party transactions continued

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.

	2 December 2012 £m	27 November 2011 £m
Purchase of goods		
— Plant and machinery	0.1	—
— Consumables	0.2	0.2
	0.3	0.2

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 £3.0 million (2011: £3.7 million).

At period end, the Group owed Paneltex £23,000 (2011: £24,000).

5.5 Post balance sheet events

After the balance sheet date the Group's £2.8 million mortgage was extended for a further three years to 6 January 2016 at a rate of LIBOR plus 2.75%. At period end, the carrying value of this loan was £2.1 million.

Independent auditors' report

to the members of Ocado Group plc

We have audited the parent company financial statements of Ocado Group plc for the period ended 2 December 2012 which comprise the Company balance sheet, the Company statement of cash flows, the Company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of Directors and auditors

As explained more fully in the statement of Directors' responsibilities set out on page 71, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 2 December 2012 and of its cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the consolidated financial statements of Ocado Group plc for the year ended 2 December 2012.

Andrew Latham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

St Albans

13 March 2013

Company balance sheet
as at 2 December 2012

	Notes	2 December 2012 £m	27 November 2011 £m
Non-current assets			
Investments	3.1.1	479.3	478.4
		479.3	478.4
Current assets			
Other receivables	3.2.1	187.6	138.0
Cash and cash equivalents	3.2.2	70.9	85.3
		258.5	223.3
Total assets		737.8	701.7
Current liabilities			
Trade and other payables	3.2.3	(9.5)	(9.5)
		(9.5)	(9.5)
Net current assets		249.0	213.8
Net assets		728.3	692.2
Equity			
Share capital	4.1.1	12.3	11.2
Share premium	4.1.1	247.8	213.8
Retained earnings		468.2	467.2
Total equity		728.3	692.2

The Company financial statements on pages 113 to 124 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)

13 March 2013

Company statement of cash flows

for the 53 weeks ended 2 December 2012

	Notes	53 weeks ended 2 December 2012 £m	52 weeks ended 27 November 2011 £m
Cash flow from operating activities			
Profit before income tax		0.1	0.7
Adjustments for:			
— Finance income		(0.4)	(1.1)
Changes in working capital:			
— Movement in other receivables		(49.6)	(79.2)
— Movement in trade and other payables		(0.1)	9.2
Net cash outflow from operations		(50.0)	(70.4)
Interest paid on behalf of Group undertakings		(0.1)	(0.1)
Net cash outflow from operating activities		(50.1)	(70.5)
Cash flow from investing activities			
Interest received		0.6	0.9
Decrease in short-term investment		—	30.0
Net cash from investing activities		0.6	30.9
Cash flow from financing activities			
Proceeds from issue of ordinary share capital net of transaction costs		35.1	1.0
Proceeds from borrowings received on behalf of Group undertakings		—	9.5
Net cash from financing activities		35.1	10.5
Net decrease in cash and cash equivalents		(14.4)	(29.1)
Cash and cash equivalents at beginning of period		85.3	114.4
Cash and cash equivalents at end of period	3.2.2	70.9	85.3

Company statement of changes in equity

for the 53 weeks ended 2 December 2012

	Notes	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 28 November 2010		11.1	206.1	465.9	683.1
Profit for the period		—	—	0.7	0.7
Total comprehensive income for the period ended 27 November 2011		—	—	0.7	0.7
Transactions with owners:					
— Issue of ordinary shares	4.1.1	0.1	7.7	—	7.8
— Share-based payments charge		—	—	0.6	0.6
Total transactions with owners		0.1	7.7	0.6	8.4
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 2 December 2012		—	—	0.1	0.1
Transactions with owners:					
— Issue of ordinary shares	4.1.1	1.1	35.0	—	36.1
— Ordinary shares issue costs	4.1.1	—	(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

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 53 weeks ended 2 December 2012 (prior period 52 weeks ended 27 November 2011).

Basis of preparation

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

The financial statements are presented in sterling, rounded to the nearest 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 profit for the period is £0.1 million (2011: £0.7 million).

Standards, amendments and interpretations adopted by the Company in 2011/12 or issued, but are not yet effective and have not been early adopted by the Company

The Company has considered the following new standards, interpretations and amendments to published standards that are effective for the Group for the financial year beginning 28 November 2011 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:

- IAS 24 (revised), "Related Party Disclosures"
- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"
- Amendments to various IFRSs and IASs arising from the IASB's annual improvements project

The following new standards, interpretations and amendments to published standards and interpretations which are relevant to the Group have been issued but are not effective for the financial year beginning 28 November 2011 and have not been adopted early:

- IFRS 9, "Financial Instruments" (not yet endorsed by the EU)
- IFRS 10, "Consolidated Financial Statements"
- IFRS 11, "Joint Arrangements"
- IFRS 12, "Disclosures of Interests in Other Entities"
- IFRS 13, "Fair Value Measurement"
- IAS 27 (revised 2011) "Separate Financial Statements"
- IAS 28 (revised 2011) "Investments in Associates and Joint Ventures"
- Amendments to various IFRSs and IASs arising from the IASB's annual improvements project

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

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 judgements, estimates and assumptions that affect the reported amount 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 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 (2011: £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 — Operating assets and liabilities

3.1 Investments

Accounting policies

Available-for-sale financial assets

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

Investments

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

Available-for-sale investments are held at fair value if this can be reliably measured. If the equity instruments are not quoted in an active market and their fair value cannot be reliably measured, the available-for-sale investment is carried at cost, less accumulated impairment. Unless the valuation falls below its original cost, gains and losses arising from changes in fair value of available-for-sale assets are recognised directly in equity. On disposal the cumulative net gain or loss is transferred to the statement of comprehensive income. Valuations below cost are recognised as impairment losses in the income statement. Dividends are recognised in the income statement when the right to receive payment is established.

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

3.1.1 Investments

	2 December 2012 £m	27 November 2011 £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	1.7	0.8
Carrying value at end of period	479.3	478.4

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.

Notes to the Company financial statements continued

3.2 Working capital

Accounting policies

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, 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, demand deposits with banks and short-term deposits with a maturity of three months or less at the balance sheet date.

Financial liabilities

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

Trade and other payables

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

3.2.1 Other receivables

	2 December 2012 £m	27 November 2011 £m
Other receivables	—	0.1
Accrued income	—	0.2
Amounts due from subsidiary undertakings	187.6	137.7
	187.6	138.0

No security has been granted over other receivables.

3.2.2 Cash and cash equivalents

	2 December 2012 £m	27 November 2011 £m
Cash at bank and in hand	70.9	85.3

3.2.3 Trade and other payables

	2 December 2012 £m	27 November 2011 £m
Trade payables	—	0.3
Other payables	0.1	—
Accruals	0.2	—
Amounts due to subsidiary undertakings	9.2	9.2
	9.5	9.5

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

On 26 November 2012, a total of 55,875,557 new ordinary shares with a nominal value of 2 pence each were issued at a price of 64 pence per share, raising gross proceeds of £35.8 million. These shares were fully paid and rank *pari passu* in all respects with the existing ordinary shares of the Company, including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

Included in the total number of ordinary shares outstanding above is 36,305,099 (2011: 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 2 December 2012, the number of ordinary shares available for issue under the Block Listing Facility was 3,939,837 (2011: 4,352,024). 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:

	Ordinary shares Number (m)	Ordinary shares £m	Share premium £m
At 28 November 2010	553.4	11.1	206.1
Allotted in respect of the joint share ownership scheme	4.0	0.1	6.7
Allotted in respect of share option schemes	0.9	—	1.0
At 27 November 2011	558.3	11.2	213.8
Issues of ordinary shares	55.9	1.1	34.6
Ordinary shares issue costs	—	—	(1.0)
Allotted in respect of share option schemes	0.4	—	0.4
At 2 December 2012	614.6	12.3	247.8

4.2 Share-based payments

For more information on the Group's share schemes, see Note 4.7 to the consolidated financial statements.

Notes to the Company financial statements continued

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.

Impairment of financial assets

Assets carried at amortised cost

The Company assesses whether there is objective evidence that a financial asset is impaired at the end of the 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 Company 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 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.

4.3.1 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.

		2 December 2012		27 November 2011	
	Notes	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets					
Investments	3.1.1	476.5	476.5	476.5	476.5
Cash and cash equivalents	3.2.2	70.9	70.9	85.3	85.3
Other receivables	3.2.1	187.6	187.6	138.0	138.0
Total financial assets		735.0	735.0	699.8	699.8
Financial liabilities					
Trade and other payables	3.2.3	(9.5)	(9.5)	(9.5)	(9.5)
Total financial liabilities		(9.5)	(9.5)	(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 in light of the current economic climate. The Company's guideline is to maintain transactional bank accounts and term deposits with financial institutions which carry a Moody's rating of Aa3/P1 for long-term and short-term deposits.

Other receivables

Other receivables at the end of both periods consist primarily of amounts due from subsidiary undertakings. Management provides for irrecoverable debts when there are indicators that a balance may not be recoverable.

The ageing of other receivables at the balance sheet date is set out below:

		2 December 2012		27 November 2011	
	Notes	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due		187.6	—	138.0	—
Past due 0–3 months		—	—	—	—
Past due 3–6 months		—	—	—	—
Past due over 6 months		—	—	—	—
	3.2.1	187.6	—	138.0	—

There were no unimpaired balances at the period end where the Company had renegotiated the terms of the other receivables. Management has not provided for irrecoverable debts against any of its other receivable balances.

4.3.3 Liquidity risk

To manage the working capital needs of the business, the Company is reliant on being able to negotiate sufficient financing arrangements. The Company monitors cash flow as part of its day-to-day control procedures and the Board considers cash flow projections on a monthly basis. For further details on the Group's capital management strategy see Note 4.5.3 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)	—	—	—
27 November 2011 & 2 December 2012		(9.5)	(9.5)	(9.5)	—	—	—

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 consists 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 and charges a floating rate on certain amounts due from subsidiaries. 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:

	2 December 2012 £m	27 November 2011 £m
Fixed rate instruments		
Financial assets	49.7	37.1
Variable rate instruments		
Financial assets	21.4	48.2

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 receivables 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.

	2 December 2012 £m	27 November 2011 £m
Equity		
Gain	—	0.8
Income		
Gain	0.2	0.8

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 27 November 2011					
Financial assets					
Investments	3.1.1	476.5	—	—	476.5
Cash and cash equivalents	3.2.2	—	85.3	—	85.3
Other receivables	3.2.1	—	138.0	—	138.0
Total		476.5	223.3	—	699.8
Financial liabilities					
Trade 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 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	3.2.1	—	187.6	—	187.6
Total		476.5	258.5	—	735.0
Financial liabilities					
Trade and other payables	3.2.3	—	—	9.5	9.5
Total		—	—	9.5	9.5

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.

Notes to the Company financial statements continued

Section 5 — Other notes

5.1 Subsidiaries

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

	Principal activity	Share of issued ordinary share capital and voting rights	Country of incorporation
Ocado Holdings Limited	Holding company	100%	England and Wales
Ocado Limited†	Retail and distribution	100%	England and Wales
Ocado Information Technology Limited†	Intellectual property	100%	Republic of Ireland
Last Mile Developments Limited†	Property development	100%	England and Wales
Ocado Cell in Atlas Insurance PCC Limited†	Insurance company	100%	Malta

† Wholly owned held indirectly through subsidiary undertakings.

In addition to the companies shown above, the Company also holds an investment 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 2011 annual return and submitted to Companies House. A full list of subsidiaries will be submitted to Companies House in the 2012 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 59 to 60.

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the period, key management personnel did not owe the Company any amounts.

Subsidiaries

The Company enters into loans with its subsidiaries. Interest income of £7,000 was earned on these loans at market related interest rates during the period (2011: £7,000).

Transactions with subsidiaries	53 weeks ended 2 December 2012 £m	52 weeks ended 27 November 2011 £m
Equity-settled share-based payments	0.9	0.6
Increase in loans made to subsidiary undertakings	49.9	77.0
Increase in amounts due to subsidiary undertakings	—	(9.2)

Year-end balances arising from transactions with subsidiaries	2 December 2012 £m	27 November 2011 £m
Receivables:		
Loans and receivables due from subsidiaries	187.6	137.7
Payables:		
Loans and receivables due to subsidiaries	(9.2)	(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.

Five year summary

	30 November 2008 £m	29 November 2009 £m	28 November 2010 £m	27 November 2011 £m	2 December 2012 £m
Trading weeks	52	52	52	52	53
Gross sales	341.0	427.3	551.1	642.8	731.9
Revenue	321.3	402.0	515.7	598.3	678.6
Gross profit	102.8	122.8	161.6	184.7	207.3
EBITDA	2.2	9.2	22.0	27.9	34.5
Adjusted operating (loss)/profit[1]	(21.6)	(14.4)	(1.8)	1.1	5.4
Net (liabilities)/assets	(38.2)	(32.2)	171.8	172.9	205.7
Net (debt)/cash	(115.7)	(107.0)	80.5	(19.2)	(55.2)

[1] Adjusted to exclude exceptional items

The following table sets out a summary of selected unaudited operating information for the business:

	30 November 2008 £m	29 November 2009 £m	28 November 2010 £m	27 November 2011 £m	2 December 2012 £m
Average orders per week	56,000	71,000	93,000	110,000	123,000
Average order size (£)	116.30	115.94	114.06	112.15	112.17
CFC efficiency (UPH)	114	124	121	111	120
Average DPV/week	106	121	133	145	151
Average product wastage (% of revenue)	0.8	0.6	0.6	0.7	0.7
Items delivered exactly as ordered (%)	99.1	99.4	99.0	98.3	98.3
Deliveries on time or early (%)	94.2	93.0	94.9	92.3	92.7

Information

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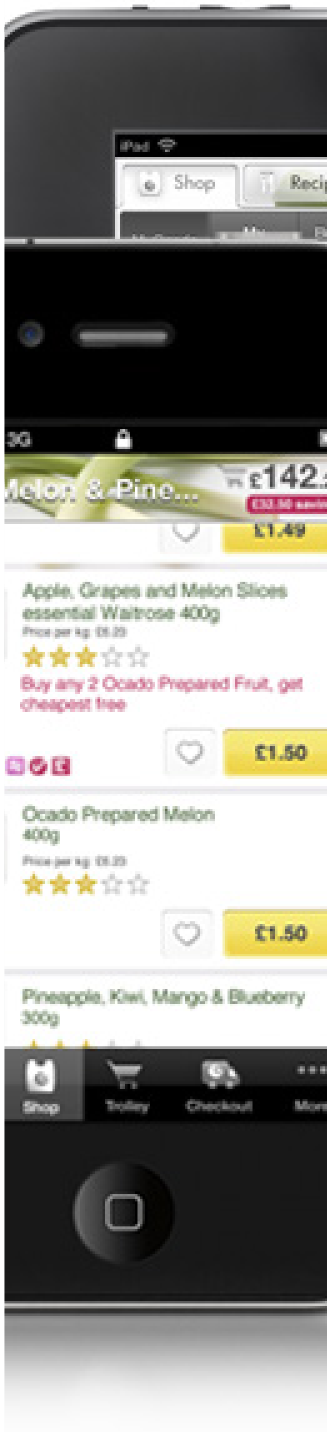

Grocery shopping is now possible at the click of a mobile device button. The ability to shop anytime anywhere for groceries has become a compelling part of the online offer. From being the first retailer globally to launch a fully transactional app in 2008, we now conduct 28% of our business across our apps covering all major operating platforms, with checkouts conducted across our website accessed through mobile devices also growing rapidly.

Read more @ results12.ocadogroup.com


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Pies, Quiche & Tarts
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Ready Meals & Soups
Sauces & Accompaniments
Vegetarian Foods
Desserts
Service Counter
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Glossary

2010 Code — means the UK Corporate Governance Code published by the Financial Reporting Council June 2010, as in force from time to time.

2012 Code — means the UK Corporate Governance Code published by the Financial Reporting Council September 2012, as in force from time to time.

Active Customers — means customers who have shopped with Ocado in the previous 12 weeks.

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.

Annual Incentive Plan — means the Executive Director annual 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 and non-employee share schemes have been exercised.

Companies Act — means the Companies Act 2006.

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.

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

Directors — means the Directors of the Company whose names are set out on pages 32 and 33, or the Directors of Ocado Limited from time to time as the context may require.

Disclosure and Transparency Rules — means the disclosure rules and transparency rules made by the FSA under Part VI of FSMA.

EBT — means earnings before tax.

ESOS — means the Group's Ocado 2001 Executive Share Ownership Scheme.

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 Sunday to 30 November.

Financial year — see Financial period.

FRC — means the Financial Reporting Council.

FY — see Financial period.

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

HMRC — means Her Majesty's Revenue & Customs.

IGD — means the Institute of Grocery Distribution.

John Lewis — means John Lewis plc, the parent company of Waitrose. John Lewis plc is 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.

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).

Management Committee — means senior management responsible for managing the day-to-day affairs of the business.

Non-Executive Directors — means the Non-Executive Directors designated as such on pages 32 and 33.

Notice of Meeting — means the notice of the Company's AGM.

Saving Pass — means the Ocado discount membership scheme which entitles customers to receive fixed discounts on selected branded products from Ocado within a Saving Pass group for the length of membership (and any renewal).

Sharesave Scheme — means the Ocado employee savings-related share option plan approved by HMRC and **SAYE1** means the first invitations made under the scheme and **SAYE2** means the second invitations made under the scheme.

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.

Waitrose — means Waitrose Limited, a company incorporated in England and Wales with registered number 00099405.

Webshop — means the customer facing internet-based virtual shop accessible on the Website.

Website — means www.ocado.com.

Financial calendar

Date	Events
14 March 2013	Q1 Interim Management Statement
10 May 2013	Annual General Meeting
02 July 2013	Half Year Results Announcement
12 September 2013	Q3 Interim Management Statement
16 January 2014	Christmas Trading Statement (2013/2014)
04 February 2014	Final Results Announcement

Company information

Registered office	Titan Court 3 Bishops Square Hatfield Business Park Hatfield Hertfordshire AL10 9NE
Company number	07098618
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 10 Bricket Road St Albans Hertfordshire AL1 3JX
Registrars	Capita Registars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

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