





CHANGING THE WAY THE World Shops

Established in 2000 to revolutionise the way customers do their shopping, Ocado is the world's largest dedicated online grocery retailer.

PURPOSE

Changing the way the world shops.

MISSION

Powered by fresh thinking, we strive for new and improved ways to deliver the world's most advanced end-to-end online shopping and delivery solutions. We are built for this – nobody does it better.

STRATEGY

To deliver long-term shareholder value by:



DRIVING GROWTH

Continually enhancing the value of our proposition for our retail and corporate customers

Read more about Driving Growth on pages 24 and 25



MAXIMISING EFFICIENCY

Harnessing our years of learning we continually strive to innovate and develop our technology and operations to consistently improve our economic and operating performance

Read more about Maximising Efficiency on pages 26 and 27



UTILISING OUR PROPRIETARY KNOWLEDGE

Utilising our IP to create competitive advantages in our Retail business and to monetise IP through our Solutions business

Read more about Utilising Proprietary Knowledge on pages 28 and 29

Ocado Brands and Partners

OCADO RETAIL



F A B L E D
by marie claire

OCADO SOLUTIONS



OUR Story

Innovation is Part of Our DNA

Ocado has a proven track record as a disruptor within the grocery market. We have transformed the way the nation can shop for groceries by developing a unique model based on highly efficient, fully automated, Customer Fulfilment Centres (CFCs), flexible and easy-to-use customer software, and friendly and timely last mile delivery. This model delivers to our customers wider and fresher product ranges, competitive prices, and highly attractive service which, in turn, gives us a unique advantage in the UK grocery retail market to grow our customer base and take market share.

The fact that we have consistently improved our efficiency metrics while growing both revenue and market share is testament to our ability to consistently adapt technology to meet customer needs better.

We aim to commercialise our technical capabilities and proprietary technology through our Ocado Solutions business to help retail partners internationally launch and develop their own profitable and growing online operations.

 More information about the progress we have made from innovations can be found in Innovation – Developing solutions for all our customers section on pages 11 to 13

What this means today

The UK grocery market is undergoing rapid and profound change. Channel shift from traditional full-service supermarkets to online continues to build momentum and online is forecast to be the fastest growing channel in UK grocery over the next five years, according to the Institute of Grocery Distribution (IGD), with similar trends being seen across the globe. The UK online sales value is forecast to increase from £10.4 billion in 2017 to £16 billion in 2022, a 54% increase worth £5.6 billion (IGD).

IGD expects the value of the world's grocery market to increase by \$2.4 trillion between 2016 and 2021. Grocery retail internationally is in a period of significant change driven by the adoption of digital technologies. This offers us huge market opportunities on a global scale.

Ocado is a catalyst for channel shift and our Retail and Solutions businesses are both well placed to take advantage of the changes which channel shift brings.

 More information on trends in the grocery industry can be found within the Marketplace section on pages 20 and 21

What this means in the future

Innovation is part of our DNA and our continued investment and thought-leading research into disruptive capabilities such as artificial intelligence, robotics and the Internet of Things provide an opportunity to create a sustainable competitive advantage which will allow us to deliver long-term shareholder value.

 More information on Innovation – Developing solutions for all our customers can be found on pages 11 to 13

Contents

OVERVIEW

Why People Invest In Us	02
Progress in 2017	03
CEO Q&A	04
Chairman's Statement	05

STRATEGIC REPORT

Our Business Model	08
Our Platform	10
Innovation – Developing solutions for all our customers	11
Evidencing Efficiency Improvements	14
Ocado Retail	16
Ocado Solutions	18
Ocado Within the Marketplace	20
Our Strategy	22
Our Strategic Objectives: Driving Growth	24
Our Strategic Objectives: Maximising Efficiency	26
Our Strategic Objectives: Utilising Proprietary Knowledge	28
Key Performance Indicators	30
Chief Financial Officer's Review	32
How We Manage Our Risks	38
Corporate Responsibility	42
Our People	46

OUR GOVERNANCE

Chairman's Governance Overview	50
Board of Directors	52
Statement of Corporate Governance	54
Leadership and Effectiveness – Nomination Committee Report	62
Accountability – Audit Committee Report	64

DIRECTORS' REMUNERATION REPORT

Annual Statement from the Remuneration Committee Chairman	70
Description of the Remuneration Committee	72
Remuneration Policy Report	74
Annual Report on Remuneration – 2017	91
Annual Report on Remuneration – Implementation of Policy for 2018	107
Directors' Report	110

OUR FINANCIALS (GROUP)

Independent Auditor's Report	120
Consolidated Income Statement	127
Consolidated Statement of Comprehensive Income	128
Consolidated Balance Sheet	129
Consolidated Statement of Changes in Equity	130
Consolidated Statement of Cash Flows	131
Notes to the Consolidated Financial Statements	132

OUR FINANCIALS (COMPANY)

Company Balance Sheet	180
Company Statement of Changes in Equity	181
Company Statement of Cash Flows	182
Notes to the Company Financial Statements	183

ADDITIONAL INFORMATION

Glossary	194
Alternative Performance Measures	196
Five Year Summary	197
Financial Calendar	198
Company Information	198



WHY PEOPLE Invest In Us

Largest dedicated online grocery supermarket in the world



More information on the IFC and page 01

Significant market opportunity in grocery, the largest retail segment



More information on pages 20 and 21

Ideally positioned to benefit from continuing channel shift to online



More information on pages 08 to 10

Proprietary intellectual property creating significant competitive advantages



More information on pages 10 to 15

Commercialising intellectual property offering significant opportunities for Solutions business



More information on pages 18 and 19

End-to-end operating model provides structural advantages



More information on pages 14 to 15

Superior customer offering with leading service, range and price proposition drives growth



More information on pages 16 and 17

Operational leverage and virtuous cycle of growth, investment and innovation



More information on page 10

Proven and invested management team driving strategy and execution



More information on pages 52 and 53

Actively promoting responsible business behaviour



More information on pages 42 to 45

PROGRESS In 2017

Strategic Highlights

- Signed our first two* international Ocado Solutions partnerships to enable our partner's online operations
- Continued to scale our latest CFC in Andover, UK, which utilises the first installation of our proprietary equipment solution

- Launched the first instance of our Ocado Solutions store picking capability with Morrisons.com
- Developed new technology and IP, with multiple patent applications filed and granted

Operational Highlights

ACTIVE CUSTOMER BASE



DELIVERIES PER VAN PER WEEK



PRODUCT WASTE (%)



AVERAGE ORDER SIZE (£)



MATURE CFC EFFICIENCY (UPH)



NUMBER OF OCADO SOLUTIONS PARTNERSHIPS SIGNED*



* We signed our third international partnership with Sobeys at the beginning of 2018.

Financial Highlights

REVENUE (GROUP) (£m)



EBITDA (GROUP) (£m)®



REVENUE (RETAIL) (£m)®



EBITDA (RETAIL) (£m)®



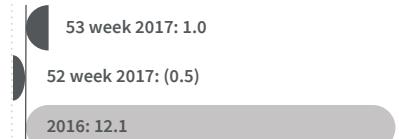
REVENUE (SOLUTIONS) (£m)®



EBITDA (SOLUTIONS) (£m)®



PROFIT BEFORE TAX (GROUP) (£m)



Ⓐ See Alternative Performance Measures on page 196

All numbers on this page are reported on a 52 week basis

Q&A WITH Tim Steiner



Tim Steiner
CHIEF EXECUTIVE OFFICER

Q. ARE YOU SATISFIED WITH THE RAMP-UP OF YOUR THIRD CFC IN ANDOVER IN 2017?

- A. Our CFC3 at Andover is a revolutionary facility containing the very latest technology developed by Ocado. I am pleased to report that we have successfully ramped up capacity at Andover over the course of 2017. Today, we deliver thousands of customer orders each week from the facility and we expect to make further significant progress in 2018. Throughout the year, as well as driving increasing numbers of orders through the CFC, we have focused on improving the reliability and resiliency of the facility as we look to get the most from our proprietary new technology.

Q. HOW MANY SOLUTIONS PARTNERSHIPS SHOULD WE EXPECT IN 2018?

- A. With five retailers now using or signed up to our platform, we are confident that we will be able to do further deals with the momentum of new signings building over time. We are in an increasing number of ongoing conversations with retailers across the world and significant mergers and acquisitions across the grocery industry this year have helped progress many of these conversations, most notably Amazon's acquisition of Whole Foods.

Q. HOW MANY SOLUTIONS PARTNERSHIPS CAN YOU COMMIT TO GIVEN THE RESOURCES YOU HAVE?

- A. We are committed to giving our partners an excellent service and we have invested in the resources to do multiple deals. We don't have unlimited capacity, of course, so, depending on the number, complexity and type of deals we do, we may need to prioritise some future deals.



CHAIRMAN'S Statement



"Investment in new technology, innovation and customer growth are keys to the creation of long-term shareholder value for Ocado ."

Lord Rose
CHAIRMAN

It has been a year of great change at Ocado with continued profitable growth of the Retail business in the UK, significant development of the Ocado Solutions business and ongoing investment in and advancement of our platform.

We aim to provide our retail and commercial customers with an advanced online grocery shopping solution. The Ocado Solutions business took some exciting steps in delivering this strategy with the signing of three international customers. Ocado signed agreements to provide OSP to Groupe Casino in France and Sobeys in Canada to allow them to grow and develop their online food businesses. We secured another agreement with a regional European retailer to help build its online grocery business using the Ocado Smart Platform. These significant commitments, although having limited financial impact in 2017, are expected to create significant long-term value.

These partnerships and continued progress made in discussions with other international grocery retailers are due in part to more dedicated focus being placed on the Ocado Solutions business, including in particular the recruitment of Luke Jensen to lead this business. This, coupled with the ongoing development and improved performance of OSP and tailoring of the OSP offering to international retailers' specific requirements, has helped make Ocado Solutions more successful in 2017.

Our Retail business continues to grow profitably, on the back of continued investments in the customer proposition and despite rising input costs experienced across the grocery retail sector. We expect to see ongoing challenges for the Retail business both with respect to customer numbers and margins, particularly given the modest growth forecasts for the UK grocery market. The business will need to address these market challenges as well as the shift in market dynamics towards increased shopping frequency, greater convenience and short delivery lead times. Given the market context and recent performance we believe our retail strategy is still the right one, namely to focus on growth by broadening our addressable market and differentiating on service and range, while price following the market leader. As well as improving the customer experience, we aim to maximise efficiency by focusing on technology innovation and operational improvements. These changes help to decrease the costs per order and increase the Group's overall profitability and to offset the impact of some of the wider market headwinds, namely rising labour rates.

The Andover and Erith CFCs will allow our business to continue growing. One of the biggest challenges facing the Group is ensuring that capacity is made available in time to meet our expected growth in customers. Scaling capacity at the Andover CFC continues as the reliability and resiliency of software and material handling equipment improve. Ongoing investment in our technology and engineering capabilities should help ensure we advance towards our operational efficiency targets, though as experienced in 2017, we do not expect this progress to be without difficulties in the future.

The increase in UK capacity and development of our proprietary platform have required significant expenditure. The Group increased the funding available to support this investment during the period. The Group diversified its sources of funding with its first public debt market fundraising. The increase in funding available will allow Ocado to grow the business, including expansion of the Andover and Erith CFCs and further development of our platform, fulfilment and technology capabilities.

Investment in new technology, innovation and customer growth are keys to the creation of long-term shareholder value for Ocado. The management team is aware that as the business grows, the objective of retaining and recruiting quality people becomes ever more important. Growing headcount in specialist areas of information technology and engineering is crucial to meeting our innovation and development plans. We remain focused on this and ensuring that available resources are allocated effectively and prioritised on the Group's most important strategic objectives.

Looking forward, our efforts will be focused on continuing to successfully develop our online grocery shopping solution both for our retail customers and our commercial partners in the UK and internationally. We look forward to delivering this and pursuing many more successful collaborations with leading retailers across the globe.

Lord Rose
CHAIRMAN

6 February 2018



See page 52 for the Board of Directors



STRATEGIC Report

Our Business Model	08
Our Platform	10
Innovation – Developing solutions for all our customers	11
Evidencing Efficiency Improvements	14
Ocado Retail	16
Ocado Solutions	18
Ocado Within the Marketplace	20
Our Strategy	22
Our Strategic Objectives: Driving Growth	24
Our Strategic Objectives: Maximising Efficiency	26
Our Strategic Objectives: Utilising Proprietary Knowledge	28
Key Performance Indicators	30
Chief Financial Officer's Review	32
How We Manage Our Risks	38
Corporate Responsibility	42
Our People	46



OUR BUSINESS Model

Our business was established to revolutionise the way the world shops. Our commitment is to provide our retail and corporate customers with the best proposition in online shopping utilising our proprietary, market leading technologies and innovations.

OUR INPUTS

People



Our business is built by colleagues who innovate, find solutions, and deliver world class service. Our technology and engineering development teams are crucial to our ability to innovate at a rapid pace, advance our intellectual property and maintain technological leadership.

Technology



Our technology estate is very broad and deep, covering real-time control systems and robotics, computer vision systems, machine learning and AI, data science, forecasting and routing systems, inference engines, the cloud, Internet of Things, big data and more.

Intellectual Property



In order to retain our competitive advantage from our technology innovations we take careful measures to protect our intellectual property and inventions and file multiple patent applications to safeguard this. Our patent activities are intended to create a web of protection for our intellectual property.

Financial



We use our financial capital to proactively invest in our people, our technologies and infrastructure to ensure we remain a market leader.

Our model is monetised through two customer segments.

OCADO RETAIL



Our growing retail business encompasses both our Ocado.com webshop and our general merchandise destination sites Fetch, Fabled and Sizzle. We also have a small but growing wholesale operation currently for Morrisons and Dobbies. Our compelling retail proposition allows customers to shop our extensive product range at competitive prices and receive what we believe to be industry-leading customer service levels. This helps drive customer satisfaction and in turn growth within our business.

SIGNIFICANT PARTNERS

- Waitrose
- Marie Claire

SIGNIFICANT ASSETS

- CFC and spoke network
- End-to-end logistics platform
- Compelling and market-leading customer proposition in terms of service, range and price
- Loyal and growing customer base
- Operationally efficient and profitable model
- Trusted brand
- Strong relationships with a diverse range of suppliers
- Experienced and trusted leadership

THE PLATFORM



We continuously develop our complete modular, automated and scalable online retail, fulfilment and delivery solution, called the Ocado Smart Platform, to support our current and future Solutions partners. The Ocado Smart Platform gives us the opportunity to grow and continue to innovate to further disrupt our marketplace. As a result, we are able to secure and sustain competitive advantage.

SIGNIFICANT ASSETS

- End-to-end e-commerce solution
- Flexibility within the platform to tailor to requirements of partners

OCADO SOLUTIONS



Ocado Solutions is the business where we take our online know-how to retailers around the world. Leveraging our proprietary best-in-class technology with the Ocado Smart Platform, and the knowledge and experience of Ocado's retail business, we aim to become the e-commerce solutions partner of choice for leading retailers globally looking to launch and develop their online operations.

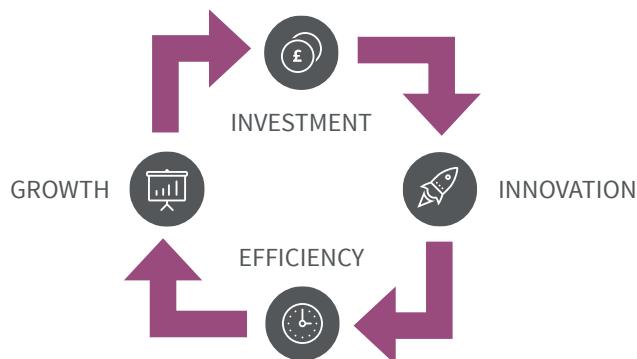


SIGNIFICANT PARTNERS

- Morrisons
- Groupe Casino
- Regional European retailer
- Sobeys

SIGNIFICANT ASSETS

- Proven track record for powering successful online grocery businesses
- Innovative and market-leading technology and IP
- Growing sales team to help nurture and drive analysis and strategic conversations with partners
- Strong culture of innovation and out-of-the-box thinking
- Insightful and continued dialogue with strategically aligned partners



Our Platform creates value through a virtuous cycle. Read more on page 10

CREATING VALUE FOR:

Retail Customers

We offer a compelling proposition to consumers including a highly attractive service, wider and fresher ranges, and competitive prices.



Read more about Ocado Retail
on pages 16 and 17

Solutions Customers

Ocado Smart Platform, our end-to-end offering of proprietary software and equipment solutions, built and maintained by us, offers retail partners a faster, flexible and more cost-efficient way of operating online.



Read more about Ocado Solutions
on pages 18 and 19

Shareholders

As revenues grow from both our Retail customer base and new Solutions customers, we will be able to improve our profitability and reinvest in growth and innovation, increasing shareholder value.



Read more about Our Platform
on page 10

Our People

We strive to make Ocado an employer of choice and invest a significant amount of time and resources in recruiting talented employees and developing their skills.



Read more about Our People on
pages 46 and 47

Society

The Ocado Foundation helps our customers and employees to make targeted actions at a local level across the UK.



Read more in Corporate Responsibility
on pages 42 to 45

Environment

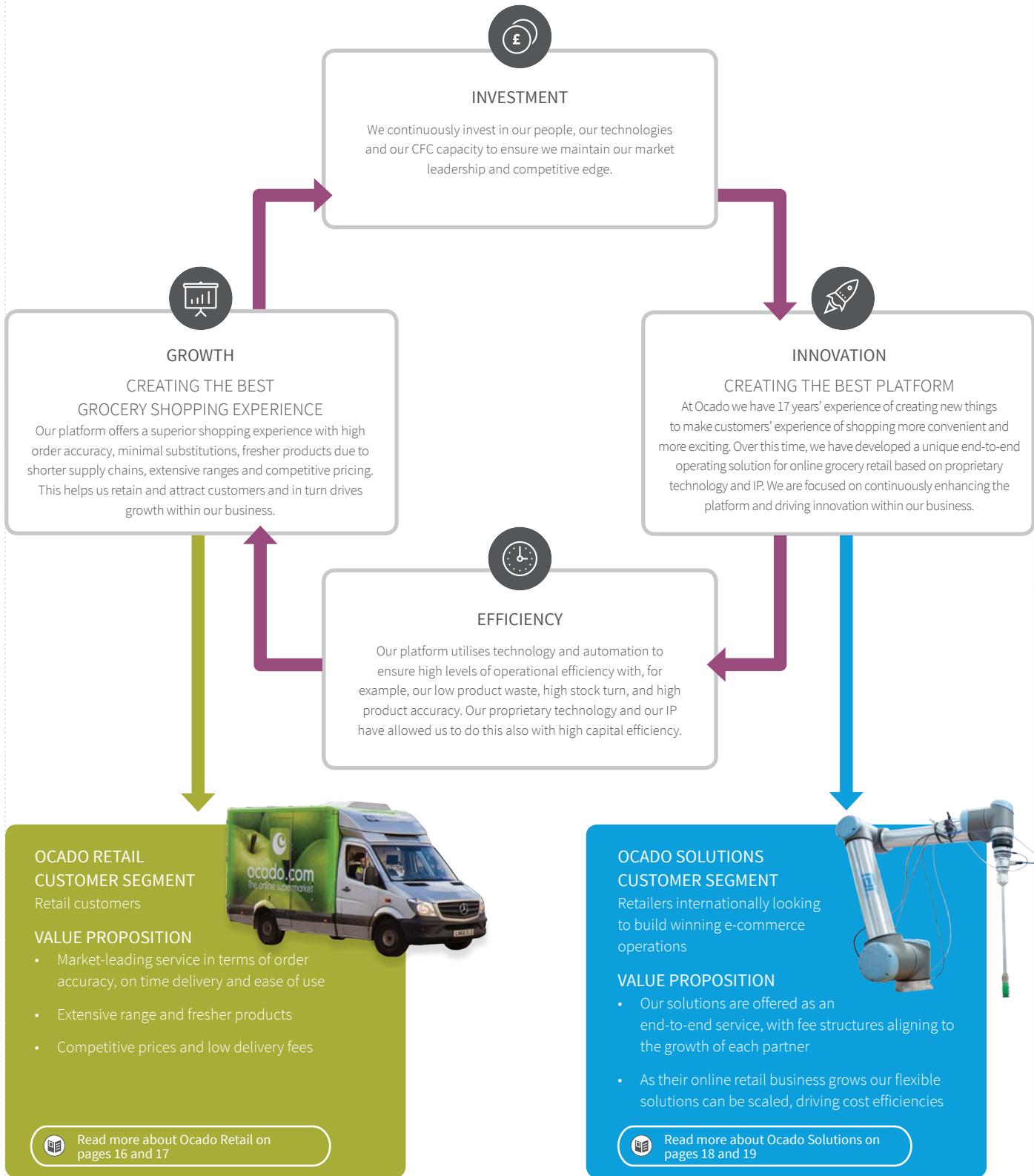
We are focused on continually improving our carbon emissions and waste efficiencies. The automation within our infrastructure enables these efficiencies.



Read more in Corporate Responsibility
on pages 42 to 45

OUR Platform

Our objective is to create a virtuous cycle between growth, investment, innovation and efficiency. This is enabled by our platform, which utilises proprietary knowledge to drive efficiencies, which, in turn, allow us to remove some of the significant costs incurred by store-based retailers. The resultant benefits allow us to reinvest into our business and further drive growth.



INNOVATION – Developing solutions for all our customers

Innovation is part of our DNA and with our investment to date, and our continuing research into areas such as artificial intelligence, robotics, automation and big data, we have an opportunity to create a sustainable technological advantage in an increasingly competitive market. With everything from websites to warehouses designed in-house, we have developed capabilities across a wide range of technologies.

AREAS OF DEVELOPMENT

Automation and Robotics

Warehouse automation within our centralised CFCs is one of the key differentiators for Ocado in the online grocery retail market. Our most ambitious and innovative project of this sort has been the design and development of our proprietary ‘hive’ fulfilment solution, currently live in our Andover CFC, which will involve thousands of robots working together to retrieve from storage the groceries comprising a customer order.

In terms of picking robotics, we have two ambitious Horizon 2020 Research and Innovation projects called SecondHands and SoMa which combine state-of-the-art robotics, artificial intelligence, machine learning and advanced sensors to understand and assist human warehouse workers in real time.



For more information on this see the Development in Robotics Case Study on page 13

Data Science and Artificial Intelligence

Machine learning is a core competency at Ocado. Artificial intelligence is beginning to transform how customers and companies interact with each other. Ocado uses machine learning to develop predictive analytics, implement advanced monitoring and oversight, manage our operations, and achieve real-time optimisation of services. Our data science teams work on advanced projects using programming languages, tools and frameworks in areas related to computer vision, natural language processing and demand forecasting.

Big Data and the Cloud

We use advanced data analytics and cloud storage to deliver groceries to more than 645,000 active customers. Our cloud and data teams collect and process data from customer-facing websites, warehouses, delivery vans and beyond to provide a more personalised shopping experience to customers, optimise warehouse operations, empower the supply chain, speed decision-making and reduce costs.

Web and App Development

Ocado was the first grocery supermarket to launch Android, iOS and watchOS apps. With the move into a digital era, the retail sector is becoming increasingly diverse and requires the strategic use of applications to offer new immersive and interactive methods

of shopping. Combining attractive aesthetics with pioneering functionality that offers unique ways to shop, we have helped to create applications which deliver an exciting, informative and tailored experience – while using intelligent technologies to remove the complexity of keeping it all managed and up to date.

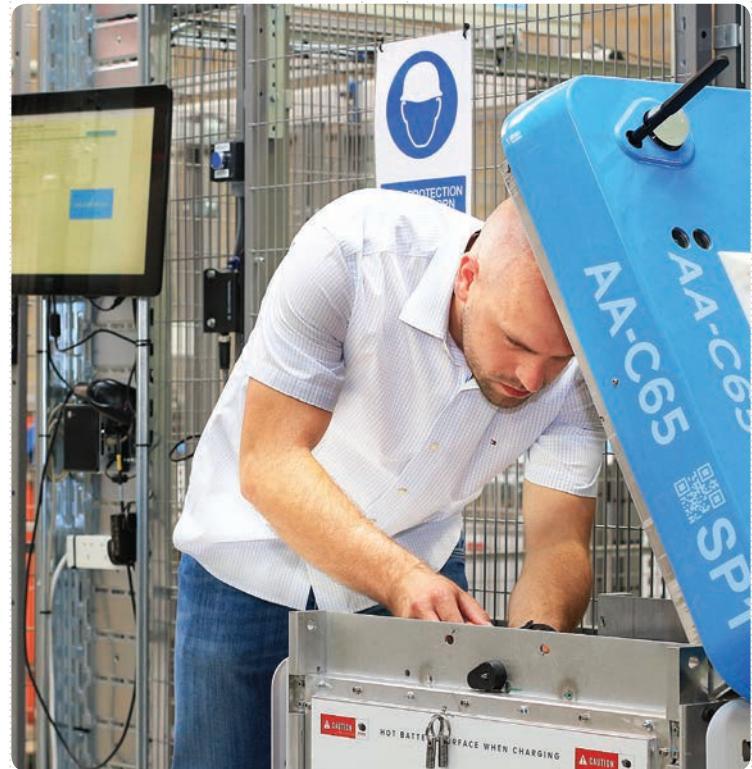
Algorithms and Smart Optimisation
Our systems can make around four million routing calculations per second. Ocado’s systems continuously monitor stock at the individual product level and compute multiple sales forecasts for every product in every warehouse. Warehouse replenishment systems are designed to automatically reorder stock from suppliers within the constraints of maximising product life and availability to customers while minimising waste and stock-holding.

Distributed Computing
Powering Ocado is a complex computing estate that covers everything from our webshop to our highly automated warehouses. Our distribution systems need to support the business as it

evolves and changes, but at the same time balance workloads, performance and resources in an efficient manner. Our technology teams design and build these systems to be highly available and self-healing.

Discrete Event-Simulation

Simulation modelling is used at Ocado for various warehouse operations. Making highly optimal choices for physical devices, layout and algorithms is often beyond human capability, but getting it right is extremely important for any business. Companies can optimise by trial and error in production (often this is expensive, risky and slow) or they can create software to identify highly optimal choices. Ocado uses discrete event simulation for this purpose. This gives us deterministic, faster than real-time scenario and soak testing, allowing us to create systems that would otherwise be too complex to test and debug.



INNOVATION – Developing solutions for all our customers



CASE STUDY OUR PROPRIETARY ROUTING ALGORITHMS

As we continue to grow our customer base, the routing algorithms that underpin the efficiency of our last mile delivery become increasingly complex. The algorithms must optimise the variants of thousands of delivery drivers in different cities with numerous drop destinations, with varying distances between them and calculate the shortest possible route for each delivery driver to complete their shift and end up back where they started. As we continue to grow, the scale of this problem keeps expanding.

Since 2007, when we outgrew the capacity of third party routing software, we have been using our internally developed proprietary algorithms, which employ real-time optimisation to help us decide which deliveries to assign to each van and the order in which they should be completed, while also ensuring we do our best to arrive on time for all our deliveries in time slots selected by the customer.

The algorithm makes several million route calculations per second to identify the best delivery routes for our drivers. We have continued to evolve our software over time so that we can assess which scenarios are most efficient.

Our platform is constantly running multiple instances of the optimiser simultaneously, each iteration focusing on a specific area for a certain day. This means that a customer can book a delivery slot online late on a Thursday night for delivery the following day, and the software can make sure it incorporates this new slot into

the route optimisation for Friday. The software is quick and efficient, meaning that additions and revisions of delivery bookings can be taken into account when calculating the best possible solution within the time available. When you visit Ocado.com, the webshop is actually communicating directly with our routing software to establish which delivery slots are still available. When you click on the day you wish to receive your delivery in the calendar, the real time optimiser will return the available slots within 500 milliseconds!

The secret ingredient to our routing success is the broad range of variables we take into account when calculating the cost function, including van capacities, weights, volumes, fuel consumption and even driver experience. The work of our technology team means we regularly find ourselves in a position to solve our own problems without outsourcing to third parties. The close collaboration between our retail and technology teams continues to keep us a step ahead.





CASE STUDY DEVELOPMENTS IN ROBOTICS

SOMA PROJECT

As part of our ongoing aim to lower costs and drive efficiencies within our model we have been evaluating the feasibility of robotic picking and packing within our CFCs through various initiatives, one of these being the SoMa project, a Horizon 2020 framework programme for research and innovation funded by the European Union.

One of the main challenges of robotic manipulation has been the handling of easily damageable and unpredictably shaped objects such as fruit and vegetables. To avoid damaging sensitive items, the project uses a compliant gripper (i.e. one that possesses spring-like properties) in conjunction with an industrial robot arm.

The variation in shape of the target objects imposes another set of constraints on the design of a suitable gripper. The gripper must be sufficiently versatile to pick a wide variety of products, including Ocado's current range which includes over 49,000 hypermarket items. The goal is to develop versatile, robust, cost-effective, and safe robotic grasping and manipulation capabilities.

An example of a compliant gripper is the RBO Hand 2. The gripper uses flexible rubber materials and pressurized air for passively adapting grasps which allows for safe and damage-free picking of objects. Our robotics team replicated a production warehouse scenario in order to evaluate the performance of the RBO Hand 2 for Ocado's use case. The team mounted the soft hand on two different robot arms.

We designed a set of experiments to evaluate grasping performance on an example set of artificial fruit stored in a tray. The experiments started with the simple scenario of grasping a single object. Results illustrated that the hand is able to successfully grasp a variety of shapes and provided us with insights on how to improve accuracy and success of picking going forward. Over the year we have continued to explore more complex scenarios, adding more objects and introducing additional environmental constraints that could be exploited by a grasping strategy.

OSPICK

More recently we have developed and trialled an alternative type of picking station, called OSPick. OSPick is an industrial robot designed to pick a range of groceries within our CFCs using suction. The system is straightforward in concept compared to many other industrial manipulation projects, but alongside this simplicity comes flexibility. The robotic pick station consists of a suction cup on the end of an articulated arm. The arm is equipped with a pipe running to an air compressor, which is capable of lifting items regardless of their deformability and shape. The biggest factors that influence the success of a pick are the item's weight and surface properties.

The future development and roll-out of this picking solution within our CFCs should allow us to reduce the cost of fulfilment within our operations and that of our commercial partners.

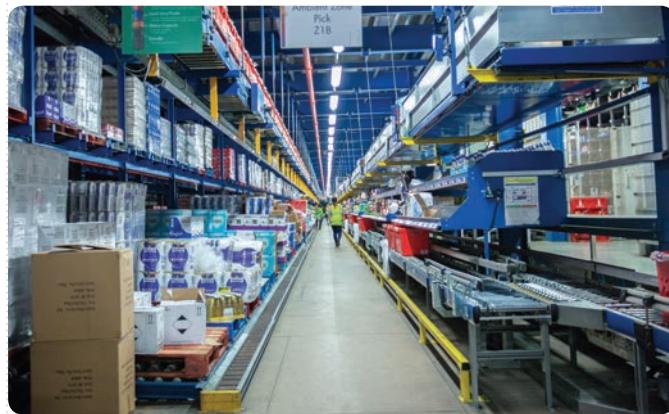


EVIDENCING Efficiency Improvements

We utilise technology and innovation to drive efficiencies and consequently reduce cost throughout our business. The core design principles that drive efficiency are automation, use of proprietary technology, and aggregation of scale via the use of our large CFCs. By combining these attributes we have been able to develop the most sophisticated and operationally efficient grocery shopping and delivery solutions in the world.

Mature CFCs – Cash Generative and Low Maintenance

Mature CFCs



Our two mature CFCs in Hatfield and Dordon continue to operate at high levels of accuracy and with improved efficiency (we consider a CFC to be mature if it has been open for 12 months by the start of the half year reporting period). We have engineers constantly on site to ensure these CFCs are well maintained and to improve the resiliency of our operations. Relative to their sales capacity we therefore incur minimal maintenance capex, and we do not expect this to change over the coming years. We calculate that the cash flow return from our mature CFCs each year is nearly 10% of revenue, illustrating the significant cash generation that can be generated once a CFC has scaled and has reached maturity.

Current Mature CFCs	(£m)
Revenue*	1,350
Operating contribution (c.10%)	135
Annual capex	(5)
Annual cash generation	130
Cash generation as a % of revenue	9.6%

* Represents Ocado only proportion of CFCs

New CFCs – High Return on Investment from Better Capital and Operating Efficiencies

CFCs Utilising Proprietary Solutions



Our proprietary technology utilised in our newest CFCs enables us to achieve an attractive return on investment, estimated at over 50% for our Erith CFC, even before any further benefits that should come from other innovations such as robotic picking.

Projected Erith CFC at full capacity*	(£m)
Revenue	1,080
Operating contribution (11.6%)**	125
Invested capex	225
Projected ROI	>50%

* Assumes 100% utilised by Ocado.

** Improved operating contribution due to higher expected CFC efficiencies and improved delivery efficiencies from increased scale.

Wider Improvements to the Platform

Improvements in Efficiencies across the Retail Operation

Our proprietary technology and infrastructure have been developed in-house and continuously improved over many years to optimise the efficiency of our online businesses. This technology and infrastructure spans the entire shopping and delivery life cycle from customer-facing interfaces, which power our webshop, mobile and tablet applications, to improvements in our UPH efficiency metrics within our CFCs to our optimised delivery routing for the final mile service. Efficiencies within our operations enable us to constantly improve our customer proposition, achieving what we believe to be industry-leading customer service metrics in on-time deliveries and order accuracy.

Long-Term Improvement in Drops per Van (DPVs)

All of our delivery routes are optimised in real time using our proprietary software and algorithms. These complex calculations have constantly moving variables based on our customers' choice of delivery slot, house location and current order volumes. By carefully modelling these attributes, alongside the benefit of our continued growth, which is primarily coming from increased demand in our existing catchments so increasing the density of customer orders, we have been able to drive long-term improvements in our DPV, meaning we are continuously improving the efficiency of our assets.

Customer Loyalty

Providing a compelling proposition to consumers is critical to attracting new customers to Ocado and to encourage loyalty and retention for future shops. We constantly analyse and review our offering against the wider market and focus on innovation in order to seek to stay ahead of our peers. Once our customers have learnt to trust the Ocado proposition they become loyal. We can see this in how our customers shop with us over time. Although there is some natural shrink in customers acquired in any given year as people move or family circumstances change, sales per customer group in each year of acquisition are generally consistent or in some years even increasing. This illustrates how much the value of our proposition means to our customers.

Retail Brand

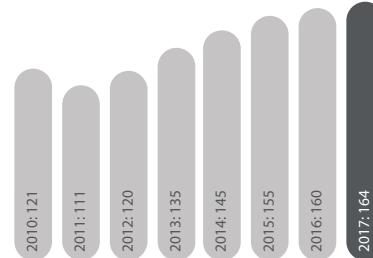
As we have grown in scale so has the power of our retail brand to deliver value to a wide range of stakeholders. We are continuously analysing and developing our Ocado own-label products, with our typical customer basket now including at least five of our Ocado own branded range. The strength of our brand has seen us winning a number of industry awards throughout the year, on both an individual product scale and wider industry level.



More information on Strengthening Our Brands
can be found on page 25

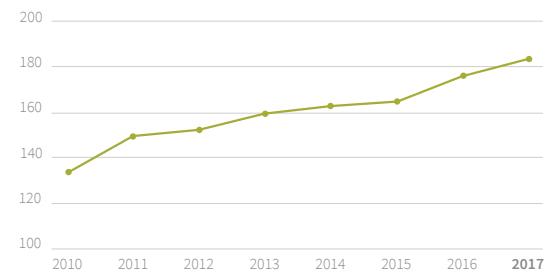
All numbers on this page are reported on a 52 week basis

MATURE CFC UPH*

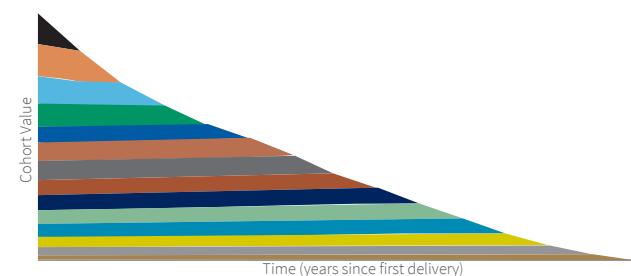


* UPH is a four wall efficiency measure, relating to the average units processed per labour hour across all processes within our CFCs

DROPS PER VAN PER WEEK



CUSTOMER COHORT VALUE OVER TIME



Ocado firsts

We continuously strive to be a leader in the online grocery space, evidenced by a number of first to market skills and applications to support our proposition. Some significant examples of this are outlined below.

- First UK supermarket to launch voice-controlled grocery shopping through our Amazon Alexa skill (2017)
- Trialled the UK's first autonomous driverless grocery deliveries in partnership with Oxbotica (2017)
- First online grocery application to be released on the Apple Watch (2015)
- First to launch a fully transactional application on the iPhone (2009)



Read the Developing voice-activated AI capabilities
for our consumers case study on page 29



Read the UK's first driverless grocery
delivery case study on page 27



OCADO Retail

We don't just deliver shopping, we liberate our customers' time. We provide wider choice, save them money and free up their time to spend on the important things in life – which are usually not found in a supermarket. Powered by fresh thinking, we seek new and improved ways to deliver exactly what customers order, exactly when they want it, where they want it.

Our aim is to provide a market-leading proposition to our customers in terms of range, service and price and we are constantly reviewing our competitors to ensure we remain ahead of the game.

The Ocado Smart Pass helps drive customer loyalty by offering customers free deliveries and specialised discounts on selected products. This encourages customers to shop regularly at Ocado and therefore drives sales through our platform. Over 70% of our sales are now conducted through Smart Pass.

We recognise that customers shop in different ways, and aim to provide flexibility within our proposition to ensure it is suitable and convenient. Our service is supported across a variety of interfaces, from the Apple watch to mobile and tablet applications, to ensure customers can create and amend their orders on the go. We offer the flexibility of one hour delivery slots, seven days a week from 5.30am to 11.30pm, ensuring our customers can find a convenient delivery time to suit their schedules.

To enable easy shopping we analyse our interfaces and tools on our webshops to support customers' shopping habits. For example, during the year we launched our Ocado Regulars feature on our webshop. This enables shoppers to select any product within our range and incorporate it into their Regulars list so that it is automatically added at a given frequency of their choice (e.g. weekly/monthly) to their shopping list. This means that when they start their weekly shop at Ocado their basket will already be populated with the items they regularly buy and they can focus on what is special to them this week. This subscription-style trend and way of shopping is likely to continue over time with more and more products delivered automatically to us based on what the ever more powerful AI engines around us working out what we want and need.

Supported by market-leading technology and our centralised fulfilment model we are able to ensure a consistent and superior customer service with 95.0% on-time deliveries and 98.8% order accuracy. Our outstanding customer service has been acknowledged throughout the industry, and we recently were shortlisted for the European Customer Call Centre Award.

We aim to operate a competitive and transparent pricing policy for our customers. We price match our products to equivalent baskets of the market leader, Tesco.com, and communicate any price variances directly to the consumer with any negative variances refunded in the form of vouchers.

We have continued to offer a broader range than the market, and now offer over 49,000 SKUs on our Ocado.com webshop. This is far beyond what a typical supermarket, which is limited by space constraints, could provide. Alongside national brands, we stock our own and Waitrose private-label products as well as niche and speciality brands which would not typically be found in traditional supermarkets.

Within the year we have extended our product range by adding new suppliers and shop-in-shops such as Hotel Chocolat and our vegan webshop allowing customers to further extend their shopping experience all on one website.

Our proprietary software and algorithms enable us to personalise the shopping experience to individual customers – displaying product ranges most relevant to them based on prior shopping history and preferences. We work with all our suppliers on how to best showcase their products to their target audience and enable greater visibility and prioritisation for suppliers who wish to have it through mechanisms such as banner advertising, dedicated "shop-in-shops", and personalised coupons for our customers. This helps target the right customers and provides rich data insight into shopping habits for our suppliers.

Alongside our traditional grocery range we also have a growing general merchandise business which now contributes over 7% of our retail revenue®. This includes the kind of traditional non-food categories you would typically find in supermarkets, which sit within our Ocado.com hypermarket, as well as our specialist destination sites: Fetch, our specialist pet shop; Sizzle, our kitchen and dining ware store; and Fabled in partnership with Marie Claire, our premium beauty store. Hosting these dedicated destination sites drives the range of products made available to us by niche suppliers and brands, allowing us to vastly extend our range beyond that of conventional supermarkets.



All numbers on this page are reported on a 52 week basis

(A) See Alternative Performance Measures on page 196

SUPPLIERS AND OPERATIONAL PARTNERS

Our suppliers range from large national brands to smaller, niche and speciality players as well as offering our private label selection to our customers. We currently work with around 4,300 different suppliers to service our Ocado hypermarket.

Since launching Ocado.com we have enjoyed a long-term sourcing agreement with Waitrose (part of the John Lewis Partnership). Our current contract runs to 2020. This combines our respective product volumes and growth profiles to improve supply terms for both parties, and enables us to sell Waitrose branded products on Ocado.com. We pay Waitrose a sourcing fee under the agreement and deal directly with suppliers for the majority of the range.

WHERE WE OPERATE – OUR LOCATIONS AND COVERAGE

We operate a hub and spoke delivery network. We fulfil our orders through our three CFC sites in Hatfield, Dordon and Andover and plan to open our fourth and largest CFC next year in Erith, South London. Around a third of our orders are delivered directly from our CFCs, with the remaining being "trunked" to our spoke sites, where the orders are cross docked to local delivery vans and distributed to the surrounding areas. We have 17 spoke sites within our network and currently deliver to over 74% of UK households. Around a third of our geography have same-day delivery slot availability.



CFC SITES

- 1. CFC 1 – Hatfield
- 2. CFC 2 – Dordon
- 3. CFC 3 – Andover
- 4. CFC 4 – Erith (opening this year)

GENERAL MERCHANDISE DISTRIBUTION CENTRES

- A. GMDC 1 – Welwyn Garden City
- B. GMDC 2 – Erith (opening this year)

SPOKE SITES

- 1. Leeds
- 2. Knowsley
- 3. Manchester
- 4. Sheffield
- 5. Oxford
- 6. Bristol
- 7. Peterborough
- 8. Weybridge
- 9. Wimbledon
- 10. Park Royal
- 11. Ruislip
- 12. Enfield
- 13. Dartford
- 14. Dagenham
- 15. Milton Keynes
- 16. West Drayton
- 17. Crawley



OCADO Solutions

Ocado Solutions focuses on helping retail clients grow their online businesses profitably. Our objective is to understand the problems our clients are facing and provide modular, scalable, customised solutions to meet their needs. Leveraging our proprietary best-in-class technology with the Ocado Smart Platform, and the knowledge and experience of Ocado's retail business, we aim to be a long-term partner to our clients, vested in their success to become the e-commerce solutions partner of choice for leading retailers globally.

The strategic priorities of retailers vary significantly across the world depending on their scale, maturity and appetite for change. Ocado Solutions aims to provide bespoke, flexible capabilities to our partners depending on their requirements and the service they wish to offer their customers.

Ocado Solutions will provide retailers with the flexibility to customise the end-to-end process to best fit their current assets and strategic vision.

Starting with the front end, our capabilities will allow retailers to build best-in-class functionality across a spectrum of interfaces from mobile platforms to Alexa voice-activated devices to ensure their customers can shop in the most convenient way for them.

From a fulfilment perspective, customers can choose to operate a centralised warehouse or via a store picking solution. A centralised option would utilise our market-leading, proprietary physical infrastructure solution and algorithms to enable sustainable, operationally efficient fulfilment on a larger scale. This solution is modular in nature (can be built to different sizes) and scalable (can be increased in size over time), and therefore can grow stage by stage as the retailer scales their online operations.

OUR SCALABLE, MODULAR SOLUTIONS

The Journey of Ocado Solutions



Although offering weaker economics at scale, the store picking functionality allows retailers to fulfil orders through their existing store estate, providing retailers a quick to market and flexible fulfilment option to service online customers. The store picking solution is beneficial as it provides retailers with the option to fulfil customer orders in catchments where it may be uneconomical to have a centralised fulfilment centre, but where it might be appropriate to move to more efficient CFCs once sales volumes have scaled. These fulfilment solutions are not mutually exclusive and can be operated in conjunction with each other to enhance the flexibility of our offering for different partners.

Finally, our Solutions business will have the potential to support alternative last mile operations such as delivery, click and collect and courier services. All Solutions will leverage our proprietary technology – the Ocado Smart Platform.

Our Solutions business allows partners to build and scale their online operations at significantly lower cost to alternative solutions. Partners will benefit from using proprietary technology that has been trialled and tested in our own Retail business, and that has been designed with the complexities of grocery retail in mind. To further enhance the customer proposition for retailers, other products, applications or features can be integrated alongside our Ocado Solutions capabilities such as general merchandise, promotional activities, or speciality range extensions. We would expect these additional features to help increase customer retention and drive growth.

Our Ocado Solutions business offers significant value creation opportunities in the UK and abroad and we are pleased with the progress of this business segment in an exciting time for the industry. Looking ahead, we are confident that we will be able to do further deals with the momentum of new signings building over time.

MODULES CURRENTLY USED ACROSS OUR PARTNERS

MORRISONS



The Morrisons partnership utilises all of our Ocado Solutions capabilities

Since launching our first commercial partnership in 2014, Morrisons.com sales have grown significantly. This further demonstrates the quality of our platform and its ability to provide an attractive service for retail

customers. With Morrisons.com now close to reaching its original agreed capacity, we announced an extension to our partnership in June 2016 to allow them capacity in our Erith CFC, enabling their business to continue to scale alongside customer demand. In addition to this, we also agreed to provide Morrisons with store picking capabilities, where customer orders are picked and packed directly from their existing stores. Despite expected weaker economics at scale, this alternative picking solution enables full geographic coverage to areas where their current centralised picking capacity does not reach.

GROUPE CASINO



The Groupe Casino partnership will utilise our front end software and interfaces, our centralised fulfilment, and our last mile delivery solutions

At the end of the year we were delighted to announce our second international partnership, with Groupe Casino in France. Groupe Casino is one of the world's largest and most respected multi format and multi channel grocery retailers. Under the agreement Groupe Casino will gain access to the full end-to-end Ocado Smart Platform solution, including the construction of our latest generation, state-of-the-art automated warehouse, Ocado's best-in-class front-end website functionality, last mile

routing management and big data and real time implementation. Groupe Casino's banners will benefit from our market leading grocery e-commerce platform, firstly through Monoprix.fr. The agreement sets out plans for the immediate initiation of the development of a CFC using our proprietary mechanical handling equipment to serve the Greater Paris area, the Normandie and Hauts de France Regions. We expect this deal to create significant long-term value to the business.

The agreement provides exclusivity benefits to Groupe Casino in France as long as they continue to commit to grow their online operations over time. As well as some upfront fees, which will enable Groupe Casino's systems and processes to be integrated with the Ocado Smart Platform, fees will be based on the capacity utilisation within the CFC and will scale as Groupe Casino grows their online operations. The deal with Groupe Casino is a major validation of our business model.

PARTNERSHIP WITH A REGIONAL EUROPEAN RETAILER



This partnership will utilise Ocado's software solutions

We announced our first international partner for our Solutions business earlier this year. Under this agreement the partner will have access to our full software platform, know-how and support services required to build an efficient online grocery

business. The partner will initially operate from a manual warehouse, with the option to progress to a full automation solution at a later date. This agreement represents a significant step in the evolution of our business and delivery of our strategy, demonstrating the flexibility of our solutions.

SOBEYS



The Sobeys partnership will utilise our front end software and interfaces, our centralised fulfilment, and our last mile delivery solutions

At the beginning of 2018 we were pleased to announce the signing of an agreement with Sobeys to partner with Ocado Solutions to develop an online grocery business in Canada using the Ocado Smart Platform. Sobeys is Canada's second largest food retailer, operating more than 1,500 stores across the country, and generating sales of C\$23.8 billion in fiscal 2017. Ocado will partner exclusively in Canada with Sobeys to launch their end-to-end solution for online grocery services. This

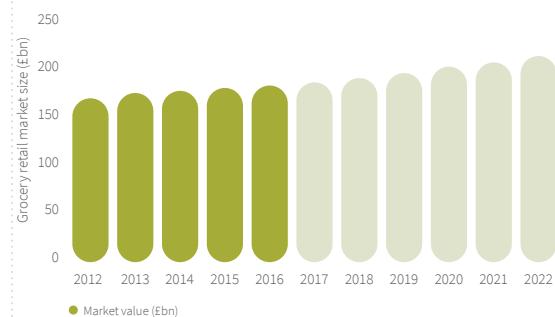
will include best-in-class front-end website functionality, supported by Ocado's proprietary 'web shop' and mobile grocery ordering applications; construction of Ocado's latest generation, state-of-the-art automated warehouse designed specifically for grocery e-commerce; and last mile routing management technology to optimize delivery truck efficiency, customer service excellence and punctuality. Sobeys and Ocado will develop their first CFC in the Greater Toronto Area. The build is expected to take approximately two years. In addition to this initial CFC, Sobeys and Ocado will consider developing other CFCs in Canada's dense urban areas. Sobeys will pay Ocado certain upfront fees upon signing and during the development phase, then ongoing fees linked to installed capacity within the CFC and service criteria.



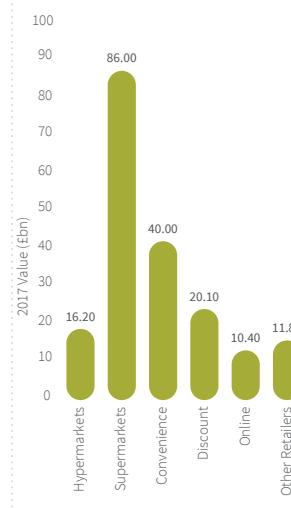
OCADO

Within the Marketplace

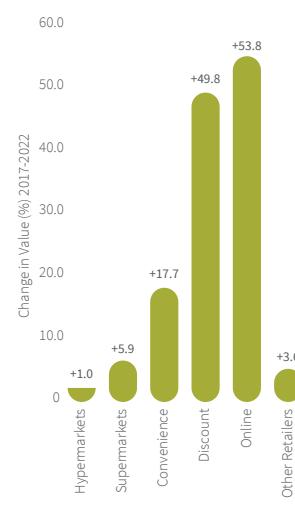
UK GROCERY MARKET SIZE



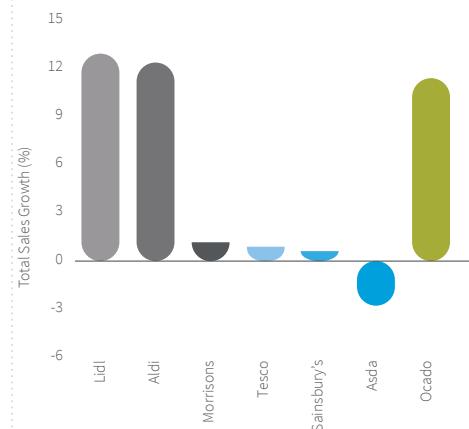
THE UK GROCERY MARKET IN 2017



GROWTH IN THE UK GROCERY MARKET BETWEEN 2017 AND 2022



UK GROCERY 2017 TOTAL SALES GROWTH



Read more about Ocado Retail on pages 16 and 17

RETAIL

The UK Grocery Market

Grocery is the largest of all retail segments and in the UK is forecast to grow by 15% over the next five years from £185 billion to £213 billion (IGD).

Alongside this substantial growth, the UK grocery market is going through a period of adaptation as the UK Government negotiates Brexit. This has accelerated the need for grocery retailers to look to ways to maximise efficiency and reduce costs within their operations to sustain profitability and further invest in their customer proposition.

Price and Cost Dynamics

After several years of ongoing price deflation within the grocery market we have seen the return of inflation, driven by retailers adjusting pricing following the fall in the value of sterling after the EU referendum.

Opposing this, the market is experiencing labour cost inflation driven by a rise in the national living wage combined with a tightening of the labour market as some EU residents return to their home countries in the wake of sterling's decline. This will impact retailers across the UK and is likely to put pressure on margins.

The Shape of UK Grocery

The grocery landscape is changing rapidly, most significantly through the online channel. IGD forecast that over the next five years the online share of the market will rival hypermarkets at close to £16 billion. Its growth is being fuelled both by innovation from existing players and by new market entrants. This distinctive shift in consumer spend makes it essential for retailers to rethink their format structures and priorities.

Alongside online, IGD predicts continued significant growth from the hard discount sector which attracts and retains customers through deep discounts on a limited range of products. This places intense pressure on margins as established national chains adjust their pricing propositions in an attempt to differentiate and compete. In addition, some food

retailers have attempted to sustain profitability in growth by investing in, or merging with, companies in other retail segments.

Across the industry we are seeing shoppers lead increasingly digitally dependent lives. It therefore becomes more vital to harness technology to improve the customer experience in a competitive market both online and in stores. We are seeing an increase in innovation, ranging from electronic in-store pricing to voice activated grocery ordering, to support this trend and it is becoming an important differentiator in managing costs and enhancing loyalty across the industry.

Impact on Retailers

Given the low margins in the industry, retailers need to be cost efficient and behave rationally when deciding strategic priorities on price, proposition and channel offering.

Regarding online, we have started to see changes as retailers re-examine their online propositions and focus on profit and sustainability over short-term growth.

The size of the grocery market results in significant opportunities for retailers and throughout the industry we are seeing a continued focus on the customer proposition through differentiated formats, technology and service levels.

WHAT THIS MEANS FOR OCADO

We continue to grow in excess of the UK grocery market enabling operating leverage and stronger margins to reinvest into our proposition and remain an innovator within the market. Being a pure-play online retailer we are well placed to take advantage of the ongoing channel shift. As other retailers step back to readdress their offer, we continue to build capacity and capture market share. Our growth enables us to further invest in our industry-leading technology and IP to ensure we maintain our competitive edge.

SOLUTIONS

The Global Grocery Market

By 2021 IGD estimates that the global grocery retail market will expand by \$2.4 trillion driven by growth in population and wealth, providing sustainable and attractive opportunities for retailers. In some regions, most notably Asia and the Middle East, we are seeing this growth also driven by significant inflation. Europe and North America combined will account for 38% of the share of total grocery sales by 2021, highlighting the continued importance of these regions globally.

The Changing Shape of Global Grocery
Outside of a few regions, online grocery is still too small to be disruptive. However, as we see the continued adoption of technology on a global scale, as well as new competitors entering the market, we are seeing e-commerce strategies shift up retailer's agendas.

Online penetration in grocery has lagged other retail segments due to the complexities of fulfilling food online given the number of products that typically make up an order and the variety of temperatures they require to keep fresh. Globally, we see online grocery penetration most pronounced in regions where overall online shopping is highest such as South Korea and Japan, indicating the direction of travel for other regions as we enter an increasingly digitalised era.

During the year we saw significant moves by Amazon to grow its presence in grocery retailing, including the launch and roll-out of Amazon Fresh into new regions, development of their Amazon Pantry and Prime Now offerings, and, most importantly, the acquisition of Whole Foods Market with 471 supermarkets in the US and UK. This significant industry development highlighted the company's strategic priorities and provided the retailer with vital grocery credentials to complement and accelerate its ambitions in online grocery. The global reach and technical prowess of Amazon has caused retailers globally to re-examine the strategic importance of their own e-commerce propositions.

Impact on Retailers

As the online channel continues to grow this presents both a huge opportunity and a significant challenge for grocery retailers who must now determine which channels to invest in to best retain their customers and continue to grow profitably in an increasingly competitive market.

The Market for Online Grocery Solutions
There are several options for retailers looking to invest in their online proposition, and the route retailers choose will depend on their perception of potential market size, internal capabilities and strategic positioning.

Some retailers have chosen to develop their capabilities in-house through a variety of options including store picking capabilities, click and collect sites, and the construction of dark stores. This has been done either by purchasing or developing a variety of software solutions including front-end interfaces, supply chain forecasting, warehouse management software and routing algorithms.

Others have chosen to use one of the increasing number of e-commerce solutions providers, hosting a variety of services to enable retailers' online propositions.

Popular solutions include Instacart and Shipt which provide a full solution to the retailer by using crowdsourced labour to pick and deliver the retailer's products to the customer, although sometimes retaining the customer data. The challenge with most of these solutions is that they result in high processing costs per order and face service challenges such as poor product availability.

Retailers looking to service a more significant online market may migrate from a store picking solution to larger, centralised sites, most commonly known in the industry as dark stores. Dark stores are not open to the public and range from being purely manual facilities to utilising physical equipment provided by third party logistics firms in other retail segments.

The complexity of online grocery makes profitable online fulfilment challenging, and the development of sustainable solutions is essential to ensure continued long-term growth for retailers.

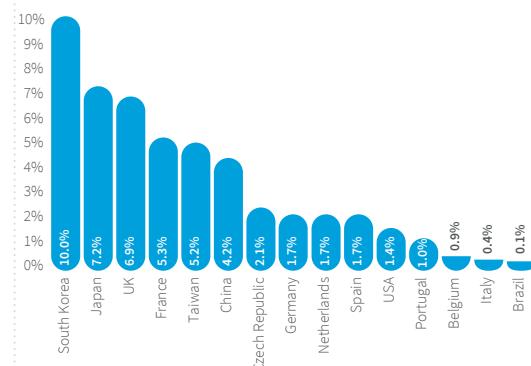
WHAT THIS MEANS FOR OCADO

Our Solutions team aims to leverage our industry-leading capabilities within online grocery to capitalise on opportunities arising from the ongoing channel shift across the world.

Through our years of experience within grocery e-commerce we have developed modular, scalable and customisable solutions to meet retailer's e-commerce needs. Utilising our flagship product, the Ocado Smart Platform, we believe we can help grocery retailers globally launch and develop industry leading online propositions to their customers, further accelerating channel shift.

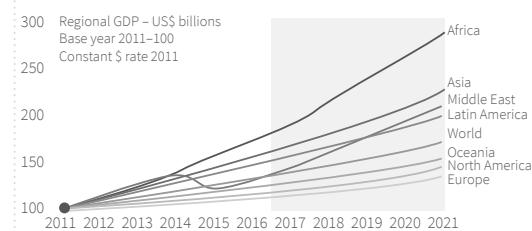
 To read more about our Ocado Solutions business see pages 18 and 19

ONLINE GROCERY PENETRATION



Source: Citi Research, Korea Statistics Office, Kantar

ECONOMIC INDICATORS POINT TOWARDS GROWTH



Source: IGD Research, IMF

OUR Strategy



"The last twelve months have been transformational for Ocado. We have primed our Ocado Solutions business for growth and received an important validation of the business model through our latest partnerships with Groupe Casino and Sobeys. Looking ahead, we are confident that we will be able to do further deals with the momentum of new signings building over time.

At the same time, our unrelenting focus on our customers in the UK has delivered 12.4% growth in retail revenue[®] and further significant market share gains as well as a 4.6% increase in Retail EBITDA[®]. We have ramped up capacity in our revolutionary CFC at Andover, which opened at the end of 2016, and prepared the way for the opening of our fourth CFC, in Erith, this year.

Now is the time to take advantage of our growth opportunities. We will invest to ramp up our new solution in both Erith and Andover and to have the right resources in place to meet growing demand for the Ocado Solutions offer. We believe that taking advantage of these opportunities now will make our virtuous cycle turn faster in the years ahead and we expect that to translate into higher returns on capital. We look forward to our future opportunities and challenges".

Tim Steiner
CHIEF EXECUTIVE OFFICER

Powered by fresh thinking, we strive for new and improved ways to deliver the world's most advanced end-to-end online shopping and delivery solutions.

Our strategy is centred on our three key strategic objectives of driving growth, maximising efficiency and utilising proprietary knowledge. In order to achieve these objectives we structure our business to operate through five core actions. This enables us to deliver market-leading innovations within the grocery industry and shape the market of the future.

Strategic Objectives



DRIVING GROWTH

Continually enhancing the value of our proposition for our retail and corporate customers.

 Read more about Driving Growth on pages 24 and 25



MAXIMISING EFFICIENCY

Harnessing our years of learning, we continually strive to innovate and develop our technology and operations to improve our economic and operating performance.

 Read more about Maximising Efficiency on pages 26 and 27



UTILISING PROPRIETARY KNOWLEDGE

Utilising our IP to create sustainable competitive advantages in our Retail and Solutions businesses.

 Read more about Utilising Proprietary Knowledge on pages 28 and 29

All numbers on this page are reported on a 52 week basis

 See Alternative Performance Measures on page 196

Actions



IMPROVE PROPOSITION TO CUSTOMERS

- For our retail customers, this is centred on continuous focus on the three core pillars of our proposition to customers – service, range and price
- For our corporate customers, it is embedding the improvements and innovations from our retail proposition into our platform capabilities with other requirements specific for bricks and mortar retailers to enable flexibility in our offering for our partners

Read more about Improve Proposition to Customers on page 25



STRENGTHEN OUR BRANDS

- Develop and expand brand offerings to appropriate retail and corporate customer groups
- Reinforce brand equity and values to existing customers

Read more about Strengthen Our Brands on page 25



DEVELOP MORE CAPITAL AND OPERATIONALLY EFFICIENT INFRASTRUCTURE SOLUTIONS

- Operating efficiency: Optimise every aspect of the fulfilment and delivery life cycle to improve our economics and our customer proposition
- Capital efficiency: Continuously lower the cost of investment required for online grocery activities to support growth in our own Retail business and those of our Solutions partners

Read more about Develop More Capital and Operationally Efficient Infrastructure Solutions on page 27



ENHANCE END-TO-END TECHNOLOGY SYSTEMS

- Be the best in the world by constantly evolving and innovating
- Use the developments of Ocado's technology and engineering teams to innovate and improve our end-to-end solutions

Read more about Enhance End-to-End Technology Solutions on page 29



ENABLE CURRENT AND FUTURE PARTNERS' ONLINE BUSINESS

- Continuously develop and enhance our e-commerce solutions to enable a compelling customer proposition and competitive economics to add significant value for partners

Read more about Enable Current and Future Partners' Online Businesses on page 29

OUR STRATEGIC OBJECTIVES: Driving Growth



GROCERY

The loyalty and retention of our customers is a priority within our Retail business as it helps drive growth and capture market share. We aim to provide a best-in-class retail experience by analysing and constantly improving every element of the consumer shop through the quality of our service and our user interfaces, the freshness of our products, the breadth and availability of range, and the competitiveness of our prices.

Progress

In a very competitive grocery market we have seen another year of consistent growth within our Retail business of 12.4%, constrained by capacity utilisation in our mature CFCs. Combined with this we have continued to grow our order volumes by 14.3%, with double digit order growth even in our most highly penetrated catchment areas.

We are constantly looking at ways to reduce friction within the customer experience and during the year we were the first UK grocery retailer to launch a voice-activated AI capability to allow customers an alternative method to add or amend their Ocado order.



For more information on our Alexa skill
see the Case Study on page 29

Future Focus

Powered by technology, our retail proposition is the heart of our business. We are committed to pushing the boundaries within online shopping and fulfilment to ensure we provide the best proposition to our customers.

The grocery market is changing rapidly and we are constantly analysing and assessing new opportunities within the industry. Be it new food trends, speciality brands or interface features, the agile nature of our business means we are able to react quickly to provide the consumer with what is important and valuable to them.

GENERAL MERCHANDISE

Our centralised operating model has enabled us to expand our offering beyond what would typically be found in a supermarket. In conjunction to the general merchandise products sold on our Ocado.com hypermarket we operate three speciality destination sites. These include Fetch, our speciality pet store; Sizzle, our kitchen and dining store; and Fabled, in partnership with Marie Claire, our premium beauty offering.

Progress

We have seen strong growth of our general merchandise division of over 34% over the year, driven by significant growth from our destination sites. General merchandise continues to gain share within our customers' baskets and now accounts for over 7% of our retail revenue®.

During the year our general merchandise division also signed a partnership agreement with Dobbies Garden Centres to provide online services to support the launch and growth of their online operations. Powered by our technological and logistical know-how, it is an agreement that demonstrates the transferable nature of our capabilities into other retail segments outside of grocery. This agreement with Dobbies adds to our partnership to wholesale general merchandise products for Morrisons.



See Alternative Performance
Measures on page 196

All numbers on this page are reported on a 52 week basis

Future Focus

The flexibility of our centralised model allows us to support range extension to other retail categories without significant capital investment and we continue to review other retail segments to identify further opportunities to capitalise on this.

SOLUTIONS BUSINESS

As we grow and continue to innovate within our Retail business we incorporate our innovations to our Solutions business. Technological advances are tested within a live retail environment on Ocado.com and naturally become part of the platform capabilities which we are able to offer to our current and future partners.

Progress

We are delighted to have signed three international partnerships, with Groupe Casino, Sobeys (signed in early 2018) and a regional European retailer, to utilise our Ocado Smart Platform to help launch and develop their online operations.

We continue to support the significant growth of our first Solutions partner, Morrisons.com, and this year launched the first instance of our store picking functionality with them. Throughout the year we continued to scale operations at our latest CFC in Andover. This is the first instance where our proprietary physical infrastructure solution is in use and provides a live example of the physical equipment platform to which our Solutions customers would have access.

Future Focus

As the channel shift continues across the globe, we believe we are well positioned to act as a market leader within online grocery. The latest deals with Groupe Casino and Sobeys provide major validation of our business model. We expect to do multiple deals in the medium term in a variety of geographies with the momentum of new signings building over time.



KPIs:

263,000

Average orders per week

£107.2

Average order size

645,000

Active customer base

49,000

SKU count (Hypermarket)

3

Number of Ocado Solutions
Partnerships signed



RISKS:

- Risk of decline in high service levels
- Failure to develop retail proposition to appeal to broader customer base and sustain growth rates
- Failure to develop sufficient management and technology capability or bandwidth to deliver on all our strategic priorities
- Risk of not signing multiple Ocado Solutions deals in the medium term and not being able to execute effectively
- Risk of negative implications caused by final Brexit terms such as increase in import costs or difficulty in hiring employees

PRIMARY STRATEGIC ACTIONS



IMPROVE PROPOSITION TO CUSTOMERS

A priority within our business is to offer a superior proposition to our customers, which we believe is key to driving growth for both our Retail and Solutions businesses. From a retail perspective, we focused on improving each of the core elements of our customer proposition – providing excellent customer service, an extensive range of products, and offering competitive prices.

Our order accuracy and orders delivered on time or early remained at what we believe to be industry-leading levels of 98.8% and 95.0% respectively.

We continue to utilise our technological leadership to enhance the ways in which customers can shop, integrating capabilities such as the Alexa voice-activated interface for Ocado.com to provide our customers with the freedom and flexibility to easily navigate and complete their weekly shop through an even greater variety of devices. Any innovation developed within our retail business will in turn benefit our Solutions partners, who too will have access to these features for their own online operations.

We have seen strong growth within our General Merchandise product sales, including those from our destination sites, which have grown at over 34% year on year, and now contribute over 7% of Ocado retail revenue^(a).



STRENGTHEN OUR BRANDS

Our continued focus on providing a best-in-class proposition to our customers helps reinforce our retail brand. The quality of our service has been recognised across the industry and was evidenced by awards such as Best Organic Online Retailer at the Best of Organic Market Awards 2017.

We have seen robust growth in both our active customer base and total order volumes, which have continued to expand by 11.2% and 14.3% respectively, with the highest number of orders delivered in a week exceeding 296,000 during the period.

Our Ocado Solutions brand has gained significant traction throughout the year having signed our first three international partnerships. The announcement of these agreements has not only provided validity to our model but has helped us build momentum to support the brand for future partnerships to come.

Although not specific business segments, we have been active in promoting the strength and values of our Ocado Technology and Engineering brands. This focus ensures we are able to recruit the best talent to develop the most innovative technology for use within our business.

All numbers on this page are reported on a 52 week basis



CASE STUDY OUR PROPRIETARY 'BOTS'

An essential part of our new proprietary infrastructure solution, which enables growth within our business, is the robotics required to transport products and orders around the hive infrastructure within our new CFCs.

Designed and developed in-house, with the complexities of grocery in mind, these 'bots' are a crucial element within our solution that helps drive the efficiencies required to fulfil groceries online. The bots are required to move across a densely packed grid at a speed of up to 4 metres per second, collaborating with each other to collect groceries stored beneath them and then bring them to a human picker.

A vital element of their success is their ability to communicate with each other so as to avoid collisions and ensure all fulfilment is optimised in real time. Ocado worked with Cambridge Consultants to help develop a proprietary solution that allowed thousands of bots to communicate with each other 10 times a second within a 50 metre radius, a solution believed to be the most densely packed mobile network in the world.

The bots also have the capabilities to transmit information on how they are operating, and are able to self-diagnose if they are overheating or not working properly. This allows them to report back to maintenance to avoid damage and breakdowns upon the grid.

The bots are battery powered. The average energy consumption per robot is only about 200 watts, which is bolstered by regenerative braking. The power pack itself is about the size of a car battery and features a cell chemistry that lets it charge up in less than half an hour and run for several hours.

Through our years of ongoing development and testing we have developed the robotics and infrastructure that can cope with quickly picking and storing goods in a highly dense and scalable manner, ensuring our solutions are flexible for our own as well as our retail partner's fulfilment needs.

At capacity we expect our Andover CFC to house around 1,100 bots of this kind, and at Erith we would expect over 3,500 bots at full scale.



^(a) See Alternative Performance Measures on page 196

OUR STRATEGIC OBJECTIVES:

Maximising Efficiency

OPERATIONAL EFFICIENCY

We ensure efficiency is optimised throughout our business by adhering to our core design principles of automation, use of proprietary technology, and centralisation – the culmination of these three elements being evident in our industry-leading CFCs.

We seek to drive efficiency throughout every process in our operations, from our easily navigable customer facing interfaces through to our industry-leading routing software supporting the complexity of our delivery operations.

Efficiency within our operations allows us to operate with what we believe to be the lowest product waste in the industry of 0.7% of retail revenue across our mature CFCs which are working at scale, despite over-indexing within fresh and chilled categories. We are able to achieve this through removing several processes and consequently human touch points you would typically find in grocery retailing and using our extensive data volumes from being a digitally centred business to operate complex stock management systems to enable perfect “first-in-first-out” stock rotation.

Progress

We continually strive to improve efficiency within our business and achieve operational leverage as we grow. The operational efficiency within our CFCs is quantified by units processed end-to-end per labour hour, and we are pleased to report our overall mature CFC Units Per Hour (UPH) for the year has improved from 160 to 164, again showing how we are able to improve efficiency year-on-year. Further improvements in UPH are now largely going to come from the MHE solution in our new CFCs when they become mature.

Throughout the year we have scaled our latest CFC in Andover, which houses the first utilisation of our proprietary physical infrastructure solution. The fundamentally different solution design within Andover will drive further UPH progression and in turn capital efficiencies throughout our business once operating at scale.

Alongside efficiencies achieved within our CFCs, we also seek to optimise efficiency in our last mile operations. Increased demand within our catchment areas combined with improvements in our proprietary routing software and in our operational practices have allowed us to further optimise our delivery network enabling us to increase our DPV from 176 to 182 over the year. Operational efficiencies achieved in our retail business can be packaged and replicated for our Solutions customers to enable sustainable and long-term e-commerce solutions.

Future Focus

Our latest solutions currently housed in Andover, and being installed in our Erith CFC, were designed with the future in mind. We have developed our physical infrastructure solution in such a way that any manual touch points within the densely packed fulfilment infrastructure are located on the periphery of the structure so that they can be retrofitted with robotics and automated technology as and when these are appropriately developed. We will be installing the first robotic picking stations within our Andover facility. These robotic arms will be positioned at certain pick stations equipped with our proprietary systems which will enable them to see and feel a wide variety of products. With these capabilities our robots can help pick customer orders much more efficiently, reducing burdensome work hitherto done by humans.

All numbers on this page are reported on a 52 week basis

As our customer base expands we will continually look to innovate and improve our technology and infrastructure solutions to ensure operational excellence in every aspect of the fulfilment and delivery life cycle.

CAPITAL EFFICIENCY

As we grow and in turn develop new CFCs we have been able to improve the capital efficiency of our operations. We have achieved this through continuous improvement within our mature CFCs, which has allowed us to extract additional capacity out of these facilities without significant investment. At the same time we have been investing in technology and innovation, allowing us to build our own proprietary infrastructure and software solutions.

Our proprietary MHE solution, which is now operational in Andover, is modular (can be built to different sizes) allowing for reduced upfront capital commitment as the peripheries can be added as volumes scale within each facility. The modularity of our new solution also means that we are able

to build into smaller spaces rather than being restricted to larger, out of town, warehouse facilities. This makes our capabilities more flexible and customisable to the varying capacity requirements of our Solutions partners.

Progress

Since 2015 we have been developing our fourth CFC in Erith, South London. This will be our largest and, we expect, most capital efficient warehouse to date, capable of handling over 200,000 orders per week which is equivalent to around £1.2 billion of sales at full capacity. We expect first orders from this CFC to begin in 2018. Utilising the same proprietary infrastructure and software solutions as our Andover facility (designed to deliver 65,000 orders per week at scale, or £350 million of sales at capacity), this demonstrates the scalability of our end-to-end solution.

KPIs:

95.0%

Delivery punctuality

98.8%

Order accuracy

164

Mature CFC efficiency
(UPH)

182

Deliveries per van
per week

0.7%

Product waste

Risks:

- A risk of delays in the implementation of new capacity for both Ocado and Morrisons

Future Focus

Due to the fundamentally different infrastructure within our latest CFCs we are in the process of improving the reliability and resiliency of this new solution. We expect future iterations to be faster to deploy (shorter build and commissioning lead times) allowing for reduced upfront capital commitment.

As we develop and learn through the progression of CFCs we expect to be able to further advance our capital efficiency increasing the benefits of operating our centralised model in comparison to alternative methods. Any benefits realised in our own retail business will be naturally passed on to our Solutions partners.

PRIMARY STRATEGIC ACTIONS



DEVELOP MORE CAPITAL AND OPERATIONALLY EFFICIENT INFRASTRUCTURE SOLUTIONS

Our two mature Customer Fulfilment Centres in Hatfield and Dordon continued to operate to high levels of accuracy and with improved efficiency (we consider a CFC to be mature if it has been open for 12 months by the start of the half year reporting period). Using the units per labour hour efficiency measure ("UPH"), the average productivity for the period in these operations was 164 UPH (2016: 160 UPH). We expect most of the future improvements in CFC efficiency to now come from our newer CFCs once these are operating at scale.

Throughout the year we continued to build reliability and resiliency at our newest CFC in Andover, Hampshire, which houses the first installation of our new proprietary modular, scalable physical fulfilment solution. At capacity our Andover CFC will add approximately 65,000 OPW of capacity at maturity.

We made excellent progress over the year in the development of our fourth CFC in Erith, south east London. We continued to install the physical infrastructure and plan to commence operations in FY2018. We expect the facility to be our most capital efficient CFC to date, enabling us to efficiently expand our UK capacity and benefit future Ocado Solutions customers through attractive deal economics. Similar to our Andover CFC, this CFC will also use our proprietary modular, scalable fulfilment solution which will enable us to phase our investment over time in line with our capacity requirements. Approximately 30% of the Erith CFC capacity will be utilised for Morrisons.com under an extension agreement that was signed in 2016.

Further enhancements to our routing system, increased availability of Sunday delivery slots and improved customer density enabled by growth led to an improvement in average deliveries achieved on a van route and has helped us increase deliveries per van per week across all shifts ("DPV") to 182 (2016: 176).

All numbers on this page are reported on a 52 week basis



CASE STUDY THE UK'S FIRST DRIVERLESS GROCERY DELIVERY

In June this year we concluded a successful driverless grocery delivery trial in partnership with the GATEway Project, an £8 million research project led by TRL in collaboration with Oxtobita, Digital Greenwich, Telefonica and others.

The two week trial involved the electric self-driving van, called CargoPod, which delivered free groceries to local residents in Greenwich, South East London. The van itself is the first Oxtobita self-driving electric vehicle capable of transporting cargo by using the company's state-of-the-art Caesium cloud-based fleet management software and their Selenium autonomous control system.

Representing Ocado in this trial was our 10x technology team. The 10x team focuses on creating game-changing improvements that have the potential to revolutionize our business based on the ten times versus ten per cent principle. This involves identifying and addressing the big technical challenges facing our business, the online grocery market, and beyond. This ambitious goal demands that the 10x team stays at the cutting edge of technology, looking far into the future, and turning ambitious dreams into practical solutions.

The trial gave Ocado the ability to experiment with fresh ideas for the last mile of online retail – the stage that starts when the goods leave the facility for delivery and ends when they are placed securely in the hands of customers. We were also able to learn more about the next steps needed before driverless deliveries could become an efficient proposition for our own Retail business as well as our Ocado Solutions partners.





OUR STRATEGIC OBJECTIVES: Utilising Proprietary Knowledge



OUR INTELLECTUAL PROPERTY

Making online grocery attractive to the customer and profitable for the retailer is very challenging. Elements such as large basket sizes, varying temperature requirements and narrow one-hour delivery slots add to the complexity of our solutions and heighten the barriers to entry within the sector. Our years of learning and development have enabled us to build market leading solutions and valuable intellectual property, which will enable our sustainable and long-term success within the sector.

Our capabilities span our proprietary processes, physical infrastructure solutions, systems and software to provide a complete end-to-end solution to benefit both ourselves and our future commercial partners.

Progress

Within the year we launched the first live instance of our store picking solution with Morrisons.com. Despite expected weaker economics at scale, this alternative picking solution can enable fuller geographic coverage to areas where centralised picking may not reach. It is complementary to CFC fulfilment and enables retailers to utilise their existing store estate to build online sales volume that could later be transferred to more efficient CFCs. It also enables us to provide a quick to market and more flexible solution to our retail partners.

To maintain our technological leadership we have continued to build capabilities within our technology teams, now constituting over 1,100 employees across our technology hubs in the UK, Poland, Bulgaria and Spain. We are able to attract and retain quality technology expertise by continuously pushing the boundaries in online grocery and providing the team with the mandate to think beyond conventional grocery issues.

Our developments and innovation throughout the year have been considerable. Our IP is core to our technological leadership and our progress illustrates our vision and determination in remaining ahead in an increasingly competitive market. Our achievements have been recognised throughout the industry and we have won numerous awards such as the Best Innovation in Cloud Services award during the Ovum On The Radar Awards 2017.



Read more about significant innovations over the year in the
Innovation – Developing solutions for all our customers on
pages 11 to 13

Future Focus

Our innovations within the grocery and wider e-commerce space drive growth and create long-term shareholder value. We are confident in our ability to commercialise on this knowledge through our Solutions business and are progressing our conversations with retailers across the world on how we can enable and support the growth of their online operations.

PATENTS

To ensure we protect the value of our solutions and maintain our competitive advantage within the space we take careful measures to protect our innovations and intellectual property. We operate a structured and thorough patent filing and application process to safeguard our solutions. Our patent activities are intended to create a web of protection for our intellectual property. As of the year end we filed patent applications covering 61 separate innovations. There are now 13 granted patents across 8 innovation families.

Progress

We continue to file patent applications to protect our proprietary knowledge. Over the year some of our earlier filed applications have been granted and we expect many more to be granted over the next year. As our OSP solution and other technology evolves we expect to continue protecting our innovations in major markets in this way.

Future Focus

Our aim is to continuously innovate ahead of the market and maintain our industry leadership. We will ensure this by continuing to innovate and protect our intellectual property through our ongoing patent operations.



RISKS:

- Technological innovation supersedes our own and offers improved methods of food distribution to consumers
- Protecting our IP
- Infringing a third party's IP



PRIMARY STRATEGIC ACTIONS



ENHANCE END-TO-END TECHNOLOGY SOLUTIONS

Core to our business and competitive advantage is the proprietary IP, knowledge and technology that supports our market-leading proposition to customers and drives our operating efficiencies. We strive to continuously innovate ahead of the market to ensure we maintain our competitive edge. Throughout the year we have continued to actively file and pursue patent applications to help create a web of protection around our innovation and ensure we can benefit from its value. The majority of our patent applications relate to our physical infrastructure solution which is operational within our newest CFC in Andover and what will be used in our partnerships with Groupe Casino and Sobeys.

To enable us to innovate we ensure we invest in the right capabilities and resources within our business. We have extensive and growing technology and engineering teams, which by the end of the period comprised over 1,100 employees. Our technology teams operate out of multiple technology centres in the UK, Poland, Spain and Bulgaria, taking advantage of the significant technological expertise found in these regions.



ENABLE CURRENT AND FUTURE PARTNERS' ONLINE BUSINESSES

As we continue to develop and innovate in our retail business we embed any improvements into our platform for existing and future partners.

Since launching their online business in January 2014 using our broader platform offering, our first Solutions partner, Morrisons, has seen strong growth at Morrisons.com. This year we have continued to enable their development through the provision of our store picking module, which allows them to service more of their customers and in catchment areas beyond the reach of their current CFC capacity. Morrisons launched the first live installations of the store picking capabilities this year and are due to continue to roll this out throughout the next year.

The validation of our Solutions business was further enhanced through the signing of our first three international partnerships this year. Groupe Casino, Sobeys and our regional European retail partner will benefit from our technology, know-how and support services required to create an efficient and intelligent online grocery business and we look forward to helping them grow their operations.

Looking ahead, we are confident that we will be able to do further deals with the momentum of new signings building over time.



CASE STUDY DEVELOPING VOICE-ACTIVATED AI CAPABILITIES FOR OUR CONSUMERS

Our technology teams are continuously pushing the boundaries of software development in e-commerce by releasing the most comprehensive and intuitive grocery shopping apps for iOS, watchOS and Android.

In August 2017, we extended our offering to include a new platform to our line-up and became the first global grocer to release a skill for Alexa, the AI-based personal assistant from Amazon. Industry forecasts indicate that by 2018, 30% of all web interactions will be through conversational interfaces. This, alongside our own research, has shown that many Ocado customers would benefit from voice-controlled smart assistants for grocery shopping.

Among other things, the skill enables customers to add items to their Ocado orders, check items within a basket, receive delivery updates, find the price of the current basket and even ask what's currently in season. This equips customers with the ability to maintain casual conversation with the assistant centred around their order based on AI-based algorithms, which establish the most likely product for the customer they are interacting with.

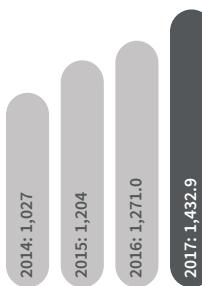
Innovations like these reflect our desire to constantly improve our retail proposition through technology so that our customers get the greatest value and convenience from their shopping experience. They also show the ways in which we will further improve the customer experience in the future.





KEY PERFORMANCE Indicators

REVENUE (GROUP) (£m)



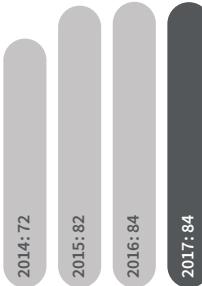
Why we use this measure
Measures growth at Group level reflecting our Retail and Solutions revenue.

2017 performance
12.7% v 2016

Strategic link



EBITDA (GROUP) (£m)^④



Why we use this measure
Measures operating profitability at a Group level reflecting both our Retail and Solutions segments.

2017 performance
0% v 2016

Strategic link



REVENUE (RETAIL) (£m)^④



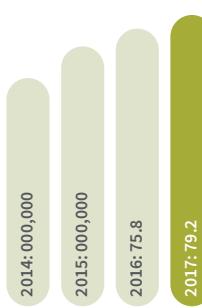
Why we use this measure
Measures revenue growth of our Retail business.

2017 performance
12.4% v 2016

Strategic link



EBITDA (RETAIL) (£m)^④



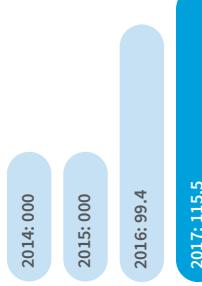
Why we use this measure
Measures operating profitability of our Retail business.

2017 performance
4.6% v 2016

Strategic link



REVENUE (SOLUTIONS) (£m)^④



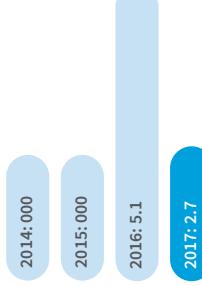
Why we use this measure
Measures revenue growth of our Solutions business.

2017 performance
16.2% v 2016

Strategic link



EBITDA (SOLUTIONS) (£m)^④



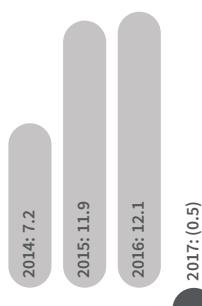
Why we use this measure
Measures operating profitability of our Solutions business.

2017 performance
(47.1)% v 2016

Strategic link



PBT (GROUP) (£m)



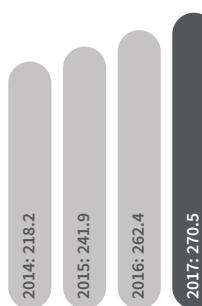
Why we use this measure
Measures profitability at Group level reflecting our retail and solutions profit.

2017 performance
105.8% v 2016

Strategic link



NET ASSETS (GROUP) (£m)



Why we use this measure
Measures the surplus between total assets and total liabilities at Group level.

2017 performance
3.1% v 2016

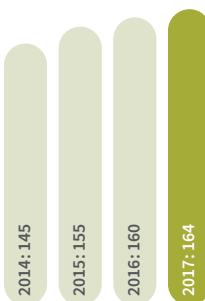
Strategic link



All numbers on this page are reported on a 52 week basis

④ See Alternative Performance Measures on page 196

CFC EFFICIENCY (UPH)



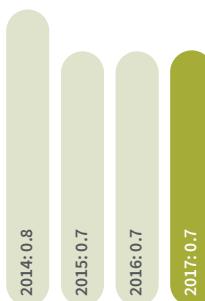
Why we use this measure
Measures CFC operational efficiency.

2017 performance
2.4% v 2016

Strategic link



PRODUCT WASTE (%)



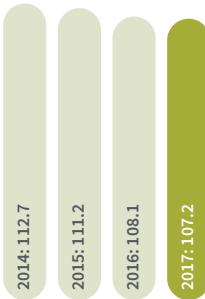
Why we use this measure
Measures efficiency of our operations in terms of waste minimisation: the lower the better.

2017 performance
0.0ppt v 2016

Strategic link



AVERAGE ORDER SIZE (£)



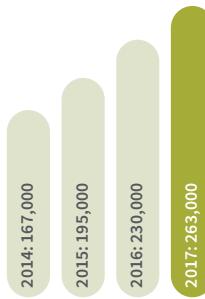
Why we use this measure
Measures aggregate impact on average shopping basket within our Retail business.

2017 performance
(0.8)% v 2016

Strategic link



AVERAGE ORDERS PER WEEK



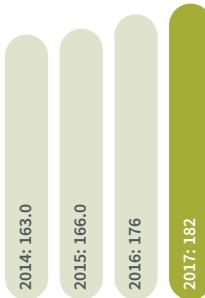
Why we use this measure
Measures order growth in our retail businesses.

2017 performance
14.3% v 2016

Strategic link



AVERAGE DELIVERIES PER VAN PER WEEK



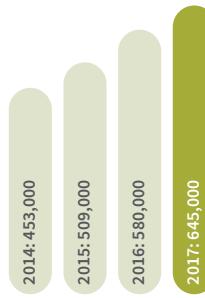
Why we use this measure
Measures efficiency of our service delivery operation.

2017 performance
3.2% v 2016

Strategic link



ACTIVE CUSTOMER BASE



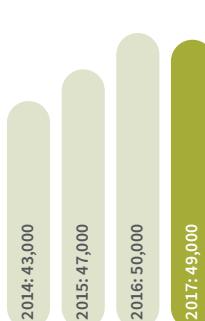
Why we use this measure
Measures growth in our core customers who shopped in the last 12 week.

2017 performance
11.2% v 2016

Strategic link



SKU COUNT (HYPERMARKET)



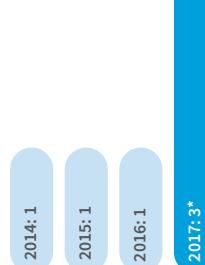
Why we use this measure
Measures growth in range offered at Ocado.com, not including standalone sites.

2017 performance
(2.0)% v 2016

Strategic link



NUMBER OF OCADO SOLUTIONS PARTNERSHIPS SIGNED



Why we use this measure
Measures partner growth within our Solutions business.

2017 performance
200% v 2016

Strategic link



All numbers on this page are reported on a 52 week basis

* A fourth Ocado Solutions partner was signed in January 2018



CHIEF FINANCIAL OFFICER'S Review



"For the period to 3 December 2017, we maintained solid sales growth in a competitive environment while progressing our business further across many fronts."

Duncan Tatton-Brown
CHIEF FINANCIAL OFFICER



(A) See Alternative Performance Measures on page 196

For the period to 3 December 2017, we maintained solid sales growth in a competitive environment while progressing our business further across many fronts.

The Group secured two international partnership deals and continued to deliver double digit revenue growth despite a shortage of capacity limiting our UK growth potential. Profit before tax for 2017 was £1.0 million (2016: £12.1 million). Profitability in the period was adversely impacted by the wage increases partly impacted by increased national living wage, higher

costs associated with the opening of Andover CFC, our continued investment in a number of strategic initiatives to aid future growth, and additional depreciation.

The current period results comprise 53 weeks ended 3 December 2017. For comparability purposes 52 week data, which excludes the final trading week of the 2017 financial year, is used ("2017") for comparison to the 52 weeks ended 27 November 2016 ("2016"), unless otherwise stated.

	FY 2017 (53 weeks) £m	FY 2017 (52 weeks) ^① £m	FY 2016 (52 weeks) £m	Variance (52 weeks)
Revenue^②	1,463.8	1,432.9	1,271.0	12.7%
Gross profit	504.3	494.3	435.3	13.6%
Other income	61.0	59.5	52.9	12.5%
Distribution and administrative costs	480.9	471.3	406.0	16.1%
Share of results from joint venture ^③	1.6	1.6	2.1	(23.8%)
EBITDA^④	86.0	84.3	84.3	0.0%
Depreciation, amortisation and impairment ^⑤	71.0	71.0	60.3	17.7%
Net Finance costs	13.7	13.5	9.5	42.1%
Exceptional items ^⑥	0.3	0.3	2.4	87.5%
Profit/(Loss) before tax	1.0	(0.5)	12.1	(104.1)%

1. Revenue is online sales (net of returns) including charges for delivery but excluding relevant vouchers/offers and value added tax. The recharge of costs to Morrisons and fees charged to Morrisons and other solutions clients are also included in revenue.
2. EBITDA^④ is stated before the impact of exceptional items^⑥.
3. Depreciation, amortisation and share of results from joint venture are based on a 53 weeks basis.

Revenue grew by over 12.7% to £1,432.9 million in comparison to 2016 revenue of £1,271.0 million. This was driven by an increase in the average number of orders a week and fees earned from our partnerships. Gross profit increased by 13.6% year-on-year, a higher rate than revenue primarily driven by faster growth in Solutions revenue with currently higher gross profit margins compared to Retail.

EBITDA^④ of £84.3 million was in line with the prior year. This was maintained by cost savings achieved by operational efficiencies in the CFCs and delivery, offset by an increase in head office headcount and fixed costs.

Depreciation, amortisation and impairment increased by 17.7% to £71.0 million, driven primarily by the annualised impact of the opening of the Andover CFC and the associated software.

Net finance costs increased from £9.5 million to £13.5 million year-on-year. This was primarily driven by the fees incurred on the successful issue of Senior Secured Notes of £250 million during the year and a renegotiated revolving credit facility ("RCF").

TRADING REVIEW BY SEGMENT

Retail Performance

	FY 2017 (53 weeks) £m	FY 2017 (52 weeks) ^① £m	FY 2016 (52 weeks) £m	Variance (52 weeks)
Revenue	1,346.1	1,317.4	1,171.6	12.4%
Gross profit	386.6	378.9	335.9	12.8%
Other income	50.4	49.2	41.2	19.3%
Distribution and administrative costs ^⑦	356.1	348.8	301.4	15.7%
EBITDA^⑧	81.0	79.2	75.8	4.5%

1. Distribution and administrative costs excludes depreciation, amortisation and impairment for the period.
2. EBITDA^④ does not include the impact of exceptional items^⑥.

Retail revenue growth was driven by a 14.3% year-on-year increase in orders per week to 263,000 (2016: 230,000). The average basket at Ocado.com of £107.22 decreased by (0.8)% compared to 2016. This was primarily driven by an increased frequency of shop from our loyal customers base, an increase in average price per item offset by a strategic decision to reduce multi buy promotional activity and a reduction in the number of items per basket.

Gross Profit

Gross profit was up 12.8% to £378.9 million, compared to 2016 gross profit of £335.9 million. The rate of

growth, ahead of sales, was due to reduced unfunded promotional activity and increases in selling price offset by the increase in cost of goods.

Other Income

Other income increased by 19.3% to £49.2 million (2016: £41.2 million) with supplier income increasing year-on-year by 20.6% to £46.5 million (2016: £38.6 million) equivalent to 3.5% of retail revenue (2016: 3.3%).

PROFIT/(LOSS) BEFORE TAX AND EXCEPTIONAL ITEMS (£m)



Distribution and Administrative Costs

	FY 2017 (53 weeks) £m	FY 2017 (52 weeks) ^① £m	FY 2016 ¹ (52 weeks) £m	Variance (52 weeks)
CFC	117.9	115.7	95.1	21.7%
Trunking and Delivery	167.8	164.0	143.5	14.3%
Other operating costs	10.0	9.8	9.5	3.6%
Marketing ²	14.1	13.7	11.7	17.1%
Head office costs	46.3	45.6	41.6	9.6%
Total retail distribution and administrative costs^③	356.1	348.8	301.4	15.7%

1. 2016 include a re-categorisation of £0.9 million of cost from administrative expenses to distribution costs.

2. Marketing expenditure excludes voucher costs.

3. Retail distribution and administrative costs excludes depreciation, amortisation and impairment.

Distribution and administrative costs consist of costs for the fulfilment and delivery operations of the business as well as head office costs. Total distribution and administrative costs increased by 15.7% year-on-year.

CFC costs increased from £95.1 million to £115.7 million, an increase of 21.7% year-on-year. This was primarily due to the annualised impact of the Andover CFC which is not yet operating at full capacity and is running at lower productivities as it scales its operations. The remaining underlying increase was principally due to a higher number of employees in the CFC as a result of greater volumes and continuing inflationary pressure in key cost lines.

Mature CFC UPH efficiencies continued to improve by 2.4% to 164 which partially offset the aforementioned costs. This improvement in mature CFC UPH was driven mainly by the Dordon CFC productivity, which regularly exceeded 180 UPH in the period. UPH in the Hatfield CFC also improved year-on-year.

Trunking and delivery costs increased by £20.5 million to £164.0 million, an increase of 14.3% year-on-year (2016: £143.5 million). This was due to increases in wage-related and vehicle costs as a result of greater order volumes and inflationary cost pressures.

Deliveries per van per week have risen by 3.2% to 182 (2016: 176) as customer density improved, Sunday delivery slots increased, and we made continued enhancements to our routing system.

Head office costs increased by 9.6% year-on-year from £41.6 million to £45.6 million. This was driven by wage inflation, from the growth in the general merchandise business, and increased costs associated with our new head offices.

Marketing costs excluding voucher spend increased from £11.7 million to £13.7 million, 1.0% as a percentage of retail revenue and in line with the prior period.



CHIEF FINANCIAL OFFICER'S Review

EBITDA[®]

EBITDA[®] excluding exceptional items for the retail business grew from £75.8 million in 2016 to £79.2 million.

Solutions Performance

	FY 2017 (53 weeks) £m	FY 2017 (52 weeks) [®] £m	FY 2016 (52 weeks) £m	Variance (52 weeks)
Revenue	117.7	115.5	99.4	16.2%
Distribution and administrative costs [®]	115.1	112.7	93.9	20.0%
EBITDA[®]	2.5	2.7	5.5	(50.9)%

Revenue

The revenue from the Solutions business was £115.5 million, up from £99.4 million in 2016. This comprised of fees from our arrangement with Morrisons, for services rendered, technology support, research and development, management fees, and a recharge of relevant operational variable and fixed costs and also for the new Store Pick implementation. We also recognised an element of upfront fees relating to international partnerships that were signed in the period.

Distribution and Administrative Costs

	FY 2017 (53 weeks) £m	FY 2017 (52 weeks) [®] £m	FY 2016 (52 weeks) £m	Variance (52 weeks)
Distribution Costs	88.6	86.9	76.7	13.3%
Administrative costs	26.5	25.8	17.2	50.0%
Total Solutions distribution and administrative costs [®]	115.1	112.7	93.9	20.0%

1. Solutions distribution and administrative costs excludes depreciation, amortisation and impairment.

Distribution and administrative costs predominantly consist of fulfilment and delivery operation costs for the Morrisons business and the costs of employees developing solutions for, and supporting, our partnership agreements. These costs grew 20.0% year-on-year primarily as a result of an increase in headcount.

EBITDA[®]

EBITDA[®] from our Solutions activities was £2.7 million, a decrease of £(2.8) million.

Group Performance

	FY 2017 (53 weeks) £m	FY 2017 (52 weeks) [®] £m	FY 2016 (52 weeks) £m	Variance (52 weeks)
Depreciation, amortisation and impairment	71.0	71.0	60.3	17.9%
Net Finance costs	13.7	13.5	9.5	42.1%
Share of results from joint venture	1.6	1.6	2.1	(23.8)%
Profit/(Loss) before tax	1.0	(0.5)	12.1	(104.1)%

Depreciation, Amortisation and Impairment
Total depreciation and amortisation costs were £71.0 million (2016: £60.3 million), an increase of 17.9% year-on-year. The increase year-on-year in costs was driven principally due to the commencement of operations at Andover CFC and increased vehicle numbers in line with business growth

Net Finance Costs

Net finance costs were £13.5 million, an increase of 42.1% in comparison to the prior year (2016: £9.5 million). The increase in finance costs are due to the issuance of a £250 million in senior secured notes during the period and renegotiated revolving credit facility ("RCF") of £100 million. This resulted in an increase in finance costs and £1.9 million of transaction fees in relation to the RCF. This amount was offset by cost savings as

a result of debt expiring or being repaid with the proceeds of the senior secured notes.

£4.4 million of interest costs have been capitalised in the period in relation to the senior secured notes and the RCF in accordance with the relevant accounting standards (2016: £0.7 million).

Share of Result from Joint Venture

MHE JVCo Limited ("MHE JVCo") holds Dordon CFC assets, which Ocado uses to service its and Morrisons' online business and is owned jointly by Ocado and Morrisons. The Group share of MHE JVCo profit after tax in the period amounted to £1.6 million (2016: £2.1 million).

Loss Before Tax

Loss before tax for the period was (£0.5) million (2016: profit of £12.1 million).

Taxation

Due to the availability of capital allowances and Group loss relief, the Group does not expect to pay corporation tax during the period. No deferred tax credit was recognised in the period. Ocado had approximately £183.6 million (2016: £268.6 million) of unutilised carried forward tax losses at the end of the period.

Dividend

During the period, the Group did not declare a dividend.

Earnings Per Share

Basic earnings per share were 0.16p (2016: 2.02p) and diluted earnings per share were 0.16p (2016: 1.96p).

Capital Expenditure

Capital expenditure for the period:

	FY 2017 (53 weeks) £m	FY 2016 (52 weeks) £m
Mature CFCs	3.1	3.4
New CFCs	69.7	64.6
Delivery	16.5	20.6
Technology	42.8	34.3
Fulfilment Development	15.5	19.7
Other	10.6	10.5
Total capital expenditure^{1,2} (excluding share of MHE JVCo)	158.2	153.1
Total capital expenditure³ (including share of MHE JVCo)	160.3	156.9

1. Capital expenditure includes tangible and intangible assets.

2. Capital expenditure excludes assets leased from MHE JVCo under finance lease arrangements.

3. Capital expenditure includes Ocado share of the MHE JVCo capex in 2017 of £2.1 million and in 2016 of £3.9 million.

Capital expenditure in the Hatfield CFC was £3.1 million which mainly related to a number of small projects to improve the capacity and resiliency of these sites.

We incurred £69.7 million of costs in the period for our new CFCs. The Andover CFC commenced operations at the end of 2016 and has steadily increased volumes during 2017, with a potential eventual capacity above 65,000 OPW. The fit out of the next CFC located in Erith, South East London continued according to plan and this site is expected to open in 2018 with a potential eventual capacity over 200,000 OPW.

Total expenditure on new vehicles in the period was £19. million (2016: £16.5 million). This expenditure enabled business growth and replacement of vehicles that have reached or exceeded their five year useful life.

Ocado continued to develop its own proprietary software and incurred £35.7 million (2016: £26.8 million) of internal development costs in the period on technology, with a further £7.1 million (2016: £7.5 million) spent on computer hardware and software. We expanded our technology total headcount to nearly 1,100 staff at the end of the period (2016: over 950 staff) as increased investments were made to support our strategic initiatives. The main areas of investment were replatforming of our technology and the greater use of public and private cloud services, improvements in the efficiency of our routing systems, enhancements to our customer proposition, developing a store pick solution for implementation by our solutions partners and support for the growth of the Andover CFC.

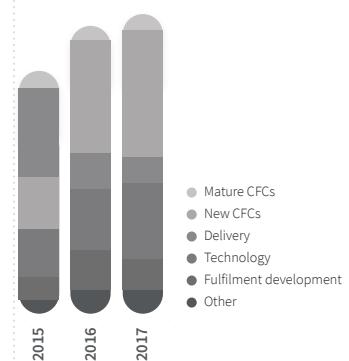
Fulfilment development expenditure of £15.5 million was spent in developing our next generation fulfilment solutions which will be used in our latest CFCs and our relevant Solutions partners.

In the period, we incurred our share of the capital expenditure relating to MHE JVCo of £2.1 million (2016: £3.9 million) to improve operational capacity and efficiency of the Dordon CFC and various minor improvement projects.

Other capital expenditure of £10.6 million was incurred in the period, of which £6.4 million related to our general merchandise business. This was to support growth in capacity of our existing general merchandise distribution centre and to fund development costs for our second general merchandise distribution centre opening in 2018.

At 3 December 2017, capital commitments contracted, but not provided for by the Group, amounted to £45.0 million (2016: £34.4 million). We expect capital expenditure in 2018 to be approximately £210 million which mainly comprises the continuing investment in our infrastructure and technology solutions, roll out of our new CFCs and additional investment in new vehicles to support business growth and the replacement of vehicles coming to the end of their five year financing contracts. This includes capex requirements related directly to our new Solutions' customers.

CAPITAL EXPENDITURE





CHIEF FINANCIAL OFFICER'S Review

"Operating cash flow increased by £9.9 million during the year driven by an increase in working capital and EBITDA*, offset by an increase in finance costs."

Cash Flow

Net operating cash flow after finance costs increased to £106.8 million, up 10.2% from £96.9 million in 2016 as detailed below:

	FY 2017 (53 weeks) £m	FY 2016 (52 weeks) £m
EBITDA^①	86.0	84.3
Working capital movement	30.6	18.5
Exceptional items ^②	(0.3)	(1.7)
Other non-cash items	4.6	4.9
Finance costs paid	(14.1)	(9.1)
Operating cash flow	106.8	96.9
Capital investment	(169.4)	(123.9)
Dividend from joint venture	7.6	8.4
Increase in net debt ^③ /finance obligations	152.4	22.2
Proceeds from share issues	1.5	1.1
Other investing and financing activities	0.2	0.4
Movement in cash and cash equivalents	99.1	5.1

1. EBITDA^① is stated before the impact of exceptional items^②.

Operating cash flow increased by £9.9 million during the year driven by an increase in working capital and EBITDA^①, offset by an increase in finance costs. The increase in working capital inflow of £12.1 million is driven by an increase in trade and other payables of £19.4 million and in inventories of £5.4 million, offset by a decrease in trade and other receivables of £12.7 million.

During the period there was £169.4 million of capital expenditure as the Group continues to invest for future growth comprising investments in new CFCs, development of our next generation fulfilment solutions, and spend on new vehicles and spoke sites.

Net financing cash flows in the period were £153.9 million comprising £152.4 million of new net debt^③ and financing obligations and £1.5 million of proceeds from the issue of new share capital following the exercise of employee share options.

Balance Sheet

The Group had cash and cash equivalents of £150.0 million at the end of the financial year versus £50.9 million as at 27 November 2016.

Gross debt at the period end was £378.0 million (2016: £215.8 million) and external gross debt^④, excluding obligations under finance leases owing to MHE JVCo, was £283.9 million (2016: £107.1 million). The increase in net external debt is due to the level of investment in improving our platform and adding UK capacity being ahead of our current cash generation. Net external debt at the period end was £133.9 million (2016: £56.2 million). The increase of £77.7 million was mainly driven by the capital investment activities.

Trade and Other Receivables includes £12.2 million (2016: £5.9 million) of amounts due from suppliers in respect of commercial income, £1.0 million (2016: £5.9 million) is within trade receivables, and £8.6 million (2016: £10.8 million) within accrued income.

Included within property, plant and equipment is capital work-in-progress for land and buildings of £37.2 million (2016: £27.4 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £61.6 million (2016: £22.9 million), the increase relating to the Erith CFC and the second non-food distribution site under development.

Increasing Financing Flexibility

In the period we announced the successful placing of £250 million Senior Secured Notes due 2024 at a coupon of 4%, as well as an amendment and extension to our current RCF which was reduced to £100 million, from £210 million and extended to June 2022. This refinancing will be used for the continued growth of our UK retail business and further development of our platform.

Key Performance Indicators

The following table sets out a summary of selected unaudited operating information for FY 2017 and FY 2016:

	FY 2017 (53 weeks)	FY 2017 (52 weeks) [®]	FY 2016 (52 weeks)	Variance (52 weeks)
Average orders per week	264,000	263,000	230,000	14.3%
Average order size (£) ¹	107.28	107.22	108.13	(0.8)%
Overall CFC efficiency (units per hour) ²	164	164	160	2.4%
Average deliveries per van per week (DPV/week)	182	182	176	3.2%
Average product wastage (% of retail revenue) ³	0.7%	0.7%	0.7%	—

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 from Ocado.com.
2. Measured as units dispatched from the CFC per variable hour worked by Hatfield CFC and Dordon CFC operational personnel. We consider a CFC to be mature if it had been open 12 months by the start of the half year reporting period.
3. Value of products purged for having passed Ocado's "use by" life guarantee divided by retail revenue.



HOW WE MANAGE Our Risks

THE RISK MANAGEMENT FRAMEWORK

Ocado's risk management process is designed to improve the likelihood of delivering our business objectives, protect the interests of our key stakeholders, enhance the quality of our decision making, and assist in the safeguarding of our assets, including people, finances, property and reputation.

The Board is responsible for the identification of Ocado's key strategic and emerging risks, and for the review and approval of the risk management framework. The Audit Committee, delegated by the Board, is responsible for the independent review of the effectiveness of risk management, the system of internal control, and the monitoring of the quality of financial statements and consideration of any findings reported by the auditors, Deloitte LLP, in relation to Ocado's control environment and its financial reporting procedures.

The key features of our system of internal control and risk management, including those relating to the financial reporting process, are:

- an organisational structure with clear segregation of duties, control and authority, and a framework of policies covering all key areas;
- a system of financial reporting, business planning and forecasting processes;
- a capital approval policy that controls Ocado's capital expenditure and a post-completion review process for significant projects;
- monitoring the progress of major projects by management, the Executive Directors and the Board;
- a Risk Committee which monitors Ocado's risk control processes;
- an Information Security Committee which monitors Ocado's information security;
- an Internal Audit function that provides independent assurance on key programmes and controls;

- a treasury policy overseen by a Treasury Committee that manages Ocado's cash and deposits, investments, foreign exchange and interest rates, so as to ensure liquidity and minimise financial risk;
- a food and product technology department, responsible for designing and monitoring compliance with Ocado's processes for the procurement and handling of foods and other goods for resale;
- other control measures outlined elsewhere in this Annual Report including legal and regulatory compliance and health and safety.

Group's information security controls, the development of a programme to help meet the requirements of the new General Data Protection Regulation, and an independent review of Internal Audit. At the end of the period, the Group established a new independent function called Governance, Risk and Compliance. The new function has assumed responsibility for supporting the Group's risk management processes, such responsibility having been performed previously by Internal Audit (previously called Internal Audit & Risk) and to help enhance the Group's risk management framework.

The Audit Committee, on behalf of the Board, undertook an annual review of the effectiveness of risk management and the system of internal control, covering all significant controls including financial, operational, compliance controls, and risk management systems.

For further information on the review of financial reporting, refer to page 65 of the Audit Committee report.

2018 PLAN AND BEYOND

The new Governance, Risk and Compliance function will carry on existing risk management arrangements previously carried out by Internal Audit and will work closely with Internal Audit



1. Our strategy informs the setting of objectives across the business and is widely communicated.
2. Executive Directors evaluate the most significant strategic risks for the Group. In addition, each divisional Director prepares a risk register for their respective division, highlighting their significant risks. The Risk Committee oversees risk control processes and risk analysis from each part of the business, and reviews these top down and bottom up representations to ensure that no significant risks have been omitted.
3. Divisional directors identify how they will manage or mitigate their significant risks. These actions are then summarised into a description of the Group-wide mitigation process for each risk.
4. Group-wide risks and mitigation processes are regularly reviewed by the Risk Committee and by the Audit Committee.

to help provide assurance services to the Group intended to support the operations of the business. As well as supporting the Group's risk management processes in 2018, Governance, Risk and Compliance will help develop the Group's new information security strategy and work roadmap, and implement a new reporting system to support risk registers for the Group and for reporting of information security arrangements to Ocado Solutions clients. The function will continue to input into key strategic decisions regarding major projects and new Ocado Solutions clients and help monitor implementation of key projects.

ASSESSMENT OF THE GROUP'S PROSPECTS

The Directors have assessed the Group's prospects, both as a going concern and its viability longer term. This assessment informs the following distinct statements:

1. The Directors considered it appropriate to adopt the going concern basis of accounting in the preparation of the Company's and the Group's financial statements.
2. The Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

Both assessments are closely linked to the Directors' assessment of the principal risks facing the Group (including those that would threaten its business model, future performance, solvency or liquidity), which is outlined on pages 40 and 41.

GOING CONCERN STATEMENT

Accounting standards require that the directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare financial statements on a going concern basis. There has been no material uncertainty identified which would cast significant doubt upon the Group's ability to continue using the going concern basis of accounting for the 12 months following the approval of this Annual Report.

In assessing going concern, the Directors take into account the Group's cash flows, solvency and liquidity positions and borrowing facilities. At period end, the Group had cash and cash equivalents of £150.0 million (2016: £50.9 million), external gross debt ^(A) (excluding finance leases payable to MHE JVCo of £283.9 million (2016: £107.1 million)) and net current assets of £2.9 million (2016: £141.2 million net current liabilities). The Group has a mix of short and medium term finance arrangements and has £250 million senior secured notes due 2024 and a £100 million revolving credit facility which contains typical financial covenants and runs until June 2022. The Group forecasts its liquidity requirements, working capital position and the maintenance of sufficient headroom against the financial covenants in its borrowing facilities (see below). The forecasts involve the Directors making judgements about future revenue, EBITDA^(A) and capital expenditure and the cost of future financing. The financial position of the Group, including information on cash flow, can be found in Our Financials on pages 120 to 191. In determining whether there are material uncertainties, the Directors consider the Group's business activities, together with factors that are likely to affect its future development and position (see pages 02 and 37), the Group's principal risks and the likely effectiveness of any mitigating actions and controls available to the Directors (see pages 40 and 41).



See Alternative Performance Measures on page 196

VIAIBILITY STATEMENT

In addition to the going concern assessment, the Directors have considered the viability of the business.

The Code requires that the Directors assess the prospects of the Group over an appropriate period of time selected by them. The Directors have considered whether the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period from approval of this Annual Report. Although the Group's strategic plan forecasts beyond three years, the Directors took into account the impact on forecast outcomes of the rapid growth of the business and its changing strategic opportunities, (among other factors) in concluding that three years was the most appropriate period for assessing the Group's prospects.

The Directors rely on a number of existing processes to justify their viability assessment. The annual budget, which provides a greater level of certainty of outcome than the longer-term plans, is used to set targets for the Group for the upcoming financial year and is used by the Remuneration Committee to set performance targets for the Annual Incentive Plan. A longer term business model, which is refreshed by the Board at least annually, provides less certainty of outcome, but provides a sensible planning tool against which strategic decisions can be made. This plan contemplates the impact of a number of different strategic initiatives, including Ocado Solutions transactions, possible trials of and the pace of investment in new technology, new CFCs (which typically take up to three years for planning and construction), potential increases in CFC capacity and changes in the rate of retail customer growth. The plans make assumptions about the business including projected capital expenditure, financing requirements, available finance and compliance with any financial covenants.

To assist the Directors' assessment, the financial projections in the longer term business model were subject to severe but plausible stress tests whereby certain key assumptions were adjusted downwards, notably a material decline in the rate of revenue growth, lower gross margins, an increase in operating costs, a reduction in fees from Ocado Solutions clients for lower service levels or delayed implementation, and some combinations thereof. The tests were intended to show various outcomes including the impact on the Group's net debt^(A) and cash flow over the three years and an assessment of the impact on the financial covenants in the revolving credit facility, all of which are relevant to assessing the solvency and liquidity of the Group in this context. A decline in revenue growth or margins, an increase in operating costs or reduction in Ocado Solutions fees can result from a range of principal risks in the business including failure by the Group to maintain a competitive pricing position, a decline in customer service levels and a delay in implementing capacity or a CFC for the retail business or a Ocado Solutions customer. The Directors consider that it is reasonable to believe that the Group's £100 million revolving credit facility, which runs until mid 2022, and senior secured notes due 2024, will be refinanced or extended, or that other financing will be available, to provide continuing finance to the Group. The Directors' assessment also took into account the other principal risks and mitigating actions set out on pages 40 and 41.

The above considerations form the basis of the Board's reasonable expectations that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period from approval of this Annual Report.

The Board carried out its assessment of principal risks and uncertainties during the period. Set out overleaf are details of the principal risks and uncertainties for the Group and the key mitigating activities used to address them. The risks have been listed against the most relevant Group strategic objectives, together with the operational risks, and are not set out in any order of priority or importance.



HOW WE MANAGE Our Risks

Strategic Objective	Risks	Mitigation Action/Control	Change During the Year
Driving Growth	Risk of decline in high service levels	<ul style="list-style-type: none"> Weekly monitoring of the key indicators and the underlying drivers against published targets A number of planned initiatives are intended to improve operational performance 	
	Failure to develop retail proposition to appeal to broader customer base and sustain growth rates¹	<ul style="list-style-type: none"> Continuation of LPP basket matching price comparison and competitive pricing Growth of the Ocado own-label range alongside continued provision of the Waitrose range Growth of branded ranges and expansion of supplier base Alternative sourcing scenarios considered in the event that the Waitrose sourcing relationship is not renewed when it expires in 2020 Continuation of investment and optimisation of the marketing channels to acquire new customers Continued improvement of webshop and apps 	
	Failure to develop sufficient management and technology capability or bandwidth to deliver on all our strategic priorities	<ul style="list-style-type: none"> Increasing hiring of technology staff, including senior positions Regular review of IT prioritisation process Review of technology structures and processes to position the Group for delivering a larger number of complex projects Increased hiring of managers and subject matter experts in retail, operational and central support areas 	
	Risk of not signing multiple Ocado Solutions deals in the medium term and not being able to execute effectively²	<ul style="list-style-type: none"> Investment in our platform which enables Ocado Solutions is also required for Ocado's expanding Retail business. Initial deployment is in Andover and Erith CFCs Impact of not signing multiple Ocado Solutions deals in the medium term is restricted to the lost opportunity to increase our earnings from our Solutions business The amount of capital invested in our platform is carefully controlled and we have the ability to reduce costs by scaling back the speed of the development Resources and capabilities will be scaled and reallocated to help meet Ocado Solutions project deadlines. See above risk 	 A number of Ocado Solutions deals have been signed, leading to the challenge of implementing multiple international projects
	Risk of negative implications caused by final Brexit terms such as increase in import costs or difficulty in hiring employees	<ul style="list-style-type: none"> Regular monitoring of government reporting on Brexit negotiations to understand impact on the business including our ability to hire employees from the EU, an assessment of trade tariffs on imported goods and impact of disharmonisation of UK and EU regulatory standards in a range of areas Collaborating with trade organisations to follow developments and express our concerns to government 	
Maximising Efficiency	A risk of delays in the implementation of new capacity for both Ocado and Morrisons	<ul style="list-style-type: none"> Dedicating resources to the modularisation of technology and logistics systems to enable faster replication New capacity in development at Andover CFC and Erith CFC Regular Executive Board steering and full Board reporting of new technology projects 	

KEY:

Risk has increased

Risk has decreased

No change

Not applicable

Strategic Objective	Risks	Mitigation Action/Control	Change During the Year
Utilising Proprietary Knowledge	Technological innovation supersedes our own and offers improved methods of food distribution to consumers	<ul style="list-style-type: none"> Engagement with a wide number of international grocers to understand market needs Experienced teams in place who understand the current solutions and are aware of global alternatives used in other industries Benefit to our UK business from examining the retail businesses of international grocers 	
	Protecting our IP	<ul style="list-style-type: none"> Ongoing effort to identify patentable inventions and to apply for patents, with an increased number of patent applications Ongoing review of our patent portfolio and discussion of other IP issues by the Ocado Innovation Committee Where necessary we take steps to protect our IP from unauthorised use 	
	Infringing a third party's IP	<ul style="list-style-type: none"> Conducting "freedom to operate" searches on selected technologies in selected jurisdictions Where appropriate, obtaining specialist or legal advice including to help ensure our ability to use our IP is not restricted by infringement claims 	
Operational	A risk of a food safety or product safety incident	<ul style="list-style-type: none"> Experienced legal, food and product technology professionals monitor compliance against policies and procedures Supplier approval and certification process Food and product safety policies and quality management with appropriate operational procedures 	
	A risk of changes in regulations impacting our retail business model or the viability of Ocado Solutions deals	<ul style="list-style-type: none"> Regular monitoring of regulatory developments to ensure that changes are identified Monitoring operational performance to minimise environmental impact Some due diligence carried out at appropriate stages in the Ocado Solutions process 	
	Risk of major cyber-attack or data loss	<ul style="list-style-type: none"> IT systems are structured to operate reliably and securely The security of our IT systems is regularly tested by third parties; security monitoring capabilities have been expanded No customer payment card data is held in Ocado's databases Access to customer personal data is restricted to those who need this information as part of their job GDPR compliance programme is being carried out 	
	Business interruption	<ul style="list-style-type: none"> IT systems are structured to operate reliably and securely Dedicated engineering teams on site with daily maintenance programmes to support the continued operation of equipment Disaster recovery testing and business continuity plans continue to be progressed and updated High level of protection for CFCs and equipment, combined with business interruption insurance to transfer residual risks 	

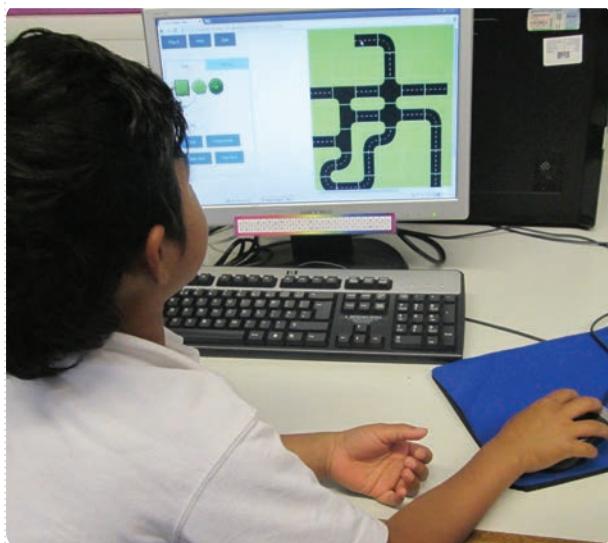
- The risk described in the 2016 annual report as a "Failure to maintain competitive pricing position" has been deleted and included as a sub-set of the risk concerning "Failure to develop retail proposition to appeal to broader customer base and sustain growth rates".
- The risk described in the 2016 Annual Report as "Risk of not signing multiple Ocado Solutions deals in the medium term" has been expanded to include the risk of not being able to execute the deals effectively.

For further information on the financial risks, see pages 161 to 163 of the notes to the financial statements.



CORPORATE Responsibility

2017 was a landmark year for our 2020 Corporate Responsibility Strategy: The Ocado Way. We won the Best First Time Responder Award for our voluntary submission to The Carbon Disclosure Project; we made progress with all four pillars of our Corporate Responsibility strategy, and we completed our first Corporate Responsibility report. Highlights for each pillar are featured below. For a more detailed look, view the full report at ocadogroup.com.



THE OCADO WAY: 2020 STRATEGY



EDUCATION

By sharing our expertise in food, retail, logistics and technology, we aim to add value to our society now, and help the next generation achieve more. In 2017, we continued to promote digital literacy, road safety, and recycling. Building on our existing relationship with HMP Northumberland recycling Ocado uniforms, we supported an education project to upskill offenders and enable them to earn a formal qualification.

Code for Life

We continued to develop Rapid Router, our open source software and guidance resource, teaching Key Stage 1 and 2 children how to code. At the end of November 2017, there were over 113,300 registered users and 2,267 registered schools worldwide.

Road Safety

We continued to work with Hertfordshire County Council on road safety projects aimed at children across five local primary schools. In September, we started working with Warwickshire County Council, the location of our Dordon CFC, on similar projects.

In spring 2017, we sponsored a special edition of The Young Driver's Guide, a magazine which helps reduce road risks for new drivers. 27,000 copies were delivered to 125 schools in Warwickshire and Hertfordshire, counties where we have a high presence on the roads. 88% of readers said they were more aware of the dangers faced by new drivers after reading the magazine.

Recycling

2017 is the second of our five year partnership with WRAP, promoting recycling education projects to primary school children. This year, we invested £100,000 in the partnership, along with an additional £30,000 to support Recycle Week, a social media campaign promoting the benefits of recycling, with a reach of over 3.5 million.

HMP Northumberland

HMP Northumberland textiles factory has processed over 55 tonnes of Ocado uniforms since our working partnership began in 2015. In 2017, prisoners began to include our refashioning project as part of the Performing Manufacturing Operations qualification (PMO), which is a Level 2 NVQ. In 2017, 17 offenders successfully completed the PMO, with a further 61 prisoners enrolled in the course, increasing offender employment opportunities after release. 10 product designs have been developed by offenders, which will be available for sale in 2018, with proceeds going to the Ocado Foundation for future charitable donations.



ENTREPRENEURSHIP

We provide an environment where entrepreneurs in retail and technology can flourish. In 2017 we continued to find opportunities to encourage and reward entrepreneurial thinking in our own business and in education.

Supporting SMEs

As discussed in last year's report, at the end of 2016 we launched our supplier application website, Supply Ocado, to make our retail listing process more accessible for Small to Medium-sized Enterprises (SMEs). In 2017 1,003 businesses applied through the website, 151 entrepreneurs met our Buyers, and 33 brands launched on [ocado.com](#).

We also established the Ocado Primary Network, a team dedicated to improving logistics for small suppliers at launch, and to continue this as they grow. 150 SMEs are currently managed by a dedicated full-time Ocado team.

We relaunched Britain's Next Top Supplier, our competition awarding a small supplier a £20,000 launch package and a six month listing with us at [ocado.com](#). The 2017 winner, The Garlic Farm, launched on our webshop with a range of 47 products within 6 weeks.

"To win Britain's Next Top Supplier 2017 is an incredible accolade for us. We've been innovating with garlic for over 50 years and we are so excited to bring the results of our labour to Ocado customers. We are after all a nation of garlic lovers – and our unusual products will bring that familiar taste to people in ways they have never experienced before."

Natasha Edwards
OPERATIONS MANAGER AT THE GARLIC FARM

Engineering Education Scheme
 In September, we signed up to this scheme, partnering with Monk's Walk School in Welwyn Garden City, Hertfordshire. Our Logistics Development and Engineering team agreed to mentor six A Level students, providing them with a special Ocado challenge to solve. We'll report more on the results next year.



ENVIRONMENT

We continue to work on environmental data management with Ecometrica to provide a centralised data management system. Carbon emissions from our CFCs, Spokes and vehicles are tracked. We are expanding this to track all operational waste.

Greenhouse Gas Emissions

Due to our continued growth, this reporting period saw our absolute emissions increase by 9.4% compared to the previous financial year. Despite this, we have decreased our intensity measure in tonnes of CO₂e per hundred thousand orders by 27.6% against our 2013 base year.

As in previous years, fuels used by our fleet remain the largest contributor to our carbon footprint, accounting for 66% of our total emissions. Electricity is the second highest contributor, making up 25.5% of emissions, attributed mostly to our main CFCs. This is the first year we have reported a market-based figure alongside the traditional location-based method.

In June this year, we voluntarily submitted data to be reviewed by the Carbon Disclosure Project and subsequently won their Climate Change Best First Time Responder award. We're extremely proud to have an independent body confirm that we're working as efficiently as possible, and we will continue to strive for transparency and excellence.

This year the Carbon Trust have carried out a limited assurance engagement on selected GHG emissions data (below) in accordance with ISO14064:3 Specification with guidance for the verification of greenhouse gas assertions. A copy of the limited assurance report is available at [ocadogroup.com](#).

GHG Emissions (tonnes CO ₂ e)	2016/17	2015/16	2012/13
Scope 1 – Direct	82,305	72,377	39,530
Scope 2 – Indirect			
Location-based	28,270	28,675	21,613
Market-based	14,510	—	—
Total Emissions (location-based)	110,575	101,052	61,143
Intensity measure (tonnes CO ₂ e/100,000 orders)			
Location-based	596.4	582.8	823.4
Market-based	522.2	—	—

Due to inaccuracies discovered in our 2015/16 data we have restated our GHG emissions and intensity measure for that period. Total emissions and intensity measure for 2017 have been calculated using the location-based method.



[View more information about the basis of preparation of our emissions data online at \[ocadogroup.com\]\(#\)](#)

CORPORATE Responsibility



EATING WELL

As an online grocer, we have a natural connection with food. We've continued to focus on reducing food poverty in the UK, growing our Food Partnerships with food banks and food charities. We've also maintained our promise to encourage our customers to eat well by having at least 100 promotions on fresh fruit and vegetables at all times.

FRESH FRUIT AND VEGETABLES ON PROMOTION 2017



Donate Food with Ocado

For every £1 our customers give in Donate Food With Ocado vouchers, we give £2 worth of food to our food bank partners. Rather than food banks being overloaded with overstocks, they choose what they need most from a long list of fresh and ambient products. In 2017 £142,709 was donated by Ocado customers; to date we have matched customer donations and given local charities 64 tonnes of food.

Cool vans

When collecting fresh donations, we ask our Food Partners to use refrigerated transport. This year, we've given three of our charity partners a refrigerated van and we've paid for the branding, leasing, maintenance, tax and insurance on their behalf; they simply pay for their fuel. Their van drivers have also completed our Safe and Efficient Driver training programme, to try and keep them safe on the road.

Ocado is committed to the upholding of human rights. During the period, we introduced a Human Rights Policy reflecting our commitment to acting ethically and with integrity in all our business relationships and to implementing effective systems and controls. We fully support the Modern Slavery Act which is designed to root out slavery-like practices, such as human trafficking, in global supply chains. Our modern slavery statement will be published at ocadogroup.com.

During the period we made a donation of £306,808 to the Prince of Wales's Charitable Foundation, through sales of Duchy branded products.

No donations were made by the Group to any political party, organisation or candidate during the period (2016: nil).

THE OCADO FOUNDATION

The Ocado Foundation launched in April 2015; it's the home of our charitable and fundraising activity, both internally and externally. We help our employees across the UK make a difference at a local level. We do this through donations to multiple small, local projects and charities where impact will be greatest, rather than only supporting a single national charity.

Matching the fundraising and volunteering activity resulted in donations of just over £22,147 for charities across the UK through the Ocado Foundation in the last 12 months. Ocado employees have volunteered more than 2,000 hours to a variety of good causes.



Carrier bags

The legislation that came into effect in October 2015 requires a 5p charge on all new single use carrier bags in England. Given the aim of the legislation is to reduce bag littering and damage to wildlife, we believe that this is best done by removing the bags from circulation. One of the unintended risks of the legislation for us is that it could encourage our customers to keep hold of carrier bags rather than return them to us for recycling, so we decided to build on our existing (and very successful) bag recycling programme by offering a financial incentive for customers to return used bags to us. We call this our Bag Buy Back Scheme. A large majority of the proceeds from the bag charge fund this scheme; we believe that using a Bag Buy Back Scheme to proactively retrieve and recycle used bags from a customer's home correlates closely with the aim of the legislation, and is environmentally more sensible than simply donating all the proceeds to a charity. The Ocado Foundation is the custodian of the remaining funds and disburses them on charitable environmental, waste, and recycling projects. During the 2016/17 period, we charged customers for 138.8 million bags.

We've used the remainder of the funds from the charge to support waste, litter and recycling charities across the UK. This further supports the desire of the Single Use Carrier Bag Charging Legislation to see some of the money raised go to environmental causes such as supporting work to help tackle littering. This year we've donated £130,000 of carrier bag funds to WRAP, supporting recycling education projects; £150,000 has been spent on five refrigerated vans for our Food Partners; and £65,000 has been donated to CleanUpUK, a charity which helps people combat litter in their local area.



CASE STUDY EDIBLELINKS FOOD BANK, ATHERSTONE

This food partner to CFC Dordon started out as a simple food bank in 2013, redistributing food surplus to local people experiencing food crisis. The project has grown into one of our most successful partnerships, attracting media coverage with their inventive community group membership schemes and pilot projects with government services.

"In just 13 weeks, we identified and refurbished empty council units and found a charity partner to set up our food bank, which opened in April 2013. We were collecting 40 to 60 totes in a council van, weekly. Now we're using our donated Ocado Foundation vans to collect ambient and perishable food every weekday, and we've received a total of 33 tonnes of food.

When we started, we issued around 50 food vouchers to residents in need every month; we now issue at least this amount every week. In addition, we're using excess donations to support 135 community groups, 15 breakfast clubs in secondary schools, and are working towards sustainability with initiatives like our honesty shops. Without doubt, this is the best project that I have ever been involved with and shows what is possible by the public and third sector working with a brilliant private sector partner. Ocado's support has meant that we reach thousands of people in our local and surrounding communities, making a real difference to people's finances, health and wellbeing."

Bob Trahern Assistant Chief Executive at North Warwickshire County Council



CASE STUDY CLEANUPUK, BEAUTIFUL BOROUGHS PROJECT

This charity helps people combat litter in their local area. We got in touch in September 2016, after we heard about their Beautiful Boroughs project, which focused on deprived areas in 10 boroughs in east and north London. We donated money from the single use carrier bag charge to help them reach their funding target. The money we've donated has enabled them to launch 40 additional litter picking groups, and extend the Beautiful Boroughs project to include Islington.

"Ocado's generous financial support has enabled CleanupUK to continue to develop its work in the deprived areas of London and to expand to the deprived areas of Birmingham. We are now able to work with more people and achieve much greater impact.

We know that our work makes a difference because we have been evaluating the Beautiful Boroughs Project for three years and our evaluations consistently show that the practical results of our work are stronger, cleaner and more connected communities in which people feel empowered and active.

Ocado is CleanupUK's first significant corporate supporter and occupies a very special position in CleanupUK's family. I am looking forward to achieving great things in partnership with our wonderful new friends at Ocado".

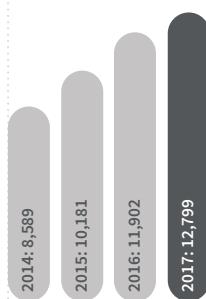
George Monck, Chief Executive, CleanupUK





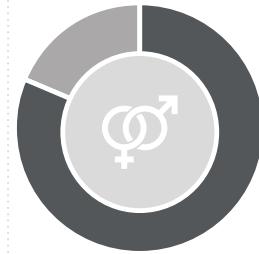
OUR People

ALL EMPLOYEES



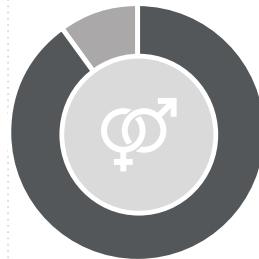
ALL EMPLOYEES BY GENDER

Male: 10,423
Female: 2,376



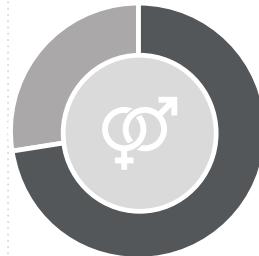
SENIOR MANAGERS

Male: 9
Female: 1



DIRECTORS

Male: 8
Female: 3



The chart above includes Alex Mahon, who retired from the Board on 13 December 2017

WE RECRUIT TALENT

Our business is built on innovation, on finding solutions, and on delivering world class service. Our people are critical to us achieving our strategy. We are committed to hiring and developing the highest quality talent throughout Ocado.

We operate in sectors and locations where there is strong competition for workers. We keep our recruitment processes under constant review and evolve them to make it easy to apply to work for Ocado while maintaining our high standards. This has allowed us to remain flexible and agile and respond to the changing labour market by using new attraction methods.

Our third Customer Fulfilment Centre in Andover has been steadily growing its workforce as the demands of the business increase. To support this, we have prioritised building links with our local community there.

Our fourth and largest CFC, opening in Erith in 2018, will result in significant growth which in turn will provide even more opportunities for existing and new employees.

In September 2017 we brought in a record 49 university graduates under our nine separate training schemes, covering General Management, Retail, Human Resources, Finance, Engineering, Engineering Operations, Operations Management, Logistics Development and Technology, cementing our place as a significant employer and creator of new graduate jobs.

We have also revised the way we train our new drivers, we call them Customer Service Team Members, creating a more efficient training programme, resulting in better skilled employees.

DIVERSITY

Ensuring that the Ocado workforce has the diversity of talent and expertise that it needs ensures that the business continues to both grow and innovate.

Our equal opportunities policy is dedicated to creating an environment for our employees that is free from discrimination, harassment and victimisation, reflecting our commitment to creating a diverse workforce and environment that supports all individuals irrespective of their gender, age, race, disability, sexual orientation, or religion. We are pleased to have been accredited as a Disability Confident Leader at our CFC in Dordon.

The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 came into force in April 2017. Ocado has carried out gender pay reporting and has published the results of the analysis on our website.

The charts on the left show a breakdown of the number of people who were on the Board, Senior Managers and employees of the Group at the end of the period by number and gender.

DOING THE RIGHT THING

The Ocado Citizenship Code sets out our most important legal obligations and helps colleagues follow key policies, including our anti-bribery, corruption, money laundering, competition law and whistleblowing policies. The Citizenship Code and these policies underpin the Group's key principles and standards governing business conduct towards our key stakeholder groups. It explains our responsibilities as a Company and as individuals and acts as a reference guide that is made available to all employees from day one.



ENGAGING WITH OUR PEOPLE

Communication is key to innovation at Ocado. Enabling colleagues to work across the business and share best practice allows us to leverage the value of our employees and encourage innovation. This year, Ocado invested in enhancing the way we communicate and engage with all of our people through the implementation of our digital communications strategy. Fuse is our mobile-first communication, collaboration and learning platform, which puts self-development and the ability to share information in the hands of our employees. Our social platform, available as a downloadable app on any device as well as on desktop, is going from strength to strength with adoption rates steadily increasing even across our harder to reach employees. Open communities within the platform allow colleagues to communicate with a wider network of people and so access information and resources that were previously unavailable to them.

Our commitment to listen and encourage formal two-way feedback is also demonstrated by our new look employee survey – “MiVoice”. Employees, previously invited to participate annually, are now able to respond in a bite-sized ‘pulse’ style approach. Fewer questions asked more frequently, with results turned round in days instead of months, is enabling our business to respond, adapt and change to meet employee needs at a pace that matches our agile culture.

The Ocado Council helps us to identify areas where we can improve as an employer and encourage participation and consultation in the decisions we make. This was illustrated in a two year £1 million project to upgrade our public facing CSTM and LGV driver uniforms, an initiative that was driven by the Ocado Council through engagement with employees across the organisation.

This year, because of our continued growth, we reviewed the Council structure in our largest business area, Service Delivery. The single tiered structure has been replaced with regional Councils to enable more focused discussions and resolutions to area specific issues.

In addition, Ocado maintains a voluntary union recognition agreement with USDAW, which is integrated with our Ocado Council, to voice the views of our hourly paid employees.

REWARD AND BENEFITS

In September we reviewed our reward and benefit providers to ensure we continue to provide choice and flexibility for our employees. This included changes to the pension offering at Ocado, which means employees can choose and amend their level of investment at any time and Ocado will match contributions up to 7% of base salary.

Ocado has always taken employee well-being seriously. We have an established Employee Assistance Provider available 24 hours a day and we've recently invested significantly in additional services that demonstrate we care about the physical, mental and financial health and well-being of our employees. Well-being events are run across all of our sites and on-site catering services at our larger sites serve healthy balanced meals.



STRATEGIC REPORT APPROVAL

The Company's Strategic Report is set out on pages 06 to 47.

The Strategic Report is approved by the Board and signed on its behalf by

Neill Abrams

GROUP GENERAL COUNSEL AND COMPANY SECRETARY

Ocado Group plc

Registered in England and Wales

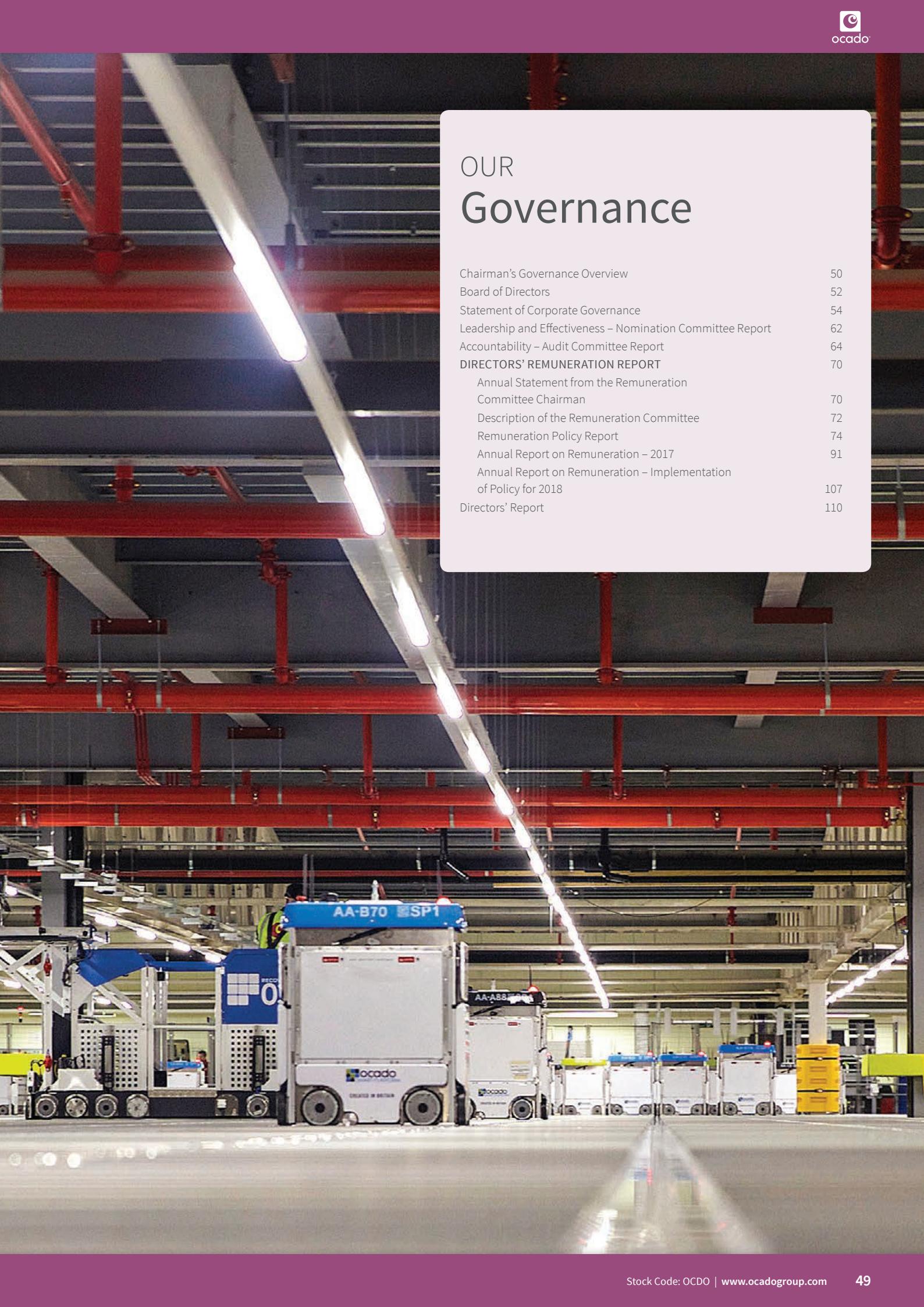
Number 07098618

6 February 2018



OUR Governance

Chairman's Governance Overview	50
Board of Directors	52
Statement of Corporate Governance	54
Leadership and Effectiveness – Nomination Committee Report	62
Accountability – Audit Committee Report	64
DIRECTORS' REMUNERATION REPORT	70
Annual Statement from the Remuneration Committee Chairman	70
Description of the Remuneration Committee	72
Remuneration Policy Report	74
Annual Report on Remuneration – 2017	91
Annual Report on Remuneration – Implementation of Policy for 2018	107
Directors' Report	110





CHAIRMAN'S Governance Overview



"The Board... and the Group as a whole, needs to be aware of the interests of its employees, customers and suppliers and the Group's impact on wider society."

Lord Rose
CHAIRMAN

DEAR SHAREHOLDER,

On behalf of the Board, I am pleased to present Ocado's Statement of Corporate Governance for 2017.

The Board is mindful of the corporate governance reforms and proposed changes in legislation that are intended to encourage responsible corporate behaviour. The reforms appear to be aimed at ensuring that in growing a business for the longer-term interests of its shareholders, a board is mindful of the company's broader purpose and its responsibilities to a broader stakeholder group. The Board, in its decision making processes, and the Group as a whole needs to be aware of the interests of its employees, customers and suppliers and the Group's impact on wider society. Delivering sustainable performance is core to the Board's regular deliberations, but we must ensure that we find appropriate time to engage with the Group's employees and get insight on our customers and supply base and our corporate responsibility plans. These reforms also highlight the importance of ensuring that the Company's purpose, strategy and values are fully aligned and clearly articulated. This Annual Report provides some information on engagement and other issues. We expect to report more fully on these matters when the new reporting requirements come into force next financial year. This information will help the reader understand how stakeholder relationships are taken into account in the Board's decision making as well as providing shareholders with information to allow them to understand the strategy, development, performance and impact of the Group's activity, including potential long-term outcomes.

ACCOUNTABILITY AND RISK

The Board periodically discusses risk management, the Group's risk appetite and the principal risks facing the Group. As well as debating principal risks and the potential impact on the business of the UK leaving the European Union we considered some risk areas in detail. The Group engaged external consultants to carry out a comprehensive review of our cyber security arrangements and to assess our data and information security controls and processes. Given the importance of these issues to the Group generally and the growth of the Ocado Solutions business, the Audit Committee will closely monitor the Group's cyber security plans.

The Audit Committee has played an important role in monitoring the Group's risk and assurance systems. Some of this oversight includes reviewing existing assurance arrangements and so external advisers were engaged to carry out a detailed review of the Internal Audit function. Implementation of the recommendations from the review will be monitored by the Audit Committee in 2018.

REMUNERATION AND ENGAGEMENT WITH SHAREHOLDERS

Our Executive Director remuneration arrangements are designed to incentivise and support the achievement of our business objectives and sustain long-term value for shareholders. The Remuneration Committee oversees the Directors' Remuneration Policy, which received strong shareholder support at the annual general meeting on 3 May 2017. As the Group's strategy and development evolves we expect to continue to engage with our shareholders on changes to the executive remuneration arrangements.

LEADERSHIP AND BOARD EFFECTIVENESS

The Board needs to ensure that we have the right people and leadership in our Group to support the strategy and plans of the Group. As well as reviewing management succession plans, the Board has considered Board composition. The report, put together by external consultants, concerned Board composition and succession plans and the existing and desired skill sets of the Board. This important piece of work will form the basis of Board discussions in 2018 as we consider the make-up of the Board that will best support the business as it moves into the next stage of development.

Our Senior Independent Director, Alex Mahon, retired from the Board after the period end on 13 December 2017. Alex was with Ocado for over five years and we thank her for her valuable contribution to the Company and the Board and wish her well in the future.

Lord Rose
CHAIRMAN
Ocado Group plc
6 February 2018

2017 GOVERNANCE HIGHLIGHTS

- Emma Lloyd joined the Board at the start of the period as a Non-Executive Director. Robert Gorrie retired from the Board in May 2017 and Alex Mahon retired from the Board following the period end in December 2017.
- A review of the Directors' Remuneration Policy completed by the Remuneration Committee and approved by shareholders at the 2017 annual general meeting.
- Remuneration consultant, PricewaterhouseCoopers LLP, appointed after a tender carried out by the Remuneration Committee.
- Auditor tender completed by the Audit Committee, which resulted in new external auditors, Deloitte LLP, being appointed at the 2017 annual general meeting.
- Recommendations from external 2016 Board evaluation largely implemented by management.
- Recommendations agreed by Audit Committee from external review of Internal Audit function.
- External report on Board composition and succession plans.

STATEMENT OF CORPORATE GOVERNANCE

The Statement of Corporate Governance for 2017 covers the following areas:

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

The report of the Remuneration Committee is set out separately in the Directors' Remuneration Report on pages 70 to 109. The Group's risk management and internal control framework and the Group's principal risks and uncertainties are described on pages 38 to 41.

These sections form part of this Statement of Corporate Governance. The Directors' Remuneration Report on pages 70 to 109, the Directors' Report on pages 110 to 117 and the going concern and viability statements on page 39 also contain information required to be included in this Statement of Corporate Governance, and so are incorporated into this statement by reference.





BOARD OF Directors



Front row seating L-R

LORD ROSE
Chairman, 68

TIM STEINER, OBE
Chief Executive Officer, 48

RUTH ANDERSON
Non-Executive Director, 64

ALEX MAHON
Non-Executive Director, 44
(Retired from the Board on 13 December 2017)

JÖRN RAUSING
Non-Executive Director, 57

Back row standing L-R

EMMA LLOYD
Non-Executive Director, 48

ANDREW HARRISON
Non-Executive Director, 47

DUNCAN TATTON-BROWN
Chief Financial Officer, 52

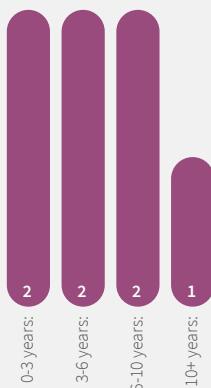
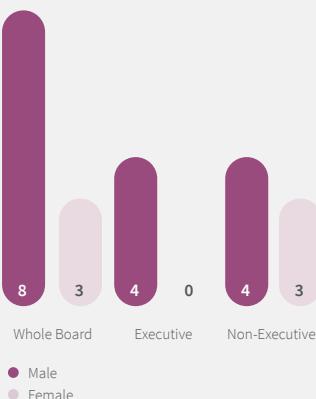
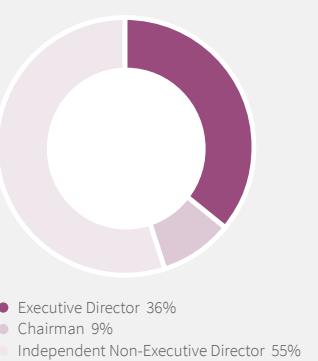
DOUGLAS MCCALLUM
Non-Executive Director, 51

MARK RICHARDSON
Chief Operations Officer, 53

NEILL ABRAMS
Group General Counsel and Company Secretary, 53



The Directors' biographies are
found on pages 116 and 117

LENGTH OF TENURE OF CHAIRMAN AND NON-EXECUTIVE DIRECTORS

GENDER DIVERSITY

BOARD INDEPENDENCE

MIX OF KNOWLEDGE AND EXPERIENCE ON THE BOARD


Retail
5



Technology
5



International Operations
4



E-Commerce
3



Finance/Accounting
2



Automated Engineering
3

¹ The charts on this page include Alex Mahon, who retired from the Board on 13 December 2017, and exclude Luke Jensen, who will join the Board with effect from 1 March 2018.



For more information on the composition of the Board see page 56



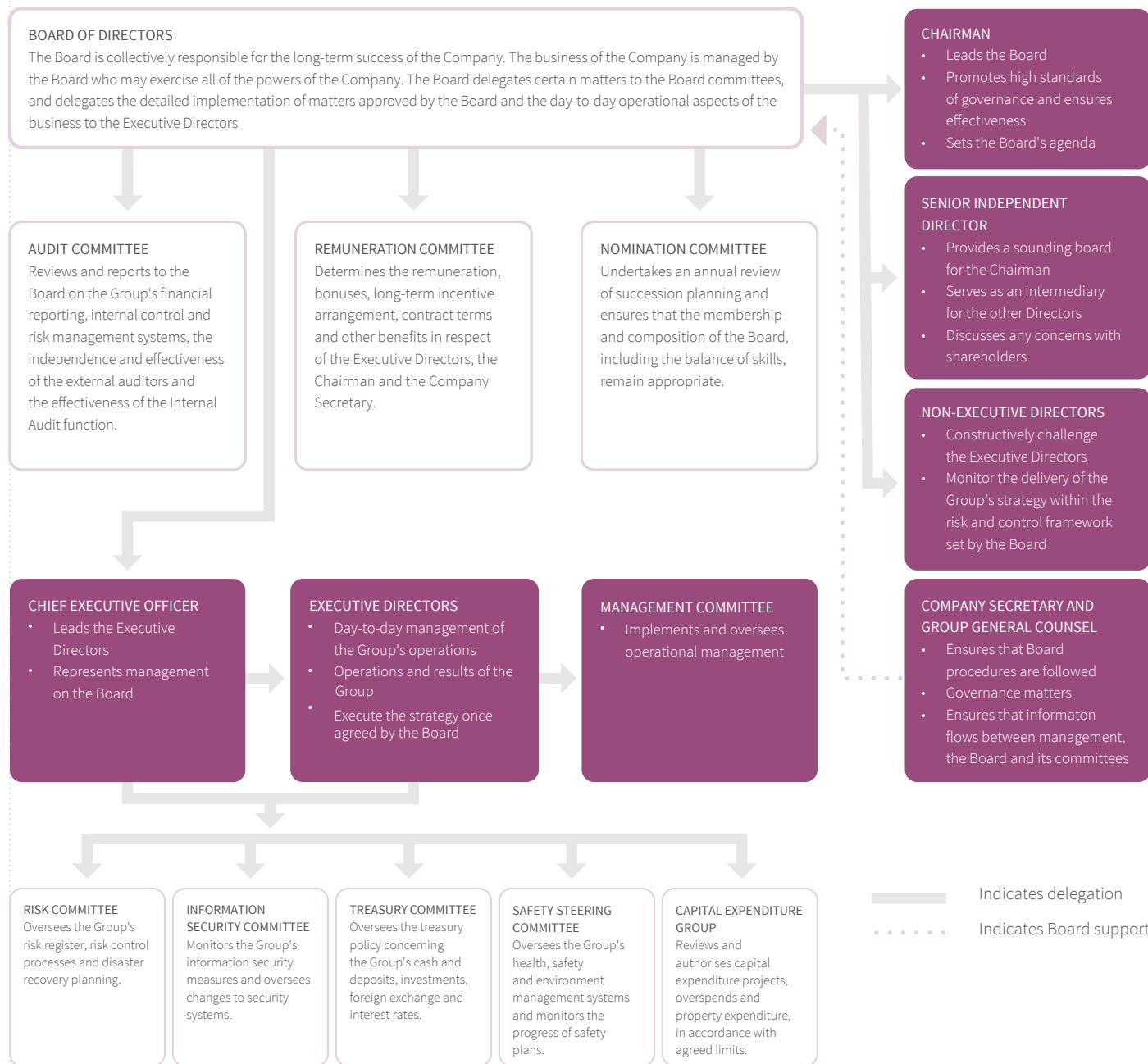
STATEMENT OF Corporate Governance

LEADERSHIP

Board Structure

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

The following diagram shows the role of the Board and its committees and management.



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

Certain detailed aspects of the Board's responsibilities are delegated to the Executive Directors. The Executive Directors carry out some of these responsibilities through executive-led committees. These committees, whose roles are set out above, formally report to the Executive Directors, and may provide reports to the Board or Board committees from time to time. The Management Committee comprises the Executive Directors and ten members of management.

The reports by each Board committee are given in this Annual Report. The full terms of reference for each Board committee are available on the Company's corporate website www.ocadogroup.com

WHAT THE BOARD DID THIS YEAR

The Board's activities are structured through the year to develop and support the delivery of the Group's strategy. The Board's discussions throughout the year were focused on our strategic objectives: Driving Growth, Maximising Efficiency and Utilising Proprietary Knowledge. The Board also regularly discussed governance, risk management and the Group's financial performance. The table below sets out some of the Board's key areas of focus and discussions through the year and how these developed and support our strategy.

RESPONSIBILITY			
STRATEGY, PERFORMANCE AND FINANCING	REPORTING, RISK MANAGEMENT AND ACCOUNTABILITY CONTROLS	OVERSIGHT OF THE GROUP'S OPERATIONS AND TECHNOLOGY DEVELOPMENT	PEOPLE, GOVERNANCE AND CORPORATE RESPONSIBILITY
SPECIFIC ACTIONS DURING THE PERIOD			
Annual strategy conference to review and set the Group's strategy. Overseeing Ocado Solutions negotiations and discussions. Monitoring grocery retail competitor activity. Receiving reports from senior management on trading, business performance and financing. Reviewing major strategic initiatives including Ocado Solutions transition.	Annual review of key risks and risk appetite and reviewing reports of risk management. Review of reports on specific risk areas including OSP control environment. Reviewing and approving the Group's regulatory announcements and reports. Reviewing reports on health, safety and environment, litigation, investor relations and legal and company secretarial matters.	Approving the annual budget, the business plan for the Group and individual capital expenditure projects. Receiving reports on patent protection of the Group's technology. Receiving regular reports on key projects including new technologies, IT replatforming and development and ramp-up of the Andover and Erith CFCs.	Receiving report on people issues. Discussing Board composition. Approving the Group's human rights policy and modern slavery statement. Receiving various reports on governance and regulatory changes.
THE BOARD'S STRATEGIC/GOVERNANCE ROLE			
Entrepreneurial leadership to the Group with overall responsibility for driving performance through debate and constructive challenge of management. Developing effective leadership in the Board and throughout the business and ensuring the right personnel are in place. Overseas expansion has been an important focus for the Board during the period as a significant part of the growth strategy.	The Board is ultimately responsible for the Company's risk appetite and viability and therefore plays a key role in reviewing the risks that face that business and ensuring that it has and retains oversight of specific, high risk areas. The Board discusses Company-specific risks and uncertainties, including the environment in which the business operates such as cybercrime and climate change. The Board reviews the Company's viability statement and period.	A key strategy to supporting business growth is the growth of our technology business. Our strategy in Europe has driven growth in the technology business while we continue to expand our UK development centre in Hatfield. Operational efficiency is regularly discussed and challenged at Board meetings and is considered an important driver for both growth and developing our proprietary knowledge, and therefore the Group's strategy. The commercialisation of Ocado Solutions is a key strategy for the Group. The Board reviews IP strategy and Ocado Solutions negotiations at each Board meeting.	The Board discusses stakeholder issues through the year, including investor, customer and employee issues. The Board is updated regularly on governance matters. The Board received updates throughout the year on recruitment and retention, and discussed the potential impact of Brexit on the Group's operations, including the impact on the Group's operational strategy.
STRATEGIC OBJECTIVES			
 DRIVING GROWTH	 MAXIMISING EFFICIENCY	 UTILISING PROPRIETARY KNOWLEDGE	
PRINCIPAL RISKS			

Please refer to page 40 for further information about the principal risks for the Group's strategic objectives and the key mitigating activities.

STATEMENT OF Corporate Governance

COMPOSITION OF THE BOARD

REVIEW OF BOARD AND BOARD COMMITTEE COMPOSITION

As noted on page 62, a number of changes were made to the composition of the Board. In making changes to the Board, the Board's review of composition took into account various considerations including length of Director tenure, Board diversity, independence and the mix of skills and experience of the Directors. Some of these considerations are outlined below.

BOARD DIVERSITY

The Board seeks to ensure that its composition, and that of its committees, is appropriate to discharge its duty effectively and to manage succession issues. To enable the Board to meet its responsibilities, it is important that the Board's composition is sufficiently diverse and reflects a broad range of experience, skills, backgrounds and perspectives. The Board's diversity policy includes a commitment to having a meaningful representation of women on the Board and in senior positions in the Company.

At the end of the period the Board had 27% female representation, but following the resignation of Alex Mahon in December 2017, this has now decreased to 20%. The Board has made significant progress in improving its gender balance in recent years. In 2009, the Board had no female representation. Despite this, the Board recognises there is further work to do to improve female participation in executive and senior management positions and to improve ethnic diversity on the Board. While it has never been, in the Board's opinion, in the best interests of the Company and its shareholders to set numerical targets for gender or ethnicity on the Board, the Board is committed to increasing the percentage of women on the Board and in senior positions in the Company. Any future Board appointments will continue to be based on objective criteria to ensure that the best individuals are appointed for the role. For more information on diversity in respect of all the Group's employees, see the Our People section on pages 46 and 47. The chart on page 53 illustrates the diversity of the Board in terms of gender as at the period end on 3 December 2017.

The policy also includes a commitment to engage only executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms. This includes Ridgeway Partners, who were engaged to help the Company secure new Non-Executive Directors for the Group. The Nomination Committee monitors these objectives.

BOARD TENURE

The Board also takes into account the length of tenure of existing Directors when considering reappointment and succession planning. Ruth Anderson will have served eight years (in March 2018) as a Director. Jörn Rausing has served as a Director for over 14 years and accordingly his reappointment to the Board was subject to particular scrutiny (including the importance of maintaining Board continuity). The chart on page 53 illustrates the tenure of Directors.

INDEPENDENCE

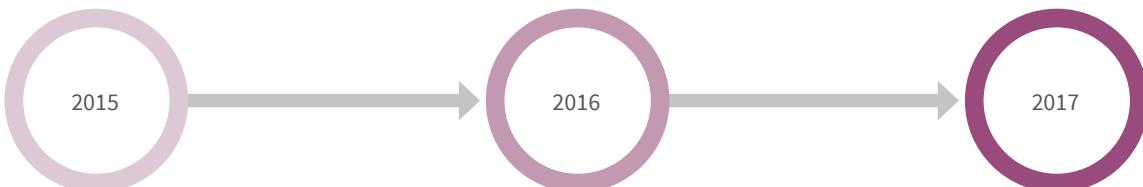
The Code recommends that at least half of the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent. Since, excluding the Chairman, there were six Non-Executive Directors all determined by the Board to be independent and four Executive Directors, the Board complies with this recommendation at the end of the period. Since the retirement of Alex Mahon following the end of the period, the Board remains compliant with this requirement. The third chart on page 53 illustrates the composition of the Board in respect of the independence of its members as at the end of the period.

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



REVIEW OF BOARD EFFECTIVENESS

The effectiveness of the Board is important to the success of the Group, and the annual review provides a useful opportunity for the Directors to reflect on their collective and individual effectiveness and consider changes.



Internal performance review of progress

Independent, externally facilitated review

**Internal performance review.
Progress against external review assessed**

BOARD EFFECTIVENESS REVIEW CYCLE

The Board review for 2017 was carried out internally using two questionnaires. The online questionnaires were prepared by the Company Secretary with support from an external and independent consultant, Independent Audit Limited. One questionnaire asked questions to assess performance in a range of areas including Board strategy, leadership and culture and sought to gauge the extent of perceived progress of the Board and the Board committees in the areas of development identified in the external Board review from 2016 (which had been carried out by Independent Audit Limited). An assessment of each individual Director was also carried out using a second questionnaire.

The findings of the review were evaluated by the Company Secretary and the Chairman, and a Board evaluation report was provided to the Board. The Board discussed the results of the review. The Board recognised that management and the Company Secretary had acted upon many of the recommendations identified in the 2016 review. Some of these actions were aimed at improving Board communications and included implementing an electronic Board portal for Board papers and scheduling of more informal meetings between Board members and between Directors and management. Steps were also taken to

allow the Board more time for discussion of strategic issues. Directors were asked to identify areas of Board focus for 2018 and common among these were the importance of overseeing implementation of the new Ocado Solutions implementation programmes for Groupe Casino and Sobeys and our other partners. The Board concluded that it had operated effectively throughout the year. The Chairman of each of the Board committees separately considered the Board review as it pertained to their committee. The Chairman separately reviewed the results of the individual Director performance evaluations.

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

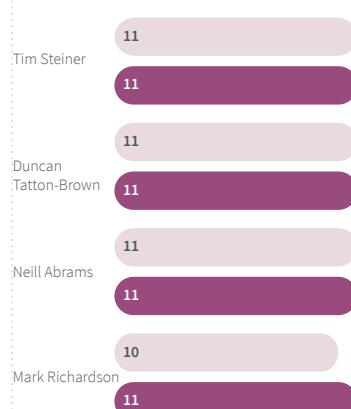




STATEMENT OF Corporate Governance

BOARD ATTENDANCE

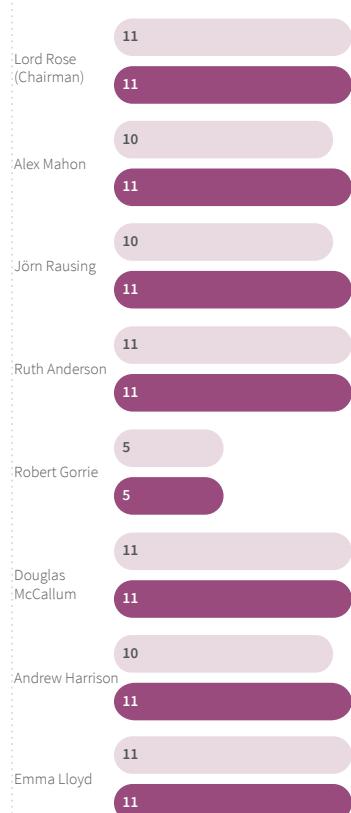
Executive Directors



● Actual meetings attended
● Possible meetings the Director could have attended

BOARD ATTENDANCE

Non-Executive Directors



● Actual meetings attended
● Possible meetings the Director could have attended

1. Robert Gorrie retired from the Board on 3 May 2017.
2. Alex Mahon retired from the Board after the period end on 13 December 2017.

DIRECTOR MEETINGS

The attendance record of the Directors at scheduled Board meetings during the period is set out in the chart on the left. The Board scheduled eleven meetings during the period. Details of attendance at committee meetings are set out in the relevant committee report. During the period, the Non-Executive Directors held a number of meetings without the Executive Directors present.

DIRECTOR ELECTION

Each Director is required under the Articles to retire at every annual general meeting (each Director may offer himself or herself for re-appointment by the members at such meeting). At the last annual general meeting on 3 May 2017, all of the current Directors (except Robert Gorrie who was retiring) stood for re-appointment, and were duly elected with a range of 97.51% to 99.95% of votes cast by shareholders in favour of re-appointment.

All Directors, with the exception of Alex Mahon who retired from the Board on 13 December 2017, will retire and seek re-election at the AGM. The explanatory notes set out in the Notice of Meeting state the reasons why the Board believes a Director proposed for re-election at the AGM should be re-appointed. The Board has based its recommendations for re-election, in part, on its review of the results from the Board evaluation process outlined above, on the reviews of the Chairman (led by the Senior Independent Director) and of the Executive Directors conducted at the meetings of the Non-Executive Directors, the Chairman's review of individual evaluations, and whether a Director has demonstrated substantial commitment to the role (including time for Board and committee meetings noted below) and other responsibilities, taking into account a number of considerations including outside commitments and any changes thereof (outlined below) during the period.

Luke Jensen, who will join the Board with effect from 1 March 2018, will seek election at the AGM. His biography is set out in the Notice of AGM.

The rules that the Company has about the appointment and replacement of Directors are described in the Directors' Report on page 111.

EXTERNAL BOARD

APPOINTMENTS AND CONFLICTS

There have been a number of changes to the Directors' external appointments during the period as set out in the table below. The Chairman and the Board are kept informed by each Director of any proposed external appointments or other significant commitments as they arise. These are monitored to ensure that each Director has sufficient time to fulfil his obligations. Each Director's biographical details and significant time commitments outside of the Company are set out in the Directors' Biographies section on pages 116 and 117.

Director	Change in Commitment	Effective Date of Change
Lord Rose	Appointed Chairman of Zenith	September 2017
Alex Mahon	Resigned as Director of The Edinburgh International Television Festival Limited	August 2017
Alex Mahon	Resigned as Director of The Edinburgh International Television Festival Council	August 2017
Alex Mahon	Resigned as Director of Bandstand Productions Ltd	September 2017
Alex Mahon	Appointed Chief Executive of Channel 4	October 2017
Alex Mahon	Resigned as Director of WATV Limited	November 2017

1. Alex Mahon retired from the Board after the period end on 13 December 2017.

Whenever a Director takes on additional external responsibilities, the Board considers any potential conflicts that may arise. The Board monitors any potential conflicts of interest. 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 the Company's interests. Boards of public companies may authorise conflicts and potential conflicts, where appropriate, if a company's articles of association permit (which the Articles do).

Each Director is required to disclose conflicts and potential 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. Thereafter, each Director has an opportunity to disclose conflicts at the beginning of each Board and Board committee meeting and as part

of an annual review. One Director declared a potential conflict of interest in relation to a matter which was being discussed by the Board and which was appropriately authorised by the Board in accordance with its powers. None of the other Directors has declared to the Company any actual or potential conflicts of interest between any of his or her duties to the Company and his or her private interests and/or other duties, except in the case of the Executive Directors, each of whom holds the position of Director of the Company and Director of a number of Group subsidiary companies. The system in place for monitoring potential Director conflicts remained effective during the period.

BOARD INDUCTION AND PROFESSIONAL DEVELOPMENT

Newly appointed non-executive directors follow a tailored induction programme, which includes a comprehensive overview of the Group, dedicated time with Group executives and key management personnel, visits to customer fulfilment centres and participation in van delivery routes. The Chairman and the Company Secretary are responsible for reviewing, preparing and coordinating the induction programme.

The Board and committees receive training, including in specialist areas. Training is typically arranged by the Company Secretary in consultation with the Chairman or committee chairman. The members of the Remuneration Committee received updates from the Remuneration Committee's remuneration advisers including on the new remuneration reporting market practices. Members of the Audit Committee receive written technical updates from the external auditor to keep them abreast of the latest accounting, auditing, tax and reporting developments. The Company Secretary also provides updates to the Board and the committees on governance and regulatory changes impacting the Group (for example, the requirements of the new tax strategy reporting regulations).

INFORMATION FOR DIRECTORS

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

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

ENGAGEMENT WITH SHAREHOLDERS

Investor Relations

The Company is committed to keeping shareholders informed of its strategy and progress. The Chairman has overall responsibility for ensuring that the Company has appropriate channels of communication with its shareholders and is supported in this by the Executive Directors. The Company regularly meets with its large investors and institutional shareholders who, along with analysts, are invited to presentations by the Company after the announcement of the Company's results.

The Company conducts biannual investor roadshows in line with the reporting cycle and also addresses current and prospective shareholders at various investment conferences and other events, both in the UK and abroad. The Board regularly receives feedback from the Company's brokers, advisers 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.

Lord Rose, the Chairman, and the Board of Directors, are available to the Company's shareholders for discussions, and have met with various investors throughout the year to discuss matters such as strategy, corporate governance and executive remuneration. We held a number of investor days at our new CFC in Andover throughout 2017 to enable our investors to view the progress at the new site as it ramps. We also briefed shareholders on our new segmental reporting.

The Group also engages with shareholders in the event of a substantial vote against a resolution proposed at an annual general meeting. At the 2017 annual general meeting there were no such votes. The Company Secretary had consulted shareholders in recent years about the Company's remuneration issues and policies and the share allotment shareholder authorities.

At the 2016 annual general meeting, the Company's share allotment resolutions received less support than expected by management. The Company consulted the large shareholders who did not support the resolutions. The Company Secretary received feedback from the shareholders that indicated the shareholders had governance policies that were not wholly aligned with the Pre-Emption Group's Statement of Principles and Investment Association guidance. In response to shareholder feedback the Company changed its approach to share allotment authorities for the 2017 annual general meeting. For more information on the resolutions proposed for the 2018 AGM, please refer to the Directors' Report on pages 110 to 117.

FORMAL REPORTING TO SHAREHOLDERS AND DIRECTORS' RESPONSIBILITY

The Company reports to its shareholders in a number of ways including formal regulatory news service announcements in accordance with the Company's reporting obligations, trading statements of sales performance published in March, September and December each year, the half year report, the preliminary announcement of annual results, the annual report, and investor presentations slides and videos. The Company makes available these documents, including this Annual Report and other information concerning the Company, on its corporate website. All shareholders can choose to receive an Annual Report in paper or electronic form.

The Company reports its quarterly trading performance, including information on the growth of the Group's revenue, average order numbers and size and its cash and borrowings position. The Company believes that it is important to update the market on a quarterly basis due to the importance shareholders place on receiving regular updates about sales and the current competitive pressures in the UK grocery market. The Group's rate of sales growth is key to understanding the extent to which it is achieving one of its key strategic objectives, driving growth. The Directors take responsibility for preparing this Annual Report and make a statement to shareholders to this effect. The statement of Directors' responsibility on pages 114 and 115 of this Annual Report is made at the conclusion of a robust and effective process undertaken by the Company for the preparation and review of this Annual Report. The Directors believe that these well-established arrangements enable them to ensure that the information presented in this Annual Report complies with the disclosure requirements including those in the Companies Act, and is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy. In addition to this Annual Report, the Company's internal processes cover (to the extent necessary) the preliminary announcement, the half year report, trading statements and other financial reporting.



STATEMENT OF Corporate Governance

The Company's internal processes in the preparation and review of this Annual Report (and other financial reporting) include:

- review of and feedback on iterations of this Annual Report by the Executive Directors and the full Board;
- focused review of specific sections of this Annual Report by the relevant Board committees;
- Audit Committee review of a management report on accounting estimates and judgements, auditor and management reports on internal controls and risk management, accounting and reporting matters and a management representation letter concerning accounting and reporting matters (for further information see pages 64 to 69);
- Board and Audit Committee review of a supporting paper specifically highlighting the parts of this Annual Report that best evidenced how this Annual Report was fair, balanced and understandable;
- paper from the Company Secretary highlighting how reporting, regulatory and governance issues had been addressed in this Annual Report;
- Board and Audit Committee review of management reports on assessments on going concern and viability;
- the Audit Committee regularly reporting to the Board on the discharge of its responsibilities;
- input from both internal and external legal advisers and other advisers to cover relevant regulatory, governance and disclosure obligations;
- discussions between contributors and management to identify relevant and material information;
- detailed debates and discussions concerning the principal risks and uncertainties;
- checking of factual statements and financial information against source materials;
- specific Board review of Directors' belief statement and key statements; and
- separate approval by the Group General Counsel, the Board committees and the Board.

The statement by the external auditor on its reporting responsibilities is set out in the Independent Auditor's report on pages 120 to 126.

In addition to this Annual Report, the Group provides other statements to its shareholders regarding the Group and its operations, including the modern slavery statement and tax strategy statement. Simultaneously with the publication of this Annual Report the Group will publish its first gender pay reporting statement and in due course, the Group will publish its supplier payments statement. For further information on the Group's activities in these areas see the Strategy Report on pages 6 to 47.

THE COMPANY'S ANNUAL GENERAL MEETING

Shareholders will have the opportunity to meet and question all of the Directors at the AGM, which will be held at 10 am on 2 May 2018 at Peterborough Court, 133 Fleet Street, London, EC4A 2BB.

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 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 from the Company's corporate website.

At last year's annual general meeting, all resolutions were passed with votes in support ranging from 81.17% to 100%.

COMPLIANCE WITH THE CODE

This Statement of Corporate Governance explains how the Company applies the main principles and complies with all relevant provisions set out in the UK Corporate Governance Code 2016 issued by the Financial Reporting Council (the "Code"), as required by the Listing Rules of the Financial Conduct Authority and meets other relevant requirements including provisions of the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

The Company's obligation is to state whether it has complied with the relevant provisions of the Code, or to explain why it has not done so (up to the date of this Annual Report). The Company has applied the principles and complied with the provisions of the Code, except for provisions A.1.2, D.1.1 and Schedule A and D.2.2. These areas of non-compliance are explained below.

Code Provision	Area	Explanation
A.1.2	Senior Independent Director	During the period, Alex Mahon was the Senior Independent Director of the Company. As explained on page 62, following her resignation after the period end, the Company has not yet appointed a successor Senior Independent Director.
D.1.1 and Schedule A	Design of performance-based remuneration	As explained on page 97, Directors are not required to retain shares from share incentive schemes for a period after leaving the Company.
D.2.2	Senior management remuneration	As explained on page 73, the Remuneration Committee monitors, but does not make recommendations concerning, the level and structure of remuneration for senior management of the Company.

The Company aims to explain how its practices are consistent with the principle to which the particular provision relates, contribute to good governance and promote delivery of business objectives. The Company's disclosures on its application of the main principles can be found as follows:

Section	Principle	Section of Annual Report	Page
Leadership	Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.	Board of Directors Composition of the Board	52 56
	There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.	Board structure	54
	The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.	Board structure	54
	As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.	Board structure Board responsibilities and actions	54 55
Effectiveness	The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.	Board of Directors Director biographies	52 116
	There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.	Director election	58
	All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.	External Board Appointments and Conflicts	58
	All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.	Board Induction and Professional Development	59
	The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.	Information for Directors	59
	The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	Review of Board Effectiveness	57
	All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.	Director election	58
Accountability	The board should present a fair, balanced and understandable assessment of the company's position and prospects.	Strategic Report How we manage our risks Going concern statement, Viability statement	6 38 39
	The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.	How we manage our risks	38
	The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor.	Audit Committee Report	64
	Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.	Directors' Remuneration Report	70
Remuneration	There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.	Directors' Remuneration Report	70
	There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.	Engagement with shareholders	59
	The board should use general meetings to communicate with investors and to encourage their participation.	Engagement with shareholders	59
Certain parts of this Statement of Corporate Governance have been reviewed by the Company's external auditor, Deloitte, for compliance with the Code, to the extent required.			



Further information on the Code can be found at www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code

BOARD APPROVAL OF THE STATEMENT OF CORPORATE GOVERNANCE

This separate Statement of Corporate Governance is approved by the Board and signed on behalf of the Board by its Chairman and the Group General Counsel and Company Secretary.

Lord Rose
CHAIRMAN

Neill Abrams
GROUP GENERAL COUNSEL AND COMPANY SECRETARY

Ocado Group plc, Registered in England and Wales, number 07098618
6 February 2018

LEADERSHIP AND EFFECTIVENESS — Nomination Committee Report



"The Group completed another examination of Board composition and succession plans during the period."

Lord Rose
NOMINATION COMMITTEE
CHAIRMAN

DEAR SHAREHOLDER,

I am pleased to present the report of the Nomination Committee for the 53 weeks ended 3 December 2017.

After a number of Director changes in recent years, the Group completed another examination of Board composition and succession plans during the period, with a view to identifying the Board composition that might best support the Group's next phase of development. In reviewing Board composition it was noted that a number of Directors were approaching or had exceeded six years on the Board and accordingly some changes to the Board were likely in the medium term.

The review was facilitated externally by Calibro, an external and independent consultant (without any connections to the Company). Calibro carried out a detailed review of Board skills, composition and succession requirements, which included conducting interviews with all of the Directors and some members of senior management and reviewing the make-up and tenure of the current Board. The report contained findings on the current composition of the Board, its size, its diversity, its current capabilities, the Board culture and the leadership team. The report also identified areas where the Board should evolve both to meet the expected future needs of the business and to ensure appropriate successors for certain Director roles. The skill set of the Board, although relevant to the current needs of the business, which is primarily focused on grocery retail and e-commerce in the UK, would need to expand. In future, the business is expected to grow as a result of the Group's increasing focus on the Ocado Solutions business. Growing the Ocado Solutions business is likely to result in significant investment internationally and in the areas of technology and software development, robotics and manufacturing. Future leaders of the business will collectively need to reflect this broader capability, so that the Board skills meet the future strategic direction of the Group.

On 14 December 2017, following the period end, we announced the retirement of Alex Mahon from the Board with immediate effect. Alex was appointed Chief Executive of Channel 4 in autumn 2017. Her responsibilities in that position meant that she felt unable to dedicate enough time to her position as a Non-Executive Director of Ocado. We thank Alex for her valuable contribution during her five years with the Company and wish her well in the future.

Based on Alex's departure and the skill set analysis, the Board expects to meet in early 2018 to identify and agree some objectives and timing for planned changes to the Board. It is likely the Board will make a number of Non-Executive Director appointments in the next 24 months, both to prepare the Board for the departure of retiring Directors and to identify candidates meeting the identified skill sets. The Board concluded that because of these planned changes in the short term, an interim Senior Independent Director was not appointed following Alex Mahon's departure from the Board.

In addition to reviewing Board composition, the Nomination Committee oversees the process of succession and management development for the Executive Directors and the next layer of management, the Management Committee. The Nomination Committee reviewed these succession plans and discussed the areas identified where additional senior management experience would be helpful, particularly in relation to parts of the business experiencing significant expansion. In the period, Luke Jensen was recruited as Chief Executive Officer of Ocado Solutions, to assume management responsibility for this business and to drive its rapid expansion. Luke will join the Board on 1 March 2018 as the Directors believe that it is important to have the Solutions business represented at Board level.

With regard to the development of the management team, two senior managers regularly attend the Board meetings to report on their respective business areas, while the Board has exposure to other senior managers who present or report to the Board on their business areas or particular projects. The Nomination Committee is mindful that it could improve the extent of its exposure to the senior management and expects to expand on existing arrangements for building relationships between Non-Executive Directors and senior management outside of formal Board meetings.

The Nomination Committee is mindful of the corporate governance developments in the areas of diversity and gender balance including the changes to the Disclosure Guidance and Transparency Rules. The Board plans to review, in 2018, its existing policies and objectives for Board and management diversity and will report on this review in the next annual report.

For further information on Board composition, diversity and independence, see the Statement of Corporate Governance on pages 54 and 61.

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

Lord Rose
NOMINATION COMMITTEE CHAIRMAN
6 February 2018

MEMBERSHIP AND MEETINGS

The membership and attendance of the Nomination Committee, together with the appointment dates, are set out below.

	LORD ROSE Chairman	Nomination Committee member since 11 March 2013 Number of meetings: 2 Number attended: 2		DOUGLAS MCCALLUM	Nomination Committee member since 3 October 2011 Number of meetings: 2 Number attended: 2
	JÖRN RAUSING	Nomination Committee member since 9 March 2010 Number of meetings: 2 Number attended: 2		ANDREW HARRISON	Nomination Committee member since 1 March 2016 Number of meetings: 2 Number attended: 2
	RUTH ANDERSON	Nomination Committee member since 9 March 2010 Number of meetings: 2 Number attended: 2		EMMA LLOYD	Nomination Committee member since 1 December 2016 Number of meetings: 2 Number attended: 2

As required under the terms of reference, the Nomination Committee has six members, all of whom are independent Non-Executive Directors, and holds a minimum of two meetings a year. Emma Lloyd became a member of the Nomination Committee on her appointment to the Board as Non-Executive Director on 1 December 2016. Alex Mahon was a member of the Nomination Committee until she retired from the Board on 13 December 2017. She attended all the Committee meetings in the year. The biography of each member of the Nomination Committee is set out on pages 116 and 117. Other attendees at the Nomination Committee meetings include the Chief Executive Officer and the People Director. The Deputy Company Secretary is the secretary to the Nomination Committee.

Annual Review: In addition to its annual performance evaluation, discussed in the Statement of Corporate Governance on page 57, the Nomination Committee carried out a review of its terms of reference during the period. The review resulted in no changes to the terms of reference. The Committee's terms of reference can be found on ocadogroup.com.



ACCOUNTABILITY — Audit Committee Report



"Our report provides insight on our role, which is to oversee the Company's financial reporting, assurance framework and internal controls."

Ruth Anderson
AUDIT COMMITTEE CHAIRMAN

DEAR SHAREHOLDER,

As Chairman of the Audit Committee, I am pleased to present the report of the Audit Committee for the 53 weeks ended 3 December 2017.

Our report provides insight on our role, which is to oversee the Company's financial reporting, assurance framework and internal controls.

We considered the significant accounting matters and issues in relation to the financial statements and in this report we explain why the issues were considered significant, which provides context for understanding the Group's accounting policies and financial statements for the period.

It is over three years since the Internal Audit function was established and so the Audit Committee thought it timely to commission an independent third party review of the effectiveness of Internal Audit. This report outlines the key findings from that review.

Deloitte became the Group's external auditor during the period, following shareholder approval of their appointment in May 2017. This report outlines the steps taken by the business to help with a smooth transition from outgoing auditors, PricewaterhouseCoopers.

I will be available at the AGM to answer any questions about our work.

Ruth Anderson
AUDIT COMMITTEE CHAIRMAN
6 February 2018

MEMBERSHIP AND MEETINGS

The membership and appointment dates of the Audit Committee members, together with details of each member's meeting attendance, are set out below.



RUTH ANDERSON
Chairman

Audit Committee member since 9 March 2010
Number of meetings: 5
Number attended: 5
Relevant sector experience: Retail



ANDREW HARRISON

Audit Committee member since 1 March 2016
Number of meetings: 5
Number attended: 4*
Relevant sector experience: Retail, Technology

* Andrew Harrison did not attend an ad hoc Audit Committee meeting due to family illness.

Alex Mahon was a member of the Audit Committee until she retired from the Board on 13 December 2017. She attended all the Committee meetings in the year.

As required under the terms of reference, the Audit Committee members are independent Non-Executive Directors and the Audit Committee has held a minimum of three meetings a year. Alex Mahon was a member of the Committee until she retired from the Board on 13 December 2017. The timing of meetings coincide with key intervals in the reporting and audit cycle for the Group. The Chairman of the Audit Committee reports at each Board meeting on the business conducted at the previous Audit Committee meeting, any recommendations made by the Audit Committee and the discharge of its responsibilities as set out in this report.

At least one member of the Audit Committee (Ruth Anderson) is considered by the Board to have competence in accounting and all members have recent and relevant financial experience. Ruth Anderson is a chartered accountant with the Institute of Chartered Accountants in England and Wales. In line with the UK Corporate Governance Code, the Audit Committee as a whole has competence relevant to the sectors in which the Company operates, notably the retail and technology sectors. Details of each Audit Committee member's relevant sector experience can be found in the diagram above. The biography of each member of the Audit Committee is set out in the Board of Directors section on pages 116 and 117.

Regular attendees at the Audit Committee meetings include the Chief Financial Officer, the Group General Counsel and Company Secretary, the Finance and Risk Director, the Head of Internal Audit and the external auditor. Other attendees who attend as required include the Chief Executive Officer, the Chairman, a number of senior members of the finance department, other members of senior management and operational teams and other advisers to the Company. The Deputy Company Secretary is the secretary to the Audit Committee.

KEY AREAS OF FOCUS FOR THE AUDIT COMMITTEE

The responsibilities of the Audit Committee are set out in its terms of reference. The Audit Committee has an annual work plan, developed from its terms of reference, with standing items that the Audit Committee considers at each meeting, in addition to areas of risk identified for detailed review and any matters that arise during the year. The main matters that the Audit Committee considered during the year are described below.

Financial Statements and Reporting: The Audit Committee monitored the financial reporting processes for the Group, which included reviewing reports from, and discussing these with, the external auditor. As part of the year end reporting process the Audit Committee reviewed this Annual Report, a management report on accounting estimates and judgements, the external auditor's reports on internal controls, accounting and reporting matters, and management representation letters concerning accounting and reporting matters.

Monitoring the integrity of the financial statements of the Company, the financial reporting process and reviewing the significant accounting issues are key roles of the Audit Committee. The Board ensures this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy and the Audit Committee plays an important role in assisting the Board in reaching those conclusions. For information concerning the process followed by the Company in preparing this Annual Report see pages 59 and 60 of the Statement of Corporate Governance. The Audit Committee also monitors the financial reporting processes for the Group's half year report, which is a similar role to the one it carries out for full year reporting.

New accounting standards: The Audit Committee undertook a review of the impact of the new international accounting standards on the Group's financial statements for forthcoming years, relating to the accounting for revenue (IFRS 15), for leases (IFRS 16) and for financial instruments (IFRS 9). Of these standards, although not applying to the period, only IFRS 16 is expected to have a material impact on the Group's financial results and financial position for future periods (when adopted), including requiring the Group to bring large operating lease commitments onto the balance sheet and the impact on the Group's EBITDA[®], depreciation, debt and operating profit (as well as other measures). Given its significance, management prepared a quantitative analysis of the estimated impact of IFRS 16. The Audit Committee reviewed the management report and the explanatory notes as well as some of the key management judgements. The Audit Committee sought to ensure that the most significant changes were clearly explained in this Annual Report. The Audit Committee: (1) discussed the systems and processes used by the Group to capture the required lease data information and to monitor lease terms; (2) reviewed the process used to identify all of the Group's revenue streams and the revenue recognition assessment used to recognise revenue from new Ocado Solutions contracts; and (3) reviewed the disclosure contained in this Annual Report regarding the anticipated impact of the standards on the Group's financial results and position (see note 1.2 to the consolidated financial statements on pages 132 and 133).

Accounting judgements and key sources of estimation uncertainty:

The Audit Committee has assessed whether suitable accounting policies have been adopted and whether management has made appropriate judgements and estimates.

The Audit Committee reviewed and discussed reports from management on accounting policies and accounting issues and estimates in relation to this Annual Report and sought to assess the reasonableness of the assumptions and judgements underlying the accounting issues.

The table below summarises those significant issues which received particular focus from the Audit Committee in relation to the financial statements for the period and how these issues were addressed. The issues of useful economic lives of assets and of revenue recognition for new Ocado Solutions contracts were identified as new significant issues for the period.



See Alternative Performance Measures on page 196



ACCOUNTABILITY —

Audit Committee Report

Area	Issue and Nature of Judgement or Estimate	Factors and Reasons Considered and Conclusion	Impact on Financial Information and Disclosure in Financial Statements
Cost of Sales — Supplier income (including commercial income, promotional allowances and volume rebates)	Commercial income continues to be an area of focus as the quantum of income recorded is significant to the results of the period. Some parts of commercial income require management to apply estimates to ascertain the amounts and timings of income to be recognised where it relates to supplier transactions that span the period end. The amounts due from suppliers in relation to promotional activity and volume related sales targets are material.	The Audit Committee assessed management estimates of supplier income and concluded these were appropriate. For each income stream the Audit Committee considered the analysis of historical supplier income and management reports on internal control for income streams.	The amount of £87.1 million is recognised as supplier income. See notes 2.1 and 3.8 to the consolidated financial statements on pages 136 and 151.
Revenue Recognition	Management judgement is required for recognition of revenue due to the evolving nature of the business and new services that are being provided. The accounting for new Ocado Solutions contracts with a range of deliverables and fees is complex. They require management judgement, including with regards to the timing of recognition and classification of income under the accounting standard.	The Audit Committee reviewed the appropriateness of management's proposed accounting treatment of existing and new revenue streams including in light of the expected impact of IFRS 15. The Audit Committee considered the appropriate accounting policies for certain new contracts and taking into account the views of the external auditor.	The accounting treatment is included in the Consolidated Income Statement on page 127. See note 2.1 to the consolidated financial statements on page 136.
Intangible Assets — Capitalisation of Internal Development Time and Costs	The capitalisation of internal development costs is material and involves management judgements as to whether the costs incurred meet the criteria in accounting standards for capitalisation, including the technical feasibility of the project and the likelihood of the project delivering sufficient future economic benefits, and the risk of impairment when new technology supersedes previously capitalised projects.	Details of material technology projects which are being capitalised along with the rationale for capitalisation were presented to and reviewed by the Audit Committee. The criteria for identification of projects which may be treated as intangible assets and the process to capture the costs of these technology projects were discussed by the Audit Committee. The Audit Committee also discussed the need for any impairment of the existing carrying values of capitalised software and systems recognised as a result of the development of new software and systems.	The amount of £42.7 million of internal development costs has been capitalised within intangible non-current assets, as set out in note 3.1 to the consolidated financial statements on page 144.
Useful economic lives of assets	The useful economic lives and residual value of the Group's assets involves management estimates. The appropriateness of the estimated lives were reviewed.	The Audit Committee reviewed the reports from management that explained the justifications for increasing the economic lives of some of the Group's assets and the resulting impact on the Group's depreciation charge and profitability including management's estimates based on longer historical experience with the use of assets.	As a result, the depreciation cost was reduced by £1.9 million in 2017 and is expected to decrease further on an annual basis in relation to the revised assets. See note 3.2 to the consolidated financial statements on pages 146 and 147.
Recognition of Deferred Tax Asset	The estimates used to support the future business profitability and recognised deferred tax asset require management estimate.	The basis of management estimates of future taxable profits of the Group and the process used to calculate the deferred tax asset recognised were reviewed by the Audit Committee. The Audit Committee assessed the reasonableness of the assumptions underlying the Group's future profits forecasts.	The amount of £14.3 million was recognised in the Consolidated Balance Sheet for the period. Details of the deferred tax asset are set out in note 2.8 to the consolidated financial statements on pages 140 to 142.

The table above is not a complete list of all the Group's accounting issues, estimates and policies, but highlights the most significant ones for the period in the opinion of the Audit Committee. Accounting for share-based payments and exceptional items® are recurring issues, but did not require a significant estimate or judgement during the period, unlike some previous periods.

(A) See Alternative Performance Measures on page 196

The accounting treatment of all significant issues and judgements was subject to review by the external auditor. For a discussion of the areas of particular audit focus by the external auditor, refer to pages 121 to 122 of the Independent Auditor's Report. The Audit Committee considers that the Company has adopted appropriate accounting policies and made appropriate estimates and judgements.

Segmental Reporting: As with previous years, the Audit Committee considered the Group's approach to segmental reporting. Given the recent Ocado Solutions transactions, the Board started to review performance of the Group by segment and considered it appropriate to adopt segmental reporting for the Group for year end. This Annual Report reports the Group's two segments, retail and solutions, for the first time. The Audit Committee considered the accounting impact of IFRS 8 ("Operating Segments") and the external reporting disclosures for the Group.

Going Concern and Viability Assessments: The Audit Committee and the Board reviewed the Group's going concern and viability statements (as set out on page 39) and the assessment reports prepared by management in support of such statements. The Audit Committee gave careful consideration to the period of assessment used for the viability statement. It took into account a wide range of factors (as set out on page 39) and concluded the time period of three years remained appropriate. The external auditor reviewed management's assessment and discussed this review with the Audit Committee.

Tax Review: The Audit Committee also considered the Group's tax policy, and concluded that management's low risk approach to tax management remained appropriate. The Board reviewed and approved the Group's tax strategy statement, published for the first time during the period.

Risk Review: The Board has ultimate responsibility for effective management of risk for the Group including determining its risk appetite, identifying key strategic and emerging risks, and reviewing the risk management framework. The Audit Committee, in supporting the Board to assess the effectiveness of risk management and internal control processes, relies on a number of different sources to carry out its work including an assessment report provided by management, Internal Audit assurance reports and the assurance provided by the external auditor and other third parties in specific risk areas. No significant failings or weaknesses were identified in the Group's risk management and internal control system for the period. At the end of the period, the Audit Committee approved management's proposal to create a new position, Chief Compliance Officer, to head up a new function called Governance, Risk and Compliance. The new function has assumed responsibility for supporting the Group's risk management processes, such responsibility having been performed previously by Internal Audit (previously called Internal Audit & Risk) and to help grow the Group's risk management framework. The new function will help bring focus on the Group's risk controls and processes and actions needed to implement them, particularly as the business grows.

The Board discussed and reviewed the Group's risk appetite when reviewing the principal risks and the strategy for the Group. Regular review of the risk appetite ensures that the Company's risk exposure remains appropriate and acceptable in enabling the Group to achieve its strategic objectives. The Audit Committee also reviews risk appetite and principal risks when considering the effectiveness of the risk management system. Every year the Audit Committee focuses on particular risk areas identified in the Group risk register. During the period, management reported on the progress of the Group's business continuity and disaster recovery plans, the Group's information security controls and assurance framework, the programme for complying with the new General Data Protection Regulation and the control environment for the new Ocado Solutions business. During the period, PricewaterhouseCoopers LLP performed a high level cyber security audit covering the Group's controls to govern, detect, protect and respond to cyber security incidents. The Audit Committee considered the high level findings of the review and management's responses. The Audit Committee expects to monitor the next phases of the review in 2018, including the development of a security roadmap for expanding the Group's information security arrangements to cater for the growth of the business. The Audit Committee will continue to receive reports on these areas in future years. Further details of the risk review and the Group's risk management and internal control systems, including financial controls, are set out in the "How We Manage Our Risks" section on pages 38 to 41.

Internal Audit: Part of the assurance provided to the Audit Committee when reviewing the effectiveness of the Group's systems of internal control comes from Internal Audit. The Audit Committee reviewed the Internal Audit plan in January 2017 and considered it appropriate to the Group having regard to the principal risks of the business.

The Internal Audit plan, which is risk based, set out a number of activities for the period and the 2018 financial year, including assurance programmes for key strategic projects such as the new CFCs and the Ocado Solutions technology and control and data integrity models for key projects such as the General Data Protection Regulation control environment and the Ocado Solutions business. The programme also includes operational audits for key operational risk areas such as site security, health and safety and food and product safety. The Audit Committee reviews the planned internal audit activities, and its resourcing and prioritisation. Internal Audit reports to each Audit Committee meeting. Management actions are tracked and the status of these actions is reported alongside progress against the Internal Audit plan. These reports enable the Audit Committee to monitor progress, and to discuss key findings and the plans to address them.

The Audit Committee is satisfied that the Internal Audit plan provides appropriate assurance on the controls in place to manage the principal risks facing the Group.

As well as reporting at each Audit Committee meeting on the results of their work, Internal Audit reports on any cases of whistleblowing, fraud and bribery.



ACCOUNTABILITY — Audit Committee Report

Internal Audit effectiveness review: The Audit Committee is responsible for reviewing the effectiveness of the Internal Audit function each year. This year an independent review of the effectiveness of Internal Audit was facilitated externally by Grant Thornton UK LLP. The review followed two years in which an internally facilitated review had been conducted by the Company Secretary. Grant Thornton's detailed review of Internal Audit focused on remit and future direction. The review was based on interviews with a broad range of stakeholders and members of the Internal Audit function.

The review concluded with a final report and feedback session with the Chairman and Head of Internal Audit and a discussion at the Audit Committee meeting. Management presented a proposed response to the recommendations made in the report, which the Audit Committee discussed. Among the recommendations to be addressed by Internal Audit were that a detailed assurance map be presented to the Audit Committee, illustrating all assurance work across the Group and detailed reasoning for work included in the internal audit plan and better reporting of the resource allocation made by the Internal Audit team to different work activities. Internal Audit expects that the balance of its roles will change in future years to reflect the ongoing shift in the business from retail only to retail and technology. This will mean an increase in the amount of assurance work done with respect to the retail business, while its advisory role will continue with regards to the nascent Ocado Solutions business. Assurance work on the Ocado Solutions business is expected to take place as its control environment matures. Feedback from the stakeholders was consistent in acknowledging the usefulness of the work of Internal Audit and the value it is delivering for the Group. The Audit Committee was satisfied that Internal Audit remains effective. The Internal Audit team will grow slightly and is sufficiently resourced and has adequate levels of experience and expertise.

Annual Review: In addition to its annual performance evaluation, discussed in the Statement of Corporate Governance on page 57, the Audit Committee carried out a review of its terms of reference. The review resulted in changes to the terms of reference to reflect the new guidance. The Committee's terms of reference can be found on ocadogroup.com.

AUDITOR TRANSITION

Deloitte was appointed by the shareholders as the Group's statutory auditor in May 2017, following a formal tender process (as described in the 2016 annual report). Mark Lee-Amies is the lead audit partner. The tender process was completed in late 2016 which allowed for a smooth handover process from the Group's outgoing external auditor, PricewaterhouseCoopers. The Audit Committee monitored this transition process.

Deloitte were given an induction process to help build on their understanding of the business. These induction activities included: a planning meeting with management in early 2017; Deloitte observing the Audit Committee meetings in January and April 2017; and half year transition planning meetings. In addition, Deloitte's role as principal accountant on the Group's debt issue (noted below) in respect of the 2017 period aided their understanding of the business.

ASSESSING THE EFFECTIVENESS OF THE EXTERNAL AUDIT PROCESS AND THE EXTERNAL AUDITOR

The Audit Committee places great importance on ensuring that there are high standards of quality and effectiveness in the external audit. Given Deloitte transitioned into the external auditor role in this period, the Audit Committee assessment covers a shorter review period than usual although the assessment still includes most of the half year review work and the year end audit. The Audit Committee reviewed and approved the annual audit plan to ensure that it is consistent with the scope of the audit engagement. In reviewing the audit plan, the Audit Committee discussed the significant and elevated risk areas identified by Deloitte most likely to give rise to a material financial reporting error or those that are perceived to be of higher risk and requiring additional audit emphasis (including those set out in the Independent Auditor's Report on pages 120 to 126). The Audit Committee also considered the audit scope and materiality threshold. The Audit Committee met with Deloitte at various stages during the period, including without management present, to discuss their remit and any issues arising from the work of the auditor.

At the end of the period, the Audit Committee reviewed the performance of Deloitte based on a questionnaire that contained various criteria for judging their effectiveness and on feedback from management. The criteria for assessing the effectiveness of the audit included the robustness of the audit, the quality of the audit delivery and the quality of the people and service. The questionnaire was completed by members of the Audit Committee, the Chief Financial Officer and members of the finance department and senior members of management and operations teams. The results of the questionnaire were reviewed by the Audit Committee. The Audit Committee also met with management, including without Deloitte present, to hear their views on the effectiveness of the external auditor.

The Audit Committee also reviewed the findings from the Financial Reporting Council's Deloitte Audit Quality Inspection report (dated June 2017). The Audit Committee fully discussed with Deloitte the content of the report including the assessment of the quality of audits reviewed, Deloitte's response to the report and actions taken by it, including changes to the firm's audit methodology generally and taken into account in the audit plan for the period.

The Audit Committee concluded that Deloitte had transitioned well into the role and their performance was effective.

Independence and Objectivity: The Audit Committee considered the safeguards in place to protect the external auditor's independence. Deloitte reported to the Audit Committee that it had considered its independence in relation to the audit and confirmed to the Audit Committee that it complies with UK regulatory and professional requirements and that its objectivity is not compromised. The Audit Committee took this into account when considering the external auditors' independence and concluded that Deloitte remained independent and objective in relation to the audit.

Non-Audit Work Carried Out by the External Auditor: To help protect auditor objectivity and independence, the provision of any non-audit services provided by the external auditor requires prior approval, as set out in the table below. These thresholds are unchanged.

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

An additional protection is provided by way of a non-audit services fee cap. The Audit Committee (or the Company) may not approve an engagement of the external auditor if annual non-audit services fees would exceed 70% of the average audit fees (not including fees for audit-related services) charged in the previous three years. Certain types of non-audit service are of sufficiently low risk as not to require the prior approval of the Audit Committee, such as "audit-related services" including the review of interim financial information. "Prohibited services" are those that have the potential to conflict directly with the auditors' role, such as the preparation of the Company's financial statements.

Non-Audit Work Undertaken During the Period: The total of non-audit fees, audit fees and audit-related services fees paid to the external auditors during the period is set out in Note 2.5 to the consolidated financial statements on page 138. The non-audit services fees of £310,000 paid to Deloitte during the period related to: (1) services in relation to the Ocado debt issue in June 2017; (2) audit-related assurance services for an interim review; (3) IT cyber penetration testing work carried out prior to appointment as external auditor; and (4) intellectual property legal support work carried out prior to appointment as external auditor. Non-audit fees of £20,600 were paid to Deloitte for remuneration advice to the Remuneration Committee (for more information see page 73). With the exception of services in relation to the debt issue, all non-audit work engagements were approved by the Chief Financial Officer as the fees concerned were within the approval thresholds set under the policy.

The non-audit services fees of £155,000 (2016: £50,000) paid to retiring external auditors, PricewaterhouseCoopers related to services in relation to the Ocado debt issue and a controls programme assessment. The appointments of Deloitte and PricewaterhouseCoopers in relation to the debt issue work were approved by the Board.

The Audit Committee received a regular report from management regarding the extent of non-audit services performed by the external auditor. Deloitte provided a report to the Audit Committee on the specific safeguards put in place for each piece of non-audit work confirming that it was satisfied that neither the extent of the non-audit services provided nor the size of the fees (being 84.1% of the audit fees) charged had any impact on its independence as statutory auditor. Notwithstanding that the level of non-audit fees was very high in relation to the external audit fees, it was concluded that appropriate safeguards were in place to prevent a compromise of auditor independence. In the case of the debt issuance review work, this was conducted by an independent specialist team and was a natural extension of the half year auditor review work, making the auditor most suited to providing the service. In addition in the case of Deloitte, some of its non-audit services were provided to the business prior to its appointment as external auditor. The Audit Committee was satisfied this was the case and so concluded that the auditor's independence from the Group was not compromised.

Audit Fees: The Audit Committee was satisfied that the level of audit fees payable in respect of the audit services provided (excluding audit-related services) (being £345,000 (2016: £322,000)) was appropriate and that an effective audit could be conducted for such a fee. The existing authority for the Audit Committee to determine the current remuneration of the external auditors is derived from the shareholder approval granted at the Company's annual general meeting in 2017. At the annual general meeting in 2017, 98.37% of votes cast by shareholders were in favour of granting the Directors this authority.

STATEMENT OF COMPLIANCE WITH THE COMPETITION AND MARKETS AUTHORITY (CMA) ORDER

The Company confirms that it has complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Processes and Audit Committee Responsibilities) Order 2014 (Article 7.1), published by the CMA on 26 September 2014, including with respect to the Audit Committee's responsibilities for agreeing the audit scope and fees and authorising non-audit services.



DIRECTORS' Remuneration Report



"We are encouraged that shareholder support for the Company's remuneration arrangements has substantially increased in recent years."

**Douglas McCallum
REMUNERATION COMMITTEE
CHAIRMAN**

ANNUAL STATEMENT FROM THE REMUNERATION COMMITTEE CHAIRMAN

DEAR SHAREHOLDER,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2017.

We believe that the remuneration of the Executive Directors appropriately reflects the performance of the Group. Overall total Director remuneration is down against prior periods and incentive based pay is in line with 2016, reflecting the Group's lower rates of growth compared to previous years. While the Group achieved strong sales and customer growth, lower average basket size for ocado.com compared to 2016 impacted business Revenue. An increase in head office headcount and fixed costs meant EBITDA® remained in line with the prior year. Hence achievement against the revenue and profitability targets under the incentive plans was modest. In 2017, the Group's Revenue grew 15.2% to £1,463.8 million, average orders per week grew 14.8% to 264,000 and EBITDA® for the Group was flat at £84.3 million for the 53 weeks ended 3 December 2017. Further, although steady progress was made in developing the Group's new Ocado Solutions platform, the delay to improvements in the capital and operating efficiency of Andover meant achievement against these challenging incentive targets was moderate for the period.

RELATIONSHIP BETWEEN PAY AND PERFORMANCE

We have recommended a bonus payment to the Executive Directors based on 41.5% to 42% achievement against objectives under the bonus plan for the period.

During the period, we reviewed the performance against the 2015 LTIP award targets, which had a performance period ending on 3 December 2017. The 2015 LTIP awards were subject to the achievement of targets for both the Group's retail business and platform business. Based on the 2017 results, the Directors achieved 25% against the performance targets. The 2015 LTIP awards are expected to vest in March 2018.

Base salaries, which underpin retention of the Executive Directors, were reviewed during the period. An increase of 2.75% was approved, which is in line with the Group's employee salary percentage increase and business plans.

The Annual Report on Remuneration on pages 91 to 106 contains details of the remuneration paid to Executive Directors during the period.

KEY CHANGES TO EXECUTIVE DIRECTOR REMUNERATION

We believe that our remuneration framework helps support and drive our strategy, which is focused on growing the retail business through improvement in the customer proposition and on maximising operational and capital efficiency of the retail business.

Our objective is also to invest in the Group's IP and technology to drive growth, both in our retail business and solutions business. The Remuneration Committee reviews the remuneration framework annually, to make sure that the AIP, the LTIP and the GIP contain specific performance measures that support this strategy.

During the financial year, we undertook a review of the Executive Director AIP structure and concluded that the financial measures of Group EBITDA® and Gross Sales® (Retail) remained aligned with the Company's strategy and should be retained for 2018 in order to encourage continued strong retail business growth. However, with the progress in the development of the Solutions business it was agreed that a new Ocado Solutions business target should be introduced to align with the evolving Group strategy. Further explanation of the changes can be found on page 107.

The financial performance measures for the 2018 LTIP awards reflect the same equal split in the 2017 awards, namely between the retail business and the Solutions business but with some changes to the retail profitability measure reflecting the Group's new segmental reporting. The targets are intended to reward the delivery of an efficient platform solution and sales of that platform solution to new customers as well as rewarding growth of the retail business.

CHANGES TO NON-EXECUTIVE DIRECTOR REMUNERATION

The Non-Executive Directors' annual fees were subject to annual review but the basic fees for Non-Executive Directors were left unchanged (2016: £50,000). Fee levels have only increased once since April 2014.

EXECUTIVE REMUNERATION AND THE BROADER CONTEXT

The Remuneration Committee is mindful of the proposed corporate governance reforms and changes in legislation concerning remuneration and its disclosure. The Committee expects to conduct a full review of its remuneration arrangements in 2018 to coincide with the new requirements coming into force and will report more fully next year.



See Alternative Performance Measures on page 196

The Remuneration Committee sets the remuneration policy and remuneration plans in the context of the growth of the Company but while taking into account workforce pay across the Group. Our overall remuneration framework is designed to motivate key employees to achieve the Group's strategic objectives, deliver value for shareholders and to be competitive.

CHANGE OF ADVISER

Following the appointment of Deloitte as the Company's external auditor, the Remuneration Committee conducted a tender for the role of external remuneration adviser. The result was the appointment of PricewaterhouseCoopers as the Remuneration Committee's external remuneration adviser. The Remuneration Committee would like to thank Nicki Demby at Deloitte for her advice and support to the Company. Further details of the tender can be found on page 68.

SHAREHOLDER FEEDBACK AND REMUNERATION DISCLOSURE

Each year, we review how shareholders voted on the remuneration report, together with any feedback received. We are aware of some shareholders' ongoing concerns regarding transparency of performance-related remuneration. We have enhanced our reporting of performance in recent years, which we believe provides shareholders with clear and understandable information about the operation of our performance-related incentive schemes. We are encouraged that shareholder support for the Company's remuneration arrangements has substantially increased in recent years, with 93.16% support for the 2016 Directors' Remuneration Report and 93.75% support for the Directors' Remuneration Policy at the 2017 annual general meeting.

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

Douglas McCallum
REMUNERATION COMMITTEE CHAIRMAN
6 February 2018

REMUNERATION AT A GLANCE

- Increase in base pay of 2.75%
- Increase in variable pay of 0.8%
- Overall pay for all directors decreased
- Share scheme targets changed for 2018 awards to align with evolving Group strategic objectives
- Shareholder support for policy and report of 93.75% and 93.16%
- Directors hold about 16.3% of the total share capital



DIRECTORS' Remuneration Report

DESCRIPTION OF THE REMUNERATION COMMITTEE

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

MEMBERSHIP

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

As required under the terms of reference, the Remuneration Committee has three members, all of whom are independent Non-Executive Directors, and holds a minimum of two meetings a year.

	DOUGLAS MCCALLUM Chairman	Remuneration Committee member since 3 October 2011 Number of meetings: 4 Number attended: 4
	RUTH ANDERSON	Remuneration Committee member since 9 March 2010 Number of meetings: 4 Number attended: 4
	ANDREW HARRISON	Remuneration Committee member since 1 March 2016 Number of meetings: 4 Number attended: 3*

* Andrew Harrison did not attend one Remuneration Committee meeting due to family illness.

The biography of each member of the Remuneration Committee is set out in the Directors' Report section on pages 116 and 117.

Other attendees at the Remuneration Committee meetings included the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the People Director and the external adviser to the Remuneration Committee. The Chairman 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. The Deputy Company Secretary is secretary to the Remuneration Committee.

EXTERNAL ADVICE

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

Adviser	Retained by	Services Provided to the Remuneration Committee	Other Services Provided
PricewaterhouseCoopers LLP	Remuneration Committee	Executive remuneration advice including assisting in a benchmarking review of Executive Director remuneration. Appointment effective from June 2017.	Advice on a range of remuneration issues. Separate auditor team engaged until May 2017. Separate teams engaged by the Company to advise on IT security and other matters.
Deloitte LLP	Remuneration Committee	Executive remuneration advice. Appointment effective until March 2017.	Advice on a range of remuneration issues. Separate team engaged in 2017 as statutory auditor to the Company.
Slaughter and May	Company	None	Share schemes, tax and employment law advice as well as general UK legal advice in respect of a number of the Company's remuneration matters.

PRICEWATERHOUSECOOPERS LLP APPOINTMENT

Given the appointment of Deloitte LLP (“Deloitte”) as external auditors of the Company from the 2017 annual general meeting, it was agreed that Deloitte would not continue as adviser to the Remuneration Committee. Accordingly, the Remuneration Committee tendered the role of independent external adviser. The tender concluded in spring 2017 and PricewaterhouseCoopers LLP (“PwC”) were appointed to the role.

The Remuneration Committee approved and oversaw the tender process, including agreeing the timetable and tender document.

The Company met with a number of consultants. From this, two shortlisted firms were invited to submit a written proposal to the Company and to give a presentation to the Remuneration Committee along with a number of key Ocado employees. The Remuneration Committee evaluated each firm using the tender criteria and agreed to appoint PwC. The decision of the Remuneration Committee to appoint PwC as remuneration adviser was based on a number of factors, including the strength of their proposal for services; their understanding of the business and its entrepreneurial culture; an assessment of their independence from the Company; their client base; and their proposed fees. PwC operates under the Remuneration Consultants Group Code of Conduct.

For the period from their appointment on 22 June 2017 to the period end, £17,000 in advisory fees were paid or payable to PwC for services provided to the Remuneration Committee. For the period from the start of the period to their resignation in March 2017, £20,600 in advisory fees were paid or payable to Deloitte LLP for services provided to the Remuneration Committee. Both PwC and Deloitte LLP were paid fees on a retainer basis.

OTHER SUPPORT FOR THE REMUNERATION COMMITTEE

In addition to the external advice received, the Remuneration Committee consulted and received reports from the Company’s Chief Executive Officer, the Chief Financial Officer, the Chairman, the People Director and the Deputy Company Secretary. The Remuneration Committee is mindful of the need to recognise and manage conflicts of interest when receiving views and reports from, or consulting with, the Executive Directors or members of senior management.

PRINCIPAL ACTIVITIES OF THE REMUNERATION COMMITTEE

DURING THE FINANCIAL YEAR

The Remuneration Committee has, under its terms of reference, been delegated responsibility for setting remuneration for all of the Executive Directors, the Chairman and the Company Secretary. This is outlined on page 54. In line with its terms of reference, the Remuneration Committee’s work during the period included the following:

- approving the 2016 Directors’ Remuneration Report;
- reviewing performance under the 2016 AIP and consideration of any bonuses payable;
- approving the 2017 AIP performance targets;
- approving the 2017 LTIP awards and performance targets;
- reviewing performance against LTIP awards;
- receiving executive remuneration advice from advisers in respect of a range of matters considered by the Remuneration Committee during the year;

- receiving a report on Group-wide and management remuneration for 2017;
- consulting the Chief Executive Officer and the Chairman on performance and remuneration of the Executive Directors;
- receiving reports from advisers on senior executive pay, market themes and trends;
- receiving a report on the Group’s share schemes and plans for 2018;
- receiving a report on shareholder feedback on the 2016 annual report and 2017 annual general meeting;
- reviewing the performance of advisers; and
- agreeing a process and timetable for, and conducting a tender of, the role of external remuneration consultants.

The Remuneration Committee’s work also included monitoring and considering the level and structure of remuneration for the Management Committee. Ultimate decision-making responsibility for the remuneration of the Management Committee lies with the Chief Executive Officer. This approach still gives the Remuneration Committee necessary visibility of senior management remuneration to enable it to formulate appropriate policy and make decisions regarding Executive Director remuneration, but allows the Chief Executive Officer, who is best placed to make remuneration decisions about the management team, the flexibility to do so. The Remuneration Committee believes this practice is beneficial to the Company and supports the Code principle D.2.

The Remuneration Committee carried out a review of its terms of reference during the period, which did not result in any changes.

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



DIRECTORS' Remuneration Report

REMUNERATION POLICY REPORT

Introduction

This part of the Directors' Remuneration Report sets out the Company's policy for the remuneration of its Directors.

The Directors' Remuneration Policy was approved by shareholders at the annual general meeting which took place on 3 May 2017 and took effect from that date (replacing the previous policy). Since then, the Remuneration Committee has reviewed the Directors' Remuneration Policy and concluded that it remained appropriate for the foreseeable future. Given there were no proposals to revise the policy it remains valid and will not be put for shareholder approval at the AGM. It is expected that the Company will next propose a resolution to approve the directors' remuneration policy at the annual general meeting to be held in 2020, or sooner in the event of proposed revisions to the policy.

The Directors' Remuneration Policy is extracted in full without amendment and it is in the form approved by the shareholders at the annual general meeting which took place on 3 May 2017, except for this introduction and minor amendments such as page or cross references, changed defined terms and to remove comparisons with the 2014 policy.

Remuneration Principles for Senior Executives

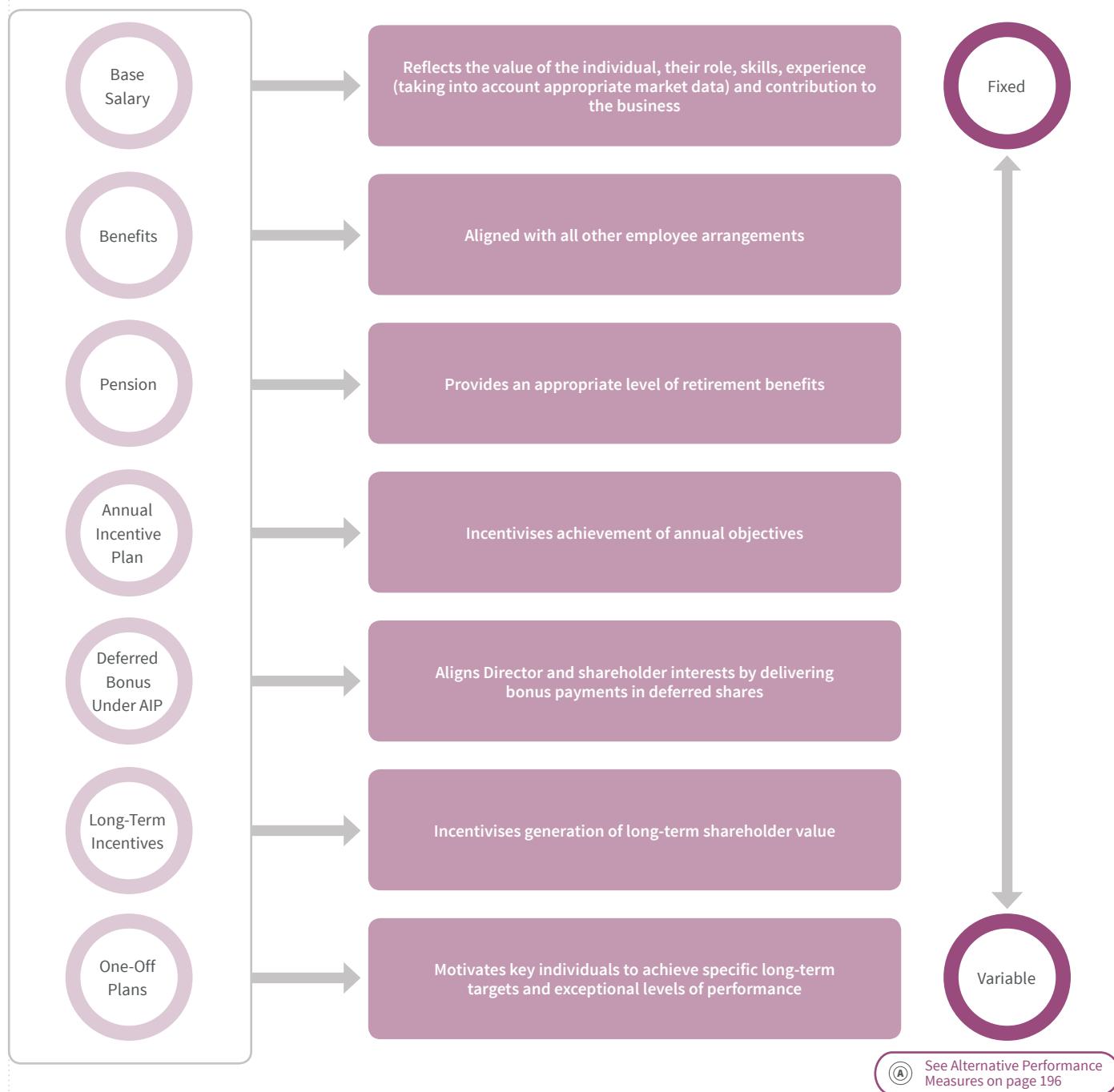
The Directors' Remuneration Policy is underpinned by the following remuneration principles:

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

Link with Strategy

The key objective to be achieved through the Directors' Remuneration Policy is to support the Group's main strategic objectives of expansion and high growth. The AIP, the LTIP and the GIP contain specific performance measures designed to support the objectives of accelerating retail business performance in the short and medium-term (for example, EBITDA® and Gross Sales® (Retail) targets) and the objectives of creating long-term success and sustainable long-term shareholder value (for example, key strategic targets concerning the efficiency of the nascent solutions business).

The Directors' Remuneration Policy, outlined on the following pages, provides the detailed structure of each element of remuneration and how each element is determined. The remuneration package of the Executive Directors is made up of elements of fixed and variable remuneration. The Remuneration Committee is mindful of the weighting of fixed and variable pay and balance of short- and long-term awards, and sought to position a larger proportion of the remuneration package as equity-based and performance-related in order to support the Company's strategic objectives of high growth and expansion and to create shareholder alignment. The balance of the remuneration of the Executive Directors is set out at "Illustration of Directors' Remuneration Policy" on pages 89 and 90. The holding period in the LTIP, the share deferral provision in the AIP, the minimum shareholding requirements and the GIP's five-year performance period all help ensure a longer term focus for the business from the Executive Directors.





DIRECTORS' Remuneration Report

Remuneration Committee Discretion and Judgement

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

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

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

The use of discretion in relation to the Company's ESOS, Sharesave and Share Incentive Plan will be as permitted under HMRC rules and the other relevant rules and regulations.

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

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

Development of Directors' Remuneration Policy

Shareholder Context

The Remuneration Committee did not formally consult shareholders on the Directors' Remuneration Policy on the basis that the minor changes to the policy were to the benefit of shareholders (such as introducing an LTIP holding period) and there were no changes to the overall structure or elements of remuneration for the Directors. Shareholders were notified of, and given the opportunity to discuss, the changes to the policy with the Chairman of the Remuneration Committee. The Remuneration Committee had previously consulted shareholders on various incentive arrangements and the current policies and had used these consultations to inform its view that there is good alignment between the Directors' Remuneration Policy and shareholder interests.

Employee Context

The Remuneration Committee receives an annual report from management on Group-wide remuneration. This review covers changes to pay, benefits, pension and share schemes for all employees in the Group, including the percentage increases in base pay for monthly and hourly paid employees. The Remuneration Committee's work includes monitoring and commenting on the level and structure of remuneration for the Management Committee in relation to various changes to base pay and incentive plans. This provides some of the context for the Remuneration Committee's decisions concerning changes to base pay and other elements of remuneration for the Executive Directors.

However, the Remuneration Committee did not consult with employees when drawing up the Directors' Remuneration Policy, nor take into account any remuneration comparison measurements.

The Directors' Remuneration Policy is designed in line with the remuneration principles outlined on page 74, which reflect the remuneration principles for the Group. A key remuneration principle for the Group is that share awards be used to recognise and reward good performance and attract and retain employees. This is reflected by the issue of awards of free shares and options to all employees under the SIP and the ESOS schemes, which allows all employees an opportunity to share in the Group's success via share ownership.

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

Remuneration Policy Table: Elements of Director Remuneration

The following table sets out the key elements of remuneration for the Executive Directors, their purposes and links to strategy, the maximum opportunity and any performance conditions.

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Fixed pay				
Base pay To attract and retain the right calibre of senior executive required to support the long-term interests of the business.	<p>Paid monthly in cash.</p> <p>Reviewed annually by the Remuneration Committee, with any changes normally becoming effective in April each year (or may be reviewed ad hoc where there is a significant change of responsibilities).</p> <p>The review takes into account a number of factors including: the Group's annual review process, business performance, total remuneration, appropriate market data for comparable roles for companies of equivalent size and complexity in similar sectors and geographical locations to the Company, and an individual's contribution to the Group.</p>	Not performance linked.	<p>To avoid setting the expectations of Executive Directors and other employees, no maximum salary is set under the policy. Normally, maximum salary increases for Executive Directors will be within the normal percentage range and guidelines that are applied to the UK-based monthly paid employees of the Company in that year.</p> <p>Where appropriate and necessary, larger increases may be awarded in exceptional circumstances; for example, if a role has increased significantly in scope or complexity.</p> <p>Larger increases may also be considered appropriate and necessary to bring a recently appointed executive in line with the market and the other executives in the Company where their salary at appointment has been positioned below the market.</p>	No contractual provisions for clawback or malus.



DIRECTORS' Remuneration Report

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Benefits To attract and retain the right calibre of senior executive required to support the long-term interests of the business.	<p>The Company provides a range of benefits which are aligned with those provided to monthly paid employees under the Company's flexible benefits policy. These may include: private medical insurance and health assessments, life assurance, travel insurance, income protection, travel allowance, free parking, access to financial and legal advice, staff product discount, subsidised staff restaurants and other discounts. Any business travel costs will be paid by the Company. Additional benefits or payments in lieu of benefits may also be provided in certain circumstances, if required for business needs.</p> <p>Any benefits allowances will be paid in cash monthly and will not form part of pensionable salary.</p> <p>The Company provides Directors' and Officers' Liability Insurance and may provide an indemnity to the fullest extent permitted by the Companies Act.</p>	Not performance linked.	<p>Benefits for Executive Directors are set at a level which the Remuneration Committee considers to be appropriate against market data for comparable roles for companies of equivalent size and complexity in similar sectors and geographical locations to the Company.</p> <p>The maximum value of the Directors' and Officers' Liability Insurance and the Company's indemnity is the cost at the relevant time.</p>	No contractual provisions for clawback or malus.
Pension To attract and retain the right calibre of senior executive required to support the long-term interests of the business.	<p>Contributions, allowances and pension choices for the Executive Directors are on the same terms as for other employees.</p> <p>Executive Directors can choose to participate in the defined contribution Group personal pension scheme or an occupational money purchase scheme.</p> <p>Where lifetime or annual pension allowances have been met, the balance of employer contributions may be paid as a cash allowance or into a personal pension arrangement. These amounts will not be treated as salary for the purposes of incentive awards.</p> <p>The Group's contributions under the defined contribution scheme are set as a percentage of salary based on length of scheme membership. Contributions under the occupational money purchase scheme are aligned with the legislative minimum.</p>	Not performance linked.	<p>Contributions to the defined contribution pension scheme for the Executive Directors will normally be in line with the other scheme participants; however, the Remuneration Committee may exceed this standard maximum in order to be market competitive and attract and retain the right calibre of senior executive talent needed to support the long-term interests of the business.</p> <p>Pension contributions for UK based Executive Directors will not exceed 30% of annual base salary.</p> <p>For Executive Directors outside the UK, provision for an executive pension will be set taking into account local market rates.</p>	No contractual provisions for clawback or malus.

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Variable Pay: Short-Term Incentives				
<p>Annual Incentive Plan (“AIP”)</p> <p>To provide a direct link between measurable and predictable annual Company and/or role specific performance and reward.</p> <p>To incentivise the achievement of outstanding results aligned to the business strategy.</p>	<p>Measures and targets are set annually and bonus payments are determined by the Remuneration Committee following the year end based on performance against the targets.</p> <p>Bonus payments, if made, are payable in cash after the results of the Group have been audited.</p> <p>To the extent that an Executive Director does not meet the minimum shareholding requirement, up to 50% of any bonus payment will be deferred into shares, vesting after a period of three years.</p>	<p>The Remuneration Committee sets annual targets that are closely aligned to the delivery of the Group's strategic objectives for that year.</p> <p>These will be a mix of financial targets and individual objectives with the majority being financial.</p> <p>For threshold performance no more than 25% of the maximum opportunity will be earned. For stretch performance, the maximum opportunity will be earned.</p> <p>The performance conditions for the relevant financial year are described in the Annual Report on Remuneration.</p>	<p>The maximum bonus is 200% of base salary.</p> <p>The maximum bonus payable for the relevant financial year is described in the Annual Report on Remuneration.</p>	<p>Clawback may apply for three years (or longer if the Remuneration Committee determines) from date of payment of a bonus or grant of a deferred award, in certain exceptional circumstances.</p> <p>Read more on page 87.</p>





DIRECTORS' Remuneration Report

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Variable Pay: Long-Term Incentives				
Long Term Incentive Plan (“LTIP”) To attract, retain and incentivise senior executives over the longer-term. To align the interests of the senior executives and the shareholders.	An award over a fixed number of shares is granted annually. Awards made in the form of nil-cost options or conditional share awards will ordinarily vest three years from award, subject to continued service and the achievement of performance conditions and other conditions. Dividend equivalents may be paid in cash or additional shares on LTIP awards that vest. Awards made after 3 May 2017 are subject to an additional holding period of two years (or longer if the Remuneration Committee determines) from the third anniversary of the date of grant. LTIP awards are only acquired by an Executive Director once the total period of five years from the date of grant has elapsed. The holding period usually applies regardless of whether or not the Executive Director remains an employee of the Group.	The Remuneration Committee sets targets that are closely aligned to the delivery of the Group's strategic objectives for the performance period. These will be a mix of financial targets and individual objectives with the majority being financial. For threshold performance, no more than 25% of the maximum opportunity will vest. For stretch performance, the maximum opportunity will vest. The measurement period for performance conditions will ordinarily comprise at least three financial years of the Company. The performance conditions for the relevant award are described in the Annual Report on Remuneration.	The Remuneration Committee may grant awards, with a maximum total market value of 150% of annual base salary of a participant. In the case of the Chief Executive Officer, the maximum total market value of an award is 200% of annual base salary. In exceptional circumstances, the Remuneration Committee may grant awards with a maximum total market value of 300% of annual base salary of a participant or, in the case of the Chief Executive Officer, 400% of annual base salary.	Clawback and malus provisions may be applied to LTIP awards in certain exceptional circumstances. The clawback period will be two years (or longer, if the Remuneration Committee determines) from the end of the holding period or the date the awards are acquired. Read more on page 87.



Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Variable Pay: One-off Long-Term Incentives				
Growth Incentive Plan (“GIP”) To attract, retain and incentivise senior executives. To align the interests of senior executives and shareholders, by incentivising senior executives to deliver exceptional levels of growth and return to the shareholder over the long-term.	A one-off award of options over shares in the Company with a nil exercise price. The Chief Executive Officer, the Chief Financial Officer and the Chief Operations Officer received an award. New Executive Directors and other senior employees may be invited to participate at a level dependent on the point during the performance period at which they were appointed. The Executive Directors must hold a level of shares throughout the performance period. For the Chief Executive Officer, this shareholding must be at least one times salary and for other Executive Directors, this shareholding must be at least half times salary.	Awards are subject to a single performance condition to be satisfied over the five years from the date of grant. The share price of the Company is the sole performance measure and its growth will be assessed relative to the growth of the FTSE 100 Share Index over that period.	Four million shares for the Chief Executive Officer and one million shares for each of the Chief Financial Officer and the Chief Operations Officer. Awards to new participating Executive Directors or other senior employees will not exceed the awards of existing participants.	Clawback and malus provisions may be applied to GIP awards in certain exceptional circumstances. The clawback period will be two years (or longer if the Remuneration Committee determines) from the date of vesting. Read more on page 87.
Joint Share Ownership Scheme (“JSOS”) To attract, retain and incentivise senior executives. To align the interests of the senior executives and the shareholders, by driving share price growth over four years.	A one-off arrangement established prior to the Company's listing on the London Stock Exchange in 2010. The participants and Estera Trust (Jersey) Limited, the EBT Trustee, acquired separate beneficial interests in ordinary shares of the Company. The participant may lose his interest in the shares.	Interests in shares vested annually over a four-year period. The participant benefits from the increase in value of the shares' interests above a predetermined market price for each tranche (the “hurdle price”). Awards under the JSOS will have no value unless the hurdle price is achieved. Interests in the Company's shares were granted in tranches, with a different hurdle price for each tranche.	The JSOS rules contain limits which constrain the number of interests that may be issued under the JSOS. No future awards will be made to the Executive Directors under the JSOS.	Certain leaver provisions allow the Company to recover share interests in certain circumstances. Read more on page 87.

DIRECTORS' Remuneration Report

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
All-Employee Share Plans				
Sharesave To provide all employees, including Executive Directors, the opportunity to voluntarily invest in Company shares and be aligned with the interests of shareholders.	<p>All employees are eligible to participate in this all employee tax advantaged share scheme. The Company grants options over shares in the Company to employees, including the Executive Directors.</p> <p>To obtain an option an eligible individual must agree to save a fixed monthly amount for three or five years up to the maximum monthly amount under HMRC limits. The amount saved will determine the number of shares over which the option is granted. Options may be exercised in a six month period at the maturity of a three or five year savings period, subject to continued service.</p>	Not performance linked.	Options are usually granted at a discount to the market price at the time of grant up to the maximum discount under HMRC limits.	The scheme rules do not provide for malus or clawback provisions.
Share Incentive Plan (“SIP”) To provide all employees, including Executive Directors, the opportunity to receive and invest in Company shares and be aligned with the interests of shareholders.				
	<p>All employees are eligible to participate in this all employee tax advantaged share scheme. The SIP allows:</p> <ul style="list-style-type: none"> • the Company to grant free shares to all employees allocated on an equal basis; • all employees to buy partnership shares monthly from their gross salary; and • the Company may offer matching shares to employees who purchase partnership shares. <p>Dividend shares are also covered by the SIP arrangements.</p>	Not performance linked.	Maximum opportunity for awards and purchases are kept in line with HMRC limits.	The scheme rules do not provide for malus or clawback provisions.



Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
2014 Executive Share Option Scheme (“2014 ESOS”) To provide all employees, including Executive Directors, the opportunity to receive Company share options and be aligned with the interests of shareholders.	<p>All employees are eligible to participate in this all employee tax advantaged share scheme and the unapproved part of the scheme.</p> <p>The Company grants options over shares in the Company to employees. Options over shares vest on the third anniversary of grant, subject to continued service and satisfaction of any performance conditions. If vested, the options may be exercised at any time between the third and tenth anniversaries of grant at the executive's discretion.</p>	<p>If awards are made to the Executive Directors, the Remuneration Committee may set targets. The Remuneration Committee sets targets that are closely aligned to the delivery of the Group's strategic objectives for the performance period. These may be a mix of strategic and financial targets with the majority being financial.</p> <p>For threshold performance no more than 25% of the maximum opportunity would be earned. For stretch performance, the maximum opportunity will vest. The measurement period for performance conditions will ordinarily comprise at least three financial years of the Company.</p>	There are currently no plans to make awards to the existing Executive Directors under this scheme.	The scheme rules do not provide for malus or clawback provisions.
Executive Share Option Scheme (“ESOS”) To provide all employees, including Executive Directors, the opportunity to receive Company share options and be aligned with the interests of shareholders.	Options issued prior to May 2014 were issued under the ESOS. Employees and two Executive Directors retain options under the ESOS. From May 2014 new option awards are made under the 2014 ESOS. The terms of the ESOS largely mirror those of the 2014 ESOS.	See 2014 ESOS.	There are currently no plans to make awards to any employees or the Executive Directors under this scheme. See 2014 ESOS.	See 2014 ESOS.





DIRECTORS' Remuneration Report

The following table sets out the key elements of remuneration for the Non-Executive Directors.

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Chairman Fee To attract and retain an individual with the appropriate degree of expertise and experience.	The fee is paid monthly in cash. Reviewed annually by the Remuneration Committee, with any changes normally becoming effective in April each year. The review takes into account a number of factors including: the Group's annual review process, business performance and appropriate market data for comparable roles for companies of equivalent size and complexity in similar sectors and geographical locations to the Company.	Not performance linked.	The maximum aggregate amount of basic fees payable to all Directors shall not exceed the £1 million limit set in the Company's Articles of Association. Normally, any increases will be within the normal percentage range and guidelines that are applied to the UK-based monthly paid employees of the Company in that year.	No contractual provisions for clawback or malus.
Non-Executive Director Fee To attract and retain expert people with the appropriate degree of expertise and experience.	The fee is paid monthly in cash. Fee structure includes an annual base fee for a Non-Executive Director and may include additional fees for being the Senior Independent Director or a Board committee chair. Reviewed annually by the Executive Directors and the Chairman, with any changes normally becoming effective in April each year. The review takes into account a number of factors including: the Group's annual review process, business performance and appropriate market data for comparable roles for companies of equivalent size and complexity in similar sectors and geographical locations to the Company.	Not performance linked.	The maximum aggregate amount of basic fees payable to all Directors shall not exceed the £1 million limit set in the Company's Articles of Association. Normally, any increases will be within the normal percentage range and guidelines that are applied to the UK-based monthly paid employees of the Company in that year.	No contractual provisions for clawback or malus.
Travel and expenses To support the Directors in the fulfilment of their duties.	The Company may reimburse expenses and travel costs reasonably incurred by the Chairman and the Non-Executive Directors in fulfilment of the Company's business, together with any taxes thereon.	Not performance linked.	The maximum reimbursement of expenses reasonably incurred, together with any taxes thereon.	No contractual provisions for clawback or malus.
Other arrangements	The Chairman and the Non-Executive Directors are not usually eligible for annual bonus, share incentive schemes, pensions or other benefits with the exception of the staff product discount and free delivery offered to all employees. The Company provides the Chairman and the Non-Executive Directors with Directors' and Officers' Liability Insurance and may provide an indemnity to the fullest extent permitted by the Companies Act.	Not applicable.	The maximum staff product discount is that offered to any Group employees. The maximum value of the Directors' and Officers' Liability Insurance and the Company's indemnity is the cost at the relevant time.	Not applicable.

Notes to the Policy Tables:

1. No other items in the nature of remuneration are provided by the Company to its Non-Executive Directors, save for the amounts paid to Robert Gorrie as described on page 96.
2. Other than as described in the policy table, there are no components of the Executive Directors' remuneration that are not subject to performance measures. In the case of the Sharesave and SIP, these tax advantaged all-employee schemes are subject to rules constrained by legislation and so awards are made on the same terms (not comprising performance conditions) to all employees including Executive Directors. Prior to the Company's listing in 2010, some option awards were made to the Executive Directors under the ESOS without performance conditions. Options were awarded under the ESOS to Duncan Tatton-Brown on his appointment to the Board. Although awards will not usually be made to existing Executive Directors, the rules of the ESOS and 2014 ESOS allow the Remuneration Committee to impose performance conditions on any awards made to a Director under each plan. Performance targets apply to the AIP, LTIP and GIP.
 - a. AIP — the Remuneration Committee adjusts the design (including measures and weightings) of the AIP each year to incentivise the delivery of key business objectives and individual performance for that financial year. Management proposes suitable metrics and levels of performance to form the threshold and stretch levels of performance. Any individual objectives applicable for the AIP are linked to the Executive Director's role and/or his business area(s) and are in line with the Group's strategy. The measurable objectives are agreed between the Executive Director and the Chief Executive Officer (or in the case of the Chief Executive Officer, between him and the Chairman). The Remuneration Committee reviews the proposed targets to assess whether they are appropriately aligned with the strategy and shareholders' interests and whether the reward that would accrue to the Executive Director is appropriate in the circumstances. Usually, full vesting will only occur where exceptional performance levels have been achieved and significant shareholder value created. Details of the AIP performance measures are outlined in the Annual Report on Remuneration.
 - b. LTIP — the Remuneration Committee reviews the design of the LTIP each year to ensure that the performance conditions remain relevant to the Company's key strategic objectives over the performance period. The Remuneration Committee reviews the performance measures in light of the long-term strategic plan and agrees the threshold and stretch conditions that must be achieved. Full vesting will only occur where exceptional performance levels have been achieved and significant shareholder value created. Details of the LTIP performance measures are outlined in the Annual report on remuneration.
 - c. GIP — the GIP performance measure was designed to incentivise outstanding growth in value of the Group over the five-year performance period. The performance measure requires the growth in the Company share price to be significantly more than the growth of the FTSE 100 Share Index over that period. This helps to ensure alignment with shareholders, as full vesting will only occur where outstanding shareholder value is created.
3. The Directors' Remuneration Policy contains formal components for short and long-term incentives with performance conditions attached. While the Group has a policy of remunerating its employees through share scheme participation, it does not have formal remuneration arrangements for all employees akin to all of the components of Directors' remuneration. In the case of the Management Committee, they participate in an annual bonus plan and the long-term incentive schemes, including the LTIP and the JSOS, with award levels set at lower percentages of salary than those of the Directors. The performance conditions and most other terms of these schemes are the same as for the Executive Directors. The bonus plan for senior management does not include provision for share deferral of a payment. The LTIP awards from 2017 for senior management do not include holding periods. In the case of some small groups of senior employees, the Group operates some tailored bonus and long-term incentive arrangements (such as the JSOS, cash-based long-term incentive scheme and management incentive plan). Aside from these targeted arrangements (and the SIP, the ESOS and the Sharesave), the variable remuneration of employees is not closely aligned with that of Directors.





DIRECTORS' Remuneration Report

DIRECTOR MINIMUM SHAREHOLDING EXPECTATION

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

Director	Shareholding Expectation
Executive Directors	<p>Executive Directors are expected to hold shares equivalent to 200% of base salary. This holding can be built up over five years from appointment.</p> <p>Share awards may count if vesting is not subject to any further performance conditions or other conditions such as continued employment. The net value of share interests and share awards which are vested, but remain subject to a holding period and/or clawback, may count towards the shareholding requirement.</p> <p>Until the minimum shareholding is met, an Executive Director must defer up to 50% of any cash bonus payable under the AIP as an award of shares.</p>
Chairman	The Chairman is expected to hold shares equivalent to one year's annual fee. This holding can be built up over three years from appointment.
Non-Executive Directors	Non-Executive Directors are expected to hold shares equivalent to one year's annual fee. This holding can be built up over three years from appointment.

Should the minimum shareholding expectation be met but the market value of the Company's shares subsequently fall below the required level, compliance with this expectation will be based on the higher of the original share purchase price (or the price at vesting in the case of share awards) or current market price.

APPROACH TO REMUNERATION OF DIRECTORS ON RECRUITMENT

Recruitment of Executive Directors

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

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

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

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

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

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

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

Recruitment of Non-Executive Directors

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

LOSS OF SERVICE OR TERMINATION POLICY

Service Contracts for Executive Directors

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

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

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

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

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

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

Letters of Appointment for Non-Executive Directors

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

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

Payments on Cessation of Employment for Executive Directors

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

The treatment of outstanding share awards is governed by the relevant scheme rules, all of which have been approved by shareholders. The table on page 88 provides a summary of these leaver provisions. The Remuneration Committee generally has discretion to determine the treatment of a leaver, but will be conscious of the remuneration principle that it should not reward poor performance or behaviour.

Payments on Cessation of Service for Non-Executive Directors

A Non-Executive Director is not entitled to any other payment on cessation of service with the Company.

MALUS AND CLAWBACK PROVISIONS

The AIP, LTIP and GIP scheme rules contain malus and/or clawback provisions that allow the Remuneration Committee to reduce or retrieve a payment or an award. The Remuneration Committee will do so when there are exceptional circumstances. Such exceptional circumstances include (without limitation) a material mis-statement in the published results of the Group, an error in assessing any applicable performance condition, misconduct on the part of the Executive Director concerned and where, as a result of an appropriate review of accountability, the Remuneration Committee determines that the Executive Director has caused wholly or in part a material loss for the Group as a result of (i) reckless, negligent or wilful actions or (ii) inappropriate values or behaviour.





DIRECTORS' Remuneration Report

SHARE SCHEME LEAVER PROVISIONS

The incentive schemes contain leaver provisions that cover arrangements for awards where a participant leaves employment with the Group, as set out in the relevant scheme rules and summarised below.

Remuneration Element	Bad Leavers	Good Leavers
LTIP	<p>Generally, unvested LTIP awards (and vested LTIP options) will lapse on the date the participant ceases to be an employee.</p>	<p>If a participant ceases to be an employee of the Group for a good leaver reason (e.g. ill health, injury or permanent disability), then his LTIP awards which have not vested will vest on the vesting date (or earlier as the Remuneration Committee shall determine) but only to the extent that the performance conditions have been satisfied subject to operation of malus and clawback provisions. Unless the Remuneration Committee decides otherwise, the LTIP award will be reduced pro rata to reflect the proportion of the performance period that has elapsed to the date of cessation of employment. The LTIP awards will normally continue to be subject to the post-vesting holding period.</p> <p>If a participant dies, his LTIP awards will vest on the date of his death and the performance conditions will not apply but (unless the Remuneration Committee decides otherwise) the LTIP award will be reduced pro rata to reflect the proportion of the performance period that has elapsed at the date of death. The post-vesting holding period will not apply to his LTIP awards.</p> <p>To the extent that LTIP options vest in accordance with the above provisions, they may usually be exercised for a period of 12 months following vesting (or such longer period as the Remuneration Committee may decide) and will otherwise lapse at the end of that period.</p> <p>To the extent that a participant who leaves in circumstances other than dismissal for cause or who dies holding vested LTIP options, they may be exercised at any time during the usual exercise period and will otherwise lapse at the end of that period. The post-vesting holding period will continue to apply (except in the event of a participant's death) unless the Remuneration Committee decides otherwise.</p> <p>The Company may apply the post-vesting holding period to an LTIP award or to any part of it in one of two ways: (i) to vested awards where the underlying shares are retained by the Company for the duration of the holding period and are only transferred to participants on expiry of such period; or (ii) to vested awards where the underlying shares are transferred to the participant on vesting but which remain subject to additional restrictions (such as transfer or sale) until expiry of the holding period.</p>
GIP	<p>See LTIP above, as the same leaver rules apply (except with respect to holding periods which do not apply to GIP awards).</p>	<p>See LTIP above, as the same leaver rules apply (except with respect to holding periods which do not apply to GIP awards).</p>
JSOS	<p>If a participant is a “bad leaver” (i.e. he is neither a “good leaver” nor a “very bad leaver”), he would retain his vested interests on ceasing to be an employee, but unvested interests may be acquired by the EBT Trustee for the lower of the market value and the initial subscription price.</p> <p>In the case of a “very bad leaver” (i.e. has or could have been dismissed for cause or is in material breach of an obligation binding after termination), both vested and unvested interests may be acquired by the EBT Trustee for the lower of the market value and the initial subscription price.</p>	<p>The participant’s interest shall continue to vest on the same dates as if that participant had remained in employment so long as the participant remains a good leaver.</p> <p>Should the participant die before a tranche vests, the participant’s interest will vest entirely on the date of death.</p>
Deferred Shares Under the AIP	<p>Deferred share awards will lapse on the date the Executive Director ceases to be an employee.</p>	<p>An Executive Director will retain his deferred share award on ceasing employment with the Group and will receive the award at the usual vesting date in accordance with the plan rules, subject to the operation of clawback and malus provisions.</p>
All-Employee Share Plans	<p>Leavers will be treated within the scheme rules.</p>	<p>Leavers will be treated within the scheme rules.</p>

CHANGE OF CONTROL

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

Under the LTIP, in the event of a takeover of the Company, LTIP awards will vest early subject to: (i) the extent that the performance and other conditions have been satisfied at that time, (ii) the operation of malus or clawback, and (iii) (unless the Remuneration Committee decides that pro-rating would be inappropriate in the particular circumstances) pro-rating to reflect the proportion of the normal performance period that has elapsed at the date of that event. The Remuneration Committee may, in its discretion, determine that the post-vesting holding period will no longer apply to an LTIP Award or to any part of it as of the vesting date or on such later date as decided by the Remuneration Committee.

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

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

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

Read more about agreements impacted by a change of control in the Directors' Report on pages 113 to 114.

OTHER REMUNERATION

External Appointments for Executive Directors

It is the Company's policy and a requirement of the contract of employment that the Executive Director may not take up non-executive directorships or other appointments without the approval of the Board. Any outside appointments are considered by the Nomination Committee or the Board to

ensure they would not cause a conflict of interest and are then approved by the Board. The Board would not usually agree to an Executive Director taking on more than one non-executive directorship of a listed or public company or the chairmanship of such a company. It is the Company's policy that remuneration earned from such appointments may be kept by the individual Executive Director.

Payments Which are not in Accordance with the Policy

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed: (i) before 7 May 2014 (the date the Company's first shareholder-approved directors' remuneration policy came into effect); (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Minor Amendments

The Remuneration Committee may make minor changes to this policy for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation without seeking shareholder approval for that amendment.

ILLUSTRATION OF DIRECTORS' REMUNERATION POLICY

The bar charts on page 90 provide estimates of the potential future reward opportunity for each of the Executive Directors based on the Directors' Remuneration Policy outlined on pages 74 to 90.

	AIP	LTIP	GIP	Base Salary, Benefits and Pension
Minimum	Performance is below threshold on each metric.	Performance is below threshold on each metric.	Performance is growth in the FTSE 100 Share Index plus not more than 5% p.a.	Fixed
Target or at Expectation	Performance is in line with the Company's expectations.	Threshold performance is reached.	Performance is growth in the FTSE 100 Share Index plus 5% p.a.	Fixed
Maximum	Maximum performance is achieved on each metric.	Maximum performance is achieved on each metric.	Performance is growth in the FTSE 100 Share Index plus 20% p.a.	Fixed

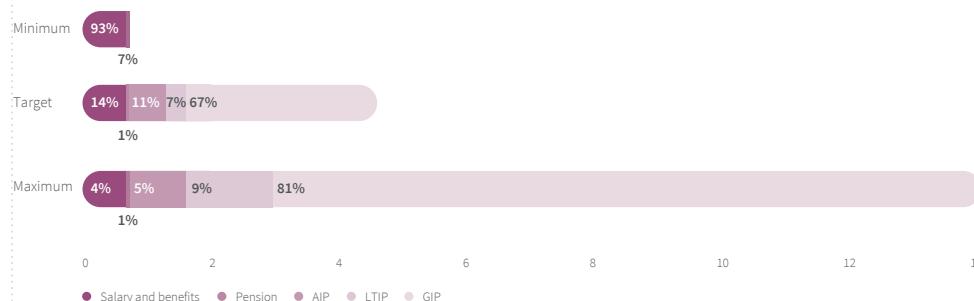


DIRECTORS' Remuneration Report

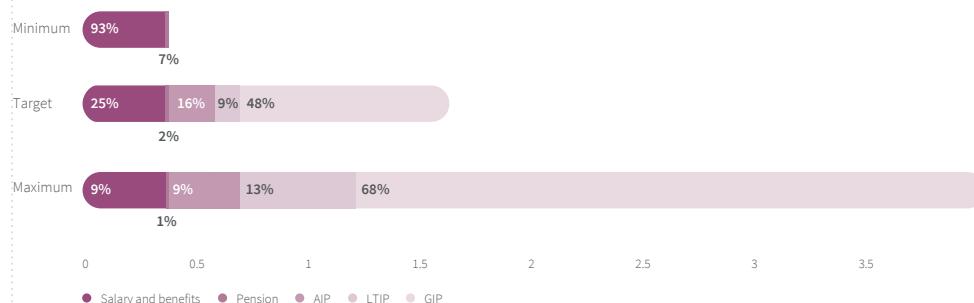
The figures use the 2016 base salary and pension (see pages 98 and 99 of the 2016 annual report) and value of benefits received for 2016 (see page 99 of the 2016 annual report). The performance related pay figures are based on the potential awards for 2017 (see pages 99 to 100 of the 2016 annual report), but it should be noted that LTIP awards granted in a year do not normally vest until the third anniversary of the date of grant. For the purposes of illustrating the Directors' Remuneration Policy, it is assumed that the LTIP awards granted in 2017 will also be vesting in 2017. The estimated value of the GIP is calculated using a share price of 281 pence per share, being the average share price of the final three months of the 2016 reporting period. It is also assumed that the GIP will vest in 2019. The estimated remuneration for each Executive Director is based on three different levels of performance, set out below.

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

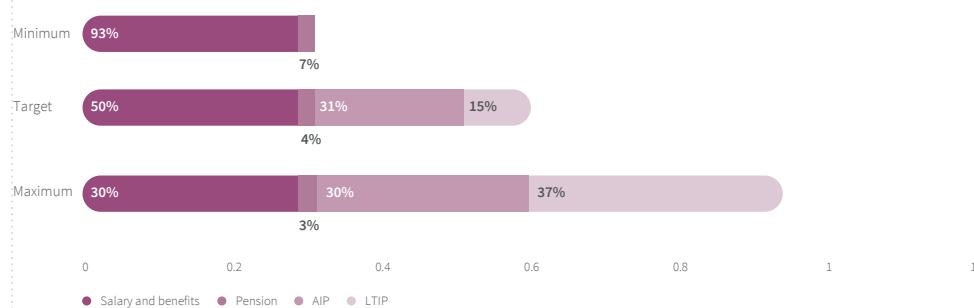
TIM STEINER, CHIEF EXECUTIVE OFFICER (£m)



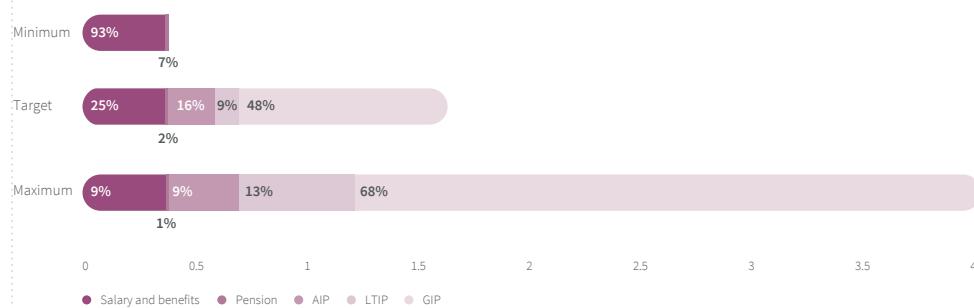
DUNCAN TATTEN-BROWN, CHIEF FINANCIAL OFFICER (£m)



NEILL ABRAMS, GROUP GENERAL COUNSEL AND COMPANY SECRETARY (£m)



MARK RICHARDSON, CHIEF OPERATIONS OFFICER (£m)



ANNUAL REPORT ON REMUNERATION — 2017

Introduction

This part of the Directors' Remuneration Report sets out the Directors' remuneration paid in respect of the 2017 financial year. It sets out the payments to Directors and details of the link between Company performance and remuneration of the Chief Executive Officer. This part, together with the "Description of the Remuneration Committee" section on pages 72 and 73 constitutes the Annual Report on Remuneration, and will be put to an advisory shareholder vote at the Company's AGM.

Highlights for 2017 (audited)

This table briefly summarises the highlights of the Directors' remuneration arrangements for the financial year.

Base Pay and Benefits	Pension	AIP	Long-Term Incentives	All-Employee Schemes
Base pay increase of 2.75% for the Executive Directors, in line with other employees.	Company contributions to pensions for Executive Directors, which are currently significantly below the maximum provided for under the 2017 Policy, did not change during the period.	Total bonus earned by Executive Directors for 2017 based on achievement of 41.5% to 42% of performance target, was £745,282 (2016: £759,953).	Awards were granted under the LTIP. For the 2015 LTIP awards, which are due to vest in March 2018, achievement was 25%.	Ongoing participation in the SIP and Sharesave schemes. Sharesave options lapsed during the period.
Non-Executive Directors fees were not changed in the period.				
No change to taxable benefits.				

Read more on page 92.

Read more on page 93.

Read more on page 93.

Read more on page 95.

Read more on pages 95 to 96.

TOTAL DIRECTOR REMUNERATION (AUDITED)

The total remuneration paid to all of the Directors during the period was £3,531,000. The detailed remuneration breakdown for the Executive Directors and the Non-Executive Directors is set out separately.





DIRECTORS'

Remuneration Report

EXECUTIVE DIRECTORS

Total Remuneration (audited)

The total remuneration for the period for each of the Executive Directors is set out in the table below. Total cash-based remuneration paid to the Executive Directors was £2,488,000 in 2017, which was 0.6% higher than in 2016 (£2,472,000).

	Tim Steiner		Neill Abrams		Brown		Mark Richardson		Total	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Salary	589	572	305	297	364	354	364	354	1,622	1,577
Taxable Benefits	4	2	1	1	1	1	1	1	7	5
Pensions	47	46	30	26	26	28	12	31	115	131
Total Fixed Pay	640	620	336	324	391	383	377	386	1,744	1,713
AIP	310	315	129	132	153	156	152	156	744	759
Total Remuneration in cash	950	935	465	456	544	539	529	542	2,488	2,472
Share Plans										
JSOS	—	—	—	—	—	—	—	—	—	—
LTIP	210	186	65	68	97	102	97	102	469	458
GIP	—	—	—	—	—	—	—	—	—	—
ESOS	—	—	—	—	—	—	—	—	—	—
2014 ESOS	—	—	—	—	—	—	—	—	—	—
SIP	4	—	3	—	3	—	3	—	13	—
Sharesave	—	—	—	—	—	—	—	—	—	—
Total for Share Plans	214	186	68	68	100	102	100	102	482	458
Recovery of Sums Paid	—	—	—	—	—	—	—	—	—	—
Total Remuneration	1,164	1,121	533	524	644	641	629	644	2,970	2,930

1. The value of LTIP awards for 2014 included in the column for the 2016 financial year has been restated to show the actual vested amount (based on the vesting of the award on 31 March 2017 at a price of 249.007 pence per share). The actual vested amount is £48,500 lower than the estimated vested amount stated in the 2016 annual report of £507,000. The estimated vested amount was based on the three-month average share price from 1 September 2016 to 27 November 2016 of 275.42 pence per share. No dividends were paid.
2. The value of LTIP awards for 2015 included in the column for the Financial Year has been estimated based on 25% vesting and the three-month average share price from 1 September 2017 to 3 December 2017 of 288.239 pence per share, as these awards are not capable of vesting until after the end of the period, on 22 March 2018. This value assumes no dividends will be payable. The value assumes that the participant will not be required to pay an amount to acquire the conditional shares, being the nominal price of 2 pence per share. These estimated figures will be restated in next year's annual report.
3. A savings contract under the Sharesave scheme matured on 1 December 2016. A value of nil is shown in the table for this award, which is explained on page 95 of this report.
4. Under the Share Incentive Plan, awards of Free Shares and Matching Shares became unrestricted during the period. These awards are explained on page 102 of this report.

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

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

Base Salary (audited)

During the period, the Remuneration Committee reviewed the salaries of the Executive Directors. After taking into account a number of relevant factors which are discussed in more detail below, the Remuneration Committee recommended that all basic salaries be increased. The following table shows the change in each Executive Director's salary.

Director	Salary 2017 (£)	Salary 2016 (£)	Effective from
Tim Steiner	594,000	577,830	1 April 2017
Duncan Tatton-Brown	367,000	357,204	1 April 2017
Mark Richardson	367,000	357,204	1 April 2017
Neill Abrams	308,000	300,000	1 April 2017

The changes to base salary were made in line with the Directors' Remuneration Policy. The Executive Directors received an increase in base pay of 2.75% (rounded accordingly) which was in line with the percentage salary increases for the monthly paid employees of the Group in the period. The increases, which position the salaries broadly around the market median for a company of the Company's size and complexity, also aim to help retain the Executive Directors.

Taxable Benefits (audited)

The Executive Directors received taxable benefits during the period, notably private medical insurance and travel insurance. The Executive Directors also received other benefits, which are not taxable, including income protection insurance, life assurance and Group-wide employee benefits, such as an employee discount. The remuneration arrangements for the Executive Directors do not include a Company car or car cash allowance, but the Executive Directors have access to a chauffeur to drive a car for the purposes of attending business meetings. Non-business use of the chauffeur is tracked and is shown as a taxable benefit in the total remuneration table to the extent it was used for that purpose. These benefits arrangements were made in line with the Directors' Remuneration Policy which allows the Company to provide a broad range of employee benefits.

Pensions (audited)

The Company made pension contributions on behalf of the Executive Directors to the defined contribution Group personal pension scheme. The employer contributions to the pension scheme in respect of each Executive Director are made in line with the Group personal pension scheme for all employees (the Company contributions being, for employees and Executive Directors joining the pension scheme before May 2013, from 3% up to 8%, for employees joining the scheme after May 2013, from 3% up to 6%, depending on the number of years the employee or Executive Director has participated in the scheme and for employees and Executive Directors joining the scheme after October 2017 up to 7%). The contributions during the period made on behalf of the Executive Directors were 8% of base salary. These contributions were made in line with the Directors' Remuneration Policy which allows the Company to make employer contributions of up to 30% of base salary.

Pension contributions can be made to the Executive Directors (and any other employee) as a cash allowance where the Executive Director (or employee) has reached either the HMRC annual tax free limit or HMRC lifetime allowance limit for pension contributions as provided for in the Directors' Remuneration Policy. In accordance with this policy, Tim Steiner, Mark Richardson and Neill Abrams have elected to receive their part of their pension contributions as an equivalent cash allowance. Duncan Tatton-Brown has elected to receive all of his pension contribution as cash in line with the Company policy.

Annual Incentive Plan (audited)

The Remuneration Committee re-examines the design of the AIP each year to incentivise the delivery of key business objectives and individual performance for that financial year. The 2017 AIP was based on the performance targets and weightings set out below. Financial performance measures, namely Gross Sales® (Retail) and EBITDA® for the Group, were the primary targets, with 70% of the annual bonus being determined by performance against targets set by the Remuneration Committee at the start of the financial year, by reference to the Company's budget for the period. Of the balance, 30% related to individual objectives for each of the Directors, largely independent of the financial objectives. The Remuneration Committee has agreed "threshold" and "maximum" conditions that must be achieved. A bonus is not payable unless a "threshold" level of the performance condition has been achieved. At "threshold" performance for a financial performance measure, 8.75% of total bonus is payable and at "maximum" performance, 35% of total bonus is payable. A straight-line sliding scale will apply in relation to the intermediate points between the "threshold" and "maximum". Each target was discrete and could be earned separately. The Chief Executive Officer had a maximum bonus opportunity of 125% of salary and the other Executive Directors had a maximum opportunity of 100% of salary.

	Tim Steiner	Duncan Tatton-Brown	Mark Richardson	Neill Abrams
Financial objectives				
EBITDA® (% of total target)	35	35	35	35
Gross Sales® (Retail) (% of total target)	35	35	35	35
Individual objectives				
(% of total target)	30	30	30	30
Examples of business area objectives	1. Deliver/progress key projects including new CFCs and technology 2. Increase business development capability in Ocado Solutions	Drive sufficient cost challenge for operational programmes Prepare and execute a financing strategy for future growth	Increase capacity at Andover CFC Launch Morrisons store pick	Support all Ocado Solutions contractual negotiations Ensure head office functions continue to service changing business needs



See Alternative Performance Measures on page 196



DIRECTORS' Remuneration Report

Financial Targets and Individual Targets

Each Executive Director had five to six individual objectives, with different weightings, under the plan. They related to specific programmes relevant to each Executive Director's business area for which they have primary responsibility. All of the Executive Directors had an individual objective which concerned the strategic plans for the Ocado Solutions business. The Remuneration Committee also considered environmental, social and governance issues when setting the individual objectives. The Remuneration Committee reviewed the performance of each Executive Director against the measurable performance metrics and based their judgement on a scoring report by the Chief Executive Officer and the Chairman.

The Group's Gross Sales® (Retail) were £1,429.1 million for 52 weeks, which was above the "threshold" of £1,400 million set under the 2017 AIP. The Group's EBITDA® (pre-exceptional items) for 52 weeks was £84.3 million, which was below the "threshold" of £88 million set under the 2017 AIP.

The Remuneration Committee, in assessing performance, took into account the level of the Group's trading performance compared with UK grocery retail peers and the Group's progress against its strategic objectives. All Executive Directors met to some extent their individual objectives, with achievement being scored between 81% and 83% of maximum.

Director	Financial Targets										Individual Objectives			Total Payment		
	Gross Sales® (Retail)					Group EBITDA®					Performance		Achievement			
	Target		Performance		Achievement	Target		Performance		Achievement	% bonus	% salary	% salary	£'000		
Director	Threshold	Maximum	Actual	% bonus	% salary	Threshold	Maximum	Actual	% bonus	% salary	Performance	Achievement	% bonus	% salary	£'000	
Tim Steiner	£1,400m	£1,490m	£1,429.1m	17.2%	21.5%	£88m	£96m	£84.3m	0%	0%	Note 1	24.6%	30.8%	52.3%	£310	
Duncan Tatton-Brown	£1,400m	£1,490m	£1,429.1m	17.2%	17.2%	£88m	£96m	£84.3m	0%	0%	Note 1	24.6%	24.6%	41.8%	£153	
Neill Abrams	£1,400m	£1,490m	£1,429.1m	17.2%	17.2%	£88m	£96m	£84.3m	0%	0%	Note 1	24.8%	24.8%	42%	£129	
Mark Richardson	£1,400m	£1,490m	£1,429.1m	17.2%	17.2%	£88m	£96m	£84.3m	0%	0%	Note 1	24.3%	24.3%	41.5%	£152	

1. There is no threshold or maximum target set for the individual objectives. Each objective is weighted and scored to provide a total score out of 30. Performance may range from zero to 30.

2. The applicable salary used for calculating the bonus payment under the rules of the 2017 AIP is the applicable base salary on the date of payment.

Disclosure of Targets

The threshold and maximum targets and achievement against the targets have been disclosed in respect of the financial targets for the AIP. A broad description of some of the Executive Directors' individual objectives has been provided, but specific details concerning the individual objectives and performance against them has not been disclosed in this report. Although the Remuneration Committee is conscious of the regulations and the Code requirement that performance targets should be transparent, it considers that the individual objectives were and remain commercially sensitive to the Company and if disclosed could damage the Company's commercial interests. These individual objectives mostly relate to important business strategies and actions and consequently could hinder the progress of the business or the Group's competitive advantage if publicly disclosed. The Remuneration Committee does not expect to disclose this information at a later date. The Remuneration Committee believes that the targets were stretching and have been rigorously applied.

Summary of Bonus Earned

The Remuneration Committee has, in accordance with the Directors' Remuneration Policy and the rules of the 2017 AIP, recommended an aggregate bonus payment under the plan for the period of £745,282 (2016: £759,953), based on achievement between 41.5% and 42% of maximum (2016: achievement of 43% to 44% of maximum). The Remuneration Committee believes that this level of bonus payment appropriately reflects the performance of the business and individual performance during the period, which saw strong sales and customer growth and progress with strategic objectives, but which saw Group EBITDA® in line with prior year due to increased costs. The table above summarises the bonus payments for each Executive Director for the 2017 AIP. The cash payments are expected to be made in February 2018. No amount has been deferred to a later date given that under the rules of the AIP deferral does not apply as all of the Executive Directors have met the minimum shareholding expectations under the Directors' Remuneration Policy.

Long Term Incentives and Share Plans

Awards granted under long-term incentive plans and share plans only count towards the total remuneration figure for the period in which they vest or where achievement of performance targets is determined in the period. Awards under most of the Company's share plans are subject to three-year vesting periods and therefore awards made or exercised during the period will not necessarily be reflected in the total remuneration figure for this period. Further details on all the existing share incentives held by the Executive Directors are set out below.

(A) See Alternative Performance Measures on page 196

LTIP

The LTIP is the primary long-term incentive for the Executive Directors. The LTIP awards help reward the Executive Directors for the delivery of long-term business objectives.

The three-year performance period for the 2015 LTIP awards expired at the end of the financial year. The Remuneration Committee reviewed the performance against the four equally weighted performance conditions for the 2017 financial year. The four performance conditions for the 2015 LTIP awards were retail Revenue®, adjusted retail EBT*, platform operational efficiency and platform capital efficiency.

Retail Revenue represented 25% of the award. As noted on page 32, the retail Revenue for the period was £1,317.4 million for 52 weeks, which was an increase of 12.4% on 2016 and an increase of 27.4% between 2015 and 2017, but which fell below the threshold of £1,330.0 million set under the LTIP award. The revenue used as a performance criteria for the LTIP includes retail revenue generated by Ocado.com and the other retail sites – Fetch, Sizzle and Fabled – but excludes revenue from Morrisons and the Solutions business. Consequently, achievement against this performance target was nil.

Adjusted retail EBT* for the period was £12.8 million, which fell below the threshold of £14.8 million set under the LTIP award. This measure is not consistent with the segmental reporting changes made in 2017. The performance target for adjusted retail EBT* is based on Group EBT less an apportionment of certain costs in a number of areas relating to the Solutions business and based on 52 weeks. Consequently, achievement against this performance target was nil.

Platform operational efficiency and platform capital efficiency represented 25% of the award each and achievement against each was 0% and 25% respectively. Specific details of achievement against these targets has not been disclosed in this report, although overall achievement has been. The first concerns the operational efficiency of the platform solution for the Financial Year and the second covers the capital cost for the platform. Although the Remuneration Committee is conscious of the regulations and the Code requirement that performance targets should be transparent, it considers that disclosure of the achievement against these specific targets remains commercially sensitive to the Company and if disclosed could damage the Company's commercial interests. The Remuneration Committee believes that the targets were stretching and have been applied vigorously.

Accordingly, the Remuneration Committee has, in accordance with the Directors' Remuneration Policy and the rules of the LTIP, recommended overall vesting of 25% for the 2015 LTIP awards. The Remuneration Committee believes that this level of vesting appropriately reflects the performance of the business during the performance period. Details of performance are set out in the table below.

The value of the 2015 LTIP awards in the total remuneration table is estimated based on the average Company share price for the final three months of the period, being 288.239 pence per share.

The expected vesting date of the 2015 LTIP award is 22 March 2018. Subject to the continued satisfaction of the award conditions, final vesting will be determined.

None of the 2015 LTIP awards that vest will be subject to deferral as they were awarded to participants under the 2014 directors' remuneration policy and therefore are not subject to deferral.

Director	Retail Revenue					Adjusted retail EBT*					Performance Achievement % of Maximum	Performance Achievement % of Maximum	Performance Achievement % of Maximum	Performance Achievement % of Maximum	Total vesting					
	Target		Performance Achievement % of Maximum			Target		Performance Achievement % of Maximum												
	Threshold	Maximum	Actual	Maximum	Threshold	Maximum	Actual	Maximum	Threshold	Maximum										
Tim Steiner	£1,330.0m	£1,430.0m	£1,317.4	0%	£14.8m	£22.8m	£12.8	0%	0%	25%	25%	25%	25%	25%	£210					
Duncan Tatton-Brown	£1,330.0m	£1,430.0m	£1,317.4	0%	£14.8m	£22.8m	£12.8	0%	0%	25%	25%	25%	25%	25%	£97					
Neill Abrams	£1,330.0m	£1,430.0m	£1,317.4	0%	£14.8m	£22.8m	£12.8	0%	0%	25%	25%	25%	25%	25%	£65					
Mark Richardson	£1,330.0m	£1,430.0m	£1,317.4	0%	£14.8m	£22.8m	£12.8	0%	0%	25%	25%	25%	25%	25%	£97					

1. The Remuneration Committee has agreed "threshold" and "maximum" conditions that must be achieved. An award will not vest unless a "threshold" level of the performance condition has been achieved. At "threshold" performance for a financial performance measure, 6.25% of the total award will vest and 25% vesting will occur for achieving or exceeding "maximum" performance for a condition. A straight-line sliding scale applies in relation to the intermediate points between the "threshold" and "maximum".

2. Details of the number of conditional shares awarded to each Director for the 2015 LTIP awards are shown in the table on page 100.

* This measure is used by the Remuneration Committee to assess management performance for the 2015 LTIP only. It is not considered an Alternative Performance Measure.

Sharesave

A three-year savings contract under the Sharesave scheme matured on 1 December 2016. Tim Steiner, Duncan Tatton-Brown and Neill Abrams each held 2,987 Sharesave options at this date. At the date of vesting, the share price of 264 pence per share was lower than the exercise price of 301 pence per share, meaning that the options had no value on vesting. During the exercise period, which ended in May 2017, the share price did not rise higher than the exercise price, and therefore the options lapsed and the Directors withdrew the value of their savings of £9,000 each. Accordingly, a value of nil is shown in the Directors' remuneration table.



See Alternative Performance Measures on page 196



DIRECTORS' Remuneration Report

Share Incentive Plan

The 2014 award of free shares made under the SIP became unrestricted during the period on 10 September 2017. Certain matching shares also became unrestricted during the period. Free shares and matching shares awarded under the SIP are subject to a three-year forfeiture period starting from the date of grant. This means that if an Executive Director ceases to be employed by the Group during the three-year period, the free shares and matching shares will be forfeited. Partnership shares purchased under the SIP are not included in the total remuneration table as these are purchased by the Executive Directors from their salary, rather than granted by the Company as an element of remuneration. Only the value of free shares and matching shares that became unrestricted during the period are shown in the total remuneration table. This is the first period in which shares became unrestricted. The value shown is the value of the shares on the date that they became unrestricted. Unrestricted shares can be held in Trust under the SIP for as long as the participant remains an employee of the Company.

Recovery of Sums Paid (audited)

No sums paid or payable to the Executive Directors were sought to be recovered by the Group.

NON-EXECUTIVE DIRECTORS

Total Fees (audited)

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

Non-Executive Director	Fees		Taxable Benefits		Pension Entitlements		Annual Bonus		Long-Term Incentives		Recovery of Sums Paid		Total Remuneration		
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	
Lord Rose	200	200	—	—	—	—	—	—	—	—	1,334	—	—	200	1,534
Ruth Anderson	62	61	—	—	—	—	—	—	—	—	—	—	—	62	61
Jörn Rausing	50	49	—	—	—	—	—	—	—	—	—	—	—	50	49
Douglas McCallum	62	61	—	—	—	—	—	—	—	—	—	—	—	62	61
Andrew Harrison	50	37	—	—	—	—	—	—	—	—	—	—	—	50	37
Emma Lloyd	50	—	—	—	—	—	—	—	—	—	—	—	—	50	—
Robert Gorrie	25	49	—	—	—	—	—	—	—	—	—	—	—	25	49
Alex Mahon	62	56	—	—	—	—	—	—	—	—	—	—	—	62	56
Total	561	543	—	—	—	—	—	—	—	—	1,334	—	—	561	1,847

1. The Chairman's Share Matching Award of 452,284 shares vested on 10 May 2016. It was a one-off award made on Lord Rose's appointment as Chairman of the Board. The value on vesting was calculated using the closing share price of 295 pence per share on the day of vesting. Further details of the award can be found in the 2016 annual report.
2. David Grigson retired from the Board with effect from the 2016 annual general meeting. His fee in the prior year was £30,000.
3. Robert Gorrie retired from the Board with effect from the 2017 annual general meeting on 3 May 2017.
4. Alex Mahon retired from the Board with effect from 13 December 2017. The fees paid during 2017 are therefore her full fee and the following period's fees will be disclosed in the 2018 annual report.

The remuneration arrangements for the Non-Executive Directors (except the Chairman) were reviewed by the Executive Directors and the Chairman during the period and the basic fees for non-executive directors were not changed (2016: £50,000).

The review was carried out by the Executive Directors and Chairman in accordance with the Directors' Remuneration Policy and accordingly took into account the responsibility and time commitments of the roles of the Non-Executive Directors and Board committee chairmen, the financial position and trading performance of the business, and the appropriate benchmark data (provided by Deloitte) for comparable roles for companies of equivalent size and complexity to the Group.

The Chairman's fee was reviewed by the Remuneration Committee and was not changed. The Chairman's fee has not changed since the Chairman's appointment in March 2013.

Other Remuneration for the Non-Executive Directors (audited)

In addition to the fees, the Non-Executive Directors are entitled to a staff shopping discount in line with the Group's employees.

Until his retirement from the Board, Robert Gorrie chaired the meetings of the Ocado National Council and occasionally provided advice on various employee matters, in addition to his role as a Non-Executive Director. He provided these services through Robert Gorrie Limited (of which he is the sole shareholder) and was paid a per diem fee for these services. These fees are included in the related party transactions with key management personnel in Note 5.4 to the consolidated financial statements.

The Company has obtained a written confirmation from each Non-Executive Director that they have not received any other items in the nature of remuneration from the Group, other than those already referred to in this report.

Recovery of Sums Paid (audited)

No sums paid or payable to the Non-Executive Directors were sought to be recovered by the Group.

OTHER REMUNERATION DISCLOSURES

Executive Directors' Service Contracts

Each of the Executive Directors has a service contract with the Group. The terms of these contracts are consistent with the Directors' Remuneration Policy, though the contracts provide for payment in lieu of notice of one times basic salary only (and do not include other fixed elements of pay, which are permitted by the policy). The service contracts for each of the Executive Directors are continuous until terminated by either party (on 12 months' notice if terminated by the Company, or six months' notice if terminated by the Director).

Non-Executive Directors' Letters of Appointment

The Chairman and the Non-Executive Directors do not have service contracts and were appointed by letter of appointment for an initial period of three years, subject to annual re-appointment at the annual general meeting. There are no provisions in the letters of appointment for payment for early termination. A Non-Executive Director appointment may be terminated by either party giving to the other not less than one month's notice, except in the case of the Chairman, which requires six months' notice by either party. A copy of a pro forma Non-Executive Director letter of appointment is available on the Company's corporate website. Copies of the letters of appointment and the service contracts of the Executive Directors are available for inspection at the Company's registered office.

Deferral or Holding Periods (audited)

The 2017 Directors' Remuneration Policy introduced a holding period of two years from the third anniversary of the date of grant under the LTIP. This is explained on page 80.

Under the AIP, up to 50% of any bonus payment will be deferred into shares, vesting after a period of three years, to the extent that an Executive Director does not meet the minimum shareholding.

The other Executive Director share schemes (including the GIP) do not contain any requirements for Directors to retain shares post vesting. However, the Remuneration Committee feels that their absence is materially mitigated by the existing large shareholdings held by the Executive Directors in the Company and by the five-year vesting period that applies to the GIP. Such factors help create a longer term focus from the Executive Directors and strong alignment with shareholders, as envisaged by Code principle D.1.

Director Retirement Arrangements and Payments for Loss of Office (audited)

As announced on 18 November 2016 and 14 December 2017, it was determined in accordance with the 2014 Directors' Remuneration Policy and the Directors' Remuneration Policy respectively that the arrangements set out below should apply in relation to Robert Gorrie's and Alex Mahon's remuneration on retirement.

Element of Remuneration	Treatment
Remuneration Payments	All outstanding fees were paid to Robert Gorrie up to 3 May 2017 in accordance with the terms of his letter of appointment. No payments are expected after the date of retirement, although Robert Gorrie was continued to be paid a fee for services to the Group not in a Director capacity (as explained on page 96). All outstanding fees were paid to Alex Mahon up to 13 December 2017 in accordance with the terms of her letter of appointment. No payments are expected after the date of retirement.
Payment for Loss of Office	No payment for loss of office or other remuneration payment was made or is expected to be made to Robert Gorrie or Alex Mahon.
Share Schemes	At the time of retirement, neither Robert Gorrie nor Alex Mahon was a participant in a Group share scheme.

Director Appointment Arrangements (audited)

As announced on 18 November 2016, Emma Lloyd was appointed to the Board as a Non-Executive Director with effect from 1 December 2016. Emma Lloyd's remuneration is in line with the Directors' Remuneration Policy. On appointment, Emma Lloyd's basic annual fee was £50,000, which was in line with the other Non-Executive Directors. Emma Lloyd will not receive any other benefits or payments, in line with the Directors' Remuneration Policy.

Payments to Past Directors (audited)

The Company does not have any arrangements for payments to any former Directors of the Company.

Enforcing the Directors' Remuneration Policy

The Company has not made any payments to a Director outside of the Directors' Remuneration Policy. All of the decisions regarding executive remuneration for the period have been made in line with the Directors' Remuneration Policy.

No Director has options over Company shares outside one of the Company's recognised share schemes.



DIRECTORS' Remuneration Report

External Remuneration for Executive Directors

As at the date of this Annual Report:

- In addition to his role as Executive Director of the Company, Neill Abrams is an alternate non-executive director of Mr Price Group Limited, listed on the Johannesburg Stock Exchange. The role does not involve any remuneration paid or payable to Neill.
- In addition to his role as Executive Director of the Company, Duncan Tatton-Brown is an independent non-executive director, senior independent director and audit committee chairman of Zoopla Property Group plc, listed on the London Stock Exchange. For his services to Zoopla Property Group plc Duncan was paid a fee of £65,000 in 2017.
- In addition to his role as Executive Director of the Company, Mark Richardson is a non-executive director of Paneltex Limited. This role does not involve any remuneration paid or payable to Mark.

DIRECTOR SHAREHOLDINGS (AUDITED)

The table below shows the beneficial interests in the Company's shares of Directors serving at the end of the period, and their connected persons, as shareholders and as discretionary beneficiaries under trusts. The table also shows current compliance with the Director shareholding requirements in the Directors' Remuneration Policy as at the date of this Annual Report. All Directors comply with the Director shareholding requirements.

Director	Ordinary Shares of 2 Pence each held at 3 December 2017		Ordinary Shares of 2 Pence each held at 27 November 2016		Shareholding Requirement (% of Base Salary or Fee)	Complied with Shareholding Requirement?	Basis for compliance
	Direct Holding	Indirect Holding	Direct Holding	Indirect Holding			
Tim Steiner	15,245,052	14,293,130	15,205,557	14,292,464	200	Yes	Indirect and direct shareholdings
Lord Rose	1,202,284	—	1,202,284	—	100	Yes	Indirect and direct shareholdings
Duncan Tatton-Brown	583,041	61,869	561,363	61,247	200	Yes	Indirect and direct shareholdings
Mark Richardson	265,530	6,994	243,808	6,328	200	Yes	JSOS and SIP interests
Neill Abrams	768,867	1,319,704	754,386	1,319,048	200	Yes	Direct shareholdings
Ruth Anderson	80,000	—	80,000	—	100	Yes	Direct shareholdings
Andrew Harrison	18,166	—	11,500	—	100	Yes	Direct shareholdings
Emma Lloyd	17,300	—	—	—	100	Yes	Direct shareholdings
Douglas McCallum	100,000	—	100,000	—	100	Yes	Direct shareholdings
Jörn Rausing	—	69,015,602	—	69,015,602	100	Yes	Indirect shareholdings
Alex Mahon	17,355	—	17,355	—	100	Yes	Direct shareholdings

- The indirect holding for Neill Abrams includes holdings of Caryn Abrams (wife of Neill Abrams) who holds 79,701 (2016: 79,701) ordinary shares, Daniella Abrams (daughter of Neill Abrams) who holds 1,363 (2016: 1,363) ordinary shares, Mia Abrams (daughter of Neill Abrams) who holds 1,363 (2016: 1,363) ordinary shares, Joshua Abrams (son of Neill Abrams) who holds 1,363 (2016: 1,363) ordinary shares and as a discretionary beneficiary of a trust holding 133,100 (2016: 133,100) ordinary shares.
- The indirect holding for Duncan Tatton-Brown includes a holding by Kate Tatton-Brown (wife of Duncan Tatton-Brown) who holds 59,889 (2016: 59,934) ordinary shares.
- The indirect holding for Mark Richardson includes a holding by Rebecca Richardson (wife of Mark Richardson) who holds 4,970 (2016: 4,970) ordinary shares.
- There have been no changes in the Directors' interests in the shares issued or options granted by the Company and its subsidiaries between the end of the period and the date of this Annual Report, except shares held pursuant to the SIP, as set out on pages 102 to 103. There have been no changes in the Directors' beneficial interests in trusts holding ordinary shares of the Company.
- No Director had an interest in any of the Company's subsidiaries at the beginning or end of the period.
- Tim Steiner has granted a security interest over his ordinary shares in the Company. The security interest was granted in connection with a loan made to him. For further details, refer to the Company's announcement made on 28 November 2016. The security interest was granted over 15,197,812 ordinary shares in the Company and any further ordinary shares held by Tim Steiner from time to time. Arthur Seligman as trustee of the Steiner 2008 Millennium Trust, of which Tim Steiner is one of a number of discretionary beneficiaries, granted a security interest over 14,291,200 ordinary shares in the Company. On 24 November 2017, Arthur Seligman, as trustee of the Steiner 2008 Millennium Trust, transferred the 14,291,200 ordinary shares in the Company to Linic Ltd, a company wholly owned by Arthur Seligman, as trustee of the Steiner 2008 Millennium Trust. The existing security interest over the shares was therefore released and a new security interest granted on similar terms on 24 November 2017. The shares therefore remain subject to a security interest. There was no change in the underlying beneficial ownership of the shares.
- On 13 May 2016, in respect of various contracts for the transfer of shares (as described on pages 235 and 238 of the Prospectus), Tim Steiner delayed the date on which completion under the contracts for transfer would take place to 30 June 2019, or such later date as the parties may agree. As a result of the security interest granted over Tim Steiner's ordinary shares in the Company (see footnote 6), the completion of these contracts is conditional on the release of the security interest.
- On 11 May 2016, in respect of various contracts for the transfer of shares (as described on pages 235 and 238 of the Prospectus), Neill Abrams delayed the date on which completion under the contracts for transfer would take place to 30 June 2019, or such later date as the parties may agree.
- Where applicable, the above indirect holdings include SIP Partnership Shares held under the SIP, which are held in trust.
- The Executive Director shareholdings have increased during the period primarily due to the vesting of the 2014 LTIP awards. Read more on pages 100 to 101.
- During the year, Non-Executive Director Robert Gorrie retired from the Board. Robert Gorrie held 415,660 ordinary shares at 27 November 2016 and on the date of his retirement on 3 May 2017, therefore complying with the shareholding requirement up to this date. His shareholdings were held directly.
- Following the period end, Alex Mahon retired from the Board. Alex Mahon held 17,355 ordinary shares at 3 December 2017 and on the date of her retirement on 13 December 2017, therefore complying with the shareholding requirements up to this date. Her shareholdings were held directly.
- Where an Executive Director does not meet the minimum shareholding requirement, up to 50% of any cash bonus payable under the AIP as an award of shares must be deferred.
- The assessment for shareholding compliance is based on the current annualised salary or fee (as set out in the total remuneration tables) which applied on 22 January 2018 (being the last practicable date prior to the publication of this Annual Report) and the higher of the original purchase price(s) or the current market price (being 526 pence per share on 22 January 2018), of the relevant shareholdings.

DIRECTOR INTERESTS IN SHARE SCHEMES (AUDITED)

JSOS (audited)

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

Director	Type of interest	Date of issue	Number of share interests	Hurdle Price (£)	Vesting Date
Tim Steiner	Joint interest in shares	03/02/10	2,513,100	1.73	01/01/11
	Joint interest in shares	03/02/10	2,513,100	1.91	01/01/12
	Joint interest in shares	03/02/10	2,513,100	2.08	01/01/13
	Joint interest in shares	03/02/10	2,513,000	2.28	01/01/14
Neill Abrams	Joint interest in shares	03/02/10	1,017,200	1.73	01/01/11
	Joint interest in shares	03/02/10	1,017,200	1.91	01/01/12
	Joint interest in shares	03/02/10	1,017,200	2.08	01/01/13
	Joint interest in shares	03/02/10	1,017,100	2.28	01/01/14
Duncan Tatton-Brown	Joint interest in shares	01/11/12	365,000	1.70	01/01/13
	Joint interest in shares	01/11/12	1,100,000	1.80	01/01/14
Mark Richardson	Joint interest in shares	03/02/10	223,300	1.73	01/01/11
	Joint interest in shares	03/02/10	223,300	1.91	01/01/12
	Joint interest in shares	03/02/10	223,300	2.08	01/01/13
	Joint interest in shares	03/02/10	223,200	2.28	01/01/14
	Joint interest in shares	30/11/12	711,975	1.70	01/01/13
	Joint interest in shares	30/11/12	776,700	1.80	01/01/14

Granted: No awards of JSOS share interests were made during the period. The Remuneration Committee does not, as at the date of this Annual Report, have any intention of making a further award of share interests under the JSOS scheme to the current Executive Directors. The JSOS scheme, which was put in place prior to the Company's Admission in 2010, involves the Executive Directors investing their own funds to purchase a shared interest in the Company's shares at the market value at that time. These investments were made in 2010 (in the case of Tim Steiner, Neill Abrams and Mark Richardson) and in 2012 (in the case of Duncan Tatton-Brown and Mark Richardson again). The Executive Directors invested from their own resources. The purchased interests entitle the Executive Directors to a return only if, in the future, the share price exceeds the relevant hurdle rate. The Executive Directors would lose their investment if the share price were not to exceed the hurdle price. For a detailed description of the JSOS scheme refer to pages 249 to 252 of the Prospectus.

Vested: No JSOS share interests vested during the period.

Sold: No JSOS share interests have been sold by an Executive Director since inception of the scheme.

Lapsed: No JSOS share interests lapsed during the period.





DIRECTORS' Remuneration Report

LTIP (audited)

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

Director	Type of Interest	Date of Grant	Basis on Which Award is made (% of Salary)	Number of Shares	Face Value of Award (£)	End of Performance Period	Expected Vesting Date
Tim Steiner	Conditional shares	13/03/15	200	291,005	1,100,000	03/12/17	22/03/18
	Conditional shares	17/03/16	200	429,885	1,122,000	02/12/18	17/03/19
	Conditional shares	20/02/17	200	452,881	1,155,658	01/12/19	15/03/20
Mark Richardson	Conditional shares	13/03/15	150	134,920	510,000	03/12/17	22/03/18
	Conditional shares	17/03/16	150	199,310	520,000	02/12/18	17/03/19
	Conditional shares	20/02/17	150	209,972	535,805	01/12/19	15/03/20
Neill Abrams	Conditional shares	13/03/15	120	90,476	342,000	03/12/17	22/03/18
	Conditional shares	17/03/16	120	133,655	349,000	02/12/18	17/03/19
	Conditional shares	20/02/17	120	176,346	449,998	01/12/19	15/03/20
Duncan Tatton-Brown	Conditional shares	13/03/15	150	134,920	510,000	03/12/17	22/03/18
	Conditional shares	17/03/16	150	199,310	520,000	02/12/18	17/03/19
	Conditional shares	20/02/17	150	209,972	535,805	01/12/19	15/03/20

1. The LTIP awards are conditional awards under the rules of the LTIP, which is a right to receive free shares in the Company, subject to the achievement of performance conditions over a three-year performance period.
2. The 2015 LTIP award was determined based on a price of 378 pence per share, being the volume weighted average price of the Company's ordinary shares on the three trading days prior to 13 March 2015 (being the LTIP grant date). The 2015 LTIP award is subject to the achievement of four equally weighted performance conditions for the 2016/2017 financial year, being the third year of a three-year performance period. The performance conditions concerning the financial performance of the Group, both earnings before tax and revenue, are focused on the Group's retail business performance and weighted 25% each. The Ocado Solutions performance conditions each have a 25% weighting. In respect of a target, at "threshold" performance, 6.25% of an LTIP award will vest and at "maximum" performance, 25% of an LTIP award will vest. Vesting will be on a straight-line basis between the "threshold" and the "maximum".
3. The 2015 LTIP awards are not capable of vesting until after the end of the period, on 22 March 2018.
4. The 2016 LTIP award was determined based on a price of 261 pence per share, being the volume weighted average price of the Company's ordinary shares on the three trading days prior to 17 March 2016 (being the LTIP grant date). The 2016 LTIP award is subject to the achievement of four equally weighted performance conditions for the 2017/2018 financial year, being the third year of a three-year performance period. The performance conditions concerning the financial performance of the Group, both earnings before tax and revenue, will be focused on the Group's retail business performance and will be weighted 25% each. The proprietary infrastructure solution performance conditions will each have a 25% weighting and concern platform operational efficiency and platform capital efficiency. In respect of a target, at "threshold" performance, 6.25% of an LTIP award will vest and at "maximum" performance, 25% of an LTIP award will vest. Vesting will be on a straight-line basis between the "threshold" and the "maximum".
5. The 2017 LTIP award is outlined below.

Granted: LTIP awards were made in respect of 2017 of up to 150% of annual base salary and in the case of the Chief Executive Officer, an LTIP award with a total market value of 200% of annual base salary. Such awards were made in accordance with the Directors' Remuneration Policy. The number of shares subject to an LTIP award was determined based on a price of 255.1792 pence per share, being the volume weighted average price of the Company's ordinary shares on the three trading days prior to 20 February 2017 (being the LTIP grant date).

The 2017 LTIP awards are conditional awards under the rules of the LTIP, which are a right to receive free shares in the Company, subject to the achievement of four equally weighted performance conditions. The performance metrics relate to the retail business and the platform business. The Remuneration Committee believes that these performance conditions encourage the delivery of crucial strategic objectives of the Group. The performance conditions concerning the financial performance of the Group, both earnings before tax and revenue, will be focused on the Group's retail business performance and will be weighted 25% each. The proprietary infrastructure solution performance conditions will each have a 25% weighting. The first concerns platform operational efficiency and the second concerns sales of the Ocado Solutions platform.

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

Performance target	Commercial rationale	Basis of measurement
Retail business (50%)	Rewards top line sales growth for the retail business in line with the Group's strategy and the creation of financial returns to shareholders.	Revenue and earnings before tax for the retail business for the 2018/2019 financial year.
Platform business (50%)	Rewards progress and achievement with the proprietary infrastructure solution and Solutions business, which is a key strategy objective.	Operational efficiency of the platform business and sales of the Ocado Solutions platform.

The Remuneration Committee has agreed "threshold" and "maximum" conditions that must be achieved. No LTIP award will vest unless a "threshold" level of the performance condition has been achieved. At "threshold" performance for a performance target, 6.25% of an LTIP award will vest and at "maximum" performance, 25% of an LTIP award will vest. Vesting will be on a straight-line basis between the "threshold" and the "maximum". Each target is discrete and can be earned separately. Full vesting will only occur where exceptional performance levels have been achieved and significant shareholder value created.

The performance conditions for the 2017 LTIP awards will be tested in relation to the financial year ending in 2019 (except in the case of the Ocado Solutions target which measures performance over the three year performance period) to determine what percentage of the LTIP awards has been achieved, and will vest during 2020 to the extent that the performance conditions have been achieved. Any 2017 LTIP awards that vest will not be subject to deferral as they were awarded to participants under the 2014 directors' remuneration policy and therefore are not subject to deferral.

The specific performance conditions are not disclosed due to their commercial sensitivity on the basis that if disclosed it would be likely to damage the Company's commercial interests. The Company will disclose the performance conditions after the end of the performance period, to the extent that the targets are not considered commercially sensitive at the time.

Vested: The 2014 LTIP awards had a vesting date of 31 March 2017 for a three-year performance period that ended with the 2015/2016 financial year. As explained in the 2016 annual report, the Remuneration Committee reviewed the performance against the award's two equally weighted performance conditions, which were the levels of diluted and adjusted earnings per share, and Group revenue, for the 2015/2016 financial year. The Group's diluted and adjusted earnings per share for the period was 3.075 pence per share, which was above the threshold performance target of 1.3 pence per share but below the maximum performance target of 3.5 pence per share. Accordingly, achievement against the performance target was 42.76%. The Group's revenue for the period was £1,271.0 million, which was below the threshold performance target of £1,385.5 million. Consequently, achievement against the performance target was 0% and therefore overall 42.76% of the award vested.

The performance period for the 2015 LTIP awards finished in the year, although these awards are not capable of vesting until 22 March 2018 (as noted on page 100).

Sold: As a result of the vesting of the 2014 LTIP awards, the Executive Directors sold shares in the Company. The Directors sold sufficient of the shares that vested to cover the cost of the tax and National Insurance. The details of the LTIP vesting and resulting share sale for each Executive Director are set out below.

Director	Date of Grant	Grant price (£)	Number of Shares Vested		Share Price on Vesting and Sale	Value of Shares Vested (£)	Shares Sold on Vesting	Shares Retained on Vesting
			Shares Vested	Vested				
Tim Steiner	05/02/14	5.155	74,653	74,653	31/03/17	2.49007	185,891	35,158
Duncan Tatton-Brown	05/02/14	5.155	41,059	41,059	31/03/17	2.49007	102,240	19,337
Mark Richardson	05/02/14	5.155	41,059	41,059	31/03/17	2.49007	102,240	19,337
Neill Abrams	05/02/14	5.155	27,373	27,373	31/03/17	2.49007	68,161	12,892
								14,481

1. For more details see the total remuneration table on page 92.

Lapsed: No LTIP awards lapsed during the period.

GIP (AUDITED)

At the end of the period, the Executive Directors' total GIP awards were as follows:

Director	Type of Interest	Date of Grant	Number of Share Options		Face Value of Award (£)	End of Performance Period	Exercise Period
			Shares	Options			
Tim Steiner	Option with nil exercise price	08/05/14	4,000,000	4,000,000	12,744,000	08/05/19	08/05/19 – 31/05/24
Mark Richardson	Option with nil exercise price	08/05/14	1,000,000	1,000,000	3,186,000	08/05/19	08/05/19 – 31/05/24
Duncan Tatton-Brown	Option with nil exercise price	08/05/14	1,000,000	1,000,000	3,186,000	08/05/19	08/05/19 – 31/05/24

2. The face value of the options which are the subject of a GIP award was determined based on a price of 318.60 pence per share being the price on date of grant. A condition of vesting is that each participant holds, and retains throughout the performance period, shares in the Company. The Chief Executive Officer is required to hold shares equivalent, at the date of the award, to the value of his annual salary. Both other participants are required to hold shares equivalent, at the date of the award, to the value of half of their annual salary. The GIP award is subject to the achievement of a single performance condition to be satisfied over five years commencing on the date of grant of the awards. The share price of the Company is the sole performance measure, and will be assessed relative to the growth of the FTSE 100 Share Index over that period assessed using a three-month averaging period. The performance schedule is set out in the table below:

Performance target	Percentage of award vesting (%)
Growth of less than the FTSE 100 Share Index +5% p.a.	0
Growth in the FTSE 100 Share Index +5% p.a.	25
Growth in the FTSE 100 Share Index +10% p.a.	50
Growth in the FTSE 100 Share Index +15% p.a.	75
Growth in the FTSE 100 Share Index +20% p.a. (or more)	100

Granted: No awards under the GIP were granted during the period.

Vested: No awards under the GIP vested during the period. The awards are expected to vest in May 2019 (if and to the extent that the vesting criteria are met).

Sold: No awards under the GIP have been exercised or sold by an Executive Director during the period.



DIRECTORS' Remuneration Report

Lapsed: No awards under the GIP lapsed during the period.

ESOS (AUDITED)

At the end of the period, the Executive Directors held options under the ESOS as follows:

Director	Type of Interest	Date of Grant	Number of Share Options	Exercise Price (£)	Face Value of Grant (£)	Exercise Period
Mark Richardson	Option	31/05/09	70,000	1.20	84,000	31/05/12 – 30/05/19
Duncan Tatton-Brown	Option	12/08/13	9,923	3.02	29,967	08/07/16 – 07/07/23

Granted: The Remuneration Committee does not, as at the date of this Annual Report, have any intention of making a further award of options under the ESOS scheme to the existing Executive Directors. Existing options held by the Executive Directors under the ESOS were granted prior to the Company's listing in 2010 (except those granted in 2013 to then new appointee Director, Duncan Tatton-Brown). None of the grants of ESOS options to the Executive Directors are subject to performance conditions.

Vested: No awards under the ESOS vested during the period.

Sold: No awards under the ESOS have been exercised or sold by an Executive Director during the period.

Lapsed: No options under the ESOS lapsed during the period.

2014 ESOS (AUDITED)

No awards have been granted to the Executive Directors under the 2014 ESOS, and the Remuneration Committee does not have any intention of making an award of options under the 2014 ESOS scheme to the existing Executive Directors. Accordingly, no value is shown in the total remuneration table for the period.

SIP (AUDITED)

At the end of the period, interests in shares held by the Executive Directors under the SIP were as follows:

Director	Partnership Shares Acquired in the Year	Matching Shares Awarded in the Year		Free Shares Awarded in the Year	Shares Awarded in the Year	Total Face Value of Free Shares and Matching Shares	SIP Shares that Became Unrestricted in the Period	Unrestricted SIP Shares Held at 3/12/2017	Total
		Matching Shares	Awarded in the Year						
Tim Steiner	666	95	1,240	3,854	6,997	1,177	1,177	1,177	1,177
Duncan Tatton-Brown	667	95	1,240	3,854	6,940	1,120	1,120	1,120	1,120
Mark Richardson	666	95	1,240	3,854	6,991	1,126	1,126	1,126	1,126
Neill Abrams	666	95	1,061	3,335	6,258	948	948	948	948

¹. Unrestricted shares are those which have been held beyond the three-year forfeiture period.

². The value of the share awards made under the SIP is based on the middle market quotation of a share on the trading day immediately preceding the date of grant.

Granted: The Directors continued their SIP participation during the period. The SIP scheme is made available to all employees. The SIP allows for the grant of a number of different forms of awards. An award of free shares was made to the Executive Directors in September 2017 under the terms of the SIP and the Directors' Remuneration Policy. "Free shares" of up to £3,600 of ordinary shares may be allocated to any employee in any year. Free shares are allocated to employees equally on the basis of salary, as permitted by the relevant legislation.

An award of matching shares was made to those Executive Directors who purchased partnership shares (using deductions taken from their gross basic pay) under the terms of the SIP and in accordance with the Directors' Remuneration Policy. "Partnership shares" are where employees are invited to purchase ordinary shares directly from their earnings. The market value of such partnership shares which an employee can purchase in any tax year currently may not exceed £1,800 (or 10% of the relevant employee's remuneration, if lower). "Matching shares" are additional free shares which may be allocated to an employee who purchases partnership shares. The rules of the SIP reflect current UK legislation and allow for a maximum matching ratio of two to one. The matching ratio adopted by the Company for the SIP during the period was a ratio of one matching share for every seven partnership shares purchased, considerably lower than the maximum permitted ratio.

There are no performance conditions attached to awards made under the SIP, although free shares and matching shares are subject to a three-year forfeiture period. Partnership shares are purchased by the employees and therefore forfeiture does not apply. Free shares and matching shares awarded under the SIP are subject to a holding period of no less than three years but no more than five years. Shares held in trust for more than five years are not subject to income tax or National Insurance contributions on withdrawal. Partnership shares purchased by employees are not subject to a holding period.

The Executive Directors continued their membership in the SIP after the end of the period and were therefore awarded further matching shares pursuant to the SIP rules. Between the end of the period and 22 January 2018, being the last practicable date prior to the publication of this Annual Report, the Executive Directors acquired or were awarded further shares under the SIP as set out in the table below:

Director	Partnership Shares Acquired	Matching Shares Awarded	Free Shares Award	Total Face Value of Free and Matching Shares (£)	Total SIP Shares Held at 22/01/2018
Tim Steiner	79	12	—	45	7,088
Duncan Tatton-Brown	78	12	—	45	7,030
Mark Richardson	79	11	—	42	7,081
Neill Abrams	79	11	—	42	6,348

1. The value of the share awards made under the SIP is based on the middle market quotation of a share on the trading day immediately preceding the date of grant.

Vested: For details of free shares and matching shares that became unrestricted in the period, see page 102. Only the value of free and matching shares that became unrestricted during the period is shown in the total remuneration table. Unrestricted shares can be held in Trust under the SIP for as long as the participant remains an employee of the Company.

Sold: No shares held under the SIP have been sold by an Executive Director.

Lapsed: No shares held by an Executive Director under the SIP lapsed during the period.

SHARESAVE SCHEME (AUDITED)

At the end of the period, the Executive Directors' option interests in the Sharesave scheme were as follows:

Director	Type of Interest	Date of Grant	Number of Share Options	Exercise Price (£)	Face Value (£)	Exercise Period
Tim Steiner	Options	05/08/16	7,894	2.28	17,998	01/12/19 – 01/05/20
Neill Abrams	Options	05/08/16	7,894	2.28	17,998	01/12/19 – 01/05/20
Duncan Tatton-Brown	Options	05/08/16	7,894	2.28	17,998	01/12/19 – 01/05/20
Mark Richardson	Options	05/08/16	7,894	2.28	17,998	01/12/19 – 01/05/20

Granted: No awards under the Sharesave were granted during the period.

Vested: For details of vested Sharesave options, see page 95.

Exercised: No awards under the Sharesave were exercised or sold by the Executive Directors during the period.

Lapsed: A savings contract under the Sharesave scheme matured on 1 December 2016. Tim Steiner, Duncan Tatton-Brown and Neill Abrams each held 2,987 options at this date. Participants were able to exercise their options until the end of the exercise period in May 2017. During the exercise period, the share price did not rise higher than the exercise price and therefore the options lapsed and the Directors withdrew their savings.

DIRECTORS' Remuneration Report

DILUTION

Dilution Limits

Awards granted under the Company's Sharesave, ESOS, 2014 ESOS and SIP schemes are met by the issue of new shares when the options are exercised or shares granted. The allocation of awards under the JSOS were met by the subscription for new shares by the participant and the EBT. Awards granted under the GIP may be met by the issue of new shares, the transfer of shares from treasury, or the purchase or transfer of existing shares by the EBT (where available). Awards vesting under the LTIP are typically satisfied by the issue of new shares and transfer of existing shares by the EBT. The share deferral provisions in the AIP have not been approved by shareholders and accordingly awards will be satisfied only by the purchase of existing shares by the EBT until such shareholder approval is obtained.

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

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

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

Impact on Dilution

The Company monitors the number of shares issued under these schemes and their impact on dilution. The charts below show the Company's commitment, as at the last practicable date prior to the publication date of this Annual Report being 22 January 2018, 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. For these purposes, no account is taken of ordinary shares allocated prior to the Company's Admission.

ALL SHARE PLANS

Actual: 5.96%

Limit: 10.00%

DISCRETIONARY SHARE PLANS

Actual: 3.38%

Limit: 5.00%

Review of Changes in Remuneration and Company Performance

This part of the report provides some context for the Directors' remuneration arrangements including information concerning the Company's performance, shareholder returns and the Group's total expenditure on employee pay.



Chief Executive Officer Historical Remuneration

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

Year	Chief Executive Officer Total Remuneration (£'000)	AIP or Bonus Payment as a Percentage of Maximum Target Achievement (%)	AIP or Bonus Value of Payment (£'000)	Long-Term Incentives as a Percentage of Maximum Opportunity (%)
2017	1,164	41.8	310	33.4
2016	1,141	43.6	315	43.2
2015	5,098	65.0	459	90.8
2014	6,483	56.0	385	100
2013	1,011	98.3	528	0
2012	483	29.7	104	0
2011	987	0	0	100
2010	599	n/a	220	0

1. The Chief Executive Officer total remuneration figures prior to the 2013 period represent the previously presented audited information with necessary adjustments for amounts required to be included in the single total figure of remuneration (such as pension amounts) under the new regulations (which first applied to the 2013 financial period).
2. From 2010, the Company had the JSOS as the main form of long-term incentive plan. In 2011, the first tranche of JSOS shares vested in that period. For the 2012 and 2013 financial years, the JSOS interests did not have any value at the vesting date. In 2014, the final tranche of JSOS shares vested in that period (the value of such remuneration is noted in the single total figure of remuneration above). The LTIP was implemented in 2013 and the first award had a performance period ending in 2015 and a vesting date in 2016. The GIP and SIP were both implemented in 2014, but have vesting dates in 2019 and 2017 respectively.
3. The total remuneration amounts shown above are the amounts restated so as to account for the final vesting of the LTIP awards. For an explanation of this restatement in respect of the 2016 period see note 1 of the total remuneration table on page 92. For details of the 2017 period LTIP value, see note 2 of the total remuneration table.



DIRECTORS' Remuneration Report

Chief Executive Officer Percentage Change Versus Employee Group

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

	Chief Executive Officer	All UK employees
Percentage change in salary from 2016 to 2017	2.8%	4.1%
Percentage change in taxable benefits from 2016 to 2017	100%	(15.2)%
Percentage change in AIP earned from 2016 to 2017	(1.6)%	n/a

1. Most of the Group's employees are not entitled to earn an annual bonus payment as part of their remuneration.
2. The change in salary data for the Group's employees is on a per capita basis.

RELATIVE IMPORTANCE OF SPEND ON PAY

The following table shows the Company's profit and total Group-wide expenditure on pay for all employees for the period and last financial year. The Company has not paid a dividend or carried out a share buyback in the current year or previous year. The information shown in this chart is:

- Profit – Group profit before tax as set out in Note 2.1 to the consolidated financial statements.
- Total gross employee pay – total gross employment costs for the Group (including pension, variable pay, share-based payments and social security) as set out in Note 2.6 to the consolidated financial statements.

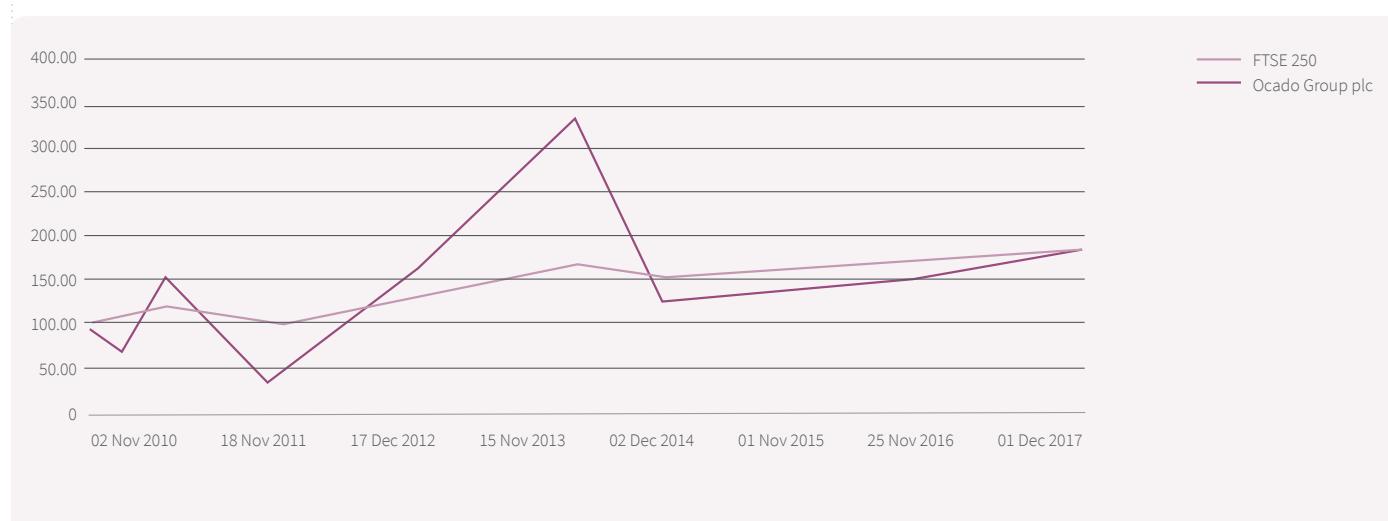
	3 December 2017 (£m)	27 November 2016 (£m)
Profit before tax	1.0	12.1
Total gross employee pay	335.9	287.7

COMPANY SHARE PRICE

The closing market price of the Company's shares as at 1 December 2017, being the last trading day in the period ended 3 December 2017, was 363.5 pence per ordinary share (2016: 275.8 pence) and the share price range applicable during the period was 238.5 pence to 363.5 pence per ordinary share.

TOTAL SHAREHOLDER RETURN

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



ANNUAL REPORT ON REMUNERATION — IMPLEMENTATION OF POLICY FOR 2018

Introduction

This part of the Directors' Remuneration Report sets out implementation of the Directors' remuneration for 2018.

Summary of Changes for Executive Directors

This table briefly summarises the proposals for the Directors' remuneration arrangements for 2018 when compared to the arrangements for the period.

Base Salary and Benefits	Pension	AIP	Long-Term Incentives	All-Employee Schemes
Base salary will be subject to annual review.	No changes proposed.	No change to the maximum opportunity or structure of the 2018 AIP. A change to the measures of the 2018 AIP.	No change to the maximum opportunity for the 2018 LTIP awards.	Ongoing participation in the SIP and Sharesave.

Base Salary and Benefits

The Remuneration Committee expects to finalise its annual review of the Executive Directors' base salaries later in 2018, in line with the timing of pay reviews for all of the Group's employees.

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

Pensions

No changes are proposed to the pension contributions for Executive Directors for 2018, which are expected to remain at the levels provided in the current period.

2018 AIP

The Remuneration Committee approved the implementation of an AIP for the Executive Directors applicable to the 2017/18 financial year. This plan is in line with the Directors' Remuneration Policy.

The bonus potential for the Executive Directors is 100% and for the Chief Executive Officer is 125% of base salary for "maximum" performance, which is the same as the 2017 AIP.

There will be four objectives in the 2018 AIP, with the weighting as 25% for each of a Gross Sales® (Retail) target, a Group EBITDA® target, an Ocado Solutions target, and performance measured against role-specific objectives. The rationale for setting the performance measures was considered by the Remuneration Committee, which introduced a fourth performance measure, an Ocado Solutions target, to align the performance measures for the plan with the evolving Group strategy concerning the Ocado Solutions business.

The Remuneration Committee has agreed "threshold" and "maximum" conditions that must be achieved. A bonus is not payable unless a "threshold" level of the performance condition has been achieved. At "threshold" performance for a financial performance measure, 6.25% of total bonus is payable and at "maximum" performance, 25% of total bonus is payable. A straight-line sliding scale will apply in relation to the intermediate points between the "threshold" and "maximum". Each target was discrete and could be earned separately. The Chief Executive Officer had a maximum bonus opportunity of 125% of salary and the other Executive Directors had a maximum opportunity of 100% of salary.

The actual performance targets are not disclosed due to their commercial sensitivity on the basis that if disclosed it would likely damage the Company's commercial interests. The Company will disclose achievement against the targets after the end of the performance period, provided such disclosure is not considered commercially sensitive at the time.



See Alternative Performance Measures on page 196

DIRECTORS' Remuneration Report

2018 LTIP Awards

The Remuneration Committee approved the making of awards under the LTIP for the Executive Directors for the 2017/2018 financial year. The amount of the LTIP awards is based on a percentage of salary, expected to be in line with the percentages agreed for the 2017 LTIP awards and in line with the Directors' Remuneration Policy.

The Remuneration Committee proposes to make 2018 LTIP award grants subject to revenue and retail EBIT performance conditions in respect of the retail business for the 2019/2020 financial year. The other two performance targets relate to the platform business. The first of these is linked to the efficiency of the platform solution for the 2019/2020 financial year. The second of the platform business targets will be focused on expanding the Ocado Solutions business and specifically generating sales revenue for the 2019/2020 financial year. The 2018 LTIP award targets differ from the 2017 awards firstly, in that the new retail profitability measure will be aligned with the Group's new segmental reporting and secondly by including capital efficiency (together with operational efficiency) when measuring performance of the platform business. These changes to the LTIP performance targets reflect the Board's focus on rewarding the delivery of sales of the platform solution to new customers and continuing to incentivise improvements in efficiency, while rewarding the profitable growth of the retail business. Each performance condition will have a 25% weighting.

The actual performance targets are not disclosed due to their commercial sensitivity on the basis that if disclosed it would likely damage the Company's commercial interests. The Company will disclose achievement against targets after the end of the performance period, provided such disclosure is not considered commercially sensitive at the time.

SIP

The Executive Directors are expected to continue their participation in the SIP scheme in 2018.

Changes for Non-Executive Directors and Chairman

The review of remuneration of the Non-Executive Directors and the Chairman will be finalised in line with the timing of pay reviews for all of the Group's employees.



Shareholder Approval and Votes at AGM

The 2017 Directors' Remuneration Report will be subject to a shareholder vote at the AGM. Entitlement of a Director to remuneration is not made conditional on this resolution being passed.

The Remuneration Committee Chairman is committed to ongoing shareholder dialogue on Directors' remuneration and takes an active interest in voting outcomes. In the event of a substantial vote against a resolution in relation to the Directors' Remuneration Report, the Directors' Remuneration Policy or a new share scheme, the Company would seek to understand the reasons for any such vote and would detail in the announcement of the results of voting any actions it intends to take to understand the reasons behind the vote result and also note this in the next annual report. The Remuneration Committee considers that a vote against that exceeds 20% should be considered significant and requires explanation.

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

Resolution Text	Votes For	% For	Votes Against	% Against	Total Votes	Votes Withheld
2017 AGM						
Approve the 2017 Directors' Remuneration Policy	416,068,306	93.75	27,747,647	6.25	448,607,479	4,791,526
Approve the 2016 Directors' Remuneration Report	413,472,812	93.16	30,342,020	6.84	448,607,479	4,792,647
2016 AGM						
Approve the 2015 Directors' Remuneration Report	314,587,371	91.48	29,304,819	8.52	345,048,769	1,156,579
2015 AGM						
Approve the 2014 Directors' Remuneration Report	377,215,710	80.61	90,709,506	19.39	476,384,487	8,459,271

BASIS OF PREPARATION AND AUDIT

This report is a Directors' Remuneration Report for the 53 weeks ended 3 December 2017, prepared for the purposes of satisfying section 420(1) and section 421(2A) of the Companies Act. It has been drawn up in accordance with the Companies Act and the Code, the Regulations, the Listing Rules and the Disclosure Guidance and Transparency Rules.

In accordance with section 497 of the Companies Act and the Regulations, certain parts of this Directors' Remuneration Report (where indicated) have been audited by the Company's auditors, Deloitte LLP.

A copy of this Directors' Remuneration Report will be available on the Company's corporate website.

This Directors' Remuneration Report is approved by the Board and signed on its behalf by:

Douglas McCallum
REMUNERATION COMMITTEE CHAIRMAN
Ocado Group plc
6 February 2018





DIRECTORS' Report

INTRODUCTION

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

INDEX OF DIRECTORS' REPORT

DISCLOSURES

This Directors' Report should be read in conjunction with the Strategic Report (pages 06 to 47) which includes Corporate Responsibility (pages 42 to 45), and the Statement of Corporate Governance (defined in the index below as the "CG Statement") (pages 54 to 61), which are incorporated by reference into this Directors' Report.

The information required to be disclosed in the Directors' Report can be found in this Annual Report on the pages listed below. Pursuant to Listing Rule 9.8.4C, the information required to be disclosed in the Annual Report under Listing Rule 9.8.4R is marked with an asterisk (*).

Amendment of the Articles	111
American Depository Receipt (ADR) program	113
Appointment and replacement of Directors	111
Board of Directors	CG Statement 52, 116-117
Change of control	114
Community	Corporate Responsibility 42-45
Directors' insurance and indemnities	111
Directors' inductions and training	CG Statement 59
Directors' interests	Directors' Remuneration Report 98
Directors' responsibility statement	114-115
Disclosure of information to auditors	114
Diversity	Our People 46
Employee involvement	Our People 47
Employees with disabilities	114
Future developments of the business	Strategic Report 06-47
Going concern and viability statements*	Strategic Report 39
Greenhouse gas emissions	Corporate Responsibility 43
Independent auditors	114
Long-term incentive plans under Listing Rule 9.4.3*	Directors' Remuneration Report 70-109
Political donations	Corporate Responsibility 44
Post-balance sheet events	114
Powers for the Company to issue or buy back its shares	112
Powers of the Directors	CG Statement 54-55
Profit/loss and dividends	114
Research and development activities	Strategic Report 06-47
Restrictions on transfer of securities	112
Rights attaching to shares	111
Risk management and internal control	
How the business manages risk	Strategic Report 38-41
Note 4.8 to the consolidated financial statements	161-163
Share capital	111
Significant agreements	114
Significant related party agreements*	113
Significant shareholders	113
Statement of corporate governance	CG Statement 54-61
Strategic Report	06-47, 111
Voting rights	112

THE STRATEGIC REPORT

The Directors are required under the Companies Act to prepare a strategic report for the Company and the Group. The Strategic Report contains the Directors' explanation of the basis on which the Group preserves and creates value over the longer term and the strategy for delivering the objectives of the Group. The Companies Act requires that the Strategic Report must:

- contain a fair review of the Group's business and contain a description of the principal risks and uncertainties facing the Group; and
- be a balanced and comprehensive analysis of the development and performance of the Group's business during the financial year and the position of the Group's business at the end of that year, consistent with the size and complexity of the business.

The information that fulfils the strategic report requirements is set out in the Strategic Report on pages 06 to 47.

The Company has chosen to include some of the information required to be disclosed in the Directors' Report within the Strategic Report (pages 06 to 47), as noted above. Certain matters, including those of sufficient importance, that would otherwise be required to be disclosed in the Directors' Report, have been set out in the Strategic Report and Statement of Corporate Governance, as noted in the index on page 110.

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

The Strategic Report and the Directors' Report, together with the sections of this Annual Report incorporated by reference, have been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

For an explanation of how the Board satisfies itself that this Annual Report meets the disclosure requirements, refer to the Statement of Corporate Governance on pages 54 to 61 and the Directors' responsibility statement on pages 114 and 115.

AMENDMENT OF THE ARTICLES

The Company's Articles, which govern a number of constitutional aspects of the Company's management, may be amended by a special resolution of its shareholders.

APPOINTMENT AND REPLACEMENT OF DIRECTORS

The appointment and replacement of Directors of the Company is governed by the Articles.

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

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

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

Vacation of Office: The office of a Director shall be vacated if: (i) he resigns; (ii) his resignation is requested by all of the other Directors (not less than three in number); (iii) he is or has been suffering from mental or physical ill health and the Board resolves that his office be vacated; (iv) he is absent without the permission of the Board from meetings of the Board (whether or not an alternate Director appointed by him attends) for six consecutive months and the Board resolves that his office is vacated; (v) he becomes bankrupt; (vi) he is prohibited by law from being a Director; (vii) he ceases to be a Director by virtue of the Companies Act; or (viii) he is removed from office pursuant to the Articles.

For a description of any changes of the Company's Directors during the period see the Statement of Corporate Governance on pages 54 to 61.

DIRECTORS' INSURANCE AND INDEMNITIES

The Company maintains directors' and officers' liability insurance cover for its Directors and Officers as permitted under the Articles and the Companies Act. Such insurance policies were renewed during the period and remain in force as at the date of this Annual Report. The Company also agrees to indemnify 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 Articles. An indemnity deed is usually entered into by a Director at the time of his or her appointment to the Board.

SHARE CAPITAL

The Company's authorised and issued ordinary share capital as at 3 December 2017 comprised a single class of ordinary shares. The shares have a nominal value of 2 pence each. The ISIN of the shares is GB00B3MBS747. The LEI of the Company is 213800LO8F61YB8MBC74.

As at 22 January 2018, being the last practicable date prior to publication of this report, the Company's issued share capital consisted of 631,298,705 issued ordinary shares, compared with 629,270,054 issued ordinary shares per the 2016 annual report. Details of movements in the Company's issued share capital can be found in Note 4.9 to the consolidated financial statements. During the period, shares in the Company were issued to satisfy options and awards under the Company's share and incentive schemes, as set out in Note 4.9 to the consolidated financial statements.

RIGHTS ATTACHING TO SHARES

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

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

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



DIRECTORS' Report

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

VOTING RIGHTS

Each ordinary share carries one right to vote at a general meeting of the Company. At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded. On a show of hands, every member who is present in person or by proxy at a general meeting of the Company shall have one vote. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are a holder. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting. No shareholder shall be entitled to vote in respect of a share held by him if any call or sum then payable by him in respect of such share remains unpaid or if a member has been served a restriction notice, described below.

JSOS Voting Rights: Of the issued ordinary shares, as at 3 December 2017 32,800,390 (2016: 32,830,613) were held by Wealth Nominees Limited on behalf of Estera Trust (Jersey) Limited, the independent company which is the trustee of Ocado's employee benefit trust (the "EBT Trustee"). The EBT Trustee has waived its right to exercise its voting rights in respect of 32,724,358 of these ordinary shares, although it may at the request of a participant vote in respect of 76,032 ordinary shares which have vested under the JSOS and remain in the trust at period end. The total of 32,800,390 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 32,800,390 ordinary shares held by the EBT Trustee. Note 4.9 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 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: (A) is duly stamped or certified or otherwise shown to be exempt from stamp duty and is accompanied by the relevant share certificate; (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.

Restriction on Transfer of JSOS Interests: 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 and on page 98 with respect to agreements concerning the Directors' shareholdings, the Company is not aware of any agreements existing at the end of the period between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

POWERS FOR THE COMPANY TO BUY BACK ITS SHARES

The Company was authorised by shareholders on 3 May 2017, at the annual general meeting, to purchase in the market up to 10% of its issued ordinary shares (excluding any treasury shares), subject to certain conditions laid out in the authorising resolution. This standard authority is renewable annually; the Directors will seek to renew this authority at the AGM. The Directors did not exercise their authority to buy back any shares during the period.

POWERS FOR THE COMPANY TO ISSUE ITS SHARES

The Directors were granted authority at the previous annual general meeting on 3 May 2017, to allot shares in the Company under two separate resolutions: (i) up to one-third of the Company's issued share capital; and (ii) up to two-thirds of the Company's issued share capital in connection with a rights issue. These authorities apply until the end of the AGM (or, if earlier, until the close of business on 2 August 2018). During the period, the Directors did not use their power to issue shares under the authorities, but did satisfy options and awards under the Company's option and incentive schemes.

The Directors were also granted authority at the previous annual general meeting on 3 May 2017 to disapply pre-emption rights. This resolution (which is in accordance with the guidance issued by the Pre-Emption Group (the "PEG Principles")) sought the authority to disapply pre-emption rights over 5% of the Company's issued ordinary share capital.

A special resolution will be proposed at the 2018 AGM to renew the Directors' powers to disapply pre-emption rights. The resolution will seek the authority to disapply pre-emption rights on up to 5% of the issued share capital. A further authority will be sought to disapply pre-emption rights for an additional 5% for certain acquisitions or specified capital investments as allowed by the PEG Principles. The Company will, consistent with the 2017 annual general meeting, continue to seek authority to allot shares up to two-thirds of the Company's issued share capital in connection with a rights issue only. The Company believes such approach is appropriate given that it follows guidance set by the Investment Association on the allotment of shares.

SIGNIFICANT SHAREHOLDERS

During the period the Company has received notifications, in accordance with Disclosure Guidance 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/Voting Rights	Percentage of Issued Share Capital	Nature of Holding
The London & Amsterdam Trust Company Limited	96,489,034	15.31	Direct/Indirect
Citigroup Global Markets Limited	63,765,764	10.11	Direct/Indirect
Tremblant Capital LP	31,334,931	4.97	Indirect
Morgan Stanley	26,789,375	4.25	Indirect

These figures represent the number of shares and percentage held as at the date of notification to the Company.

No changes have been disclosed in accordance with Disclosure Guidance and Transparency Rule 5.1.2R in the period between 3 December 2017 and 22 January 2018 (being not more than one month prior to the date of the Notice of Meeting), except as set out in the table below:

	Number of Ordinary Shares/Voting Rights	Percentage of Issued Share Capital	Nature of Holding
The London & Amsterdam Trust Company Limited	96,189,034	15.25	Direct/Indirect
Citigroup Global Markets Limited	55,701,686	8.83	Direct/Indirect
Morgan Stanley	28,779,747	4.56	Indirect

These figures represent the number of shares and percentage held as at the date of notification to the Company.

AMERICAN DEPOSITORY RECEIPT PROGRAM

The Company has a sponsored level 1 American Depository Receipt (ADR) program with The Bank of New York Mellon as depositary bank. Each ADR represents two ordinary shares of the Company. The ADRs trade on the over-the-counter (OTC) market in the United States. The CUSIP number for the ADRs is 674488101, the ISIN is US6744881011 and the symbol is OCDDY. An ADR is a security that has been created to permit US investors to hold shares in non-US companies and, in a level 1 programme, to trade them on the OTC market in the United States. In contrast to underlying ordinary shares, ADRs permit US investors to trade securities denominated in US dollars in the US OTC market with US securities dealers. Were the Company to pay a dividend on its ordinary shares, ADR holders would receive dividend payments in respect of their ADRs in US dollars.

SENIOR SECURED NOTES DUE 2024 AND IRISH STOCK EXCHANGE

On 19 June 2017 the Company priced an offering of £250 million Senior Secured Notes due 2024 (the "Notes") at a coupon of 4% (the "Offering") and an issue price of 100%. The Notes are listed on the Irish Stock Exchange and trade on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The ISIN of the Notes is XS163400189. Interest on the notes is payable semi-annually in arrears. The Notes will mature on 15 June 2024.

The Company may redeem the Notes in whole or in part at any time on or after 15 June 2020, in each case, at the redemption prices set out as part of the Offering. Prior to 15 June 2020, the Company will be entitled to redeem, at its option, all or a portion of the Notes at a redemption price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest and additional amounts, if any, to the redemption date, plus a "make-whole" premium. Prior to 15 June 2020, the Company may, at its option, and on one or more occasions, also redeem up to 40% of the original aggregate principal amount of the Notes with the net proceeds from certain equity offerings. Prior to 15 June 2020, the Company may redeem during each twelve-month period commencing on the Issue Date up to 10% of the aggregate principal amount of the Notes originally issued (including the aggregate principal amount of any additional Notes) at a redemption price equal to 103% of the principal amount thereof, plus accrued and unpaid interest to the applicable redemption date. Additionally, the Company may redeem the Notes in whole, but not in part, at a price equal to their principal amount plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax law.

SIGNIFICANT RELATED PARTY AGREEMENTS

There were no contracts of significance during the period between the Company or any Group company and: (1) a Director of the Company; (2) a close member of a Director's family; or (3) a controlling shareholder of the Company.



DIRECTORS' Report

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 bid except that it should be noted that: (i) provisions of the Company's share schemes may cause options and awards granted to employees under such schemes to vest on a takeover; and (ii) certain members of senior management (not including the Directors) who were employed prior to 2010 are entitled to a payment contingent on a change of control of the Company or merger of the Company (irrespective of loss of employment) as set out in his or her respective employment contract. For further information on the change of control provisions in the Company's share schemes refer to the Directors' Remuneration Report on page 89.

SIGNIFICANT AGREEMENTS

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

Morrisons Operating Agreement: The Group has a number of commercial arrangements with Morrisons. If certain competitors of Morrisons acquire more than 50% of the voting rights in the Company's shares or take control of the composition of the Company's Board, or acquire all or substantially all of the Group's business and undertakings, then Morrisons would be entitled to give notice to terminate the operating agreement by giving not less than four (but not more than four and a half) years' notice.

Following Morrisons giving such a notice, Morrisons would be entitled to procure equivalent services from third parties, the Company ceasing to be Morrisons' exclusive supplier of online grocery fulfilment services. Similarly, all restrictions on the UK retail grocers to whom the Company is entitled to provide certain services would fall away.

At the end of the four to four and a half years' notice period, the Company would be required to purchase Morrisons' shares in MHE JVCo Limited (the owner of the mechanical handling equipment in Dordon CFC).

Sourcing Agreement with Waitrose: The Company's primary operating subsidiary, Ocado Retail Limited ("ORL"), is party to the Sourcing Agreement with Waitrose and its parent company, John Lewis. If certain competitors of Waitrose or John Lewis acquire 50% or more of the shares or control of the Company's Board, then each of ORL, Waitrose and John Lewis may terminate the Sourcing Agreement. In these circumstances, ORL 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.

Amended and Restated Credit Facility Agreement: The Group has an unsecured £100 million credit facility with Barclays Bank PLC, HSBC Bank plc, The Royal Bank of Scotland plc, Cooperative Rabobank UA and Goldman Sachs Bank USA for general corporate and working capital purposes. If there is a change of control of the Company, and agreeable terms cannot be negotiated between the parties within 30 days from the date of the change of control, any lender may cancel their commitment under the facility and all outstanding utilisations for that lender, together with accrued interest, shall be immediately payable.

Senior Secured Notes due 2024: In June 2017 the Company issued £250,000,000 of senior secured notes which are listed on the Irish Stock Exchange. Following a change of control of the Company, holders of the notes may require it to repurchase all or part of their holding at a purchase price in cash equal to 101% of the aggregate principal amount of their holding, plus accrued and unpaid interest.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Group has dedicated in-house software, logistics and engineering design and development teams with primary focus on IT and improvements to the customer interfaces, the CFCs and the automation equipment used in them. Costs relating to the development of computer software are capitalised if it is probable that the future economic benefits that are attributable to the asset will accrue to the entity and the costs can be measured reliably. The Company is carrying out a number of IT and engineering design and build projects with the intention of developing new and improved automation equipment and processes for its warehouses. Further information is contained in the Strategic Report on pages 06 to 47.

FUTURE DEVELOPMENTS OF THE BUSINESS

The Group's likely future developments including its strategy are described in the Strategic Report on pages 06 to 47.

EMPLOYEES WITH DISABILITIES

Applications for employment by people with disability are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned and our ability to make reasonable adjustments to the role and the work environment. In the event of existing employees becoming disabled, all reasonable effort is made to ensure that their employment within the Group continues. Training, career development and promotion of a disabled person is, as far as possible, identical to that of an able bodied person.

PROFIT AND DIVIDENDS

The Group's results for the period are set out in the Consolidated Income Statement on page 127. The Group's profit before tax for the period amounted to £1.0 million (2016: £12.1 million).

The Directors do not propose to pay a dividend for the period (2016: £nil).

POST-BALANCE SHEET EVENTS

There have been no material events after the balance sheet date of 3 December 2017 to the date of this Annual Report.

INDEPENDENT AUDITOR

The Company's auditor, Deloitte, have indicated their willingness to continue their role as the Company's auditor. Resolutions concerning the re-appointment of Deloitte as auditor of the Company and to authorise the Directors to determine their remuneration will be proposed at the AGM and set out in the Notice of Meeting. For further information on the re-appointment of the auditors, refer to pages 68 to 69 of the Audit Committee report.

DISCLOSURE OF INFORMATION TO AUDITORS

In accordance with Section 418 of the Companies Act 2016, each Director who held office at the date of the approval of this Directors' Report (whose names and functions are listed in the Board of Directors section on pages 52 and 53 of this Annual Report) confirms that, so far as he or she is aware, there is no relevant audit information of which the Group's auditor is unaware, and that each Director has taken all of the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing this 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 (the "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 Company and the Group 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 to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the Group's corporate website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Each of the Directors who held office at the date of the approval of this Annual Report (whose names and functions are listed on pages 116 and 117 of this Annual Report but not including Alex Mahon) confirms, to the best of his or her knowledge, that:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the "Management Report" (as defined in the Directors' Report on page 111) 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 Annual 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 Annual 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, the Group does not undertake to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.





DIRECTORS' Report

DIRECTOR BIOGRAPHIES

Lord Rose

Chairman, 68

Appointment to the Board

11 March 2013

Committee Membership

Nomination (Chairman)

External Appointments

Chairman of Fat Face Group Limited; Chairman of Stylemania Limited, trading as Dressipi; Non-Executive Director of RM2 International S.A.; Non-Executive Director of Woolworths Holdings Limited, listed in South Africa; Chairman of Majid Al Futtaim Retail based in Dubai; Non-Executive Director of Time Out Group plc; Chairman of Zenith

Relevant Experience

Lord 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. Lord Rose was knighted in 2008 for services to the retail industry and corporate social responsibility, and granted a life peerage in August 2014.

Tim Steiner, OBE

Chief Executive Officer, 48

Appointment to the Board

13 April 2000

Relevant Experience

Tim is the founding Chief Executive Officer of Ocado, which he started in 2000. Prior to Ocado, he spent eight years at Goldman Sachs, during which time he was based in London, Hong Kong and New York in the Fixed Income division. Tim graduated from Manchester University in 1992 with an honours degree in Economics, Finance and Accountancy.

Duncan Tatton-Brown

Chief Financial Officer, 52

Appointment to the Board

1 September 2012

External Appointments

Senior Independent Director and Audit Committee Chairman of Zoopla Property Group plc

Relevant Experience

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

Mark Richardson

Chief Operations Officer, 53

Appointment to the Board

3 February 2012

External Appointments

Non-Executive Director of Paneltex Limited

Relevant Experience

Mark was Head of Technology at Ocado from 2001 until he joined the Board in 2012. He is responsible for the day-to-day running of the Ocado operation, including CFCs, logistics developments, customer service, business planning, engineering and technology. Mark is a Director of Paneltex Limited, a company in which the Group holds a 25% shareholding. Prior to joining Ocado, Mark held a number of IT positions at the John Lewis Partnership, including Head of Selling Systems at Waitrose. He graduated from University College, London with a degree in Physics.

Neill Abrams

Group General Counsel and Company Secretary, 53

Appointment to the Board

8 September 2000

External Appointments

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

Relevant Experience

Neill was on the founding team of Ocado, joining the Board in 2000. He has Board responsibility for legal, insurance, risk management, human resources and Corporate Responsibility. Prior to Ocado, he was a barrister in practice at One Essex Court and spent nine years at Goldman Sachs in London in the investment banking and legal divisions. Neill holds degrees in industrial psychology and law from the University of the Witwatersrand in Johannesburg and a Masters in Law from Sidney Sussex College, Cambridge. He is a member of the Bar of England and Wales, the New York Bar and a South Africa Advocate.

Ruth Anderson

Non-Executive Director, 64

Appointment to the Board

9 March 2010

Committee Membership

Audit (Chairman), Remuneration, Nomination

External Appointments

Non-Executive Director of Travis Perkins plc; Non-Executive Director of Coats Group plc; Trustee and Director of The Royal Parks; Trustee of The Duke of Edinburgh's Award

Relevant Experience

Since retiring from KPMG eight years ago Ruth has gained non-executive director experience at three UK listed companies and chairs the audit committee at all three. Ruth will be retiring from the role of Non-Executive Director at Coats Group plc in May 2018. She was a vice-chairman of the accounting and advisory firm KPMG in the UK from 2004 to 2009 and a member of the KPMG UK board from 1998 to 2004. She is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Chartered Institute of Taxation.

Douglas McCallum

Non-Executive Director, 51

Appointment to the Board
3 October 2011

Committee Membership

Remuneration (Chairman), Nomination

External Appointments

Chairman of Trainline and PhotoBox

Relevant Experience

Douglas has been a pioneer of the Internet industry for a number of years, having been at eBay Inc. from 2001 to 2014, where he led the UK business and then turned around the pan-European business. Prior to joining eBay Inc. he was founder and general manager of a number of businesses in the Internet, broadcasting, software and hardware industries. Douglas read Politics, Philosophy and Economics at the University of Oxford, and has an MBA from Harvard Business School.

Jörn Rausing

Non-Executive Director, 57

Appointment to the Board
13 March 2003

Committee Membership

Nomination

External Appointments

Group Board Member of Tetra Laval; Board Member of Alfa Laval AB; Board Member of DeLaval Holding AB; Member of the Board of Governors of the Museum of London

Relevant Experience

Jörn has over 25 years' experience in corporate development and international mergers and acquisitions. Jörn holds a degree in Business Administration from Lund University, Sweden.

Andrew Harrison

Non-Executive Director, 47

Appointment to the Board
1 March 2016

Committee Membership

Audit, Remuneration, Nomination

External Appointments

Chairman of Carphone Warehouse Ltd; Trustee to the charity The Mix

Relevant Experience

Andrew was appointed as Chairman of Carphone Warehouse Ltd in December 2017, having previously served as Deputy Group Chief Executive of Dixons Carphone Plc since August 2014 and prior to that as Chief Executive Officer of Carphone Warehouse Plc. Having joined in 1995, Andrew was appointed UK CEO of Carphone Warehouse in 2001. He led the growth of the UK business to become the market leader in the mobile sector, and developed the fixed line strategy which led to the creation of the TalkTalk division. Andrew was responsible for taking Carphone Warehouse to the US in 2006, and instrumental in the creation of the highly successful Best Buy Mobile JV. From 2009 Andrew was responsible for both Carphone Warehouse and Phone House operations, becoming Chief Executive Officer of the Best Buy JV in 2010. Andrew graduated with a BA in Management Studies from the University of Leeds in 1992.

Emma Lloyd

Non-Executive Director, 48

Appointment to the Board
1 December 2016

Committee Membership

Nomination

External Appointments

Director of Corporate Development, Partnerships and Investments of Sky plc

Relevant Experience

As Sky's Group Director of Business Development and Strategic Partnerships Emma identifies and nurtures key strategic relationships with Sky's technology partners. Emma has overseen the creation of Sky's start-up venture investment function and US presence, leading to the investment in over 20 technology start-ups. Emma graduated with a BA Joint Hons in Management Studies and Geography from the University of Leeds in 1992.

The Directors' Report is approved by the Board and signed on its behalf by

Neill Abrams
GROUP GENERAL COUNSEL AND COMPANY SECRETARY
Ocado Group plc

Registered in England and Wales

Number 07098618

6 February 2018



The Board of Directors' are found on
pages 52 and 53



OUR Financials (Group)

Independent Auditor's Report	120
Consolidated Income Statement	127
Consolidated Statement of Comprehensive Income	128
Consolidated Balance Sheet	129
Consolidated Statement of Changes in Equity	130
Consolidated Statement of Cash Flows	131
Notes to the Consolidated Financial Statements	132





INDEPENDENT Auditor's Report

to the members of Ocado plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 3 December 2017 and of the group's profit for the 53 week period then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements 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
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Ocado Group plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company statement of cash flows; and
- the related notes 1 to 5.5 to the consolidated financial statements and the related notes 1 to 5.2 of the parent company financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	<p>The key audit matters that were identified in the current and prior year are:</p> <ul style="list-style-type: none">• <i>accounting for commercial income arrangements</i> – there is significant judgement as to the quantum and timing of income recognised from volume rebates and there is a risk that promotional or media campaigns may not be delivered at all or in the agreed timeframe; and• <i>capitalisation of internal development costs</i> – there is significant judgement in assessing if the criteria of IAS 38 Intangible Assets are met. In particular, we focus on the technical feasibility of projects, the probability of future economic benefits and whether assets are impaired. <p>The key audit matters that were identified in the current year are:</p> <ul style="list-style-type: none">• <i>accounting for Ocado Solutions contracts</i> - the range of deliverables in these agreements is complex and requires judgement, particularly in respect of the timing of revenue recognition.
Changes to key audit matters from the prior year	<p>The previous auditor's report included two key audit matters that are not included as key audit matters in our audit report this year: share-based payments and deferred tax asset recognition. We concluded they were not key audit matters for the following reasons:</p> <ul style="list-style-type: none">• for share-based payments, no new material schemes were introduced in the year and the charge for the year was consistent with the prior period £6.9m (2016: £7.1m); and• as set out in note 2.8 to the financial statements, Ocado has an unrecognised deferred tax asset of £40.5m (2016: £45.8m). Management's approach to recognition and the expected future levels of profitability was appropriately consistent with the prior year.

Summary of our audit approach

Materiality	We determined materiality to be £6m based on revenue, consistent with the approach adopted by the previous auditor.
Scoping	<p>The scope of our group audit includes all significant trading companies in the UK, whose results taken together account for over 97% of the group's revenue, profit after tax and net assets. All entities are managed from one central location in the UK and all audit work is completed by the group audit team. We performed analytical procedures over the remaining trading entities, the group's captive insurance company in Malta and development operations in Poland and Spain.</p> <p>The group audit team also audit the group's joint venture with Wm Morrisons Supermarkets Plc ("Morrisons").</p>

Conclusions relating to going concern, principal risks and viability statement

GOING CONCERN

We have reviewed the directors' statement in note 1.5 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

PRINCIPAL RISKS AND VIABILITY STATEMENT

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

- the disclosures on pages 40-41 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 39 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 39 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



INDEPENDENT Auditor's Report

to the members of Ocado plc

Accounting for commercial income arrangements

Key audit matter description



The value recognised in relation to commercial income arrangements (volume rebates, promotional allowances and media income) is significant in relation to the results for the period with the judgements applied giving rise to a risk of potential fraud or error.

Volume rebates

There is significant judgement as to the quantum and timing of income recognised from volume rebates in particular the specific contractual terms negotiated through the sourcing agreement with Waitrose referred to on page 114 in the Directors' Report.

Waitrose has supplier agreements which span the Ocado period end and which are not typically settled for several months after the Ocado period end, as a result there is a judgement over the amount to recognise as income. This has been identified as a Key Source of Estimation Uncertainty page 134.

Promotional allowances and media income

The volume and quantum of arrangements and real time delivery increase the risk that campaigns may not be delivered at all or in the agreed timeframe.

Refer to page 66 (Audit Committee statement) and note 2.1 (financial statement disclosures including the related Critical Accounting Judgements and Key Sources of Estimation Uncertainty in note 1.4).

How the scope of our audit responded to the key audit matter



Our audit procedures included a range of tests as set out below:

Volume rebates

Our audit procedures in relation to the Waitrose year end accrual included:

- meeting Waitrose management to assess the controls and processes in place over the tracking of rebate income;
- assessing Ocado Management's controls over their calculation of the year end rebate accrual which included obtaining a detailed analysis of Waitrose supplier agreements, their contractual terms and previous settlements;
- obtaining a confirmation directly from Waitrose of the information used by Management in their year-end estimate;
- testing the accuracy of the accrual and agreeing the inputs to supporting documentation;
- agreeing the terms of a sample of agreements to underlying contracts and then to the terms used in the calculation of the rebate accrual;
- testing a sample of invoices to Waitrose to confirm cash settlement; and
- analysing historic trends in the settlement of the Waitrose rebate accrual and using sensitivity analysis to assess whether the accrual was reasonable.

Promotional allowances and media income

We focused our procedures on whether an agreement for the promotional or media income recognised existed, whether the relevant promotion or media advertising had taken place, and whether the value was recorded in the appropriate period.

Our testing procedures included:

- assessing the controls over the process for recognising such income including the requirement for an approved media plan or supplier agreement and detailed margin analysis on product categories highlighting unusual variances;
- holding meetings with the principal buyers to corroborate our understanding;
- agreeing a sample of media campaigns and promotions from the promotions and media systems to the underlying agreements; and
- circulating a sample of independent confirmations to suppliers.

Key observations



Based on the audit procedures performed, we are satisfied that commercial income has been recognised appropriately and reflects the substance of the arrangements.

Capitalisation of internal development costs

Key audit matter description



Ocado invests significantly in developing the software it uses to operate its retail business, to increase capacity and efficiency of Customer Fulfilment Centres ("CFCs"), and to enhance its Ocado Solutions technology and distribution capability.

This year Ocado has capitalised internal development costs of £42.7m (2016: £34.9m) to intangible assets and £11.8m (FY16: £10.1m) to property, plant and equipment.

We identified this as a key audit matter due to the significant amounts invested and the potential for fraud or error as a result of the judgement involved in assessing whether the criteria for capitalisation under IAS 38 *Intangible Assets* are met.

We focused our audit procedures on the risks:

- that capitalised costs relate to projects that are not currently technically feasible or for which the probability of future economic benefits is not yet proven;
- of impairment of existing assets, where new technology supersedes previously capitalised projects or inappropriate amortisation rates are used; and
- of potential for fraud or error inherent in judgements over appropriate capitalisation.

Refer to page 66 (Audit Committee statement), notes 3.1 and 3.2 to the financial statements and the disclosures in respect of Critical Accounting Judgements and Key Sources of Estimation Uncertainty in note 1.4.

How the scope of our audit responded to the key audit matter



Our audit procedures included the following:

- reviewing Management's controls over their process for capitalisation, which include detailed pre-approval papers setting out consideration of compliance with the criteria of IAS 38 *Intangible assets*. We also reviewed controls over the process for assessing impairment, for example a half-yearly review of project status involving project managers and finance;
- for the most significant projects meeting with project managers responsible to gain an understanding of the project, and to inform our assessment as to the feasibility and economic benefits of individual projects;
- testing a sample of project additions in the year against the IAS 38 capitalisation criteria;
- performing a number of audit procedures on internal staff costs capitalised including substantive testing to timesheets, discussions with project managers on the quantum of hours and nature of work attributable to the project, reviewing rates per hour by reference to payroll data and the standard rate per hour of IT development and engineering staff;
- separately reviewing a sample of the most significant projects for indicators of impairment. This included reviewing the profile of all project additions to assess whether any projects had been abandoned or put on hold and held discussions with project managers to challenge whether the assets are still in use; and
- performing a series of analytic tests on the costs capitalised to identify items that in our judgement appeared unusual, and obtaining explanations and supporting evidence from Management, for example challenging projects with limited or negative costs capitalised in the period.

Key observations



Based on the audit procedures performed, we are satisfied that amounts capitalised appropriately reflect the requirements of IAS 38.



INDEPENDENT Auditor's Report

to the members of Ocado plc

Accounting for Ocado Solutions contracts

Key audit matter description



The introduction of Segmental Reporting during the year has placed greater emphasis on the £117.7m of revenue recognised in the Ocado Solutions business. This includes revenue being recognised for logistics and distribution services as well as the delivery of hardware and software solutions.

There are currently a limited number of Ocado Solutions contracts therefore results may be materially impacted by the revenue recognition profile of these contracts.

The accounting for Ocado Solutions contracts, which generally have a range of deliverables, is complex and requires judgement, particularly as to the timing of revenue recognition. Ocado Solution contracts can involve significant upfront payments and thus there is a potential risk of misstatement (due to fraud or error) if an inappropriate approach to revenue recognition is taken.

Refer to page 66 (Audit Committee report), note 2.2 to the consolidated financial statements on segmental reporting and note 1.4 to the consolidated financial statements on the related Critical Accounting Judgements and Key Sources of Estimation Uncertainty.

How the scope of our audit responded to the key audit matter



Our audit procedures focused on:

- understanding the substance of the contractual requirements, particularly for those contracts that involve designing and developing customised software solutions; and
- considering the appropriate accounting literature, notably IAS 18 Revenue and also, for those contracts that involve designing and developing bespoke software solutions, IAS 11 Construction Contracts.

Our work included:

- reviewing and assessing contractual agreements in order to identify the key accounting considerations such as the identification of the deliverables within the contracts;
- meeting with the relevant commercial managers to understand the substance of the agreements;
- obtaining evidence to support transactions such as invoices for services, cash receipts, or proof of delivery for software solutions; and
- assessing whether the accounting treatment applied by Management is in line with the appropriate accounting standards.

Key observations



We are satisfied that revenue from the Ocado Solutions contracts has been recognised appropriately and in line with the contractual agreements and the relevant accounting standards.

Refer to note 2.1 (page 136) in the consolidated financial statements.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	We determined materiality for the group to be £6 million (2016: £5 million).
Basis for determining materiality	We determined materiality to be £6 million based on revenue. As a percentage materiality is 0.4% of revenue (2016: 0.4% of revenue).
	Parent company materiality was determined as less than 0.5% of total assets.
Rationale for the benchmark applied	This has been based on professional judgement and the requirement of auditing standards. We believe revenue to be the financial measure most relevant to users of the financial statements given Ocado's performance, in particular its levels of profitability and the significant investment in technology.

It also provides a consistent basis to the approach taken by the previous auditor.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £300,000 (2016: £235,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

This was our first year as auditor of Ocado and as such our audit approach included an investment of time to understand the business. We reviewed the audit work papers of the previous auditor, visited each of the three operating Customer Fulfilment Centres ("CFCs") and met with senior management across the group and members of the Audit Committee. We gained a detailed understanding of key processes and controls supporting the group's transactions and assessed the risks of material misstatement for each account balance or disclosure item. Taken together, this informed our group audit scope.

As set out in note 2.2 to the financial statements, during the year the group started to consider performance for two segments: the established online retail and distribution business; and the Ocado Solutions business set up to exploit the group's significant investment in technology. The first new deals for this business were signed in the period and the results for the existing Morrisons contract were included in the segment. Our audit procedures cover both segments.

The scope of our group audit includes all significant trading companies in the UK, including the joint venture with Morrisons. The results taken together for these entities account for over 97% of the group's revenue, profit after tax and net assets. For the entities not subject to detailed audit work, the group's captive insurance company in Malta and the development operations in Poland and Spain, we tested the consolidation process and carried out analytical procedures to confirm our conclusion there were no material misstatements in the aggregated financial information.

All entities are managed from one central location in the UK and all audit work is completed by the group audit team, led by the Senior Statutory Auditor.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.



INDEPENDENT Auditor's Report

to the members of Ocado plc

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

We have nothing to report in respect of these matters.

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Director's on 3 May 2017 to audit the financial statements for the 53 weeks ending 3 December 2017 and subsequent financial periods. This is our first year as external auditor.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Mark Lee-Amies FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

6 February 2018

CONSOLIDATED Income Statement

for the 53 weeks ended 3 December 2017

	Notes	53 Weeks Ended 3 December 2017	52 Weeks Ended 27 November 2016
		£m	£m
Revenue	2.3	1,463.8	1,271.0
Cost of sales		(959.5)	(835.7)
Gross profit		504.3	435.3
Other income	2.4	61.0	52.9
Distribution costs		(434.2)	(365.7)
Administrative expenses		(117.7)	(100.6)
Operating profit before result from joint venture and exceptional items		13.4	21.9
Share of result from joint venture	3.4	1.6	2.1
Exceptional items®	2.7	(0.3)	(2.4)
Operating profit	2.5	14.7	21.6
Finance income	4.5	0.2	0.2
Finance costs	4.5	(13.9)	(9.7)
Profit before tax		1.0	12.1
Taxation	2.8	—	(0.1)
Profit for the period		1.0	12.0
Earnings per share		pence	pence
Basic earnings per share	2.9	0.16	2.02
Diluted earnings per share	2.9	0.16	1.96

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

	Notes	53 Weeks Ended 3 December 2017	52 Weeks Ended 27 November 2016
		£m	£m
Operating profit		14.7	21.6
Adjustments for:			
Depreciation of property, plant and equipment	3.2	55.0	47.0
Amortisation expense	3.1	15.4	12.6
Impairment of property, plant and equipment	3.2	0.4	0.3
Impairment of intangible assets	3.1	0.2	0.4
Exceptional items® – impairment of property, plant and equipment	2.7	—	0.7
Exceptional items® – other	2.7	0.3	1.7
EBITDA®		86.0	84.3

The notes on pages 132 to 177 form part of these financial statements.



See Alternative Performance
Measures on page 196



CONSOLIDATED STATEMENT OF Comprehensive Income

for the 53 weeks ended 3 December 2017

	Notes	53 Weeks Ended 3 December 2017	£m	52 Weeks Ended 27 November 2016	£m
Profit for the period		1.0		12.0	
Other comprehensive income:					
Items that may be subsequently reclassified to profit or loss					
Cash flow hedges					
— Gains arising on forward contracts	4.9	—	0.1		
— Gains arising on hedging contracts	4.9	0.5	0.8		
— Losses arising on hedging contracts	4.9	(0.2)	(0.2)		
Foreign exchange gains on translation of foreign subsidiary	4.9	0.2	0.3		
Other comprehensive income for the period, net of tax		0.5		1.0	
Total comprehensive income for the period		1.5		13.0	

The notes on pages 132 to 177 form part of these financial statements.

CONSOLIDATED Balance Sheet

as at 3 December 2017

	Notes	3 December 2017 £m	27 November 2016 £m
Non-Current Assets			
Intangible assets	3.1	112.4	79.7
Property, plant and equipment	3.2	453.7	397.3
Deferred tax asset	2.8	14.3	14.2
Financial assets	3.3	3.0	2.6
Investment in joint ventures	3.4	51.0	57.1
		634.4	550.9
Current Assets			
Inventories	3.7	42.9	39.1
Trade and other receivables	3.8	66.8	59.4
Derivative financial instruments	4.6	0.4	0.3
Cash and cash equivalents	3.9	150.0	50.9
		260.1	149.7
Total Assets		894.5	700.6
Current Liabilities			
Trade and other payables	3.10	(228.6)	(205.6)
Borrowings	4.2	—	(52.9)
Obligations under finance leases	4.3	(27.2)	(29.8)
Derivative financial instruments	4.6	(0.1)	(0.2)
Provisions	3.11	(1.3)	(2.4)
		(257.2)	(290.9)
Net Current Assets/(Liabilities)		2.9	(141.2)
Non-Current Liabilities			
Borrowings	4.2	(243.3)	(6.1)
Obligations under finance leases	4.3	(107.5)	(127.0)
Provisions	3.11	(8.8)	(7.3)
Deferred tax liability	2.8	(7.0)	(6.9)
		(366.6)	(147.3)
Net Assets		270.7	262.4
Equity			
Share capital	4.9	12.6	12.6
Share premium	4.9	258.4	256.9
Treasury shares reserve	4.9	(48.0)	(48.0)
Reverse acquisition reserve	4.9	(116.2)	(116.2)
Other reserves	4.9	0.7	0.2
Retained earnings		163.2	156.9
Total Equity		270.7	262.4

The notes on pages 132 to 177 form part of these financial statements.

The Consolidated financial statements on pages 127 to 177 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)
31 January 2018



CONSOLIDATED STATEMENT OF Changes in Equity

for the 53 weeks ended 3 December 2017

	Notes	Share Capital £m	Share Premium £m	Treasury Shares £m	Reverse Acquisition Reserve £m	Other Reserves £m	Retained Earnings £m	Total Equity £m
Balance at 29 November 2015		12.6	258.7	(50.9)	(116.2)	(0.8)	138.5	241.9
Profit for the period		—	—	—	—	—	12.0	12.0
Other comprehensive income:								
Cash flow hedges								
— Gains arising on forward contracts	4.9	—	—	—	—	0.1	—	0.1
— Gains arising on hedging contracts	4.9	—	—	—	—	0.8	—	0.8
— Losses arising on hedging contracts	4.9	—	—	—	—	(0.2)	—	(0.2)
Translation of foreign subsidiary	4.9	—	—	—	—	0.3	—	0.3
Total Comprehensive Income for the Period Ended 27 November 2016		—	—	—	—	1.0	12.0	13.0
Transactions with owners:								
— Issues of ordinary shares	4.9	—	1.1	—	—	—	—	1.1
— Share-based payments charge	4.10	—	—	—	—	—	6.4	6.4
— Disposal of treasury shares	4.9	—	(2.9)	2.9	—	—	—	—
Total Transactions with Owners		—	(1.8)	2.9	—	—	6.4	7.5
Balance at 27 November 2016		12.6	256.9	(48.0)	(116.2)	0.2	156.9	262.4
Profit for the period		—	—	—	—	—	1.0	1.0
Other comprehensive income:								
Cash flow hedges								
— Gains arising on hedging contracts	4.9	—	—	—	—	0.5	—	0.5
— Losses arising on hedging contracts	4.9	—	—	—	—	(0.2)	—	(0.2)
Translation of foreign subsidiary	4.9	—	—	—	—	0.2	—	0.2
Total Comprehensive Income for the Period Ended 3 December 2017		—	—	—	—	0.5	1.0	1.5
Transactions with owners:								
— Issues of ordinary shares	4.9	—	1.5	—	—	—	—	1.5
— Share-based payments charge	4.10	—	—	—	—	—	5.3	5.3
Total Transactions with Owners		—	1.5	—	—	—	5.3	6.8
Balance at 3 December 2017		12.6	258.4	(48.0)	(116.2)	0.7	163.2	270.7

The notes on pages 132 to 177 form part of these financial statements.

CONSOLIDATED STATEMENT OF Cash Flows

for the 53 weeks ended 3 December 2017

	Notes	53 weeks Ended 3 December 2017	52 weeks Ended 27 November 2016
		£m	£m
Cash Flows from Operating Activities			
Profit before tax		1.0	12.1
Adjustments for:			
— Depreciation, amortisation and impairment losses	3.1, 3.2	71.0	61.0
— Movement in provisions	3.11	0.4	0.6
— Share of profit in joint venture	3.4	(1.6)	(2.1)
— Share-based payments charge	2.6	5.3	6.4
— Net Finance costs	4.5	13.7	9.5
Changes in working capital:			
— Movement in inventories		(3.8)	(9.2)
— Movement in trade and other receivables		(10.2)	2.5
— Movement in trade and other payables		45.1	25.2
Cash Generated from Operations		120.9	106.0
Interest paid		(14.1)	(9.1)
Net Cash Flows from Operating Activities		106.8	96.9
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(119.5)	(85.3)
Purchase of intangible assets		(49.9)	(38.6)
Dividend received from joint venture		7.6	8.4
Interest received		0.2	0.2
Net Cash Flows used in Investing Activities		(161.6)	(115.3)
Cash Flows from Financing Activities			
Proceeds from the issue of ordinary share capital		1.5	1.1
Proceeds from borrowings		307.5	61.3
Repayment of borrowings		(110.0)	(11.5)
Repayments of obligations under finance leases		(36.5)	(26.4)
Payment of financing fees		(8.6)	(1.2)
Settlement of cash flow hedges		—	0.2
Net Cash Flows from Financing Activities		153.9	23.5
Net Increase in Cash and Cash Equivalents		99.1	5.1
Cash and cash equivalents at the beginning of the period		50.9	45.8
Cash and Cash Equivalents at the end of the Period	3.9	150.0	50.9

The notes on pages 132 to 177 form part of these financial statements.



NOTES TO THE CONSOLIDATED Financial Statements

SECTION 1 — BASIS OF PREPARATION

1.1 General Information

Ocado Group plc (hereafter “the Company”) is a listed company incorporated in the United Kingdom under the Companies Act 2006 (Registration number 07098618). The address of its registered office is Buildings 1 & 2 Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL. The financial statements comprise the results of the Company, its subsidiaries and the Group’s interest in a jointly controlled entity (hereafter “the Group”). See Note 5.1. The Financial Period represents the 53 weeks ended 3 December 2017. The prior financial period represents the 52 weeks ended 27 November 2016. The principal activities of the Group are described in the Strategic Report on pages 06 to 47.

1.2 Basis of Preparation

The financial statements have been prepared in accordance with the Listing Rules and the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority (where applicable), International Financial Reporting Standards (IFRS) and International Financial Reporting Standards Interpretation Committee (IFRIC) 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 2016 of Ocado Group plc.

The financial statements are presented in pounds sterling, rounded to the nearest hundred thousand unless otherwise stated. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial asset investments and certain financial assets and liabilities, which are held at fair value.

The Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements of the Group.

New standards, amendments and interpretations issued that are effective but not material to the Group

The Group has considered the following new standards, interpretations and amendments to published standards that are effective for the Group for the financial year beginning 28 November 2016 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:

	Effective Date	
Various	Amendments to various IFRSs and IASs including those arising from the IASB’s annual improvements project	1 January 2016
IFRS 10	Consolidated financial statements (amendments)	1 January 2016
IFRS 11	Joint arrangements (amendments)	1 January 2016
IFRS 12	Disclosure in other entities (amendments)	1 January 2016
IAS 1	Presentation of financial statements (amendments)	1 January 2016
IAS 16	Property, plant and equipment (amendments)	1 January 2016
IAS 28	Investments in associates and joint ventures (amendments)	1 January 2016
IAS 34	Interim financial reporting (amendments)	1 January 2016
IAS 38	Intangible assets (amendments)	1 January 2016

New standards, amendments and interpretations not yet adopted by the Group

The following further new standards, interpretations and amendments to published standards and interpretations which are relevant to the Group have been issued but are not effective for the financial year beginning 28 November 2016 and have not been adopted early:

	Effective Date	
IFRS 2	Share-based payments (amendments)	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019
IAS 12	Income taxes (amendments)	1 January 2017
IAS 28	Investments in associates and joint ventures (amendments)	1 January 2018
Various	Amendments to various IFRSs and IASs including those arising from the IASB’s annual improvements project	Various

The following new standards are not yet effective and the impact on the Group is currently under review:

- IFRS 9 “Financial Instruments”, published in July 2014, replaces the existing guidance in IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9. Our initial review of IFRS 9 has indicated that the impact of this new standard on the Group’s results is unlikely to be material.
- IFRS 15 “Revenue from Contracts with Customers” (endorsed by the EU) provides guidance on the recognition and measurement of revenue. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. This applies to all contracts with customers except those in the scope of other standards. This new standard will replace IAS 18 “Revenue” and is effective for annual periods beginning on or after 1 January 2018 unless adopted early. The Group does not expect there to be a material impact from IFRS 15. The Group will continue to monitor the impact of IFRS 15 on new service contracts as they arise.

1.2 Basis of Preparation (continued)

— IFRS 16 “Leases” provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. The main aim of this standard is to ensure all leases will be reflected on the Consolidated Balance Sheet, irrespective of substance over form. The new standard will replace IAS 17 “Leases” and is effective for annual periods beginning on or after 1 January 2019 unless adopted early. IFRS 16 is expected to have a significant impact on the amounts recognised in the Group’s consolidated financial statements. On adoption of IFRS 16 the Group will recognise within the balance sheet a right of use asset and lease liability for all applicable leases. Within the income statement, rent expense will be replaced by depreciation and interest expense. This will result in a decrease in operating expenses and an increase in finance costs with no net impact. The standard will also impact a number of statutory measures such as operating profit, cash generated from operations, and alternative performance measures, such as EBITDA®, that are used by the Group.

The Group’s initial review of IFRS 16 indicates that the financial impact will result in an increase in finance leased assets of approximately £331 million, and a corresponding increase in financial liabilities of £335 million, on the Consolidated Balance Sheet.

1.3 Basis of Consolidation

The consolidated Group financial statements consist of the financial statements of the Company, all entities controlled by the Company (its subsidiaries) and the Group’s share of its interests in joint ventures.

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which power over the operating and financial decisions is obtained and cease to be consolidated from the date on which power is transferred out of the Group. Power is achieved when the Company has the ability and right, directly or indirectly, to govern the financial and operating policies of an entity. This ability enables the Company to affect the amount of economic benefit generated from the entity’s activities. This is evident for all of the Group’s subsidiaries listed in Note 5.1.

Ocado Polska Sp. z o.o. has a year end of 30 November 2017, as the Poland Accounting Act requires a financial year to be 12 full calendar months from the prior year end date. Ocado Spain S.L.U. has a year end of 31 December 2017, as established in its articles of association. There was no material movement between the reporting date of the Group and the reporting dates of these entities.

All other subsidiaries have a year end of 3 December 2017.

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.

Joint Ventures

The Group’s share of the results of joint ventures is included in the Consolidated Income Statement using the equity method of accounting. Investments in joint ventures are carried in the Consolidated Balance Sheet at cost plus post-acquisition changes in the Group’s share of the net assets of the entity, less any impairment in value. The carrying values of the investments in joint ventures include acquired goodwill.

If the Group’s share of losses in a joint venture or associate equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture.

Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group’s interest in the entity.

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.



See Alternative Performance Measures on page 196



NOTES TO THE CONSOLIDATED Financial Statements

1.3 Basis of Consolidation (continued)

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 Consolidated Income Statement, except when deferred in equity as qualifying cash flow hedges.

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

1.4 Significant Accounting Policies and Critical Estimates, Judgements 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.

Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information or more experience. Significant accounting policies, key estimation uncertainties, and judgements are provided below.

Accounting policies that are significant due to the nature of business:

Area	Policy	Note
Revenue recognition	Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred, which is upon delivery of the goods to the customer's home for Ocado deliveries and upon transfer of goods to the courier for third party deliveries. Revenue from the rendering of services is recognised over the period in which services are rendered.	2.1

Key estimation uncertainties:

Area	Estimate	Note
Cost of Sales	At the period end the Group is required to estimate supplier income due from annual agreements for volume rebates, which span across the year end date. Confirmation of some amounts due is often only received three to six months after the period end. These post year end amounts are further outlined in note 3.8 on page 151.	2.1
Recognition of deferred tax assets	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 estimates regarding the prudent forecasting of future taxable profits of the business and in applying an appropriate risk adjustment factor.	2.8
Useful economic life and residual value of assets	The assessment of the useful economic life and residual value of the Group's assets involves a significant amount of judgement 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. A review of useful lives took place during the year.	3.1/3.2

1.4 Significant Accounting Policies and Critical Estimates, Judgements and Assumptions (continued)

Significant Judgements:

Area	Judgement	Note
Intangible assets (capitalisation of software costs)	The cost of internally generated assets is capitalised as an intangible asset where it is determined by management's judgement that the ability to develop the assets is technically feasible, will be completed, and that the asset will generate economic benefit that outweighs its cost.	3.1
Exceptional items®	The Group applies judgement in identifying the significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group's underlying business performance.	2.7
Share options and other equity instruments	The selection of valuation models, such as the Black-Scholes model, and parameters used in order to determine the fair value of certain share awards requires judgement.	4.10

Other estimates, assumptions and judgements are applied by the Group. These include, but are not limited to, depreciation and amortisation on tangible and intangible assets respectively, and provisions. These estimates, assumptions and judgements are also evaluated on a continual basis but are not significant.

1.5 Going Concern Basis

Accounting standards require that Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare financial statements on the going concern basis. There has been no material uncertainty identified which would cast significant doubt upon the Group's ability to continue using the going concern basis of accounting for the 12 months following the approval of this Annual Report.

In assessing going concern, the Directors take into account the Group's cash flows, solvency and liquidity positions and borrowing facilities. At the period end, the Group had cash and cash equivalents of £150.0 million (2016: £50.9 million), external gross debt® (excluding finance leases payable to MHE JVCo) of £283.9 million (2016: £107.0 million) and net current assets of £2.9 million (2016: liabilities of £141.2 million). During the year the Group issued £250 million of senior secured notes with a coupon rate of 4% and renegotiated its revolving credit facility. The £100 million revolving credit facility contains typical financial covenants and runs until June 2022. The facility has not been drawn down to date. The Group forecasts its liquidity requirements, working capital position and the maintenance of sufficient headroom against the financial covenants in its borrowing facilities (see below). The financial position of the Group, including information on cash flow, can be found in Our Financials on pages 118 to 191. In determining whether there are material uncertainties, the Directors consider the Group's business activities, together with factors that are likely to affect its future development and position (see Our Strategy on pages 22 and 23) and the Group's principal risks and the likely effectiveness of any mitigating actions and controls available to the Directors (see pages 40 and 41).

Further details of the Group's considerations are provided in the Group's Viability and Going Concern Statement on page 39.



See Alternative Performance Measures on page 196



NOTES TO THE CONSOLIDATED Financial Statements

SECTION 2 — RESULTS FOR THE YEAR

2.1 Profit Before Tax

Accounting Policies

Revenue

The Group follows the principles of IAS 18 “Revenue”, in determining appropriate revenue recognition policies.

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. These 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 and carrier bag receipts are included in revenue.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred. For deliveries performed by Ocado, recognition of revenue is upon delivery of the goods to the customer's home. For goods which are delivered by third party couriers, revenue is recognised when the items have been transferred to the third party for onward delivery to the customer. Income from “Ocado Smart Pass”, the Group's discounted pre-pay membership scheme, is recognised in the period to which it relates, on an accruals basis.

Revenue from the rendering of services is recognised over the period in which services are rendered. Initial licence contract revenues are recognised over a term which is specific to individual customer contracts. For services, the term is the period over which services are rendered. For the licence of technology assets, the revenue is recognised over a period consistent with the expected life of the related technology assets. Annual licence contract revenues, including associated service and operational fees, are recognised as income in the relevant period. Ocado Solutions contracts have a range of deliverables including hosting, license fees, logistics and distribution services as well as the delivery of hardware and software solutions.

Each contract is considered on a case by case basis. Typically revenue is recognised on a number of ways including in line with the contractual terms, in line with the services performed, in line with the life of the assets or according to the substance of the arrangements and the nature of the solution being delivered or another method deemed appropriate.

Cost of Sales

Cost of sales represents the cost of groceries and other products the Group sells, any associated licence fees which are driven by 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.

Commercial Income

The Group continues to have agreements with suppliers whereby promotional allowances and volume-related rebates are received in connection with the promotion or purchase of goods for resale from those suppliers. The allowances and rebates are included in cost of sales. For the 53 weeks ended 3 December 2017, promotional allowances represent 81% (2016: 82%) of commercial income, with volume-related rebates representing 19% (2016: 18%).

Promotional Allowances

Cost of sales includes monies received from suppliers in relation to the agreed funding of selected items that are sold by the Group on promotion and is recognised once the promotional activity has taken place in the period to which it relates on an accruals basis. The estimates required for this source of income are limited because the time periods of promotional activity, in most cases, are less than one month and the invoicing for the activity occurs on a regular basis shortly after the promotions have ended.

Volume-Related Rebates

At the period end the Group is required to estimate supplier income due from annual agreements for volume rebates, which span across the year end date. Estimates are required due to the fact that confirmation of some amounts due is often only received three to six months after the period end. Where estimates are required, these are based on current performance, historical data for prior years and a review of significant supplier contracts. A material amount of this income is received from third parties via the Group's supply agreement with Waitrose. The estimates for this income are prepared following discussions with Waitrose throughout the year and regularly reviewed by senior management.

Uncollected Commercial Income

Uncollected commercial income as at the balance sheet date is classified within trade and other receivables. Where commercial income has been earned, but not yet invoiced at the balance sheet date, the amount is recorded in accrued income.

Other Income

Other income comprises the fair value of consideration received or receivable for advertising services provided by Ocado to suppliers and other third parties on the Webshop, commission income, rental income, sublease payments receivable and amounts receivable not in the ordinary course of business. Income for advertising services is recognised over the particular time period for which the service is provided on an accruals basis. An adjustment is made at the period end to accrue the amount of income in relation to campaigns that may span the period end; however, such adjustments are not typically material.

Employee Benefits

The Group contributes to the personal pension plans of its staff through two pension plans: a defined contribution Group personal pension, which is administered by Legal & General, and a defined contribution Money Purchase Scheme administered by People's Pensions. Legacy employer contributions to the schemes are calculated as a percentage of salary based on length of scheme membership. From October 2017 new members to the scheme are enrolled into a matching contribution structure. Contributions are charged to the income statement in the period to which they relate.

2.1 Profit Before Tax (continued)

Distribution Costs

Distribution costs consist of all the costs incurred, excluding product costs, to the point of sale. In most cases, this is the customer's home. This includes the payroll-related expenses for the picking, dispatch and delivery of products sold to the point of sale, the cost of making those deliveries, including fuel, tolls, maintenance of vehicles, the operating costs of the properties required for the picking, dispatch and onward delivery operations and all associated depreciation, amortisation and impairment charges, call centre costs and payment processing charges. This includes costs incurred on behalf of Morrisons which are subsequently recharged.

Administrative Expenses

Administrative expenses consist of all IT costs, advertising and marketing expenditure (excluding vouchers), share-based payments costs, employment costs of all central functions, which include board, legal, finance, human resources, marketing and procurement, rent and other property-related costs for the head office, all fees for professional services and the depreciation, amortisation and impairment associated with IT equipment, software, fixtures and fittings. Additionally, this includes costs incurred on behalf of Morrisons which are subsequently recharged.

Exceptional Items^④

The Group has adopted an income statement format which seeks to highlight significant items within the Group results for the year. The Group believes this format is useful as it highlights one-off items, such as material set-up costs for new fulfilment warehouses, reorganisation and restructuring costs, profit or loss on disposal of operations, and impairment of assets. Exceptional items, as disclosed on the face of the Consolidated Income Statement, are items that due to their material and/or non-recurring nature, as determined by management, have been classified separately in order to draw them to the attention of the reader of the financial statements and to avoid distortion of underlying performance. This facilitates comparison with prior periods to assess trends in financial performance more readily. It is determined by management that each of these items relates to events or circumstances that are non-recurring in nature.

The Group applies judgement in identifying the significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group's underlying business performance. Examples of items that the Group considers as exceptional include, but are not limited to, material costs relating to the opening of a new warehouse, corporate reorganisations, head office relocation costs, and any material costs, outside of the normal course of business as determined by management.

2.2 Segmental Reporting

The Group's principal activities are grocery retailing and the development and monetisation of Intellectual Property ("IP") and technology used for the online retailing, logistics and distribution of grocery and consumer goods. The Group is not reliant on any major customer for 10% or more of its revenue.

In accordance with IFRS 8 "Operating Segments", an operating segment is defined as a business activity whose operating results are reviewed by the chief operating decision-maker ("CODM") and for which discrete information is available. Operating segments are reported in a manner consistent with the internal reporting provided to the CODM, as required by IFRS 8. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors.

During the period the Group determined it has two reportable segments: Retail and Solutions. The Retail segment provides online grocery and general merchandise offerings to customers within the UK. The Solutions segment provides end-to-end online retail solutions to corporate customers within and outside of the UK. In order to reconcile segment revenues^④ to the Group revenue and profit, a third category entitled "Other" shows unallocated costs such as central business activities.

The Board assesses the performance of all segments on the basis of EBITDA^④. EBITDA^④ as reported internally by segment is the key measure utilised in assessing the performance of operating segments within the Group.

The accounting policies of the segments are the same as those for the Group as a whole. Any transactions between the business segments are subject to normal commercial terms and market conditions. Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment revenue ^④ and EBITDA ^④	Retail £m	Solutions £m	Other £m	Total £m
2016				
Segment revenue ^④	1,171.6	99.4	—	1,271.0
Segment EBITDA ^④	75.8	5.5	3.0	84.3
2017				
Segment revenue ^④	1,346.1	117.7	—	1,463.8
Segment EBITDA ^④	81.0	2.5	2.5	86.0



See Alternative Performance Measures on page 196



NOTES TO THE CONSOLIDATED Financial Statements

2.3 Gross Sales^④

The reconciliation of revenue to gross sales^④ is as follows:

	53 Weeks Ended 3 December 2017 £m	52 Weeks Ended 27 November 2016 £m
Revenue	1,463.8	1,271.0
VAT	114.9	98.9
Marketing vouchers	22.7	16.8
Gross sales ^④	1,601.4	1,386.7

2.4 Other Income

Other income comprises:

	53 Weeks Ended 3 December 2017 £m	52 Weeks Ended 27 November 2016 £m
Media and other income	48.1	38.6
Rental income	12.9	14.3
Other income	61.0	52.9

2.5 Operating Expenses

Operating expenses include:

	53 Weeks Ended 3 December 2017 £m	52 Weeks Ended 27 November 2016 £m
Cost of inventories recognised as an expense	944.3	821.2
Employment costs	2.6	285.2
Amortisation expense	3.1	15.4
Depreciation of property, plant and equipment	3.2	55.0
Impairment of property, plant and equipment, included in:		
— Distribution costs	3.2	0.4
— Exceptional items ^④	2.7, 3.2	—
Impairment of intangible assets, included in:		
— Administrative expenses	3.1	0.2
Impairment of receivables	3.8	(0.2)
Research and development costs		
Operating lease rentals:		
— Land and buildings		22.7
— Other leases		0.1
Net foreign exchange movements	0.3	0.6



See Alternative Performance
Measures on page 196

2.5 Operating Expenses (continued)

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

	53 Weeks Ended 3 December 2017 £'000	52 Weeks Ended 27 November 2016 £'000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	70	65
Fees payable to the Company's auditor and their associates for the audit of the Company's subsidiaries	275	257
Total audit fees	345	322
— Audit related assurance services	40	31
— Other assurance services	51	50
— Corporate finance services	220	—
Total non-audit fees	311	81
	656	403

In addition to the above amounts, during the year the Group obtained finance services from its previous auditor, PricewaterhouseCoopers LLP, amounting to £105,000.

2.6 Employee Information

Employment costs during the financial period were as follows:

	53 Weeks Ended 3 December 2017 £m	52 Weeks Ended 27 November 2016 £m
Staff Costs During the Period:		
Wages and salaries	297.4	252.8
Social security costs	25.7	22.2
Other pension costs	5.9	5.6
Share-based payment expense*	6.9	7.1
Total gross employment costs	335.9	287.7
Staff costs capitalised to intangible assets	(38.9)	(29.8)
Staff costs capitalised to property, plant and equipment	(11.8)	(8.6)
Total Employment Cost Expense	285.2	249.3
Average Monthly Number of Employees (including Executive Directors) by Function		
Operational staff	10,267	9,308
Support staff	1,966	1,622
	12,233	10,930

* Included in the share-based payment expense is the IFRS 2 equity-settled charge of £5.3 million (2016: £6.4 million) and an additional provision of £1.6 million (2016: £0.7 million) for the payment of amounts due to participants of the Cash LTIP and the Beauty MIP, and for the payment of employer's national insurance contributions on certain employee incentive schemes.



NOTES TO THE CONSOLIDATED Financial Statements

2.7 Exceptional items^⑧

	53 Weeks Ended 3 December 2017 £m	52 Weeks Ended 27 November 2016 £m
Head office relocation costs		
— Impairment of property, plant and equipment	—	0.7
— Other	0.2	0.8
Litigation costs	0.1	0.9
	0.3	2.4

Head office relocation costs

Following the growth of the business, the Group relocated its head office. The move to the new premises was completed in stages to minimise the impact on the business and the Group incurred dual running costs as it transitioned to the new premises. Due to the one-off nature of the head office move, these costs were treated as exceptional.

Litigation costs

The Group has incurred litigation costs relating to the recovery of interchange fees for card transactions. The fees relating to this are material and non-recurring and have therefore been treated as exceptional.

2.8 Taxation

Accounting Policies

The tax charge for the period comprises current and deferred tax. Tax is recognised in the Consolidated Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is also recognised in other comprehensive income or directly in equity respectively.

Current Taxation

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

Deferred Taxation

Deferred tax is recognised using the balance sheet liability method on temporary differences arising between the tax base of assets and liabilities and their carrying amount in the financial statements. Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Recognition, therefore, involves judgement regarding the prudent risk-adjusted 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 have forecast that the Group would generate future taxable profits against which existing tax losses could be relieved. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

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

Research and Development Expenditure Credit

The Group takes advantage of the incentives offered under the UK's Research and Development Expenditure Credit (RDEC) regime to claim a credit for the Group's significant expenditure on qualifying research and development. As enacted in the Finance Act 2015, the credit due to the Group is equal to 11% of the Group's qualifying expenditure. The Group continues to utilise the additional benefits from the scheme in light of the Group's commitment to its innovative technology and software.

During the year the Group claimed a credit of £2.4 million for the 52 weeks ended 27 November 2016 (2016: £1.3 million for the 52 weeks ended 29 November 2015).

Future Changes to Tax Legislation

The Group undertakes regular reviews in order to ensure its ongoing compliance with current and future proposed changes to UK tax legislation. The Group has undertaken a review of the Group's activities in light of the OECD's Base Erosion and Profit Shifting (BEPS) publications and does not foresee any significant impact on the Group's effective tax rate resulting from the proposed changes in the short to medium term.

^⑧ See Alternative Performance Measures on page 196

2.8 Taxation (continued)

Taxation — Income Statement

	53 Weeks Ended 3 December 2017 £m	52 Weeks Ended 27 November 2016 £m
Recognised in the Consolidated Income Statement		
Current tax:		
UK corporation tax on profits of the period	—	—
Overseas corporation tax on profits of the period	—	0.1
Adjustments in respect of prior periods	—	—
Total Current Tax	—	0.1
Deferred tax:		
Origination and reversal of temporary differences	—	—
Total Deferred Tax	—	—
Income Tax Expense	—	0.1

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the effective tax rate applicable to profits of the Group as follows:

	53 Weeks Ended 3 December 2017 £m	52 Weeks Ended 29 November 2016 £m
Profit before tax	1.0	12.1
Effective tax charge at the UK tax rate of 19% (2016: 20%)	0.2	2.4
Effect of:		
Utilisation of brought forward losses	(3.9)	(0.6)
Permanent differences	2.7	1.7
Temporary differences on which no deferred tax recognised	1.0	(3.4)
Prior year adjustments	—	—
Income Tax charge for the Period	—	0.1

As enacted in Finance Act 2014, the standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. The standard rate of corporation tax was reduced to 19% from 1 April 2017. The effective rate for the period is 19%.

Taxation — Balance Sheet

Movement in the deferred tax asset is as follows:

	Tax Losses Carried Forward £m
As at 29 November 2015	10.0
Effect of change in UK corporation tax rate	—
Recognised through the Consolidated Income Statement	4.2
As at 27 November 2016	14.2
Recognised through the Consolidated Income Statement	0.1
As at 3 December 2017	14.3

As enacted in the Finance Act (No.2) 2016, the main rate of corporation tax will change to 18% from 1 April 2018 and to 17% from 1 April 2020. Deferred tax has been provided at the rate at which the deferred tax asset is expected to be utilised.



NOTES TO THE CONSOLIDATED Financial Statements

2.8 Taxation (continued)

Movement in the unrecognised deferred tax asset is set out below:

	Tax Losses Carried Forward £m	Accelerated Capital Allowances £m	Other Short- Term Timing Differences £m	Total £m
As at 29 November 2015	41.7	5.5	—	47.2
Effect of change in UK corporation tax rate	(2.6)	16.1	—	(13.5)
Potential movement in the period unrecognised through:				
— Consolidated Income Statement	(4.9)	(10.0)	—	(14.9)
As at 27 November 2016	34.2	11.6	—	45.8
Adjustment through submitted corporation tax returns	(2.7)	8.8	0.2	6.3
Potential movement in the period unrecognised through:				
— Consolidated Income Statement	(15.0)	2.3	1.1	(11.6)
As at 3 December 2017	16.5	22.7	1.3	40.5

As at 3 December 2017 the Group had approximately £183.6 million of unutilised tax losses (2016: approximately £268.6 million) available for offset against future profits. A deferred tax asset of £14.3 million (2016: £14.2 million) has been recognised in respect of £84.0 million (2016: £78.9 million) of such losses, the recovery of which is supported by the expected level of future profits of the Group. The recognition of the deferred tax asset is based on forecast operating results calculated in approved business plans and a review of tax planning opportunities. Management have concluded that there is sufficient evidence for the recognition of the deferred tax asset of £14.3 million (2016: £14.2 million).

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

Movement in the recognised deferred tax liability is set out below:

	£m
As at 29 November 2015	(2.7)
Effect of change in UK corporation tax rate	—
Recognised through the Consolidated Income Statement	(4.2)
As at 27 November 2016	(6.9)
Recognised through the Consolidated Income Statement	(0.1)
As at 3 December 2017	(7.0)

For the year ended 3 December 2017 the Group has recognised a deferred tax liability of £7.0 million (2016: £6.9 million). Of this amount, £4.5 million (2016: £6.9 million) is in respect of intangible assets that management assessed as qualifying for research and development corporation tax relief. The timing of the tax deductions in respect of expenditure incurred on these assets differs from 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.

2.9 Earnings Per Share

Basic earnings per share is calculated by dividing the profit 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 on an allocated basis which are accounted for as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion or vesting of all dilutive potential shares. The Company has two classes of instruments that are potentially dilutive: share options and share interests held pursuant to the JSOS.

Basic and diluted earnings per share have been calculated as follows:

	53 Weeks Ended 3 December 2017	52 Weeks Ended 27 November 2016
	Number of Shares (m)	Number of Shares (m)
Issued shares at the beginning of the period, excluding treasury shares	598.8	590.6
Effect of share options exercised in the period	0.7	2.5
Effect of treasury shares disposed of in the period	—	1.3
Weighted average number of shares at the end of the period for basic earnings per share	599.5	594.4
Potentially dilutive share options and shares	19.8	19.1
Weighted average number of diluted ordinary shares	619.3	613.5
<hr/>		
	£m	£m
Profit attributable to the owners of the Company	1.0	12.0
<hr/>		
	pence	pence
Basic earnings per share	0.16	2.02
Diluted earnings per share	0.16	1.96



NOTES TO THE CONSOLIDATED Financial Statements

SECTION 3 – ASSETS AND LIABILITIES

3.1 Intangible Assets

Accounting Policies

Intangible Assets

Intangible assets comprise internally generated assets relating mainly to computer software and other intangible assets relating mainly to externally acquired computer software and assets, and the right to use land. These are carried at cost less accumulated amortisation and any recognised impairment loss. Other intangible assets such as externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful lives of three to fifteen years. Costs relating to the development of computer software for internal use are capitalised once all the development phase recognition criteria of IAS 38 “Intangible Assets” are met. When the software is available for its intended use, these costs are amortised in equal annual amounts over the estimated useful life of the software. Amortisation and impairment of computer software or licences are charged to administrative expenses in the period in which they arise. For the Group’s impairment policy on non-financial assets see Note 3.2.

Amortisation of intangible assets is calculated on a straight-line basis from the date on which they are brought into use, charged to administrative expenses, and is calculated based on the useful lives indicated below:

Internally generated assets	3–15 years, or the lease term if shorter
Other intangible assets	3–15 years, or the lease term if shorter
Right to use land	The estimated useful economic life, or the lease term if shorter

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

Cost Capitalisation

The cost of internally generated assets is capitalised as an intangible asset where it is determined by management’s judgement that the ability to develop the assets is technically feasible, will be completed, and that the asset will generate economic benefit that outweighs its cost. This is in line with the recognition criteria as outlined in IAS 38 “Intangible Assets”. Management determine whether the nature of the projects meets the recognition criteria to allow for the capitalisation of internal costs, which include the total cost of any external products or services and labour costs directly attributable to development. During the year management have considered whether costs in relation to the time spent on specific software projects can be capitalised. Time spent that was eligible for capitalisation included time which was intrinsic to the development of new assets to be used or monetised by the Group, the enhancement of existing warehouse and routing systems capabilities, or improvements to applications used by the Group’s customers.

Other development costs that do not meet the above criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Research expenditure is recognised as an expense as incurred. These are costs that form part of the intent of gaining new knowledge, which management assess as not satisfying the capitalisation criteria per IAS 38 “Intangible Assets” as outlined above. Examples of research costs include, but are not limited to, the following: salaries and benefits of employees assessing and analysing future technologies and their likely viability, and professional fees such as marketing costs and the cost of third party consultancy.

In certain circumstances, some assets are ready for use, but are not performing as intended by management. Development costs that relate to the enhancement or modifications of existing assets are capitalised until the asset is performing as intended by management. Management assess the capitalisation of these costs by consulting the guidance outlined in IAS 38 “Intangible Assets” and exercise judgement in determining the qualifying costs. When unsure if the enhancement or modification costs relate to the development of the asset or are maintenance expenditure in nature, management treat the expenditure as if it were incurred in the research phase only in line with IAS 38 guidance.

Internally generated assets consist primarily of costs relating to intangible assets which provide economic benefit independent of other assets, and intangible assets that are utilised in the operation of property, plant and equipment. These intangible assets are required for certain tangible assets to operate as intended by management. Management assess each material internally generated asset addition and consider whether it is integral to the successful operation of a related item of hardware, can be used across a number of applications and therefore whether the asset should be recognised as property, plant and equipment. If the asset could be used on other existing or future projects it will be recognised as an intangible asset. For example, should an internally generated asset, such as the software code to enhance the operation of existing CFC equipment, be expected to form the foundation or a substantial element of future software development, it has been recognised as an intangible asset.

Of the internally generated assets capitalised, 22% (2016: 22%) relates to asset additions within property, plant and equipment.

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 Consolidated Income Statement.

The useful life is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. For computer software licences, the useful life represents management’s view of the expected period over which the Group will receive benefits from the software.

For unique software products developed and controlled by the Group, the life is based on historical experience with similar products as well as anticipation of future events which may impact their useful life, such as changes in technology.

3.1 Intangible Assets (continued)

Where the right to use land has been granted, the period over which the amortisation is charged is the lower of the estimated useful economic life and the lease expiry date.

	Internally Generated Assets £m	Other Intangible Assets £m	Total Intangible Assets £m
Cost			
At 29 November 2015	83.0	17.6	100.6
Additions	—	4.9	4.9
Internal development costs capitalised	34.9	—	34.9
Disposals	(0.3)	(0.2)	(0.5)
At 27 November 2016	117.6	22.3	139.9
Additions	—	5.6	5.6
Internal development costs capitalised	42.7	—	42.7
At 3 December 2017	160.3	27.9	188.2
Accumulated Amortisation			
At 29 November 2015	(43.1)	(4.6)	(47.7)
Charge for the period	(11.8)	(0.8)	(12.6)
Impairment	(0.4)	—	(0.4)
Disposals	0.3	0.2	0.5
At 27 November 2016	(55.0)	(5.2)	(60.2)
Charge for the period	(13.6)	(1.8)	(15.4)
Impairment	(0.2)	—	(0.2)
At 3 December 2017	(68.8)	(7.0)	(75.8)
Net Book Value			
At 27 November 2016	62.6	17.1	79.7
At 3 December 2017	91.5	20.9	112.4

Included within intangible assets is capital work-in-progress for internally generated assets of £15.1 million (2016: £20.0 million) and capital work-in-progress for other intangible assets of £1.7 million (2016: £3.3 million).

The net book value of intangible assets held under finance leases is analysed below:

	53 Weeks Ended 3 December 2017 £m	52 Weeks Ended 27 November 2016 £m
Cost	14.4	14.3
Accumulated amortisation	(13.0)	(11.2)
Net Book Value	1.4	3.1

For the 53 weeks ended 3 December 2017, internal development costs capitalised represented approximately 88% (2016: 88%) of expenditure on intangible assets and 27% (2016: 22%) of total capital spend including property, plant and equipment.



NOTES TO THE CONSOLIDATED Financial Statements

3.2 Property, Plant and Equipment

Accounting Policies

Property, Plant and Equipment

Property, plant and equipment excluding land are stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes the original purchase price of the asset, any costs attributable to bringing the asset to its working condition for its intended use and major spares. An item of property, plant and equipment is recognised as an asset if it is probable that future economic benefits associated with the asset will flow to the entity, and the cost of the asset can be measured reliably.

Property, plant and equipment represents 51% of the total asset base of the Group in 2017 (2016: 57%). 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. Management assess the estimates and assumptions based on available external information and historical experience.

In determining the cost of property, plant and equipment, certain costs that relate to the intangible element of an asset are separately disclosed within Intangible assets, Note 3.1. Management exercise judgement to review each material asset addition and consider whether the intangible asset element can be used for other property, plant and equipment additions in the current or future years. Software written for the Group's first CFC in Hatfield is identified as a standalone intangible asset, because it has provided the foundation for software used in some areas of Dordon CFC, and is expected to provide part of the foundation of software used in future centres including Andover CFC.

For more information on the Group's policy on capitalisation of borrowings costs, see Note 4.1.

Depreciation on property, plant and equipment is charged to distribution costs and administrative expenses and is calculated based on the useful lives indicated below:

Freehold buildings and leasehold properties	30 years (25 years prior to review), or the lease term if shorter
---	---

Fixtures and fittings	5–10 years, or the lease term if shorter
-----------------------	--

Plant and machinery	3–20 years, or the lease term if shorter
---------------------	--

Motor vehicles	2–7 years, or the lease term if shorter
----------------	---

Land is held at cost and not depreciated.

Assets in the course of construction are carried at cost less any recognised impairment loss. Cost includes professional fees and other directly attributable costs. Depreciation of these assets commences when the assets are ready for their intended use, on the same basis as other property assets.

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

Estimation of Useful Life

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.

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 Consolidated 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.

Management also assess the useful lives 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. A review of useful lives took place during the year and this resulted in a revision of the useful life of a number of assets. The revisions were accounted for prospectively as a change in accounting estimate and as a result, the depreciation charge of the Group for the current financial year has been reduced by £1.9 million.

Impairment of Non-Financial Assets (Including Intangible Assets)

Those which do not have indefinite useful lives are subject to an annual depreciation or amortisation charge. These assets 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 costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). The Group has identified 2 cash generating units reflecting the Retail and Solutions segments.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period. When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

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

3.2 Property, Plant and Equipment (continued)

	Land and Buildings £m	Fittings, Plant and Machinery £m	Fixtures, Fittings, Plant and Machinery £m	Motor Vehicles £m	Total £m
Cost					
At 29 November 2015	80.7	403.3	55.2	539.2	
Additions	27.6	63.7	16.6	107.9	
Internal development costs capitalised	—	10.1	—	10.1	
Disposals	(0.1)	(4.9)	(7.5)	(12.5)	
At 27 November 2016	108.2	472.2	64.3	644.7	
Additions	10.9	74.5	14.6	100.0	
Internal development costs capitalised	—	11.8	—	11.8	
Disposals	—	(1.3)	(4.8)	(6.1)	
At 3 December 2017	119.1	557.2	74.1	750.4	
Accumulated Depreciation					
At 29 November 2015	(20.5)	(170.0)	(21.4)	(211.9)	
Charge for the period	(1.9)	(33.4)	(11.7)	(47.0)	
Impairment	—	(1.0)	—	(1.0)	
Disposals	0.1	4.9	7.5	12.5	
At 27 November 2016	(22.3)	(199.5)	(25.6)	(247.4)	
Charge for the period	(2.9)	(39.3)	(12.8)	(55.0)	
Impairment	—	(0.4)	—	(0.4)	
Disposals	—	1.3	4.8	6.1	
At 3 December 2017	(25.2)	(237.9)	(33.6)	(296.7)	
Net Book Value					
At 27 November 2016	85.9	272.7	38.7	397.3	
At 3 December 2017	93.9	319.3	40.5	453.7	

Included within property, plant and equipment is capital work-in-progress for land and buildings of £37.2 million (2016: £27.4 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £61.6 million (2016: £22.9 million).

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

	Land and Buildings £m	Fittings, Plant and Machinery £m	Fixtures, Fittings, Plant and Machinery £m	Motor Vehicles £m	Total £m
At 27 November 2016					
Cost	30.9	209.8	63.5	304.2	
Accumulated depreciation and impairment	(19.5)	(110.6)	(25.0)	(155.1)	
Net book value	11.4	99.2	38.5	149.1	
At 3 December 2017					
Cost	31.9	211.1	61.5	304.5	
Accumulated depreciation and impairment	(21.2)	(127.8)	(26.2)	(175.2)	
Net Book Value	10.7	83.3	35.3	129.3	

Property, plant and equipment with a net book value of £nil (2016: £19.0 million) has been pledged as security for the secured loans (Note 4.2).



NOTES TO THE CONSOLIDATED Financial Statements

3.3 Financial Assets

Accounting Policies

Financial Assets

Financial assets comprise available-for-sale financial assets, prepaid fees in relation to financing activities and contribution towards dilapidations.

Available-for-sale financial assets are those non-derivatives that are not designated as held for trading or that are not designated as “at fair value through profit and loss”. They are included in non-current assets unless the investment matures or management intend to dispose of it within 12 months of the end of the reporting period. Management consider that the Group’s investments fall within this category as explained below.

Prepaid fees in relation to financing activities are recognised when incurred. The prepaid fees are amortised in proportion to the drawdown and utilisation of the underlying facility. Amortisation commenced when the underlying facility was first utilised through to the earlier of the expected refinancing date or end of the term. Any residual of the prepaid fee which is not amortised when the facility is refinanced or repaid will be charged to the Consolidated Income Statement.

Financial assets comprise:

	3 December 2017 £m	27 November 2016 £m
Unlisted equity investment – cost and net book value	0.4	0.4
Prepaid financing fees	1.1	0.7
Contribution towards dilapidation costs	1.5	1.5
Financial Assets	3.0	2.6

Investments

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

The unlisted equity investment comprises a 25% interest in Paneltex Limited (“Paneltex”), a company incorporated in the UK, 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.

Prepaid Financing Fees

The prepaid financing fees are in relation to financing facilities entered into during the previous year. The non-current portion of prepaid finance costs relates to amounts capitalised during the year which will not be amortised to the Consolidated Income Statement within the next 12 months. In line with the utilisation of the facility, £1.4 million has been released from prepayments.

Contribution Towards Dilapidations

A contribution towards dilapidations is due from the former tenant of two leases entered into during the year and will be utilised when dilapidation costs are incurred at the end of the lease.

3.4 Investment in Joint Ventures

Accounting Policies

The Group has assessed the nature of its joint arrangement under IFRS 11 "Joint Arrangements" and determined it to be a joint venture.

The Group's share of the results of joint ventures is included in the Consolidated Income Statement and is accounted for using the equity method of accounting. Investments in joint ventures are carried in the Consolidated Balance Sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. On transfer of land and/or work-in-progress to joint ventures, the Group recognises only its share of any profits or losses, namely that proportion sold outside the Group.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate.

Unrealised gains arising from transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the entity.

Investment in Joint Ventures

The Group has an equity interest valued at £51.0 million (2016: £57.1 million) in MHE JVCo, a joint venture company. MHE JVCo is incorporated in the UK, in which Morrisons and Ocado Operating Limited, a subsidiary in the Group, are the sole investors. In the current year the Group received a dividend of £7.6 million from MHE JVCo (2016: £8.4 million). The Group made no additional capital contributions into MHE JVCo.

The Group's share of profit after tax for the year is detailed as follows:

	3 December 2017 £m	27 November 2016 £m
Group share of revenue	2.6	2.9
Group share of expenses, inclusive of tax	(1.0)	(0.8)
Group Share of Profit after Tax	1.6	2.1

At the period end the Group's share of the net assets of MHE JVCo were valued at £51.0 million (2016: £57.1 million) The principal movements during the year were the £1.6 million Group share of profit after tax and a dividend of £7.6 million paid by MHE JVCo to the Group.

For the 53 weeks ended 3 December 2017 the entity, MHE JVCo Limited, has recognised net interest income of £5.2 million (2016: £5.8 million). Costs incurred by MHE JVCo include depreciation of £1.9 million (2016: £1.6 million) and a tax charge of £nil (2016: £0.3 million). Material amounts held on its balance sheet as at 3 December 2017 include finance lease receivables of £94.1 million (2016: £108.7 million), £9.4 million of property, plant and equipment (2016: £8.6 million), £0.1 million of cash and cash equivalents (2016: £0.4 million) and £1.7 million of trade and other payables (2016: £5.3 million), contributing towards net assets of £102.8 million (2016: £115.5 million). Other than as a finance lessor to the Group, MHE JVCo has no other significant operations. The principal place of business is the same as for Ocado Group plc, details of which are provided on page 198.

3.5 Business Combinations

Accounting Policies

Business Combinations

The acquisition method of accounting is used for the acquisition of subsidiaries. The cost of the acquisition is measured at the aggregate fair value of the consideration given. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair value at the date the Group assumes control of the acquiree.

Acquisition related costs are recognised in the Consolidated Income Statement as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement measured at fair value at the date control is achieved. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs.

Investments in Subsidiaries

Investments in subsidiaries held by the Company are carried at cost less accumulated impairment losses. Goodwill is the excess of consideration transferred over the fair value of the identifiable net assets acquired.

There were no investments in new subsidiaries during the 53 weeks to 3 December 2017.



NOTES TO THE CONSOLIDATED Financial Statements

3.6 Working Capital

Accounting Policies

Inventories

Inventories comprise goods held for resale, fuel and other consumable goods. Inventories are valued at the lower of cost and net realisable value as provided in IAS 2 "Inventories". Goods held for resale and consumables are valued using the weighted average cost basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. It also takes into account slow-moving, obsolete and defective inventory. Fuel stocks are valued at calculated average cost. Costs include all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition. There has been no security granted over inventory unless stated otherwise.

The Group has a mix of grocery and general merchandise items within inventory which have different characteristics. For example, grocery lines have high inventory turnover, while non-food lines are typically held within inventory for a longer period of time and so run a higher risk of obsolescence. As inventories are carried at the lower of cost and net realisable value, this requires the estimation of the eventual sales price of goods to customers in the future. Judgement is applied when estimating the impact on the carrying value of inventories such as slow-moving, obsolete and defective inventory, which includes reviewing the quantity, age and condition of inventories throughout the year.

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 are included in "Trade and other Receivables" in the Consolidated Balance Sheet.

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.

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.

Provision for Impairment of Trade Receivables

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.

Any provision made against an impaired receivable is recognised in the Consolidated Income Statement within administrative expenses. Subsequent recoveries of amounts previously written off are credited against this same financial statement caption.

The outcome of an impaired receivable depends on future events which are by their nature uncertain. In assessing the likely outcome, management base their assessment on historical experience and other factors that are believed to be reasonable in the circumstances.

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 date of acquisition. Cash at bank and in hand and short-term deposits are shown under current assets on the Consolidated Balance Sheet. The carrying amount of these assets approximates to their fair value. 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.

3.7 Inventories

	3 December 2017 £m	27 November 2016 £m
Goods for resale	42.3	38.6
Consumables	0.6	0.5
	42.9	39.1

Write down of inventories amounted to £nil (2016: £0.1 million) in the Consolidated Income Statement.

3.8 Trade and Other Receivables

	3 December 2017 £m	27 November 2016 £m
Trade receivables	30.7	25.8
Less: provision for impairment of trade receivables	(2.6)	(2.8)
Net trade receivables	28.1	23.0
Other receivables	6.6	4.8
Prepayments	12.9	11.6
Accrued income	19.2	20.0
	66.8	59.4

Included within trade receivables is a balance of £1.7 million (2016: £5.3 million) owed by MHE JVCo.

Included in trade receivables is £12.2 million (2016: £5.9 million) due from suppliers in relation to commercial and media income. As at 7 January 2018 £10.3 million has been received. Included in accrued income is £8.6 million (2016: £10.8 million) to be invoiced to suppliers in relation to supplier funded promotional activity and £8.0 million (2016: £7.0 million) to be invoiced to suppliers in relation to volume-related rebate amounts. As at 7 January 2018 £7.6 million of accrued income has been invoiced.

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

	3 December 2017		27 November 2016	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	50.1	—	39.5	—
Past due 0–3 months	4.0	(0.2)	6.9	(0.2)
Past due 3–6 months	0.1	(0.1)	1.5	(0.4)
Past due over 6 months	2.3	(2.3)	2.7	(2.2)
	56.5	(2.6)	50.6	(2.8)

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 Consolidated Income Statement.

Trade receivables that are past due but not impaired amount to £3.8 million (2016: £4.4 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:

	3 December		27 November	
	2017 £m	2016 £m	2017 £m	2016 £m
Past due 0–3 months	3.8	0.9	—	—
Past due 3–6 months	—	1.0	—	2.5
Past due over 6 months	—	—	3.8	4.4

3.9 Cash and Cash Equivalents

	3 December		27 November	
	2017 £m	2016 £m	2017 £m	2016 £m
Cash at bank and in hand	150.0	50.9		

£3.3 million (2016: £4.0 million) of the Group's cash and cash equivalents are held by the Group's captive insurance company to maintain its solvency requirements. Included in this amount are credit card payments of £25.6 million (2016: £23.3 million) received within 10 days. A further £0.8 million (2016: £0.5 million) is held by the trustee of the Group's employee benefit trust in relation to the Ocado Group Sharesave Scheme for employees in Poland. Therefore, these funds are restricted and are not available to circulate within the Group on demand.



NOTES TO THE CONSOLIDATED Financial Statements

3.10 Trade and Other Payables

	3 December 2017 £m	27 November 2016 £m
Trade payables	92.9	95.2
Taxation and social security	8.3	6.3
Accruals and other payables	106.0	84.2
Deferred income	21.4	19.9
	228.6	205.6

Deferred income represents the value of delivery income received under the Ocado Smart Pass scheme allocated to future periods, upfront licence fees from the Morrisons strategic operating agreement, lease incentives, and media income from suppliers which relate to future periods.

3.11 Provisions

Accounting Policies

Provisions are recognised in line with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Provisions can be distinguished from other types of liability by considering the events that give rise to the obligation and the degree of uncertainty as to the amount or timing of the liability. These are recognised in the Consolidated Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

The amounts recognised as a provision are management's best estimates of the expenditure to settle present obligations as at Consolidated Balance Sheet date. The outcome depends on future events, which are by their nature uncertain. Any difference between expectations and the actual future liability will be accounted for in the period when this is determined. In assessing the likely outcome, management base their assessment on historical experience and other factors that are believed to be reasonable in the circumstances.

Insurance Claims

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

Dilapidations

Provisions for dilapidations are made in respect of vehicles and properties where there are obligations to return the vehicles and properties to the condition and state they were in when the Group obtained the right to use them. These are recognised on a property-by-property basis and are based on the Group's best estimate of the likely committed cash outflow. Where relevant, these estimated outflows are discounted to net present value.

Employee Incentive Schemes

Provisions for employee incentive schemes relate to HMRC unapproved equity-settled schemes, the Beauty Management Incentive plan ("Beauty MIP") and the Cash-Based Long Term Incentive Plan ("Cash LTIP"). For all unapproved schemes and the Cash LTIP, the Group is liable to pay employer's NIC upon allotment of the share awards.

Unapproved schemes are the Long Term Incentive Plan ("LTIP"), the Chairman's Share Matching Award, the Growth Incentive Plan ("GIP") and unapproved Executive Share Ownership Scheme ("ESOS"). For more details on these schemes, refer to note 4.10.

In 2014, the Group established the Cash LTIP in order to incentivise selected high performing employees of the Company. At the end of the three-year vesting period, employees will be paid a cash amount equal to the notional number of awards at the prevailing share price, adjusted for the achievement of the performance conditions.

Provisions

	Insurance Claims £m	Dilapidations £m	Employee Incentive Schemes £m	Total £m
As at 29 November 2015	1.4	4.0	3.7	9.1
Charged/(credited) to the Consolidated Income Statement				
— additional provision	0.6	0.7	0.9	2.2
— unused amounts reversed	(0.4)	1.4	(0.2)	0.8
Used during the period	(0.4)	(0.1)	(1.9)	(2.4)
Unwind of discount	—	—	—	—
As at 27 November 2016	1.2	6.0	2.5	9.7
Charged/(credited) to the Consolidated Income Statement				
— additional provision	0.3	1.3	1.7	3.3
— unused amounts reversed	(0.4)	(0.8)	(0.1)	(1.3)
Used during the period	(0.6)	(0.3)	(0.7)	(1.6)
As at 3 December 2017	0.5	6.2	3.4	10.1

3.11 Provisions (continued)

Analysis of total provisions as at 27 November 2016

	Insurance Claims £m	Dilapidations £m	Employee Incentive Schemes £m	Total £m
Current	0.4	1.1	0.9	2.4
Non-current	0.8	4.9	1.6	7.3
	1.2	6.0	2.5	9.7

Analysis of total provisions as at 3 December 2017

	Insurance Claims £m	Dilapidations £m	Employee Incentive Schemes £m	Total £m
Current	0.1	0.4	0.8	1.3
Non-current	0.4	5.8	2.6	8.8
	0.5	6.2	3.4	10.1

Insurance Claims

The Ocado Cell uses statistical information built up over several years to estimate, as accurately as possible, the future out-turn 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 £0.4 million 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 vehicles to their fair condition at the end of their respective lease terms.

The Hatfield CFC lease expires in 2032, the Dordon CFC lease expires in 2038, the Andover CFC lease expires in 2092, the GMDC1 lease expires in 2022, head office leases expire between 2019 and 2028, with leases for the spokes expiring up to 2068. Contractual amounts are due to be incurred at the end of the respective lease terms.

Leases for vehicles run for five years, with the contractual obligation per vehicle 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.

Employee Incentive Schemes

The provision consists of the Cash LTIP, the Beauty MIP and employer's NIC on HMRC unapproved equity-settled schemes.

The Cash LTIP provision represents the expected cash payments to participants upon vesting of the awards. It has been calculated using various assumptions regarding liquidity, participants' retention and achievability of the performance conditions, and valued with reference to the year end share price. If at any point following initial valuation any of these assumptions are revised, the charge will need to be amended accordingly. In addition to the base cost, since this is a cash benefit, the Group will be liable to pay employer's NIC on the value of the cash award on vesting, which is included in the above employer's NIC provision.

To calculate the employer's NIC provision, the applicable employer's NIC rate is applied to the number of share awards which are expected to vest, valued with reference to the year end share price. The number of share awards expected to vest is dependent on various assumptions which are determined by management; namely participants' retention rate, the expectation of meeting the performance criteria, if any, and the liquidity discount. All assumptions are supported by historical trends and internal financial forecasts, where appropriate.

For the GIP, an external valuation was carried out to determine the fair value of the awards granted (see Note 4.10 (g)).

If at any point during the life of each share award, any non-market conditions are subject to change, such as the retention rate or the likelihood of the performance condition being met, the number of share awards likely to vest will need to be recalculated which will cause the value of the employer's NIC provision to change accordingly.

Once the share awards under each of the schemes have vested, the provision will be utilised when they are allocated to participants. Vesting will occur between 2017 and 2020.



NOTES TO THE CONSOLIDATED Financial Statements

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 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 Consolidated 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.

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.

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 Consolidated Income Statement on the effective interest rate basis.

Operating Leases

Assets leased under operating leases are not recorded on the Consolidated Balance Sheet. Rental payments are charged directly to the Consolidated Income Statement on a straight-line basis.

Sale and Leaseback

A sale and leaseback transaction is one where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. The leaseback transaction is classified as a finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leasebacks are classified as operating leases.

For sale and finance leasebacks, any profit from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, the assets are expected to be sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the Consolidated Income Statement.

Lease Incentives

Lease incentives primarily include upfront cash payments or rent-free periods. Lease incentives are capitalised and released against the relevant rental expense over the lease term.

4.2 Borrowings and Finance Leases

	3 December Notes	2017 £m	27 November 2016 £m
Current Liabilities			
Borrowings	4.2	—	52.9
Obligations under finance leases	4.3	27.2	29.8
		27.2	82.7
Non-Current Liabilities			
Borrowings	4.2	243.3	6.1
Obligations under finance leases	4.3	107.5	127.0
		350.8	133.1
Total Borrowings and Finance Leases		378.0	215.8



See Alternative Performance
Measures on page 196

4.2 Borrowings and Finance Leases (continued)

Borrowings

	Less Than One Year £m	Between One Year and Two Years £m	Between Two Years and Five Years £m	Over Five Years £m	Total £m
As at 27 November 2016					
Unsecured loans	51.3	—	—	—	51.3
Secured loans	1.6	6.1	—	—	7.7
Total Borrowings	52.9	6.1	—	—	59.0
As at 3 December 2017					
Senior secured notes	—	—	—	243.3	243.3
Total Borrowings	—	—	—	243.3	243.3

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

Principal amount £m	Inception	Security Held	Current Interest Rate	Instalment Frequency	Final Payment Due	Carrying Amount as at 3 December	Carrying Amount as at 27 November
						2017 £m	2016 £m
100.0	July 2014	None	LIBOR + 1.5%	Monthly	June 2022 ²	—	51.3
2.5	July 2014	Property, plant and equipment	9.12% ¹	Monthly	July 2017	—	0.5
8.2	September 2015	Freehold property	LIBOR + 1.5%	Quarterly	September 2018	—	7.2
250.0	June 2017	Collateral	4%	Semi-annually	June 2024	243.3	—
						243.3	59.0
Disclosed as:							
Current						—	52.9
Non-current						243.3	6.1
						243.3	59.0

1. Calculated as the effective interest rate, the calculation of which includes an optional balloon payment at the end of the term

2. Date of expiry of facility

In the current year, the unsecured £210 million revolving facility was reduced to £100 million and extended by three years to 2022. As at 3 December 2017 the facility has not been utilised. Senior secured notes were issued in June 2017, raising £250 million; this is shown net of transaction fees. The senior secured notes are secured by charges over the issued share capital of the subsidiary undertakings that acted as guarantors for the notes.

The Group regularly reviews its financing arrangements. The revolving facility and the senior secured notes contain typical restrictions concerning dividend payments and additional debt and leases.

4.3 Obligations Under Finance Leases

	3 December 2017 £m	27 November 2016 £m
Obligations under finance leases due:		
Within one year	27.2	29.8
Between one and two years	24.6	25.8
Between two and five years	65.3	66.4
After five years	17.6	34.8
Total obligations under finance leases	134.7	156.8



NOTES TO THE CONSOLIDATED Financial Statements

4.3 Obligations Under Finance Leases (continued)

External obligations under finance leases are £40.6 million (2016: £48.1 million) excluding £94.1 million (2016: £108.7 million) payable to MHE JVCo, a joint venture company.

	3 December 2017 £m	27 November 2016 £m
Minimum lease payments due:		
Within one year	33.6	38.4
Between one and two years	29.3	31.7
Between two and five years	72.7	76.9
After five years	18.3	36.8
	153.9	183.8
Less: future finance charges	(19.2)	(27.0)
Present value of finance lease liabilities	134.7	156.8
Disclosed as:		
Current	27.2	29.8
Non-current	107.5	127.0
	134.7	156.8

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.

4.4 Analysis of Net Debt®

Net debt

	3 December 2017 £m	27 November 2016 £m
Notes		
Current Assets		
Cash and cash equivalents	3.9	150.0
Current Liabilities		
Borrowings	4.2	—
Obligations under finance leases	4.3	(27.2)
		(27.2)
Non-Current Liabilities		
Borrowings	4.2	(243.3)
Obligations under finance leases	4.3	(107.5)
		(350.8)
Total Net Debt®		(228.0)
		(164.9)

Net debt is £133.9 million (2016: £56.2 million), excluding finance lease obligations of £94.1 million (2016: £108.7 million) payable to MHE JVCo, a joint venture company. £4.1 million (2016: £4.5 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 3.9.

Reconciliation of Net Cash Flow to Movement in Net Debt®

	3 December 2017 £m	27 November 2016 £m
Net increase in cash and cash equivalents	99.1	5.1
Net (increase) in debt and lease financing	(147.7)	(23.4)
Non-cash movements:		
— Assets acquired under finance lease	(14.5)	(19.6)
Movement in Net Debt® in the Period	(63.1)	(37.9)
Opening net debt®	(164.9)	(127.0)
Closing Net Debt®	(228.0)	(164.9)



See Alternative Performance Measures on page 196

4.5 Finance Income and Costs

Accounting Policies

Borrowing Costs

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

Finance Income and Costs

Interest income is accounted for on an accruals basis using the effective interest method. Finance costs comprise obligations on finance leases and borrowings and are recognised in the period in which they fall due.

	53 Weeks Ended 3 December	52 Weeks Ended 27 November
	2017	2016
	£m	£m
Interest on cash balances	0.2	0.2
Finance Income	0.2	0.2
Borrowing costs		
— Obligations under finance leases	(8.2)	(9.4)
— Borrowings	(5.7)	(0.3)
Finance Costs	(13.9)	(9.7)
Net Finance Costs	(13.7)	(9.5)

The carrying value of the finance income and costs approximates their fair value.

4.6 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 3 December 2017 and at 27 November 2016, the Group's derivative financial instruments consisted of commodity swap contracts which are designated as cash flow hedges of highly probable 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 other comprehensive income. Amounts accumulated through other comprehensive income are recycled in the Consolidated 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 of the Group's cash flow hedges were effective and there is therefore no ineffective portion recognised in profit or loss.

NOTES TO THE CONSOLIDATED Financial Statements

4.6 Derivative Financial Instruments (continued)

Commodity Swap Contracts

The notional principal amounts of the outstanding commodity swap contracts at 3 December 2017 were £6.9 million (2016: £4.8 million). The hedged highly probable forecast transactions are expected to occur at various dates during the next 12 months. Cumulative net gains of £0.3 million have been recognised in the hedging reserve within other comprehensive income. These gains and losses are recognised in the Consolidated Income Statement in periods during which the hedged forecast transaction affects the Consolidated Income Statement.

	3 December 2017 £m	27 November 2016 £m
Commodity swap contracts		
Derivative asset	0.4	0.3
Derivative liability	(0.1)	(0.2)
	0.3	0.1

4.7 Financial Instruments

Accounting Policies

Financial assets and financial liabilities are recognised on the Consolidated 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 determine the classification of their 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 Consolidated 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 Consolidated 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 Consolidated Income Statement.

4.7 Financial Instruments (continued)

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 Consolidated Income Statement on equity investments are not reversed.

Fair Value of Financial Instruments

Financial instruments carried at fair value in the Consolidated Balance Sheet comprise the derivative assets and liabilities — see Note 4.6. 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 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 (level 3).

The Group's derivative assets and liabilities other than the senior secured notes are all classified as level 2. The senior secured notes are classified as level 1.

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	3 December 2017		27 November 2016	
		Carrying Value £'000	Fair Value £'000	Carrying Value £'000	Fair Value £'000
Financial Assets					
Cash and cash equivalents	3.9	150.0	150.0	50.9	50.9
Trade receivables	3.8	28.1	28.1	23.0	23.0
Other receivables	3.8	38.7	38.7	36.4	36.4
Non-current financial assets	3.3	2.8	2.8	2.6	2.6
Derivative assets	4.6	0.4	0.4	0.3	0.3
Total financial assets		220.0	220.0	113.2	113.2
Financial Liabilities					
Trade payables	3.10	(92.9)	(92.9)	(95.2)	(95.2)
Other payables	3.10	(135.7)	(135.7)	(110.4)	(110.4)
Senior secured notes	4.2	(243.3)	(240.9)	—	—
Other borrowings	4.2	—	—	(59.0)	(59.0)
Finance lease obligations	4.3	(134.7)	(134.7)	(156.8)	(156.8)
Derivative liabilities	4.6	(0.1)	(0.1)	(0.2)	(0.2)
Total financial liabilities		(606.7)	(604.3)	(421.6)	(421.6)

The derivative assets and liabilities relate to forward commodity swap contracts.

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 fair value of the senior secured notes is determined based on the quoted price in the active market. The carrying value in the table above is stated after deduction of issue costs of £6.7 million.

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 1.8% (2016: 2.1%).

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.



NOTES TO THE CONSOLIDATED Financial Statements

4.7 Financial Instruments (continued)

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 2016						
Financial Assets as per the Consolidated Balance Sheet						
Cash and cash equivalents	3.9	—	50.9	—	—	50.9
Trade and other receivables	3.8	—	59.4	—	—	59.4
Financial assets	3.3	2.6	—	—	—	2.6
Derivative assets		—	—	—	0.3	0.3
Total		2.6	110.3	—	0.3	113.2
Financial Liabilities as per the Consolidated Balance Sheet						
Trade payables	3.10	—	—	(95.2)	—	(95.2)
Other payables	3.10	—	—	(110.4)	—	(110.4)
Borrowings	4.2	—	—	(59.0)	—	(59.0)
Obligations under finance leases	4.3	—	—	(156.8)	—	(156.8)
Derivative liabilities	4.6	—	—	—	(0.2)	(0.2)
Total		—	—	(421.4)	(0.2)	(421.6)
	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 3 December 2017						
Financial Assets as per the Consolidated Balance Sheet						
Cash and cash equivalents	3.9	—	150.0	—	—	150.0
Trade and other receivables	3.8	—	66.8	—	—	66.8
Financial assets	3.3	2.8	—	—	—	2.8
Derivative assets	4.6	—	—	—	0.4	0.4
Total		2.8	216.8	—	0.4	220.0
Financial Liabilities as per the Consolidated Balance Sheet						
Trade payables	3.10	—	—	(92.9)	—	(92.9)
Other payables	3.10	—	—	(135.7)	—	(135.7)
Senior secured notes	4.2	—	—	(243.3)	—	(243.3)
Obligations under finance leases	4.3	—	—	(134.7)	—	(134.7)
Derivative liabilities	4.6	—	—	—	(0.1)	(0.1)
Total		—	—	(606.6)	(0.1)	(606.7)

4.8 Financial Risk Management

Overview

The Group's financial instruments comprise trade receivables and payables, borrowings and finance leases, cash and cash equivalents, and derivatives. The main financial risks faced by the Group relate to the risk of default by counterparties following financial transactions, the availability of funds for the Group to meet its obligations as they fall due and fluctuations in interest and foreign exchange rates.

The management of these risks is set out below.

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. The carrying value of these financial assets, as set out in Note 4.7, represents the maximum credit exposure. No collateral is held as security against these assets.

Cash and Cash Equivalents

The Group's exposure to credit risk on cash and cash equivalents is managed by investing in banks and financial institutions with strong credit ratings and by regular review of counterparty risk.

Trade and Other Receivables

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

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

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

	Notes	3 December 2017 £m	27 November 2016 £m
At the beginning of the period		(2.8)	(1.7)
Provision for impairment of receivables		(0.3)	(1.1)
Uncollectable amounts written off		(0.7)	(0.8)
Recovery of amounts previously provided		1.2	0.8
At the end of the period	3.8	(2.6)	(2.8)

The Group has adequate cash resources to manage the short-term working capital needs of the business. In the current year, the unsecured £210 million revolving facility was reduced to £100 million and extended by three years to 2022. As at 3 December 2017 the facility has not been utilised. Senior secured notes were issued in June 2017, raising £250 million. The Group regularly reviews its financing arrangements. For further details of the review please refer to the Group's Viability Statement on page 39.

The Group monitors its liquidity requirements to ensure it has sufficient cash to meet operational needs. For further details see Note 4.11.



NOTES TO THE CONSOLIDATED Financial Statements

4.8 Financial Risk Management (continued)

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

	Notes	Carrying Value £m	Contractual Cash Flows £m	1 Year or Less £m	1–2 Years £m	2–5 Years £m	More Than 5 Years £m
Financial Liabilities							
Trade payables	3.10	(95.2)	(95.2)	(95.2)	—	—	—
Other payables	3.10	(110.4)	(110.4)	(110.4)	—	—	—
Borrowings	4.2	(59.0)	(59.0)	(52.9)	(6.1)	—	—
Obligations under finance leases	4.3	(156.8)	(183.8)	(38.4)	(31.7)	(76.9)	(36.8)
Derivative liabilities	4.6	(0.2)	(0.2)	(0.2)	—	—	—
27 November 2016		(421.6)	(448.6)	(297.1)	(37.8)	(76.9)	(36.8)
 Financial Liabilities							
Trade payables	3.10	(92.9)	(92.9)	(92.9)	—	—	—
Other payables	3.10	(135.7)	(135.7)	(135.7)	—	—	—
Senior secured notes	4.2	(243.3)	(243.3)	—	—	—	(243.3)
Obligations under finance leases	4.3	(134.7)	(153.9)	(33.6)	(29.3)	(72.7)	(18.3)
Derivative liabilities	4.6	(0.1)	(0.1)	(0.1)	—	—	—
3 December 2017		(606.7)	(625.9)	(262.3)	(29.3)	(72.7)	(261.6)

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, primarily in relation to the euro, Polish zloty and US dollar. Bank accounts are maintained in these foreign currencies in order to minimise the Group's exposure to fluctuations in the currency relating to current and future purchases of plant and equipment.

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

	3 December 2017 £m	27 November 2016 £m
Cash and cash equivalents – EUR	—	0.2
Cash and cash equivalents – PLN	3.4	2.0
Trade payables at period end – EUR	(0.1)	(0.2)
Trade payables at period end – PLN	(0.1)	(0.1)
Trade payables at period end – USD	(1.0)	(0.1)
	2.2	1.8

The table below shows the Group's sensitivity to changes in foreign exchange rates on its financial instruments denominated in foreign currencies.

	3 December 2017	27 November 2016		
	Increase/ (Decrease) in Income £m	Increase/ (Decrease) in Equity £m	Increase/ (Decrease) in Income £m	Increase/ (Decrease) in Equity £m
10% appreciation of the above foreign currencies	0.2	—	0.2	—
10% depreciation of the above foreign currencies	(0.2)	—	(0.2)	—

A movement of the euro, as indicated, against sterling at 3 December 2017 would have increased/(decreased) equity and profit or loss by the amounts detailed above. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the period. The analysis assumes that all other variables remain constant.

4.8 Financial Risk Management (continued)

Interest Rate Risk

The Group is exposed to interest rate risk on its floating rate interest bearing borrowings and floating rate cash and cash equivalents. The Group's interest rate risk policy seeks to minimise finance charges and volatility by structuring the interest rate profile into a diversified portfolio of fixed rate and floating rate financial assets and liabilities. Interest rate risk on floating rate interest bearing borrowings is not significant.

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

	3 December 2017 £m	27 November 2016 £m
Fixed Rate Instruments		
Financial assets	149.5	50.7
Financial liabilities	(376.7)	(156.8)
Variable Rate Instruments		
Financial assets	0.5	0.2
Financial liabilities	—	(59.0)

Sensitivity Analysis

An increase of 100 basis points (1.0%) in interest rates would impact equity and profit or loss by the amounts shown below. A rate of 100 basis points was assessed as being 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.

	3 December 2017 £m	27 November 2016 £m
Equity		
Result	—	—
Income		
Loss	(0.2)	(0.6)

4.9 Share Capital and Reserves

Accounting Policy

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

Share Capital and Reserves

As at 3 December 2017, the number of ordinary shares available for issue under the Block Listing Facilities was 12,083,504 (2016: 13,318,184). These ordinary shares will only be issued and allotted when the shares under the relevant share incentive plan have vested or the share options under the Group's executive share ownership scheme and non-employee share options and Sharesave schemes have been exercised. They are therefore not included in the total number of ordinary shares outstanding below.

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

	Ordinary Shares Number of Shares (million)	Ordinary Shares £m	Share Premium £m
At 29 November 2015	625.4	12.6	258.7
Issues of ordinary shares	3.4	—	0.6
Reacquisition of interest in treasury shares	—	—	(2.9)
Allotted in respect of share option schemes	0.4	—	0.5
At 27 November 2016	629.2	12.6	256.9
Issues of ordinary shares	1.1	—	0.9
Allotted in respect of share option schemes	0.4	—	0.6
At 3 December 2017	630.7	12.6	258.4



NOTES TO THE CONSOLIDATED Financial Statements

4.9 Share Capital and Reserves (continued)

Included in the total number of ordinary shares outstanding above are 32,803,390 (2016: 32,830,613) ordinary shares held by the Group's employee benefit trust (see Note 4.10(b)). The ordinary shares held by the trustee of the Group's employee benefit trust pursuant to the JSOS are treated as treasury shares in the 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 (although the trustee may vote in respect of shares that have vested and remain in the trust). 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 basic earnings per share calculation in Note 2.9 as basic earnings per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

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

	Notes	Treasury Shares Reserve £m	Reverse Acquisition Reserve £m	Fair Value Reserve £m
At 29 November 2015		(50.9)	(116.2)	(0.8)
Movement on derivative financial instruments	4.9(b)	—	—	0.7
Disposal of treasury shares	4.9(a)	—	—	0.3
Reacquisition of interests in treasury shares	4.9(a)	2.9	—	—
At 27 November 2016		(48.0)	(116.2)	0.2
Movement on derivative financial instruments	4.9(b)	—	—	0.3
Translation of foreign subsidiary		—	—	0.2
At 3 December 2017		(48.0)	(116.2)	0.7

(a) Treasury Shares Reserve

This reserve arose when the Group issued equity share capital under its JSOS, which is held in trust by the trustee of the Group's employee benefit trust. Treasury shares cease to be accounted for as such when they are sold outside the Group or the interest is transferred in full to the participant pursuant to the terms of the JSOS. Participant interests in unexercised shares held by participants are not included in the calculation of treasury shares; unvested interests of leavers which have been reacquired by the Group's employee benefit trust during the period are not accounted for as treasury shares. See Note 4.10(b) for more information on the JSOS.

The disposal of treasury shares in the prior period relates to the utilisation of 1,915,040 JSOS interests to part-satisfy the 2013 LTIP award which vested in the period. These interests, which were held by the Employee Benefit Trust on an unallocated basis, were held at a cost of £1.50 per interest. A further 2,500,000 shares were issued at nominal value to satisfy the award. As the 2013 LTIP award was a nil cost share award, there was no consideration received from the participants in return for these interests and hence a loss on disposal of £2.9 million was realised on the transaction. This loss was transferred to the share premium account on consolidation.

(b) Other Reserves

The fair value reserve comprises gains and losses on movements in the Group's cash flow hedges, which consist of commodity swaps and foreign currency hedges.

The acquisition by the Company of the entire issued share capital in 2010 of Ocado Limited was accounted for as a reverse acquisition under IFRS 3 (revised). Consequently, the previously recognised book values and assets and liabilities have been retained and the consolidated financial information for the period to 3 December 2017 has been presented as if the Company had always been the parent company of the Group.

4.10 Share Options and Other Equity Instruments

Accounting Policies

Employee Benefits

Employees (including Directors) of the Group receive part of their remuneration in the form of share-based payments, whereby, depending on the scheme, employees render services in exchange for rights over shares ("equity-settled transactions") or entitlement to a future cash payment ("cash-settled transactions").

The cost of equity-settled transactions with employees is measured, where appropriate, with reference to the fair value at the date on which they are granted. Where options need to be valued an appropriate valuation model is applied. 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.

The cost of cash-settled transactions is measured with reference to the fair value of the liability, which is taken to be the closing price of the Company's shares. Until the liability is settled it is remeasured at the end of each reporting period and at the date of settlement, with any changes in the fair value being recognised in the Consolidated Income Statement for the period. For more details please refer to Note 3.11 Provisions – Employee Incentive Schemes.

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

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 management, will ultimately vest. Management's 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" in respect of bad leaver provisions in the Group's JSOS, the Cash LTIP and the Beauty MIP (see Note 3.11 Provisions). National insurance contribution (NIC) obligations arising from cash-settled schemes and HMRC unapproved equity-settled schemes are treated as if they are cash-settled, regardless of the actual cash/equity determination of the scheme itself.

Share Options and Other Equity Instruments

The Group operates various employee share incentive schemes, namely the Executive Share Ownership Scheme (the "ESOS"), the Joint Share Ownership Scheme (the "JSOS"), the Sharesave Scheme, the Long Term Incentive Plan ("LTIP"), the Growth Incentive Plan ("GIP") and the share incentive plan ("SIP"). The Group also operates two cash-settled incentive schemes, the Cash LTIP and the Beauty MIP.

The total expense for the period relating to employee share-based payment plans was £6.9 million (2016: £7.1 million), of which £5.3 million (2016: £6.4 million) related to equity-settled share-based payment transactions and £1.6 million (2016: £0.7 million) as a provision for the payment of employers' NIC upon allotment of HMRC unapproved equity-settled share schemes, the Cash LTIP and the Beauty MIP (see Note 3.11 Provisions for further details).

(a) ESOS

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

Under the ESOS, Ocado or the trustees of an employee trust may grant options over shares in the Company to eligible employees. The eligible employees to whom options are granted and the terms of such options will be determined by the Directors of Ocado or the trustees. The employees who are eligible to participate in the ESOS are all Ocado's Executive Directors and employees, including the employees of the Company's subsidiaries. Options are not transferable. The exercise price of options may not be less than the market value of the Company's shares on the date of grant. If the trustees or the Directors have determined that the exercise of an option will be satisfied by the issue of ordinary shares, the exercise price may also not be less than the nominal value of ordinary shares.

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. In most cases any performance target must 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).



NOTES TO THE CONSOLIDATED Financial Statements

4.10 Share Options and Other Equity Instruments (continued)

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

Year of Issue	3 December	Exercise Price (£)	27 November	Exercise Price (£)	Exercise Period
	2017		2016		
Approved					
2006	—	—	2,073	1.50	30/11/09-29/11/16
2007	—	—	54,534	1.50	31/05/10-30/05/17
2008	6,695	1.35	22,420	1.35	31/05/11-30/05/18
2008	19,710	1.20	22,891	1.20	30/11/11-29/11/18
2009	25,106	1.20	32,173	1.20	31/05/12-30/05/19
2009	97,743	1.35	116,647	1.35	02/11/12-29/11/19
2010	163,049	1.65	172,265	1.65	30/06/13-29/06/20
2011	163,777	2.55	185,460	2.55	14/02/14-13/02/21
2011	52,839	1.89	60,871	1.89	19/07/14-18/07/21
2012	192,174	1.03	241,217	1.03	21/02/15-13/02/22
2012	418,925	1.05	486,212	1.05	09/03/15-08/03/22
2012	90,747	0.85	153,824	0.85	27/06/15-26/06/22
2013	246,073	1.28	323,383	1.28	05/03/16-04/03/23
2013	116,506	3.02	133,312	3.02	08/07/16-07/07/23
2014	40,579	5.10	45,656	5.10	05/02/17-04/02/24
2014	357,294	4.84	379,030	4.84	17/03/17-16/03/24
2015	369,011	3.77	394,350	3.77	13/03/18-12/03/25
2015	22,980	4.46	22,980	4.46	01/07/18-30/06/25
2015	30,435	4.39	35,439	4.39	10/07/18-09/07/25
2016	549,780	2.70	597,596	2.70	16/03/19-15/03/26
2016	31,196	2.59	31,968	2.59	15/07/19-14/07/26
2017	1,119,038	2.56	—	—	14/03/20-13/03/27
2017	23,667	2.92	—	—	15/08/20-14/08/27
Total Approved Options	4,137,324		3,514,301		
Non-Approved					
2007	—	—	50,833	1.50	31/05/10-30/05/17
2009	122,600	1.20	122,600	1.20	31/05/12-30/05/19
2012	119,088	1.05	119,088	1.05	09/03/15-08/03/22
2014	23,945	4.84	23,945	4.84	17/03/17-16/03/24
2014	27,901	3.36	29,962	3.36	01/08/17-31/07/24
2014	10,617	3.27	11,578	3.27	08/08/17-07/08/24
2015	28,807	3.77	30,901	3.77	13/03/18-12/03/25
2015	16,222	4.46	18,172	4.46	01/07/18-30/06/25
2015	16,740	4.39	18,803	4.39	10/07/18-09/07/25
2016	139,674	2.70	152,922	2.70	16/03/19-15/03/26
2016	58,933	2.59	63,532	2.59	15/07/19-14/07/26
2017	204,616	2.56	—	—	14/03/20-13/03/27
2017	96,956	2.92	—	—	15/08/20-14/08/27
Total Non-Approved Options	866,099		642,336		
Total	5,003,423		4,156,637		

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^(A):

Year of Issue	3 December 2017		27 November 2016	
	Number of Share Options	Exercise Price (£)	Number of Share Options	Exercise Price (£)
2009	139,600	1.20	139,600	1.20
Total options subject to performance criteria	139,600		139,600	

See Alternative Performance Measures on page 196

4.10 Share Options and Other Equity Instruments (continued)

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

	3 December 2017	27 November 2016		
	Weighted Average	Weighted Average		
	Number of Share Options	Exercise Price (£)	Number of Share Options	Exercise Price (£)
Outstanding at the beginning of the period	4,156,637	2.38	3,939,825	2.24
Granted during the period	1,503,946	2.59	899,687	2.69
Forfeited during the period	(242,828)	2.95	(272,688)	3.04
Exercised during the period	(414,332)	1.28	(410,187)	1.25
Outstanding at the end of the period	5,003,423	2.51	4,156,637	2.38
Exercisable at the end of the period	2,295,368	2.10	2,299,803	1.42

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

For exercises during the period, the weighted average share price at the date of exercise was £2.83 (2016: £2.84).

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:

	3 December 2017	27 November 2016
Weighted average share price	£2.59	£2.69
Weighted average exercise price	£2.59	£2.69
Expected volatility	0.40	0.40
Weighted expected life — years	3.00	3.00
Weighted average risk-free interest rate	0.1%	0.5%
Expected dividend yield	0.0%	0.0%

The expected volatility was determined by considering the historical performance of the Company's shares. 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, apart from employer's NIC due on unapproved ESOS awards which is treated as cash-settled.



NOTES TO THE CONSOLIDATED Financial Statements

4.10 Share Options and Other Equity Instruments (continued)

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

	3 December 2017			27 November 2016		
	Exercise Price (£)	Number of Share Options	Weighted Average Remaining Contractual Life (years)	Exercise Price (£)	Number of Share Options	Weighted Average Remaining Contractual Life (years)
	0.85	90,747	4.6	0.85	153,824	5.5
	1.03	192,174	4.2	1.03	241,217	5.2
	1.05	538,013	4.3	1.05	605,300	5.3
	1.20	167,416	1.4	1.20	177,664	2.5
	1.28	246,073	5.3	1.28	323,383	6.3
	1.35	104,438	1.8	1.35	139,067	2.8
	1.50	—	—	1.50	107,440	0.6
	1.65	163,049	2.6	1.65	172,265	3.6
	1.89	52,839	3.6	1.89	60,871	4.6
	2.55	163,777	3.2	2.55	185,460	4.2
	2.56	1,323,654	9.3	—	—	—
	2.59	90,129	8.6	2.59	95,500	9.6
	2.70	689,454	8.3	2.70	750,518	9.3
	2.92	120,623	9.7	—	—	—
	3.02	116,506	5.6	3.02	133,312	6.6
	3.27	10,617	6.7	3.27	11,578	7.7
	3.36	27,901	6.7	3.36	29,962	7.7
	3.77	397,818	7.3	3.77	425,251	8.3
	4.39	47,175	7.6	4.39	54,242	8.6
	4.46	39,202	7.6	4.46	41,152	8.6
	4.84	381,239	6.3	4.84	402,975	7.3
	5.10	40,579	6.2	5.10	45,656	7.2
Outstanding at the end of the period		5,003,423			4,156,637	

(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 Estera Trust (Jersey) Limited, the Employee Benefit Trust Trustee, held at the balance sheet date separate beneficial interests in 32,803,390 (2016: 32,830,613) ordinary shares which represents 5.2% (2016: 5.2%) of the issued share capital of the Company. Of these ordinary shares, 79,032 (2016: 79,032) are held by the Employee Benefit Trust on an unallocated basis.

Nature of Interests

Interests take the form of a restricted interest in ordinary shares in the Company (the "Interest"). An Interest permits a Participant to benefit from the increase (if any) in the value of a number of ordinary shares in the Company ("Shares") over specified threshold amounts. In order to acquire an Interest, a Participant must enter into a joint share ownership agreement with the Employee Benefit Trust Trustee, under which the Participant and the Employee Benefit Trust Trustee jointly acquire the Shares and agree that once all vesting conditions have been satisfied the Participant is awarded a specific number of Shares equivalent to the benefit achieved, or at their discretion, 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.

4.10 Share Options and Other Equity Instruments (continued)

Participants

In prior periods, Interests were acquired by the Participants under the first JSOS scheme ("JSOS1") in 32,476,700 Shares at an issue price of £1.50 per share, and the second group of Participants' JSOS scheme ("JSOS2") in 3,990,799 Shares at an issue price of £1.70 per share. In prior periods 2,953,675 Shares, in which interests of Participants have lapsed, were reallocated to the third group of Participants under the JSOS scheme ("JSOS3"). For JSOS1 and JSOS2 there are four tranches, each with their own hurdle price. For JSOS3 there are two tranches, each with their own hurdle price.

Tranche	JSOS1			JSOS2			JSOS3			% of Market Price	
	Vesting Date	Hurdle Value	% of Issue Price	Vesting Date	Hurdle Value	% of Issue Price	Vesting Date	Hurdle Value			
1 (2011)	Jan 2011	£1.73	115%	1 (2012)	Jun 2012	£1.96	115%	1 (2013)	Jan 2013	£1.70	230% – 265%
2 (2012)	Jan 2012	£1.91	127%	2 (2013)	Jun 2013	£2.15	127%	2 (2014)	Jan 2014	£1.80	244% – 280%
3 (2013)	Jan 2013	£2.08	139%	3 (2014)	Jun 2014	£2.36	139%	—	—	—	—
4 (2014)	Jan 2014	£2.28	152%	4 (2015)	Jun 2015	£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 Employee Benefit Trust Trustee will transfer Shares to the Participant of equal value to the Participant's Interest or the Shares will be sold and the Employee Benefit Trust Trustee will account to the Participant for the balance, i.e. the difference between the sale proceeds (less expenses) and the hurdle price.

Vesting Conditions

The vesting of the Interests granted to Participants is subject to a time vesting condition, as detailed above.

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

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

JSOS1	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Weighted average share price	£1.35	£1.35	£1.35	£1.35
Weighted average exercise price	£1.73	£1.91	£2.08	£2.28
Expected volatility	0.25	0.25	0.25	0.25
Weighted expected life — years	0.91	1.91	2.91	3.91
Risk-free interest rate	3.5%	3.5%	3.5%	3.5%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
JSOS2	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Weighted average share price	£1.70	£1.70	£1.70	£1.70
Weighted average exercise price	£1.96	£2.15	£2.36	£2.59
Expected volatility	0.25	0.25	0.25	0.25
Weighted expected life — years	1.0	2.0	3.0	4.0
Risk-free interest rate	3.5%	3.5%	3.5%	3.5%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

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

As the Interests in JSOS3 were reallocated from lapsed Interests in JSOS1 and JSOS2, the fair value of those Interests had been calculated in prior periods using the inputs disclosed in the tables above.



NOTES TO THE CONSOLIDATED Financial Statements

4.10 Share Options and Other Equity Instruments (continued)

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

	3 December 2017	27 November 2016
	Weighted Number of Interests in Shares	Weighted Number of Interests in Shares
	Average Exercise Price (£)	Average Exercise Price (£)
Outstanding at the beginning of the period	32,751,581	32,776,910
Exercised during the period	(27,223)	(25,329)
Outstanding at the end of the period	32,724,358	32,751,581
Exercisable at the end of the period	32,724,358	32,751,581

(c) Non-Employee Share Options

Options to subscribe for ordinary shares and convertible preference shares have been granted by Ocado Limited to non-employees. These options are equity-settled, and do not have any vesting criteria. As a result of the Group's restructuring in 2014, these options are now held over ordinary shares in Ocado Group plc.

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

	3 December 2017	27 November 2016
	Number of Share Options	Exercise Price (£)
January 2004	435,300	1.03
Outstanding at the end of the period	435,300	435,300

There was no movement in the number of non-employee share options outstanding in the period (2016: £nil). All non-employee share options are exercisable at the end of the period.

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

	3 December 2017	27 November 2016
	Weighted Average Remaining Contractual Life (years)	Weighted Average Remaining Contractual Life (years)
	Exercise Price (£)	Number of Share Options
	1.03	435,300
Outstanding at the end of the period	0.1	435,300

(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 that was an employee or officer of the Group at the launch date. Under the scheme, members save a fixed amount each month for three years. At the end of the three-year period they are entitled to use these savings to buy shares in the Company at 90% of the market value at launch date.

At 3 December 2017 employees of the Company's subsidiaries held 1,817 (2016: 2,950) contracts in respect of options over 4,454,396 (2016: 6,260,286) shares.

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

	3 December 2017	27 November 2016
	Weighted Average Number of Exercise Price Share Options (£)	Weighted Average Number of Exercise Price Share Options (£)
Outstanding at the beginning of the period	6,260,286	3,549,479
Granted during the period	—	4,582,171
Forfeited during the period	(1,648,874)	(1,864,633)
Exercised during the period	(157,016)	(6,731)
Outstanding at the end of the period	4,454,396	6,260,286
Exercisable at the end of the period	—	821,345

4.10 Share Options and Other Equity Instruments (continued)

(e) Long Term Incentive Plan

The Group operates equity-settled long-term incentive plans (“LTIP”) as approved by the Remuneration Committee and shareholders, under which shares are conditionally awarded to Executive Directors and select members of senior management. The number of awards issued are calculated based on a percentage of the participants’ salaries and will vest at the end of a period of three years from the grant date. The final number and proportion of awards expected to vest will depend on achievement of certain performance conditions. For both the 2015 LTIP and the 2016 LTIP, there are four equally weighted performance conditions, which are operational efficiency and capital efficiency metrics related to the retail business and the platform business, the Group’s retail business revenue and the Group’s retail business earnings before tax for the financial year ending 3 December 2017, and financial year ending 2 December 2018 respectively. For the 2017 LTIP, there are four equally weighted performance conditions based on performance in the 2019 financial year, which are operational efficiency related to the retail business, Ocado Smart Platform sales target, the Group’s retail business revenue and the Group’s retail business earnings before tax.

The number of awards issued, adjusted to reflect the achievement of the performance conditions, will then vest during 2017 for the 2014 LTIP, 2018 for the 2015 LTIP, 2019 for the 2016 LTIP and 2020 for the 2017 LTIP. Full vesting will only therefore occur where exceptional performance levels have been achieved and significant shareholder value created. An award will lapse if a participant ceases to be employed within the Group before the vesting date.

A summary of the status of the LTIP as at 3 December 2017 and changes during the year is presented below:

	Number of Share Awards 3 December 2017	Number of Share Awards 27 November 2016
Outstanding at the beginning of the period	3,151,610	6,076,621
Granted during the period	1,829,906	1,490,029
Vested during the period	(672,808)	(4,415,040)
Outstanding at the end of the period	4,308,708	3,151,610

There were no awards exercisable as at 3 December 2017 (2016: none).

The Group recognised an expense of £1.5 million (2016: £2.8 million) related to these awards in the Consolidated Income Statement during the year. The expectation of meeting the performance criteria, based upon internal budgets and forecasts, was taken into account when calculating this expense.

(f) Chairman’s Share Matching Award

In 2013, the Group introduced the equity-settled Chairman’s Share Matching Award, under which a one-off award of restricted shares was awarded to the Chairman, Lord Rose, on assuming the role of Chairman.

The award condition is based on a personal investment of a minimum of 400,000 shares and continued membership of the Board. The award vested in the current period, being three years from when the award was approved by the shareholders. There were no performance criteria to which vesting was subject.

These shares are restricted from being sold while he is on the Board and the shares are not allowed to be sold until the first anniversary of his ceasing to be a member of the Board.

A summary of the status of this Chairman’s Share Matching Award as at 3 December 2017 and changes during the year is presented below:

	Number of Share Awards 3 December 2017	Number of Share Awards 27 November 2016
Outstanding at the beginning of the period	—	452,284
Exercised during the period	—	(452,284)
Outstanding at the end of the period	—	—

The Group did not recognise an expense related to this award in the Consolidated Income Statement during the year (2016: £0.1 million).



NOTES TO THE CONSOLIDATED Financial Statements

4.10 Share Options and Other Equity Instruments (continued)

(g) Growth Incentive Plan

In 2014, the Group introduced an equity-settled growth incentive plan ("GIP"), under which nil cost shares were conditionally awarded to certain Executive Directors.

The final number and proportion of awards expected to vest will depend on achievement of a performance condition, being the growth in the Company's share price relative to the growth in the FTSE 100 Share Index over a five-year performance period.

These awards will vest in 2019. An award will lapse if a participant ceases to be employed within the Group before the vesting date.

Performance will be assessed based on the three-month average share price of the Company and the FTSE 100 Share Index at the end of the performance period in comparison to the three-month average share price of the Company and the FTSE 100 Share Index prior to the start of the performance period.

In determining the fair value of the awards granted, a unique Monte Carlo model was used with the following inputs:

Weighted average share price	£3.19
Value of FTSE 100 Index	6,389.25
Expected correlation	29%
Expected volatility of Company	40%
Expected volatility of FTSE 100 Index	16%
Weighted expected life – years	5.0
Risk-free rate	1.96%
Expected dividend yield	0%
Valuation model	Monte Carlo Pricing

Expected correlation was determined with reference to the share price correlation of the shares in the Company and the FTSE 100 Index over a period commensurate with the terms of the award (i.e. five years).

Expected volatility of the Company was determined by comparing the Company to others of a similar size or which operate in a similar industry. Expected volatility of the FTSE 100 Index was determined by reference to its historical volatility over a period commensurate with the terms of the award (i.e. five years). Volatility is a key estimate in determining the fair value of the GIP award, as the overall charge is most sensitive to changes in this assumption. Management have had regard to an appropriate range of alternative volatility assumptions, and concluded that a change in the volatility within this range would not have a material impact on the financial statements.

The use of the Monte Carlo model and calculation of the associated input parameters requires judgement. Therefore management obtained professional advice to assist in determining the fair value of the awards granted.

A summary of the GIP as at 3 December 2017 and changes during the year is presented below:

	Number of Share Awards
Outstanding at 29 November 2015	6,000,000
Granted during the year	—
Outstanding at 27 November 2016	6,000,000
Granted during the year	470,000
Outstanding at 3 December 2017	6,470,000

There were no awards exercisable as at 3 December 2017 (2016: none).

The Group recognised an expense of £1.6 million (2016: £1.2 million) related to these awards in the Consolidated Income Statement during the year. The expectation of meeting the performance criteria was taken into account when calculating this expense.

4.10 Share Options and Other Equity Instruments (continued)

(h) Share Incentive Plan

In 2014, the Group introduced the Ocado Share Incentive Plan (“SIP”). This HMRC approved scheme provides all employees, including Executive Directors, the opportunity to receive and invest in Company shares. All SIP shares are held in a SIP Trust, administered by Yorkshire Building Society.

There are two elements in the plan – the Buy As You Earn (“BAYE”) arrangement and the Free Share Award. Under the BAYE, participants can purchase shares in the Company (“Partnership Shares”) each month using contributions from pre-tax pay, subject to an upper limit. For every seven shares purchased, the Company gifts the participant one free share (“Matching Shares”).

Under the Free Shares Award, shares are given to eligible employees, as a proportion of their annual base pay, subject to a maximum. Eligible employees are those with six months’ service as at the grant date.

For Partnership Shares, eligible employees are those with three months’ service. Partnership shares can be withdrawn from the Plan Trust at any time; however, Matching Shares and Free Shares are subject to a three-year holding period, during which continuous employment within the Group is required. The Matching Shares will be forfeited if any corresponding Partnership Shares are removed from the Plan Trust within this three-year period, or if the participant leaves Ocado.

A summary of the status of the SIP as at 3 December 2017 and changes during the year is presented below:

	Partnership Shares	Matching Shares	Free Shares	Number of Share Awards Total
Outstanding at 29 November 2015	173,158	24,450	744,006	941,614
Awarded during the period	195,565	27,856	693,341	916,762
Forfeited during the period	—	(6,278)	(132,914)	(139,192)
Released during the period	(50,429)	(852)	(10,703)	(61,984)
Outstanding at 27 November 2016	318,294	45,176	1,293,730	1,657,200
Unrestricted at 27 November 2016	318,294	—	1,909	320,203

	Partnership Shares	Matching Shares	Free Shares	Number of Share Awards Total
Outstanding at 27 November 2016	318,294	45,176	1,293,730	1,657,200
Awarded during the period	197,130	28,072	752,800	978,002
Forfeited during the period	—	(10,108)	(202,568)	(212,676)
Released during the period	(78,635)	(1,042)	(43,110)	(122,787)
Outstanding at 3 December 2017	436,789	62,098	1,800,852	2,299,739
Unrestricted at 3 December 2017	436,789	—	1,032	437,821

In the year, the Group recognised an expense of £1.0 million (2016: £0.6 million) related to these awards. The expectation of meeting the holding period was taken into account when calculating this expense.



NOTES TO THE CONSOLIDATED Financial Statements

4.11 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 Consolidated Balance Sheet), less cash and cash equivalents. The Group's net assets at the end of the period were £270.7 million (2016: £262.4 million) and it had net debt[®] of £228.0 million (2016: £164.9 million).

The main areas of capital management revolve around working capital management and compliance with externally imposed financial covenants. The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and balance the needs of the Group to grow, whilst operating with sufficient headroom within its bank covenants. 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 profit/(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.

In the current year the Group raised £250 million of finance through the issue of senior secured notes with a fixed coupon rate of 4% and a maturity date of seven years. The £210 million RCF was reduced to £100 million and extended by a further three years to 2022. The funds from the senior secured notes issue have been used to pay down existing debt, including the £87.5 million previously drawn on the RCF. The remaining funds will be used for capital expenditure to increase capacity.

The Group regularly reviews its financing arrangements. Throughout the period, the Group has complied with all covenants imposed by lenders. In addition, a key aspect of capital management was the strategic operating agreement with Morrisons and the operation of MHE JVCo, a company jointly owned with Morrisons, discussed in Note 5.4.

Given the Group's commitment to expand the business and the investment required to complete Andover CFC and future CFCs, 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 were as follows:

	3 December 2017	27 November 2016
Notes	£m	£m
Total facilities available	511.5	400.6
Facilities drawn down [†]	(378.0)	(215.8)
Undrawn facilities at end of period [‡]	133.5	184.8
Cash and cash equivalents	150.0	50.9
	283.5	235.7

[†] In the current year, the unsecured £210 million revolving facility was reduced to £100 million and extended by three years to 2022.

[‡] The undrawn facility at the end of the period, includes transaction costs. If transaction costs are excluded, then the undrawn facility is £126.8 million.

As at 3 December 2017 the unsecured £100 million revolving facility has not been utilised. Transaction costs of £6.7 million relating to the senior secured notes have been capitalised. The Group regularly reviews its financing arrangements.

SECTION 5 – OTHER NOTES

5.1 Subsidiaries

In accordance with section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 3 December 2017 is disclosed below:

Name	Principal Activity	Share Class	Proportion of Share Capital Held (direct/indirect)	Country of Incorporation
<i>The following companies are registered at Buildings One & Two Trident Place, Mosquito Way, Hatfield, Hertfordshire, United Kingdom, AL10 9UL:</i>				
Ocado Holdings Limited	Holding company	Ordinary shares	100%	UK
Ocado Retail Limited	Retail	Ordinary shares	100%	UK
Ocado Innovation Limited	Technology	Ordinary shares	100%	UK
Ocado Operating Limited	Logistics and Distribution	Ordinary shares	100%	UK
Ocado Central Services Limited	Business Services	Ordinary shares	100%	UK
Ocado Innovation Holdings Limited	Non-trading company	Ordinary shares	100%	UK
Ocado International Holdings Limited (formerly Jalapeno Partners Limited)	Holding company	Ordinary shares	100%	UK
Last Mile Technology Limited	Non-trading company	Ordinary shares	100%	UK
MHE JVCo Limited	Trading company	£1.00 "B" shares	48.5%	UK
<i>The following companies are registered at Aquarius House, Bessemer Road, Welwyn Garden City, Hertfordshire, AL7 1HH:</i>				
Speciality Stores Limited	Trading company	Ordinary shares	100%	UK
Paws & Purrs Limited	Retail	Ordinary shares	100%	UK
Marie Claire Beauty Limited	Retail	Ordinary shares	98%	UK
<i>The following company is registered at 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland:</i>				
Ocado Information Technology Limited	Intellectual property	Ordinary shares	100%	Republic of Ireland
<i>The following company is registered at ul. Rakowicka 7, 31-511, Krakow, Poland:</i>				
Ocado Polska Sp. z o.o.	Technology	Ordinary shares	100%	Poland
<i>The following company is registered at Av. Josep Tarradellas 38, Planta 8a, 08029, Barcelona, Spain:</i>				
Ocado Spain S.L.U.	Technology	Ordinary shares	100%	Spain
<i>The following company is registered at 1209 Orange Street, Wilmington, Delaware 19801, United States of America:</i>				
Oxford US LLC	Non-trading company	Ordinary shares	100%	United States of America
<i>The following company is registered at 17 Henrik Ibsen Street, Lozenets District, Sofia 1407, Bulgaria:</i>				
Ocado Bulgaria EOOD	Technology	Ordinary shares	100%	Bulgaria
<i>The following company is registered at Paneltex House, Somerden Road, Hull, HU9 5PE:</i>				
Paneltex Limited	Manufacturing	Ordinary shares	25%	UK

In accordance with the exemption under Section 479A of the Companies Act, the standalone financial statements for a subsidiary, Paws & Purrs Limited (company number 07538307), will not be audited for the year ended 3 December 2017, but are included in the Group's consolidated financial statements in the period.

The Group has effective control over the financial and operating activities of the Ocado Cell in Atlas Insurance PCC Limited, an insurance company incorporated in Malta and therefore consolidates the Ocado Cell in its financial statements in accordance with IFRS 10 "Consolidated Financial Statements". 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

5.2 Commitments

Capital Commitments

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

	3 December 2017 £m	27 November 2016 £m
Land and buildings	2.7	2.5
Property, plant and equipment	42.3	31.9
Total capital expenditure committed at the end of the period	45.0	34.4

Of the total capital expenditure committed at the period end, £37.2 million (2016: £25.7 million) relates to new CFCs, £2.2 million (2016: £0.8 million) to existing CFCs, £0.3 million (2016: £1.7 million) to fleet costs and £0.2 million (2016: £2.0 million) relates to technology-related projects.

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 3 December 2017 the ageing profile of future aggregate minimum lease payments under non-cancellable operating leases is as follows:

	3 December 2017 £m	27 November 2016 £m
Due within one year	25.0	20.3
Due after one year but less than five	84.9	75.2
Due after five years	263.7	280.2
Total commitment	373.6	375.7

5.3 Contingent Liabilities

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business, all of which the Group expects will be either covered by its insurances or will not be material in the context of the Group's financial position.

5.4 Related Party Transactions

Key Management Personnel

Only the Executive and Non-Executive Directors are recognised as being key management personnel. It is the Board which has responsibility for planning, directing and controlling the activities of the Group. The key management compensation is as follows:

	3 December 2017 £m	27 November 2016 £m
Salaries and other short-term employee benefits	3.1	3.2
Share-based payments	2.4	3.1
	5.5	6.3

Further information on the remuneration of Directors and Directors' interests in ordinary shares of the Company is disclosed in the Directors' Remuneration Report on pages 70 to 109.

Other related party transactions with key management personnel made during the period related to the purchase of professional services and amounted to £2,700 (2016: £900). All transactions were on an arm's length basis and no period end balances arose as a result of these transactions. At the end of the period, there were no amounts owed by key management personnel to the Group (2016: £nil). 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 incorporated in the UK in which the Group holds a 25% interest. Further information on the Group's relationship with Paneltex Limited is provided in Note 3.3.

	53 Weeks Ended 3 December 2017 £m	52 Weeks Ended 27 November 2016 £m
Purchase of goods		
— Plant and machinery	0.7	—
— Consumables	0.5	0.5
Sale of goods	0.2	0.1

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 £6.3 million (2016: £11.8 million). At period end, Paneltex Limited owed the Group £15,000 (2016: the Group owed Paneltex Limited £57,000).

Joint Venture

The following transactions were carried out with MHE JVCo, a joint venture company, incorporated in the UK, in which the Group holds an interest:

	3 December 2017 £m	27 November 2016 £m
Capital contributions made to MHE JVCo	—	1.1
Dividend received from MHE JVCo	7.6	8.4
Reimbursement of supplier invoices paid on behalf of MHE JVCo	7.5	4.9
Lease of assets from MHE JVCo	1.3	3.1
Capital element of finance lease instalments paid to MHE JVCo	16.0	13.8
Interest element of finance lease instalments accrued or paid to MHE JVCo	5.2	5.8

During the period the Group paid lease instalments (including interest) of £21.2 million (2016: £19.6 million) to MHE JVCo.

Of the £21.2 million, £10.1 million (2016: £10.7 million) was recovered directly from Morrisons in the form of Other Income and a further £7.6 million (2016: £8.4 million) was received from MHE JVCo by way of a dividend. The remaining £3.5 million (2016: £0.5 million) represents capital expenditure requirements of MHE JVCo for which no additional funding was required from Ocado. The net result is the termination of £16.0 million of MHE JVCo debt during the period (2016: £13.8 million) with no corresponding net cash outflow.

In the current period, the Group made no additional capital contributions to MHE JVCo (2016: £1.1 million).

Included within trade and other receivables is a balance of £1.7 million owed by MHE JVCo (2016: £5.3 million). £0.7 million of this relates to a finance lease accrual which is included within other receivables (2016: £0.8 million). £1.0 million (2016: £4.5 million) relates to capital recharges.

Included within trade and other payables is a balance of £1.9 million owed to MHE JVCo (2016: £3.8 million).

Included within obligations under finance leases is a balance of £94.1 million owed to MHE JVCo (2016: £108.7 million).

No other transactions that require disclosure under IAS 24 "Related Party Disclosures" have occurred during the current financial period.

5.5 Post Balance Sheet Events

There have been no significant events, outside the ordinary course of business, affecting the Group since 3 December 2017.



OUR Financials (Company)

Company Balance Sheet	180
Company Statement of Changes in Equity	181
Company Statement of Cash Flows	182
Notes to the Company Financial Statements	183



COMPANY

Balance Sheet

as at 3 December 2017

	Notes	3 December 2017 £m	27 November 2016 £m
Non-current Assets			
Investments	3.1	512.5	505.6
		512.5	505.6
Current Assets			
Other receivables	3.3	386.7	244.0
Cash and cash equivalents	3.4	117.5	14.6
		504.2	258.6
Total Assets		1,016.7	764.2
Current Liabilities			
Trade and other payables	3.5	(5.5)	(0.3)
Provisions	3.6	(0.8)	(0.9)
		(6.3)	(1.2)
Net Current Assets		497.9	257.4
Non-current Liabilities			
Borrowings	4.1	(243.3)	—
Provisions	3.6	(2.6)	(1.6)
		(245.9)	(1.6)
Net Assets		764.5	761.4
Equity			
Share capital	4.2	12.6	12.6
Share premium	4.2	261.6	260.1
Retained earnings		490.3	488.7
Total Equity		764.5	761.4

The Company's loss for the period was £3.7 million (2016: £nil).

The notes on pages 183 to 191 form part of these financial statements.

The Company financial statements on pages 180 to 191 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)
6 February 2018

COMPANY STATEMENT OF Changes in Equity

for the 53 weeks ended 3 December 2017

	Notes	Share Capital £m	Share Premium £m	Retained Earnings £m	Total Equity £m
Balance at 29 November 2015		12.6	259.0	482.3	753.9
Result for the period		—	—	—	—
Total Comprehensive Income for the Period					
Ended 27 November 2016		—	—	—	—
Transactions with owners:					
– Issue of ordinary shares	4.2	—	1.1	—	1.1
– Share-based payments charge		—	—	6.4	6.4
Total Transactions with Owners		—	1.1	6.4	7.5
Balance at 27 November 2016		12.6	260.1	488.7	761.4
Loss for the period		—	—	(3.7)	(3.7)
Total Comprehensive Income for the Period					
Ended 3 December 2017		—	—	(3.7)	(3.7)
Transactions with owners:					
– Issue of ordinary shares	4.2	—	1.5	—	1.5
– Share-based payments charge	4.3	—	—	5.3	5.3
Total Transactions with Owners		—	1.5	5.3	6.8
Balance at 3 December 2017		12.6	261.6	490.3	764.5

The notes on pages 183 to 191 form part of these financial statements.



COMPANY STATEMENT OF Cash Flows

for the 53 weeks ended 3 December 2017

	Notes	53 Weeks Ended 3 December 2017 £m	52 Weeks Ended 27 November 2016 £m
Cash Flow From Operating Activities			
Result/(loss) before income tax		(3.7)	—
Adjustments for:			
— Net finance costs		3.5	—
Changes in working capital:			
— Movement in provisions		0.8	(1.2)
— Movement in other receivables		(144.3)	(4.3)
— Movement in trade and other payables		5.3	0.1
Cash Generated from Operating Activities		(138.4)	(5.4)
Interest paid		(3.3)	—
Net Cash Outflow From Operating Activities		(141.7)	(5.4)
Cash Flow From Investing Activities			
Interest received		0.2	—
Net Cash From Investing Activities		0.2	—
Cash Flow From Financing Activities			
Proceeds from issue of ordinary share capital net of transaction costs		1.5	1.1
Proceeds from borrowings		250.0	—
Repayment of borrowings		—	—
Payment of Financing Fees		(7.1)	—
Net Cash From Financing Activities		244.4	1.1
Net Increase/(Decrease) in Cash and Cash Equivalents		102.9	(4.3)
Cash and cash equivalents at beginning of period		14.6	18.9
Cash and Cash Equivalents at End of Period	3.4	117.5	14.6

NOTES TO THE COMPANY Financial Statements

SECTION 1 — BASIS OF PREPARATION

General Information

Ocado Group plc is incorporated in the United Kingdom. The address of its registered office is Buildings 1 & 2 Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL. The financial period represents the 53 weeks ended 3 December 2017 (prior period 52 weeks ended 27 November 2016).

Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Standards Interpretation Committee (IFRIC) 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. They have been prepared under the historical cost convention, except for financial instruments that have been measured at fair value.

The Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements of the Company.

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.

New standards, amendments and interpretations issued that are effective but not material to the Company

The Company has considered the following new standards, interpretations and amendments to published standards that are effective for the Company for the financial year beginning 28 November 2016 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:

Various	Amendments to various IFRSs and IASs including those arising from the IASB's annual improvements project	1 January 2016
IFRS 10	Consolidated financial statements (amendments)	1 January 2016
IFRS 11	Joint arrangements (amendments)	1 January 2016
IFRS 12	Disclosure in other entities (amendments)	1 January 2016
IAS 1	Presentation of financial statements (amendments)	1 January 2016
IAS 16	Property, plant and equipment (amendments)	1 January 2016
IAS 28	Investments in associates and joint ventures (amendments)	1 January 2016
IAS 34	Interim financial reporting (amendments)	1 January 2016
IAS 38	Intangible assets (amendments)	1 January 2016

New standards, amendments and interpretations not yet adopted by the Company

The following further new standards, interpretations and amendments to published standards and interpretations which are relevant to the Company have been issued but are not effective for the financial year beginning 28 November 2016 and have not been adopted early:

IFRS 2	Share-based payments (amendments)	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019
IAS 12	Income taxes (amendments)	1 January 2017
IAS 28	Investments in associates and joint ventures (amendments)	1 January 2018
Various	Amendments to various IFRSs and IASs including those arising from the IASB's annual improvements project	Various

The following new standards are not yet effective and the impact on the Company is currently under review:

- IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9. Our initial review of IFRS 9 has indicated that the impact of this new standard on the Groups' results is unlikely to be material.
- IFRS 15 "Revenue from Contracts with Customers" (endorsed by the EU) provides on the recognition and measurement of revenue. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. This applies to all contracts with customers except those in the scope of other standards. This new standard will replace IAS 18 "Revenue" and is effective for annual periods beginning on or after 1 January 2018 unless adopted early. The Company does not expect there to be an impact from IFRS 15. The Company will continue to monitor the impact of IFRS 15 on new service contracts as they arise.
- IFRS 16 "Leases" provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. The main aim of this standard is to ensure all leases will be reflected on the Consolidated Balance Sheet, irrespective of substance over form. The new standard will replace IAS 17 "Leases" and is effective for annual periods beginning on or after 1 January 2019 unless adopted early. IFRS 16 is not expected to have an impact on the amounts recognised in the Company's consolidated financial statements as the Company currently has no leases.



NOTES TO THE COMPANY Financial Statements

ACCOUNTING POLICIES

Foreign Currency Translation

Transactions and Balances

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

Taxation

Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted by the Balance Sheet date. Management periodically evaluate 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.

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.

2.2 Operating Results

During the period, the Company obtained audit services from its auditors, Deloitte LLP, to the amount of £70,000 (2016: PricewaterhouseCoopers LLP, £65,000).

2.3 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 4.3.

SECTION 3 — ASSETS AND LIABILITIES

3.1 Investments

Accounting Policies

Investments in Group companies are valued at cost less accumulated impairment.

Investments

	3 December 2017 £m	27 November 2016 £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 share-based payments	34.9	28.0
Carrying Value at end of Period	512.5	505.6

Investments represent investments in Group companies, Ocado Holdings Limited and Ocado Innovation Limited. A list of subsidiary undertakings held by the Company is disclosed in Note 5.1 to the consolidated financial statements.

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

3.2 Working Capital

Accounting Policies

Loans and Receivables

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

Other Receivables

Other receivables are non-interest bearing and are recognised initially at fair value, and subsequently at amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts. No security has been granted over other receivables unless stated otherwise.

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.

3.3 Other Receivables

	3 December	27 November
	2017	2016
	£m	£m
Amounts due from subsidiary undertakings	386.7	244.0

3.4 Cash and Cash Equivalents

	3 December	27 November
	2017	2016
	£m	£m
Cash at bank and in hand	117.5	14.6

3.5 Trade and Other Payables

	3 December	27 November
	2017	2016
	£m	£m
Deferred income and accruals	5.5	0.3
	5.5	0.3



NOTES TO THE COMPANY Financial Statements

3.6 Provisions

Employee Incentive Schemes

Provisions for employee incentive schemes relate to HMRC unapproved equity-settled schemes and the Cash-based Long Term Incentive Plan ("Cash LTIP"). For all unapproved schemes and the Cash LTIP, the Company is liable to pay employers' NIC upon allotment of the share awards.

Unapproved schemes are the Long Term Incentive Plan ("LTIP"), the Chairman's Share Matching Award, the Growth Incentive Plan ("GIP") and unapproved Executive Share Option Scheme ("ESOS"). For more details on these schemes, refer to Note 4.10 to the consolidated financial statements.

In 2014, the Company established the Cash LTIP in order to incentivise selected high performing employees of the Group. At the end of the three-year vesting period, employees will be paid a cash amount equal to the notional number of awards at the prevailing share price, adjusted for the achievement of the performance conditions.

Provisions

	Employee Incentive Schemes £m
As at 29 November 2015	3.7
Charged to the Income Statement	
— additional provision	0.9
— unused amounts reversed	(0.2)
Used during the period	(1.9)
As at 27 November 2016	2.5
Charged to the Income Statement	
— additional provision	1.7
— unused amounts reversed	(0.1)
Used during the period	(0.7)
As at 3 December 2017	3.4

Analysis of Total Provisions as at 27 November 2016

	Employee Incentive Schemes £m
Current	0.9
Non-current	1.6
	2.5

Analysis of Total Provisions as at 3 December 2017

	Employee Incentive Schemes £m
Current	0.8
Non-current	2.6
	3.4

Employee Incentive Schemes

The provision consists of the Cash LTIP and employers' NIC on HMRC unapproved equity-settled schemes.

The Cash LTIP provision represents the expected cash payments to participants upon vesting of the awards. It has been calculated using various assumptions regarding liquidity, participants' retention and achievability of the performance conditions and valued with reference to the year end share price. If at any point following initial valuation any of these assumptions are revised, the charge will need to be amended accordingly. In addition to the base cost, since this is a cash benefit, the Company will be liable to pay employers' NIC on the value of the cash award on vesting, which is included in the above employer's NIC provision.

To calculate the employer's NIC provision, the applicable employer's NIC rate is applied to the number of share awards which are expected to vest, valued with reference to the year end share price. The number of share awards expected to vest is dependent on various assumptions which are determined by management; namely participants' retention rate, the expectation of meeting the performance criteria, if any, and the liquidity discount. All assumptions are supported by historical trends and internal financial forecasts, where appropriate.

3.6 Provisions (continued)

For the GIP, an external valuation was carried out to determine the fair value of the awards granted (see Note 4.10 (g) to the consolidated financial statements).

If at any point during the life of each share award any non-market conditions are subject to change, such as the retention rate or the likelihood of the performance condition being met, the number of share awards likely to vest will need to be recalculated which will cause the value of the employer's NIC provision to change accordingly.

Once the share awards under each of the schemes have vested, the provision will be utilised when they are allotted to participants. Vesting will occur between 2017 and 2020.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

4.1 Borrowings

		3 December 2017	27 November 2016
		£m	£m
Borrowings		243.3	—
Non-current liabilities		243.3	—

The loan outstanding at period end can be analysed as follows:

Principal amount £m	Inception	Security Held	Current Interest Rate	Instalment Frequency	Payment Due	Carrying Amount as at Final	Carrying Amount as at 3 December	Carrying Amount as at 27 November 2016 £m
						2017 £m	2016 £m	
250.0	June 2017	Collateral	4%	Semi-annually	June 2024	243.3	—	

4.2 Share Capital and Premium

Accounting Policies

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

Share Capital and Premium

Included in the total number of ordinary shares outstanding below are 32,803,390 (2016: 32,830,613) ordinary shares held by the Group's Employee Benefit Trust (see Note 4.10(b) to 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 basic earnings per share calculation in Note 2.9 to the consolidated financial statements, as basic earnings per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

At 3 December 2017, the number of ordinary shares available for issue under the Block Listing Facilities was 12,083,504 (2016: 13,318,184). These ordinary shares will only become allotted when the shares under the Share Incentive Plan have been awarded or the share options under the Group's Executive Share Ownership Scheme, non-employee share options and Sharesave schemes have been exercised, and are therefore not included in the total number of ordinary shares outstanding.

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

	Ordinary Shares Number (million)	Ordinary Shares £m	Share Premium £m
At 29 November 2015		625.4	12.6
Issues of ordinary shares		3.4	0.6
Allotted in respect of share option schemes		0.4	0.5
At 27 November 2016		629.2	12.6
Issues of ordinary shares		1.1	0.9
Allotted in respect of share option schemes		0.4	0.6
At 3 December 2017		630.7	12.6
			261.6

4.3 Share-based Payments

For more information on the Group's share schemes, see Note 4.10 to the consolidated financial statements.



NOTES TO THE COMPANY Financial Statements

4.4 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 determine the classification of their 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.

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.

		3 December 2017		27 November 2016	
		Carrying Value	Fair Value	Carrying Value	Fair Value
		Notes	£'000	£'000	£'000
Financial Assets					
Investments	3.1	512.5	512.5	505.6	505.6
Cash and cash equivalents	3.4	117.5	117.5	14.6	14.6
Other receivables	3.3	386.7	386.7	244.0	244.0
Total financial assets		1,016.7	1,016.7	764.2	764.2
Financial Liabilities					
Trade and other payables	3.5	(5.5)	(5.5)	(0.3)	(0.3)
Senior secured notes	4.1	(243.3)	(240.9)	—	—
Total financial liabilities		(248.8)	(246.4)	(0.3)	(0.3)

4.5 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, represents the maximum credit exposure. No collateral is held as security against these assets.

Cash and Cash Equivalents

The Company's exposure to credit risk on cash and cash equivalents is managed by investing in banks and financial institutions with strong credit ratings and by regular review of counterparty risk.

Other Receivables

Other receivables at the end of both periods consist primarily of amounts due from subsidiary undertakings. Management provide 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:

		3 December 2017		27 November 2016	
		Gross	Impairment	Gross	Impairment
		Notes	£'000	£'000	£'000
Not past due	3.3	386.7	—	244.0	—

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

4.6 Liquidity Risk

In the current year, the unsecured £210 million revolving facility was reduced to £100 million and extended by three years to 2022. As at 3 December 2017 the facility has not been utilised. The Company regularly reviews its 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. The Company's capital management policies are consistent with those of the Group. For further details on the Group's capital management strategy see Note 4.11 to 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.

	Carrying Value Notes	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	3.5	(0.3)	(0.3)	(0.3)	—	—
27 November 2016		(0.3)	(0.3)	(0.3)	—	—

	Carrying Value Notes	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	3.5	(5.5)	(5.5)	(5.5)	—	—
3 December 2017		(5.5)	(5.5)	(5.5)	—	—

4.7 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 with a variable rate and its interest bearing financial assets consist of only cash and cash equivalents and certain amounts due from subsidiary undertakings. These financial assets are exposed to interest rate risk as the Company holds money market deposits at floating interest rates. The risk is managed by investing cash in a range of cash deposit accounts with UK banks split between fixed-term deposits, notice accounts and money market funds.

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

	3 December 2017	27 November 2016
	£m	£m
Fixed Rate Instruments		
Financial assets	117.5	14.6
Financial liabilities	(243.3)	—

Sensitivity Analysis

An increase of 100 basis points (1.0%) in interest rates would impact 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.

	3 December 2017	27 November 2016
	£m	£m
Equity		
Result	—	—
Income		
Gain	0.4	—



NOTES TO THE COMPANY Financial Statements

4.8 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 2016					
Financial Assets					
Investments	3.1	505.6	—	—	505.6
Cash and cash equivalents	3.4	—	14.6	—	14.6
Other receivables	3.3	—	244.0	—	244.0
Total		505.6	258.6	—	764.2
Financial Liabilities					
Trade and other payables	3.5	—	—	(0.3)	(0.3)
Total		—	—	(0.3)	(0.3)
 As at 3 December 2017					
Financial Assets					
Investments	3.1	512.5	—	—	512.5
Cash and cash equivalents	3.4	—	117.5	—	117.5
Other receivables	3.3	—	386.7	—	386.7
Total		512.5	504.2	—	1016.7
Financial Liabilities					
Trade and other payables	3.5	—	—	(5.5)	(5.5)
Total		—	—	(5.5)	(5.5)

4.9 Capital Management

The Board's objectives and policies for the Company are consistent with those of the Group. Full details are provided in Note 4.11 to the consolidated financial statements.

SECTION 5 — OTHER NOTES

5.1 Related Party Transactions

Key Management Personnel

Only the Executive and Non-Executive Directors are recognised as being 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 on page 98.

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. No interest was earned on these loans at market-related interest rates during the period (2016: £2,000).

	53 Weeks Ended 3 December 2017 £m	52 Weeks Ended 27 November 2016 £m
Transactions with Subsidiaries		
Group share-based payments	6.9	7.1
Increase in loans made to subsidiary undertakings	142.1	3.6
(Decrease)/increase in amounts due to subsidiary undertakings	(0.1)	0.1
Year End Balances Arising from Transactions with Subsidiaries		
Receivables:		
Loans and receivables due from subsidiaries	386.5	244.0
Payables:		
Loans and receivables due to subsidiaries	(0.6)	(0.3)

5.2 Post Balance Sheet Events

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



ADDITIONAL Information

Glossary	194
Alternative Performance Measures	196
Five Year Summary	197
Financial Calendar	198
Company Information	198





GLOSSARY

2014 ESOS – means the Ocado 2014 Executive Share Option Scheme.

2016 Code – means the UK Corporate Governance Code published by the FRC in April 2016.

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

Administrative Expenses – means all IT costs, advertising and marketing expenditure, employment costs of all head office functions, which include legal, finance, human resources, marketing and procurement, rent and other property-related costs for the head office, all fees for professional services and the depreciation, amortisation and impairment associated with head office IT equipment, software, fixtures and fittings and expenses relating to the Group's share schemes.

Admission – means the admission of the ordinary shares of the Company to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities which occurred on 26 July 2010.

AGM – means the Annual General Meeting of the Company, which will be held on 2 May 2018 at 10 am at Peterborough Court, 133 Fleet Street, London, EC4A 2BB.

American Depository Receipts – means securities that have been created to permit US investors to hold shares in non-US companies and, in a Level 1 programme, to trade them on the over-the-counter market in the United States.

Annual Incentive Plan or AIP – means the Executive Director incentive plan for the Group applicable to a particular financial year.

Articles – means the articles of association of the Company.

Beauty MIP – means the management incentive plan for key management of Marie Claire Beauty Limited.

Board – means the Board of Directors of the Company or its subsidiaries from time to time as the context may require.

Brexit – means the UK's decision to leave the European Union following the referendum on 23 June 2016.

Chairman's Share Matching Award – means a one-off award of shares to Lord Rose, made in May 2013.

Cash LTIP – means the Company's cash-based Long Term Incentive Plan for senior employees.

Code – means the UK Corporate Governance Code published by the FRC in September 2014.

(A) See Alternative Performance Measures on page 196

Companies Act – means the Companies Act 2006.

Company – means Ocado Group plc, a company incorporated in England and Wales with registered number 07098618 whose registered office is at Buildings 1 & 2 Trident Place, Hatfield Business Park, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL.

Corporate Website – means www.ocadogroup.com.

CR – means Corporate Responsibility.

CSTM – means Customer Service Team Member, the title given to our customer facing delivery drivers.

Customer Fulfilment Centre or CFC – means a dedicated highly automated warehouse used for the operation of the business. The CFCs are: CFC1 in Hatfield, CFC2 in Dordon, CFC3 in Andover and CFC4 in Erith (under construction).

Deloitte – means Deloitte LLP, the Group's statutory auditor or the Group's advisers in respect of non-audit services.

Directors – means the Directors of the Company whose names and biographies are set out on pages 116 and 117 with the exception of Alex Mahon who was a director of the Company during the period but who retired from the Board following the period end, and Luke Jensen, who will join the Board with effect from 1 March 2018 or the Directors of the Company's subsidiaries from time to time as the context may require.

Directors' Remuneration Policy – means the Directors' remuneration policy that the Company which was approved by shareholders at the 2017 annual general meeting and which is set out on pages 74 to 90.

2014 Directors' Remuneration Policy – means the Directors' remuneration policy which was approved by shareholders at the 2014 annual general meeting and which is set out on pages 87 to 97 of the 2015 annual report and accounts and on the Company's corporate website at www.ocadogroup.com.

Disclosure Guidance and Transparency Rules – means the disclosure guidance and transparency rules made under Part VI of the Financial Services and Markets Act 2000 (as amended).

Distribution Costs – means 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.

DPV – means deliveries per van per week.

EBITDA^(A) – means the non-GAAP measure which Ocado has defined as earnings before net finance costs, taxation, depreciation, amortisation, impairment and exceptional items^(A).

EBT – as relating to the Income Statement, means earnings before tax. As relating to share schemes, means employee benefit trust.

EBT Trustee – means the trustee from time to time of the employee benefit trust established for the purposes of the JSOS, currently Esteria Trust (Jersey) Limited.

EPS – means earning per share.

ESOS – means the HMRC-approved Ocado 2001 Executive Share Option Scheme and the Ocado 2001 Non-HMRC approved Executive Share Option Scheme.

Exceptional Items^(A) – means items that due to their material and non-recurring nature have been classified separately in order to draw them to the attention of the reader of the financial statements.

Executive Directors – means Tim Steiner, Neill Abrams, Duncan Tatton-Brown and Mark Richardson.

Fabled.com – means the Group's premium beauty online store in collaboration with Marie Claire and Time Inc.

Fetch.co.uk – means the Group's dedicated online pet store.

Financial Period – means the 52-week period, or 53-week period where relevant, ending the closest Sunday to 30 November.

Financial Year or FY – see Financial Period.

FRC – means the Financial Reporting Council.

GAAP – means generally accepted accounting principles.

GDPR – means General Data Protection Regulation.

GHG – means greenhouse gas(es).

GIP – means the Growth Incentive Plan.

GMDC – means the General Merchandise Distribution Centre in Welwyn Garden City, a dedicated highly automated warehouse used for the operation of the business.

GPP – means the Ocado Group Pension Plan.

Gross Sales^(A) – means sales (net of returns), including charges for delivery, before deducting relevant vouchers, offers and value added tax. Relevant vouchers and offers include money-off coupons, conditional spend vouchers and multi-buy offers, such as buy three for the price of two. This includes sales from ocado.com, fetch.co.uk, sizzle.co.uk and fabled.com.

Group – means Ocado Group plc, its subsidiaries, significant undertakings and affiliated companies under its control or common control.

HMRC – means Her Majesty's Revenue & Customs.

IAS – means International Accounting Standard(s).

IFRIC – means International Financial Reporting Standards Interpretations Committee.

IFRS – means International Financial Reporting Standard(s).

IGD – means the Institute of Grocery Distribution.

IP – means Intellectual Property.

ISA (UK & Ireland) – means International Standard on Auditing in the UK and Ireland.

John Lewis – means John Lewis plc, the parent company of Waitrose, incorporated in the UK with registered number 233462 whose registered office is at 171 Victoria Street, London, SW1E 5NN.

JSOS – means the Group's Joint Share Ownership Scheme. It comprises three issues called JSOS1, JSOS2 and JSOS3.

KPI – means key performance indicators.

KPMG – means KPMG LLP.

LIBOR – means the London Interbank Offered Rate.

Listing Rules – means the Listing Rules made by the UK Listing Authority under Part VI of the Financial Services and Markets Act 2000 (as amended).

LPP – means Low Price Promise, the Ocado voucher scheme which entitles customers to receive discount vouchers where their shopping basket has cost more than it would have at selected competitors.

LTIP – means the Company's Long Term Incentive Plan for Executive Directors and selected senior managers.

Management Committee – means senior management responsible for managing the day-to-day operations of the business.

MHE – means mechanical handling equipment.

MHE JVCo – means MHE JVCo Limited, a company incorporated in the UK with registered number 8576462, whose registered office is at Buildings 1 & 2 Trident Place, Hatfield Business Park, Mosquito Way, Hatfield, AL10 9UL. MHE JVCo is jointly owned by a Group subsidiary and Morrisons.

Morrisons – means Wm Morrison Supermarkets PLC, a company incorporated in the UK with registered number 353949, whose registered office is at Hilmore House, Gain Lane, Bradford, West Yorkshire, BD3 7DL.

Morrisons.com – means Morrisons' online retail business.

Net Finance Costs – means finance income less finance costs. Finance income is composed principally of bank interest and other interest. Finance cost is composed of interest on bank loans and overdrafts, interest on finance leases and interest on other financing arrangements.

Non-Executive Directors – means the non-executive Directors of the Company designated as such on page 52.

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

Ocado.com – means the Group's online retail business.

Ocado Council – means the Ocado forum used to consult with our employees.

Ocado Smart Platform or OSP – means the end-to-end solution for operating online in the grocery market, which has been developed by the Group.

Ocado Solutions - means the Group's Solutions business.

OPW – means orders per week.

Other Income – means primarily revenue for advertising services provided by Ocado to suppliers and other third parties on the Webshop, commission income and sublease payments. Other income is recognised in the period to which it relates on an accruals basis.

Participants – means eligible staff who participate in one of the Company's staff share schemes.

Prospectus – means the Company's prospectus dated 6 July 2010 prepared in connection with the Company's Admission.

PwC – means PricewaterhouseCoopers LLP, the Group's former statutory auditor or the Group's advisers in respect of non-audit services.

R&D – means Research and Development.

Revenue – means online sales (net of returns) through the Webshop and Ocado on the Go, including charges for delivery, but excluding relevant vouchers, offers and value added tax. The recharge of costs to Morrisons and fees charged to Morrisons and other solutions clients are also included in Revenue. Relevant vouchers and offers include money-off coupons, conditional spend vouchers and multi-buy offers, such as buy three for the price of two.

Senior Secured Notes or Notes - means the Company's offering of £250 million Senior Secured Notes due 2024 at a coupon of 4% and an issue price of 100%. For more details, see page 113.

Shareholder – means a holder for the time being of ordinary shares in the Company.

Sharesave Scheme or SAYE Scheme – means the Ocado employee savings-related share option plan approved by HMRC.

SIP – means the Share Incentive Plan.

Sizzle.co.uk – means the Group's dedicated online kitchen and dining store.

SKU – means a "stock keeping unit", that is each line of stock.

Smart Pass (previously Saving Pass) – means the Ocado pre-pay membership scheme which includes the delivery pricing scheme previously known as Delivery Pass and the discount membership scheme formerly known as Saving Pass.

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 handling of customers' orders.

Substitution – means an alternative product provided in place of the original product ordered by a customer.

TSR – means total shareholder return – the growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

UPH – means average units processed per labour hour.

USDAW – means the Union of Shop, Distributive and Allied Workers.

Waitrose – means Waitrose Limited, a company incorporated in the UK with registered number 00099405, whose registered office is at 171 Victoria Street, London, SW1E 5NN.

Webshop – means the customer facing internet-based virtual shop accessible via the websites www.ocado.com, www.fabled.com, www.fetch.co.uk and www.sizzle.co.uk.



ALTERNATIVE Performance Measures

The Group assesses its performance using a variety of alternative performance measures which are not defined under IFRS and are therefore termed “non-GAAP” measures. These measures provide additional useful information on the underlying trends, performance and position of the Group. The non-GAAP measures we used are:

- 52 Week Comparative for the 2017 Financial Year;
- Gross Sales;
- Segment Revenue;
- Exceptional Items;
- Segment Administrative Costs and Distribution Costs;
- EBITDA;
- Segment EBITDA;
- External Gross Debt; and
- Net Debt.

A reconciliation from these non-GAAP measures to the nearest measure prepared in accordance with IFRS is presented below. The alternative performance measures used may not be directly comparable with similarly titled measures used by other companies.

52 Week Comparative for the 2017 Financial Year

As a predominately retail business, the business has a 53 week financial year every 5–6 years. The business have removed the last trading week of the 2017 financial year to aid comparability for the users. These comparable numbers are not highlighted throughout the report.

Gross Sales

Gross Sales is a measure of reported revenue before excluding value added tax and relevant vouchers and offers. Gross Sales is a common measure used by investors and analysts to evaluate the operating financial performance of companies within the retail sector.

A reconciliation from reported revenue to Gross Sales can be found in Note 2.3 to the consolidated financial statements.

Segment Revenue/Revenue (Retail)/Revenue (Solutions)

Segment revenue is a measure of reported revenue for the Group’s Retail and Solutions segments. A reconciliation of revenue for the segments to revenue for the Group can be found in note 2.2 to the consolidated financial statements.

Exceptional Items

The Group’s Consolidated Income Statement separately identifies trading results before exceptional items. The Directors believe that presentation of the Group’s results in this way is relevant to an understanding of the Group’s financial performance. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and assists in providing a meaningful analysis of the trading results of the Group. This also facilitates comparison with prior periods to assess trends in financial performance more readily.

The Group applies judgement in identifying significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group’s underlying business. In determining whether an event or transaction is exceptional in nature, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Examples of items that the Group considers exceptional include, but are not limited to, material costs relating to the opening of a new warehouse, corporate reorganisations, material litigation, and any material costs, outside of the normal course of business as determined by management.

Exceptional items are disclosed in Note 2.7 to the consolidated financial statements.

Segment Administrative Costs and Distribution Costs

Segment distribution and administrative costs are measures which seek to reflect the performance of the Group’s segments in relation to the long-term sustainable growth of the Group. These measures exclude the impact of certain costs that are not allocated to a segment; depreciation, amortisation, impairment and other central costs.

A reconciliation from reported distribution and administrative costs, the most directly comparable IFRS measures, to the segment distribution and administrative costs, is set out below.

	2017 £m	2016 £m
Retail distribution and administrative costs	356.1	301.4
Solutions distribution and administrative costs	115.1	93.9
Unsegmented distribution and administrative costs	80.7	71.0
	551.9	466.3
	2017 £m	2016 £m
Reported distribution costs	434.2	365.7
Reported administrative expenses	117.7	100.6
	551.9	466.3

EBITDA

In addition to measuring its financial performance based on operating profit, the Group also measures performance based on EBITDA. EBITDA is defined as the Group earnings before depreciation, amortisation, impairment, net finance expense, taxation and exceptional items. EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies.

The Group considers EBITDA to be a useful measure of its operating performance because it approximates the underlying operating cash flow by eliminating depreciation and amortisation. EBITDA is not a direct measure of liquidity, which is shown by the cash flow statement, and needs to be considered in the context of the Group’s financial commitments.

A reconciliation from operating profit to EBITDA can be found on the face of the Consolidated Income Statement on page 127.

Segment EBITDA/EBITDA (Retail)/EBITDA (Solutions)

The financial performance of the Group’s segments is measured based on EBITDA, as reported internally.

A reconciliation of EBITDA for the segments to EBITDA for the Group can be found in note 2.2 to the consolidated financial statements.

External Gross Debt

External gross debt consists of loans and other borrowings (both current and non-current), less finance leases payable to joint venture interests of the Group.

External gross debt is a measure of the Group’s indebtedness to third parties which are not considered a related party to the Group.

A reconciliation from external gross debt to gross debt can be found below.

	2017 £m	2016 £m
External gross debt	283.9	107.1
Finance leases relating to joint ventures	94.1	108.7
Gross debt	378.0	215.8

Net Debt

Net debt consists of loans and other borrowings (both current and non-current), less cash and cash equivalents. Loans and other borrowings are measured as the net proceeds raised, adjusted to amortise any discount over the term of the debt.

Net debt is a measure of the Group’s net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group’s cash position and its indebtedness. The use of the term “net debt” does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure.

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings (current and non-current) and cash and cash equivalents. A reconciliation from these measures to net debt can be found in Note 4.4 in the consolidated financial statements.

FIVE YEAR Summary

	53 Weeks to 3 December	52 Weeks to 27 November	52 Weeks to 29 November	52 Weeks to 30 November	52 Weeks to 1 December
	2017	2016	2015	2014	2013
	£m	£m	£m	£m	£m
Trading Weeks	53	52	52	52	52
Gross Sales ^(A)	1,601.4	1,386.7	1,204.4	1,026.5	852.4
Revenue	1,463.8	1,271.0	1,107.6	948.9	792.1
Gross Profit	504.3	435.3	375.1	312.9	247.5
EBITDA ^(A)	86.0	84.3	81.5	71.6	45.8
Adjusted operating profit	13.4	21.9	19.1	14.2	1.0

1. Adjusted to exclude exceptional items^(A) and share of result from joint venture.

	53 Weeks to 3 December	52 Weeks to 27 November	52 Weeks to 29 November	52 Weeks to 30 November	52 Weeks to 1 December
	2017	2016	2015	2014	2013
Average orders per week	264,000	230,000	195,000	167,000	143,000
Average order size (£) ^{1,2}	107.28	108.10	111.15	112.66	113.53
CFC Efficiency (UPH) ³	164	160	155	145	135
DPV/week	182	176	166	163	160
Product waste (%)	0.7	0.7	0.7	0.8	1.0

1. Refers to Ocado.com orders and includes standalone orders for Fetch.co.uk, Sizzle.co.uk and Fabled.com. This is after cancelled orders are deducted.

2. Average order size excludes destination sites from 2014 onwards, prior to this destination sites were not material.

3. Mature CFC operations (CFC is considered mature if it had been open 12 months by the start of the half year reporting period).

See Alternative Performance
Measures on page 196



FINANCIAL Calendar

20 March 2018	Q1 Trading Statement
2 May 2018	Annual General Meeting
10 July 2018	Half Year Results Announcement
18 September 2018	Q3 Trading Statement
13 December 2018	Q4 Trading Statement
5 February 2019	Final Results Announcement

COMPANY Information

Registered office: Buildings One & Two
Trident Place
Mosquito Way
Hatfield
Hertfordshire
AL10 9UL

Company number: 07098618

Independent auditors: Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Registrars: Link Market Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4ZF

All Intellectual Property Rights in the content and materials in this Annual Report vests in and are owned absolutely by Ocado unless otherwise indicated, including in respect of or in connection with but not limited to all trade marks and the Report's design, text, graphics, its selection and arrangement.

Sobeys is a trade mark of Sobeys Inc.

Casino and Groupe Casino are trade marks of Casino, Guichard-Perrachon

Morrisons is a trade mark of Wm Morrisons Supermarkets plc

Oxbotica, Selenium and Caesium are trade marks of Oxbotica Limited

Copyright © Ocado 2018



This Annual Report is printed by an FSC® (Forest Stewardship Council) certified printer using vegetable-based inks.

This report has been printed on Magno silk, a white coated paper and board using 100% EFC pulp.



Ocado Group plc

Buildings One & Two

Trident Place

Mosquito Way

Hatfield

Hertfordshire

AL10 9UL

United Kingdom

Tel: +44(0) 1707 227800

Fax: +44(0) 1707 227999

www.ocadogroup.com